BARCLAYS

Barclays Bank PLC

Annual Report 2006

Earn, invest and grow

Contents

In this document the terms 'Bank' and 'Company' refer to Barclays Bank PLC and the terms 'Barclays' and 'Group' refer to Barclays Bank PLC and its subsidiaries.

The information in the notes to the accounts relates to the Group unless stated otherwise.

Registered and Head office:
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25%

Increase in income to £21,656m

36%

Rise in profit before tax to £7,197m

Global Retail and Commercial Banking

UK Banking

11.5m
Current accounts

780,000
Business customers

Barclaycard

9.8m
UK customers

6.4m
International cards in issue

International Retail and Commercial Banking

1,613
International branches including Absa

Barclays is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Operating in over 50 countries and employing 123,000 people, we move, lend, invest and protect money for over 27 million customers and clients worldwide. With over 300 years of history and expertise in banking, Barclays has six major businesses.

UK Banking delivers banking products and services to over 14 million retail customers and 780,000 businesses in the UK.

Barclaycard is one of the leading credit card businesses in Europe, and has 9.8 million UK customers and 6.4 million international cards in issue.

International Retail and Commercial Banking operations have over 2 million clients, in geographies which currently include France, Spain, Portugal, Italy, India, Africa and the Middle East. Absa has an additional 8.3 million retail customers.

Barclays Capital, the investment banking division, provides corporate, institutional and government clients with solutions to their financing and risk management needs.

Barclays Global Investors is one of the world's largest asset managers and a leading provider of investment management products and services. Total assets under management at 31st December 2006 were US$1.8trn.

Barclays Wealth serves affluent, high net worth and intermediary clients worldwide, providing private banking, asset management, stockbroking, offshore banking, wealth structuring and financial planning services. At 31st December 2006, total client assets were £93bn.

3 Year Overview
For the year ended 31st December

Income statement	2006 £m	2005 £m	2004[(a)] £m
Total income net of insurance claims	**21,656**	17,364	14,117
Impairment charges	**(2,154)**	(1,571)	(1,093)
Operating expenses	**(12,674)**	(10,527)	(8,536)
Profit before tax	**7,197**	5,311	4,589
Profit attributable to equity holders	**4,914**	3,695	3,263

Notes
(a) Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

7.5%

Tier 1 capital ratio

11.5%

Risk asset ratio

Investment Banking and Investment Management

Barclays Capital

US$409bn

Value of debt issued globally

Barclays Global Investors

US$1,814bn

Assets under management

Barclays Wealth

£93bn

Total client assets

"Barclays had an excellent year in 2006. We delivered outstanding performance in Barclays Capital and Barclays Global Investors. Momentum has accelerated in UK Retail Banking and Absa has outperformed our acquisition business plan delivering very strong growth. Conditions in UK cards and consumer loans were difficult but Barclaycard UK consumer credit performance is beginning to improve. We are well positioned to deliver further growth in the years ahead."

John Varley
Group Chief Executive

Excellent financial results reflect the successful execution of strategy:

– Income up 25% to £21,656m
– Profit before tax up 36% to £7,197m

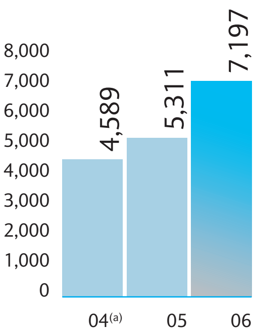
Excluding gains on business disposals of £323m:

– Profit before tax up 29% to £6,874m

- Income growth of 25% was well ahead of expense growth of 20%. Expense growth reflected significant investment in organic growth across the business and performance related costs.
- **UK Banking** delivered a further three percentage points underlying improvement in the cost:income ratio; the six percentage point target for 2005-2007 has been achieved a year ahead of schedule; we still target a further two percentage point improvement in 2007.
- Outstanding growth in **Barclays Capital** was driven by continued expansion of the business, the success of past investment and the focus of our client driven model.
- **Barclays Global Investors** delivered another year of excellent growth. Assets under management increased US$301bn to US$1.8trn.
- **Absa's** first full year contribution was well ahead of the acquisition business plan.
- **Barclaycard** profits were affected by industry-wide impairment pressures in UK cards and unsecured loans; UK consumer credit performance is beginning to improve.

- Capital ratios strengthened through retained earnings and active balance sheet management; the Tier 1 capital ratio rose to 7.5%.
- Approximately 50% of profits came from outside the UK.

Profit before tax £m



Note
(a) Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Group financial performance

The Group's profit before tax in 2006 increased 36% (£1,886m) to £7,197m (2005: £5,311m). Income increased 25% (£4,292m) to £21,656m (2005: £17,364m) whilst operating expenses rose 20% (£2,147m) to £12,674m (2005: £10,527m). Impairment charges rose 37% (£583m) to £2,154m (2005: £1,571m).

Business performance

In **UK Banking** we made significant strides towards our strategic priority of building the best bank in the UK. Strong growth in income enabled us to increase our profit before tax 17% to £2,578m. The improvement in the cost:income ratio was four percentage points in headline terms to 52% (2005: 56%). Excluding the impact of property gains and accelerated investment, the improvement in the cost:income ratio was three percentage points making a cumulative total for 2005-2006 of six percentage points. This means that we have achieved our target of a six percentage point improvement over the period 2005-2007, one year ahead of schedule. We continue to target a further two percentage point improvement in the cost:income ratio for 2007 to 51%.

At **Barclaycard** profit before tax fell 40% to £382m. Good income growth of 8%, driven by very strong momentum in Barclaycard International, was more than offset by a further rise in impairment charges, principally in the UK lending portfolios, and by higher costs, mainly as a result of continued investment in Barclaycard US. In the UK, high debt levels and changing attitudes to bankruptcy and debt default contributed to increased impairment charges. As the consumer lending market in the UK changes, Barclaycard is repositioning its business to achieve sustainable, profitable growth. Higher borrowing by UK consumers, lower disposable household incomes and a tougher regulatory environment have seen Barclaycard take a number of actions. The business focused on tighter lending criteria and improved collections throughout 2006 and, as a consequence, believes we have passed the worst in Barclaycard UK impairment in the second half of 2006. There has also been a review of some partnership businesses and lending to higher risk customers. An operational review is also under way, to improve efficiency and enhance Barclaycard's ability to provide the best service to customers, wherever they are in the world.

We continued to invest in Barclaycard US. Since we bought the business in December 2004, outstandings have grown from US$1.4bn to US$4.0bn, and cards in issue have increased from 1.1 million to 4.2 million. Income grew 73% in 2006. We are on track to become profitable in 2007.

International Retail and Commercial Banking achieved a step change in profitability to £1,270m (2005: £633m), reflecting the inclusion of Absa for a full year, the impact of corporate development activity and growth in key geographies.

Barclays Capital produced an outstanding performance with profit before tax rising 56% to £2,232m. Income growth of 39% was driven by doing more business with new and existing clients and was broadly based across asset classes and geographies. Growth was particularly strong in areas where we have invested in recent years, including commodities, equity products and credit derivatives. Profit growth was accompanied by improvements in productivity: income and profits grew significantly faster than Daily Value at Risk, risk weighted assets, economic capital, regulatory capital and costs. The ratio of compensation costs to net income improved two percentage points to 49% and the cost:net income ratio improved three percentage points to 64%. We continued to invest for future growth, increasing headcount 3,300 including 1,300 from the acquisition of HomEq, a US mortgage servicing business.

Barclays Global Investors delivered excellent results, with profit before tax up 32% to £714m. Income growth of 26% was attributable to increased management fees, particularly in the iShares and active businesses. Assets under management grew US$301bn to US$1.8trn, including net new assets of US$68bn, reflecting very strong inflows in iShares and active assets. The cost:income ratio improved two percentage points to 57%.

Barclays Wealth profit before tax rose 28% to £213m. This reflected broadly based income growth and favourable market conditions, partially offset by a significant increase in investment in people and infrastructure to build a platform for future growth. Total client assets increased 19% to £93bn. The cost:income ratio improved three percentage points to 79%.

In **Head office functions and other operations** the loss before tax decreased £78m to £214m, reflecting the Head office relocation costs incurred in 2005.

The following discussion sets forth certain risk factors that the Group believes could cause its actual future results to differ materially from expected results. However, other factors could also adversely affect the Group results and so the factors discussed in this report should not be considered to be a complete set of all potential risks and uncertainties.

Business conditions and general economy

The profitability of Barclays businesses could be adversely affected by a worsening of general economic conditions in the United Kingdom, globally or in certain individual markets such as the US or South Africa. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the activity level of customers, for example:

- An economic downturn or significantly higher interest rates could adversely affect the credit quality of Barclays on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of Barclays customers would be unable to meet their obligations.
- A market downturn or worsening of the economy could cause the Group to incur mark to market losses in its trading portfolios.
- A market downturn could reduce the fees Barclays earns for managing assets. For example, a higher level of domestic or foreign interest rates or a downturn in trading markets could affect the flows of assets under management; and
- A market downturn would be likely to lead to a decline in the volume of transactions that Barclays executes for its customers and, therefore, lead to a decline in the income it receives from fees and commissions and interest.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Group's investment in that entity's financial instruments to fall. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending.

Furthermore, credit risk is manifested as country risk where difficulties may arise; in the country in which the exposure is domiciled thus impeding or reducing the value of the asset; or where the counterparty may be the country itself.

Settlement risk is another form of credit risk and is the possibility that the Group may pay a counterparty – for example, a bank in a foreign exchange transaction – but fail to receive the corresponding settlement in return.

Market risk

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

Capital risk

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

- Meet minimum regulatory capital requirements in the UK and in other markets such as the US 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 strong credit rating. In addition to capital resources, the Group's rating is supported by a diverse portfolio of activities, an increasingly international presence, consistent profit performance, prudent risk management and a focus on value creation. A weaker credit rating would increase the Group's cost of funds; and
- Support its growth and strategic options.

The Group's capital management activities seek to maximise shareholder value by optimising the level and mix of its capital resources. Capital risk is mitigated by:

- ensuring access to a broad range of investor markets;
- management of the Group's demand for capital; and
- management of the exposure to foreign currency exchange rate movements.

Liquidity risk

This is the risk that the Group is unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with consequent failure to repay depositors and fulfil commitments to lend.

The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Operational risks

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

Insurance risk

Insurance risk is the risk that the Group will have to make higher than anticipated payments to settle claims arising from its long-term and short-term insurance businesses.

Legal risk

The Group is subject to a comprehensive range of legal obligations in all countries in which it operates. As a result, the Group is exposed to many forms of legal risk, which may arise in a number of ways. Primarily:

- the Group's business may not be conducted in accordance with applicable laws around the world;
- contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- the intellectual property of the Group (such as its trade names) may not be adequately protected; and
- the Group may be liable for damages to third parties harmed by the conduct of its business.

The Group faces risk where legal proceedings are brought against it. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss. Defending legal proceedings can be expensive and time-consuming and there is no guarantee that all costs incurred will be recovered even if the Group is successful. Although the Group has processes and controls to manage legal risks, failure to manage these risks could impact the Group adversely, both financially and by reputation.

Tax risk

The Group is subject to the tax laws in all countries in which it operates. A number of double taxation agreements entered between countries also impact on the taxation of the Group. The Group is also subject to European Community tax law.

Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

Effect of governmental policy and regulation

The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the UK, the European Union (EU), the US, South Africa and elsewhere.

There is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in the UK and elsewhere. The nature and impact of future changes in policies and regulatory action are not predictable and beyond the Group's control but could have an impact on the Group's businesses and earnings.

In the EU as a whole, these regulatory actions included an inquiry into retail banking in all of the then 25 Member States by the European Commission's Directorate General for Competition. The inquiry looked at retail banking in Europe generally and the Group has fully co-operated with the inquiry. On 31st January 2007 the European Commission announced that the inquiry had identified barriers to competition in certain areas of retail banking, payment cards and payment systems in the EU. The Commission indicated it will use its powers to address these barriers, and will encourage national competition authorities to enforce European and national competition laws where appropriate. Any action taken by the Commission and national competition authorities could have an impact on the payment cards and payment systems businesses of the Group and on its retail banking activities in the EU countries in which it operates.

In the UK, in September 2005 the Office of Fair Trading (OFT) received a super-complaint from the Citizens Advice Bureau relating to payment protection insurance (PPI). As a result, the OFT commenced a market study on PPI in April 2006. In October 2006, the OFT announced the outcome of the market study and, following a period of consultation, the OFT referred the PPI market to the UK Competition Commission for an in-depth inquiry on 7th February 2007. This inquiry could last for up to two years. Also in October 2006, the Financial Services Authority (FSA) published the outcome of its broad industry thematic review of PPI sales practices in which it concluded that some firms fail to treat customers fairly. The Group has cooperated fully with these investigations and will continue to do so.

In April 2006, the OFT commenced a review of the undertakings given following the conclusion of the Competition Commission Inquiry in 2002 into the supply of banking services to Small and Medium Enterprises (SMEs). The Group is co-operating fully with that review.

The OFT has carried out investigations into Visa and MasterCard credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the Competition Appeals Tribunal in June 2006. The OFT's investigation in the Visa interchange case is at an earlier stage and a second MasterCard interchange case is ongoing. The outcome is not known but these investigations may have an impact on the consumer credit industry in general and therefore on the Group's business in this sector. On 9th February 2007 the OFT announced that it was expanding its investigation into interchange rates to include debit cards.

The OFT announced the findings of its investigation into the level of late and over-limit fees on credit cards on 5th April 2006, requiring a response from credit card companies by 31st May 2006. Barclaycard responded by confirming that it would reduce its late and over-limit fees on credit cards from 1st August 2006.

On 7th September 2006, the OFT announced that it had decided to undertake a fact find on the application of its statement on credit card fees to current account unauthorised overdraft fees. The OFT expects this work to take up to six months, at which stage the OFT will consider whether a further detailed investigation into unauthorised overdraft fees is needed.

On 26th January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. Barclays will charge the fee applicable at the time the customer took out the mortgage, which is one of the options recommended by the FSA.

Other areas where changes could have an impact include:

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

Impact of strategic decisions taken by the Group

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

Competition

The global financial services markets in which the Group operates are highly competitive. Innovative competition for corporate, institutional and retail clients and customers comes both from incumbent players and a steady stream of new market entrants. The landscape is expected to remain highly competitive in all areas, which could adversely affect the Group's profitability if the Group fails to retain and attract clients and customers.

Regulatory compliance risk

Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

Supervision and regulation

The Group's operations, including its overseas offices, subsidiaries and associates, are subject to rules and regulations, including reserve and reporting requirements and conduct of business requirements, imposed by the relevant central banks and regulatory authorities.

In the UK, the Financial Services Authority (FSA) is the independent body responsible for the regulation of deposit taking, life insurance, home mortgages, general insurance and investment business. The FSA was established by the Government and it exercises statutory powers under the Financial Services and Markets Act 2000.

Barclays Bank PLC is authorised by the FSA to carry on a range of regulated activities within the UK and is subject to consolidated supervision. In its role as supervisor, the FSA seeks to ensure the safety and soundness of financial institutions with the aim of strengthening, but not guaranteeing, the protection of customers. The FSA's continuing supervision of financial institutions authorised by it is conducted through a variety of regulatory tools, including the collection of information from statistical and prudential returns, reports obtained from skilled persons, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy.

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, and liquidity. Certain of these requirements derive from EU directives as described below.

Banks, insurance companies and other financial institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme) where an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Different levels of compensation are available to eligible claimants depending upon whether the protected claim is in relation to a deposit, a contract of insurance or protected investment business and certain types of claims are subject to maximum levels of compensation. Most deposits made with branches of Barclays Bank PLC within the European Economic Area (EEA) which are denominated in Sterling or other EEA currencies (including the euro) are covered by the Scheme. Most claims made in respect of designated investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state.

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 and the Monetary Authority of Singapore); Africa (various regulatory authorities including the South African Reserve Bank and the Financial Services Board) and the United States of America (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).

In Europe, the UK regulatory agenda is considerably shaped and influenced by the directives emanating from the EU. A number of EU directives are currently being implemented, for example the Capital Requirements Directive, the Third Money Laundering Directive and the Markets in Financial Instruments Directive ('MiFID'). 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 Bank PLC and certain US subsidiaries and branches of the Bank are subject to a comprehensive regulatory structure, involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended, the Foreign Bank Supervision Enhancement Act of 1991 and the USA PATRIOT Act of 2001. Such laws and regulations impose limitations on the types of businesses, and the ways in which they may be conducted, in the United States and on the location and expansion of banking business there. The Bank's branch operations are subject to extensive federal and state supervision and regulation by the FRB, the New York State Banking Department and the OCC (in the case of Barclays Global Investors, NA); and the Delaware State Banking Commissioner and the Federal Deposit Insurance Corporation (in the case of Barclays Bank Delaware). The investment banking and asset management operations are subject to ongoing supervision and regulation by the Securities and Exchange Commission (SEC) as well as a comprehensive scheme of regulation under the US federal securities laws, as enforced by, for example, the NASD and the OCC.

Responsible banking

The past year has seen another marked increase in the profile of corporate responsibility as a topic of global strategic significance. Two issues have dominated debate – the emergence of climate change and its consequences as the most pressing challenge facing the world and the evolution of thought on social, ethical and environmental issues under the overarching concept of 'sustainability'.

For Barclays, corporate responsibility is embodied in the concept of 'responsible banking' – reflecting its place at the heart of our strategy as an integral part of the way in which we do business. Firmly based on the clear values enshrined in our Guiding Principles, responsible banking means making informed, reasoned and ethical decisions in our business dealings with customers, clients, employees and our other stakeholders. Our Guiding Principles of Winning Together, Customer Focus, The Best People, Pioneering and Trusted describe how we expect our employees to behave with external stakeholders and each other. Responsible banking is the approach by which we aim to progress towards sustainability – recognising that we will succeed in our strategic and financial goals only if we have a strong commitment and focus on achieving sustainable outcomes for all stakeholders.

We make our greatest contribution to society by being good at what we do and by doing so responsibly – by helping our customers meet their financial goals through providing competitive products and services that contribute to economic growth, and in contributing to healthy financial systems around the world.

Our corporate responsibility priorities are informed by regular dialogue with a wide range of organisations and in 2006 we undertook a much broader programme of formal and informal dialogue with investors, non-governmental organisations, customers, our employees and politicians. Our approach is focused on the following areas:

- Our customers
- Financial inclusion
- Responsible lending
- Environment and climate change
- Supply chain management
- Our employees
- Community investment

This is underpinned by a strong governance framework.

Governance

The Group Chief Executive, supported by the Group Executive Committee, has primary responsibility for embedding 'responsible banking' throughout Barclays. This includes setting strategy and the identification, review and reporting of all business issues (whether risks or commercial opportunities) which have an important social, environmental or ethical dimension.

The Brand and Reputation Committee, a sub-committee of Group Executive Committee, is chaired by Sir Nigel Rudd, Deputy Chairman and a non-executive Director on the Board. The Committee's role is to identify and manage issues of reputational significance to the Barclays Group. The Committee met three times during the year.

The Community Partnerships Committee sets the policy and provides governance for our global community investment, and the Environmental Steering Group provides direction and governance to support our environmental and climate change strategies.

Corporate responsibility is firmly established as one of the Board Governance Standards, providing for internal control and governance and establishing 'responsible banking' as a key area of profile and measurement within our risk management processes.

Ethical indices

Our parent company, Barclays PLC is a long-standing member of the Dow Jones Sustainability and FTSE4Good ethical indices. Its ranking in the Business in the Community Corporate Responsibility Index rose to 3rd position out of 131 companies. In the Carbon Disclosure Project, it was ranked in the top 50 of the global FT 500 companies.

Our customers

An unswerving focus on our customers lies at the heart of our Guiding Principles. We are committed to providing them with excellent products and services and doing so in accordance with our ten established principles for treating customers fairly, with openness and with transparency. Our aim is to improve the information we give to customers so that they can make better informed decisions in line with their own circumstances and needs.

We have made a large investment in improving our customer service, most notably in our UK Retail Business. We are, therefore, encouraged to see that the progress we reported last year has been maintained in the areas of customer satisfaction and advocacy, as we have implemented steps to improve products and to rectify challenges in key areas such as mortgage processing, where we have made major changes.

Across our other businesses – UK Business Banking, Barclays Capital, Barclays Global Investors, Barclays Wealth and in our African and European retail operations, strong levels of customer satisfaction and advocacy have been sustained.

During the year, we announced our intention to merge our network of Woolwich branches in the UK into Barclays, at the same time investing in our branch network and in the Woolwich as our mortgage brand. This will give Woolwich customers access to all Barclays branches and ATMs and vice versa. The branches we are bringing together are near neighbours – 300 metres or less apart and there will be no change in our community footprint as a result.

Financial inclusion

With 2.7 billion people across the world living on less than US$2 per day and some 2.8 million UK adults without access to a bank account, increasing financial inclusion is both a social imperative and a commercial opportunity. Our focus in this area has been on our businesses in the UK and in Africa and specifically on improving both access to banking and to affordable credit and savings.

In South Africa, Absa's Customer Education Programme is making banking more accessible to customers at the lower end of the mass market through a range of audio visual channels, whilst in the UK we continued to support agencies such as the Money Advice Trust, Citizens Advice and Business Debtline.

We increased the number of our Cash Card (basic bank) Accounts, designed for low income and vulnerable people in the UK, by 85,000 to 464,000 and held a 'roundtable' discussion with three consumer groups – Citizens Advice, the National Consumer Council and SAFE (Services Against Financial Exclusion), an initiative of Toynbee Hall – to inform improvements and increase access to this account. New functions have been added to the account and, based on the feedback, we are giving more profile to the savings needs of these customers. In the UK, our personal current account customers can continue to make cash withdrawals free of charge through the Post Office network.

Absa has been addressing access in South Africa through various means. Portable branches are bringing banking to deprived areas, enabling a full range of transactions to be handled efficiently. 13 were opened in 2006. 1.5 million more South Africans were brought into banking via the Mzansi account, of which Absa continues to be the leading bank provider. The bank has also implemented its AllPay and Sekulula services, enabling 2.3 million social grant beneficiaries to access their payments in four provinces.

We remain the leading private sector supporter of credit unions in the UK, whilst our pilot of microbanking in Ghana through the traditional Susu system proved very successful, reaching over 80,000 disadvantaged market traders and supporting the UN Millennium Development Goals. Work is now under way to develop microfinance programmes for implementation in other African countries.

Responsible lending

The consumer lending market in the UK has continued to be both intensely competitive and challenging. Our commitment is to provide clear and straightforward information to our customers so that they can readily see the terms and conditions and then make an informed personal decision. We have further developed the use of summary information on credit card and personal loan application forms and statements, to help customers understand our terms and pricing and also, for example, the implications of making only the minimum payment on their credit card outstandings.

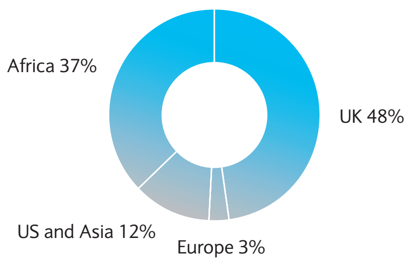
We are working closely with other banks and finance providers to share information about how people manage their accounts, in the belief that this has a key role to play in helping banks assist their customers through responsible lending practices and customer care. Another development is to encourage responsible borrowing through the introduction of our Flexi-Rate™ card, which offers a lower interest rate to those customers who repay more of their outstanding credit card balance each month.

Environment and climate change

The effects of climate change constitute the most pressing challenge to global sustainability and we continue to reflect this in our policies and actions. As a bank, our impacts are both direct – through our own operations – and indirect – through our lending and other business activities with customers and clients.

One of our key initiatives has been to make our UK operations carbon-neutral. We have achieved this through significant investment in energy efficiency and through the purchase of renewable energy – 50% of our UK operations are now being supplied from renewable sources. Part of our remaining offset of over 200,000 tonnes of CO_2 is provided through the purchase of carbon credits in the market, together with a strong contribution from community-based sustainable energy schemes such as solar and wind power in Africa and India.

Barclays CO_2 emissions from energy and travel



We are also helping to combat climate change through the development of carbon-related products and services, such as our launch of the first carbon-neutral debit card in the UK. Barclays Capital continued to support the vital carbon trading market, where it remains the most active trader. Our Natural Resources Team has provided long-term finance for over 2,600MW of renewable generating capacity, including onshore windfarms, landfill gas extraction plants and bio-diesel conversion plants.

We have committed strongly to the efficient management of our resources, reducing waste and increasing recycling. We extended our ISO14001 certified Environmental Management System, with our operations in France and Absa in South Africa becoming the first major banks in those countries to achieve such accreditation.

As a result of this activity, we improved our score in the Dow Jones Sustainability Index, retaining our 1st position amongst global banks for environmental reporting and joint 1st in environmental performance. In the UK, we achieved 2nd position in the Business in the Environment Index.

As a co-founder of the Equator Principles, which require banks to undertake detailed social and environmental impact assessments when financing projects such as dams and mines, we contributed to the revision and strengthening of the Principles. The threshold amount has been reduced from US$50m to US$10m and criteria tightened, such that they now include more robust procedures for public consultation and a greater focus on social impacts.

Project finance deals – whole Barclays Group

Category	A Higher Risk	B Medium Risk	C Lower Risk	Total 2006
Number of project finance deals	8	10	18	36
Deals completed or pending	4	9	17	30
– of which, number where E/S[a] related changes were made	4	9	17	30
Deals considered, but not participated in	4	1	1	6
Projects referred from EU	6	4	15	25
Projects referred from Africa	1	2	2	5
Projects referred from Asia Pacific	1	2	0	3
Projects referred from North America	0	2	1	3

(a) E/S = Environmental and social issues.

During the year, we updated our internal environmental and social risk guidance, extending it to over 50 different industry sectors. This guidance, which was developed with input from environmental NGOs, now reflects more explicit information on social and other human rights-related impacts. This review also benefited from our work as the only bank participating in the Business Leaders' Initiative on Human Rights. The guidance has been shared with the United Nations Environment Programme – Finance Initiative and has been made available to their 167 members around the world.

Supply chain management

Responsible sourcing principles are an important component in our commitment to sustainability whilst, at the same time, enabling us to manage business risk. A key achievement in 2006 was the circulation of our new Corporate Responsibility Questionnaire to our suppliers operating in sectors of higher or medium level environmental or social risk. So far, we have reviewed some 60 suppliers, accounting for approximately £1.5bn of our total annual spend.

The information gathered through our questionnaire is helping to ensure that the social and environmental policies of our suppliers are in line with Barclays own standards. In those cases where suppliers have performed relatively poorly, we intend to work with them to help them improve performance.

In 2006, Absa in South Africa spent over 55% of their annual sourcing total with businesses qualifying under the Black Economic Empowerment guidelines. These support the South African Government's objective to ensure that its citizens have the opportunity to participate in the economic progress of the country.

In the UK, we worked with our cleaning contractors to secure new terms and conditions for some 2,400 cleaning staff in our 2,000 UK branches. This groundbreaking initiative means that the cleaners will now benefit from improved pay and opportunities for training, as well as access to a pension, sick pay, increased holiday entitlements and annual leave.

Our employees

The commitment, motivation and talent of our employees lies at the heart of our approach to sustainability. During 2006, we continued our pioneering partnership agreement with Amicus, our UK trade union, and signed a joint Equality Charter that commits us to advancing equality for our employees.

Our annual independent Employee Opinion Survey showed further improvements. 87% of our colleagues participated in the survey and 84% expressed pride in working for Barclays, with Employee Engagement standing at 76% (72% in 2005). Employee perceptions of Barclays as a responsible company showed further strong progress.

Employee opinion survey results
(% Positive Scores)

	2006	2005
Perceptions of Leadership	**62**	58
Employer of Choice	**70**	67
Barclays operates with integrity	**84**	80
Barclays is an environmentally responsible company	**77**	76
Barclays is a socially responsible company	**83**	80
I am proud to work for Barclays	**84**	80

Diversity amongst our employees is both a long-term commitment and a business imperative. 21% of our senior employees are female and this is a start, but we accept that there is more to do. We boosted our intake of disabled graduates to our summer internship programme with good progress across our businesses and we benefited from a proactive partnership with Spain's Fundación Once.

6% of our UK senior managers are now from an ethnic minority background whilst, over the past five years, the number of our ethnic minority employees in the UK has risen from 7% to 13%. In South Africa, Absa continued to make strong progress with its commitments under the Financial Sector Charter to increase the number of black managers at all levels and, as a sub-set, black female managers.

UK employment statistics

	2006	2005	2004
Total employee headcount	**62,400**	59,100	60,000
Average length of service (years)	**9.8**	10.2	10.5
Percentage working part time	**21.8%**	23.7%	24.6%
Sickness absence rate	**4.0%**	4.2%	4.4%
Turnover rate	**19.0%**	20.0%	19.3%
Resignation rate	**12.0%**	11.5%	11.8%
Women in Barclays			
Percentage of all employees	**61.0%**	62.2%	63.4%
Percentage of management grades	**33.0%**	30.9%	30.5%
Percentage of senior executives	**12.9%**	10.9%	10.5%
Ethnic minorities in Barclays			
Percentage of all employees	**12.7%**	11.3%	10.5%
Percentage of management grades	**8.1%**	7.1%	7.0%
Percentage of senior executives	**6.1%**	3.6%	3.3%
Disabled employees in Barclays			
Percentage of all employees	**5.0%**	3.4%	3.2%

Notes
All headcount and FTE numbers relate to direct employees therefore excluding agency staff and contractors.

All employee statistics relate to Barclays in the UK excluding Barclays Global Investors (approx 800 UK employees).

All data as at 31st December.

Percentage of disabled employees is derived using responses to the GRCB and Central Support Employee Opinion Survey, 84% of UK employees.

Sickness Absence percentage excludes Barclays Capital population.

UK historical data has been restated to include Barclays Capital and therefore will differ from previously reported figures.

Occupational health is an important concern for us and we maintain a comprehensive HIV/AIDS programme across all our African businesses. This provides counselling, testing and treatment, including free anti-retroviral drugs, for our employees and their dependants. We also have extensive schemes to support business customers and our wider communities and have been active in supporting malaria programmes in various African countries.

Community investment

2006 was an important year for our community investment programme. After extensive research and consultation with stakeholders both inside and outside Barclays, we are now implementing a global programme that unites all our businesses across the world and which complements our business strategy. Our investment is now being directed towards three key themes:

- Banking on brighter futures
- Looking after local communities
- Charity begins at work

Banking on brighter futures focuses on the provision of money advice, tackling financial exclusion, helping disadvantaged people into work and supporting their broader education. An example of our initiatives is Barclaycard Horizons – a three-year, £3m community programme with four national partners, which aims to support 50,000 disadvantaged single parents in working their way out of debt and poverty.

Looking after local communities is about investing in the many neighbourhoods around the world where we have a presence. By far our biggest community project in the UK is Barclays Spaces for Sports, now in its third and final year. To date, over 120 community sports facilities have been completed and 3,600 coaching kits provided to local groups, benefiting some 320,000 people in disadvantaged areas.

Charity begins at work is dedicated to, and driven, by our employees. In 2006, 33,000 Barclays employees and pensioners around the world received support for fundraising or volunteering. One focus of our volunteering is Make a Difference Day, now covering 25 countries worldwide. Last year, 11,000 employees contributed their business skills, with international participation up 63% compared to the previous year.

We are a member of the PerCent Club – a group of companies that has undertaken to ensure that investment in the community over time amounts to at least 1% of UK pre-tax profit.

Further information

Barclays PLC's 2006 Corporate Responsibility Report contains more detailed information on our activities and will be available from 26th April 2007 and online at *www.barclays.com/corporateresponsibility*. We are committed to providing more information on these issues and our report has been produced taking account of the international AA1000 Standard and the 2002 Global Reporting Initiative sustainability reporting guidelines, including the Financial Sector Supplements.

Directors' report

Report of the Directors

Business review and principal activities

The Company is required to set out in this report a fair review of the business during the financial year ended 31st December 2006 and a description of the principal risks and uncertainties facing the Company (known as a 'Business Review').

The information that fulfils the requirements of the Business Review can be found on pages 2 to 11.

From the perspective of the Bank the review of the business and the principal risks and uncertainties facing the Company are integrated with the review of Barclays PLC, the Bank's ultimate parent. Therefore additional information may be found in the 2006 Annual Report of Barclays PLC which does not form part of this report.

Barclays is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Barclays operates through branches, offices and subsidiaries in the UK and overseas.

The results of the Group show a pre-tax profit of £7,197m (2005: £5,311m) for the year and profit after tax of £5,256m (2005: £3,872m). The Group had net assets of £27,106m at 31st December 2006 (2005: £24,243m).

Profit Attributable

The profit attributable to Barclays PLC, the Bank's ultimate parent, for the year 2006 amounted to £4,914m (2005: £3,695m).

Dividends

Total dividends on ordinary shares paid during 2006 are set out in Note 1 to the accounts.

Dividends paid on preference shares for the year ended 31st December 2006 amounted to £174m (2005: £74m).

Share Capital

Ordinary share capital was increased during the year by the issue to Barclays PLC of 11 million ordinary shares, credited as fully paid, in consideration of cash payments of £179m.

Preference share capital was increased in the year by the issue of 30,000,000 Non-Cumulative Callable US Dollar Preference Shares of US$0.25, credited as fully paid, in consideration of net proceeds of US$727m (£406m), of which the nominal value was US$7.5m and the balance was share premium.

Annual Report on Form 20-F

An Annual Report on Form 20-F is being filed with the US Securities and Exchange Commission (SEC) and copies will be available from one of the Joint Secretaries on request to the Head office at 1 Churchill Place, London E14 5HP. It is possible to read and copy documents that have been filed by Barclays PLC and Barclays Bank PLC with the SEC at the SEC's office of Investor Education and assistance located at 100 F Street, NE, Washington DC 20549-0213. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. Filings with the SEC are also available to the public from commercial document retrieval services, and from the website maintained by the SEC at www.sec.gov.

Directors

The Directors of the Bank are listed on page 14. The Directors' interests in shares are set out in Note 46. The membership of the Boards of the Bank and of Barclays PLC is identical.

Frederik (Frits) Seegers was appointed as an executive Director with effect from 10th July 2006. Fulvio Conti and Marcus Agius were appointed as non-executive Directors with effect from 1st April 2006 and 1st September 2006 respectively. Sir David Arculus retired from the Board on 27th April 2006 and Robert Steel retired from the Board on 11th October 2006. Matthew Barrett and David Roberts left the Board on 31st December 2006.

Chris Lucas will join the Board as Group Finance Director on 1st April 2007 and Naguib Kheraj will leave the Board on 31st March 2007.

Directors' Indemnities

Qualifying third-party indemnity provisions (as defined by Section 309B of the Companies Act 1985) were in force during the course of the financial year ended 31st December 2006 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 in relation to the Company and certain associated companies (as defined in Section 309A(6) of the Companies Act 1985). Qualifying third-party indemnity provisions are also in force, at the date of this report, for the benefit of the directors of certain associated companies.

Community Involvement

The total commitment for 2006 was £46.5m (2005: £39.1m).

Barclays committed £39.6m in support of the community in the UK (2005: £35.3m) and £6.9m was committed in international support (2005: £3.8m). The UK commitment includes £35.2m of charitable donations (2005: £16.7m).

Barclays is a member of the PerCent Club – a group of companies that have undertaken to ensure that donations to the community over time amount to at least 1% of their UK pre-tax profit.

Barclays has an extensive community programme covering many countries around the world. The Group provides funding and support to over 8,279 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 2006 saw more than 33,000 employees and pensioners worldwide taking part in Barclays supported volunteering, giving and fundraising activities.

Employee Involvement

Barclays is committed to ensuring that employees share in the success of the Company. Staff are encouraged to participate in share option and share purchase schemes and have a substantial sum invested in the shares of Barclays PLC.

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. An annual (bi-annual in the case of BGI) Employee Opinion Survey is undertaken with results being reported to the Board and all employees. Roadshows and employee forums also take place.

In addition, Barclays undertakes regular and formal Group, business unit and project specific consultations with Amicus, our recognised union.

Equality and Diversity
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.

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. Through our 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.

Creditors' Payment Policy
Barclays values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, promptly. Normal policy is to pay all small business purchases within 30 days. It is Barclays practice to agree terms with suppliers when entering into contracts. We negotiate with suppliers on an individual basis and meet our obligations accordingly. The Company does not follow any specific published code or statement on payment practice.

Paragraph 12(3) of Schedule 7 of the Companies Act 1985 requires disclosure of trade creditor payment days. The Company's accounts are prepared in accordance with International Financial Reporting Standards. 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 Schedule 9 of the Companies Act applied, the trade creditor payment days for the Company for 2006 were 28 days (2005: 35 days). This is an arithmetical calculation and does not necessarily reflect our practice, which is described above, nor the experience of any individual creditor.

Financial Instruments
Barclays 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 in Note 13 and Notes 52 to 57 to the accounts.

Events after the Balance Sheet Date
On 19th January 2007 Barclays announced that it entered into an agreement to purchase EquiFirst Corporation, the non-prime mortgage origination business of Regions Financial Corporation, for a consideration of approximately US$225m. Completion, which is subject to receipt of the required licences and applicable regulatory approval, as well as a post-closing adjustment based on EquiFirst's balance sheet at the actual completion date, is expected in the first half of 2007.

On 8th February 2007 Barclays completed the acquisition of Indexchange Investment AG from Bayerische Hypo-und Vereinsbank for a consideration of approximately €240m.

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 Group's auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors. Having reviewed the independence and effectiveness of the external auditors, the Committee has recommended to the Board that the existing auditors, PricewaterhouseCoopers LLP, be reappointed.

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.

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 2007 AGM.

By order of the Board

Lawrence Dickinson
Joint Secretary
8th March 2007

Directors and Officers and Statement of Directors' responsibilities for accounts

Current Directors and Officers

Marcus Agius – Chairman

Executive Directors
John Varley – Group Chief Executive
Naguib Kheraj – Group Finance Director
Robert E Diamond Jr – President, Barclays PLC, Chief Executive, Investment Banking and Investment Management
Gary Hoffman – Group Vice Chairman
Frits Seegers – Chief Executive, Global Retail and Commercial Banking

Non-executive Directors
Sir Nigel Rudd, DL – Deputy Chairman
Sir Richard Broadbent
Richard (Leigh) Clifford
Fulvio Conti
Dr Danie Cronjé
Professor Dame Sandra Dawson
Sir Andrew Likierman
Stephen Russell
Sir John Sunderland

Note
Chris Lucas will join the Board as Group Finance Director on 1st April 2007 and Naguib Kheraj will leave the Board on 31st March 2007.

Current Executive Committee members		Appointed to Executive Committee
John Varley	Group Chief Executive	1996
Robert E Diamond Jr	President, Barclays PLC, Chief Executive, Investment Banking and Investment Management	1997
Paul Idzik	Chief Operating Officer	2004
Naguib Kheraj	Group Finance Director	2003
Frits Seegers	Chief Executive, Global Retail and Commercial Banking	2006

Other Officers		Appointed to position
Jonathan Britton	Financial Controller	2006
Lawrence Dickinson	Joint Secretary	2002
Patrick Gonsalves	Joint Secretary	2002
Mark Harding	General Counsel	2003
Robert Le Blanc	Risk Director	2004

Statement of Directors' Responsibilities for Accounts

Going Concern
The Directors confirm they are satisfied that the Group and the Company have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

Statement of Directors' Responsibilities for Accounts

The following statement, which should be read in conjunction with the Auditors' report set out on page 15, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year and, with regards to Group accounts, in accordance with Article 4 of the IAS Regulation. The Directors have prepared individual accounts in accordance with IFRS as adopted by the European Union. The accounts are required by law and IFRS to present fairly the financial position of the Company and the Group and the performance for that period; the Companies Act 1985 provides in relation to such accounts, that references in the relevant part of the law to accounts giving a true and fair view are references, to their achieving fair presentation.

The Directors consider that, in preparing the accounts on pages 16 to 130, the Group has used appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' report

UK Audit Report of the Independent Auditors to the Members of Barclays Bank PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of Barclays Bank PLC for the year ended 31st December 2006 which comprise Group income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of recognised income and expense and the related notes on pages 26 to 130. These financial statements have been prepared under the accounting policies set out therein on pages 16 to 24.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Business Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31st December 2006 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31st December 2006 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
8th March 2007

Notes

(a) The maintenance and integrity of the Barclays Bank PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Significant Accounting Policies

1. Reporting entity
These financial statements are prepared for the Barclays Bank PLC group ('Barclays' or 'the Group') under section 227(2) of the Companies Act 1985. The Group is an international financial services group engaged in the provision of a wide range of financial services, including banking, investment banking, venture capital and asset management. In addition, individual financial statements have been prepared for the parent undertaking, Barclays Bank PLC, under section 226(2)(b) of the Companies Act 1985.

Barclays Bank PLC is a public limited company, incorporated England and Wales and having a registered office in England and Wales.

2. Compliance with International Financial Reporting Standards
The consolidated financial statements of the Barclays Bank PLC Group, and the individual financial statements of Barclays Bank PLC, have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. They are also in accordance with IFRSs as published by the International Accounting Standards Board (IASB) and interpretations issued by IFRIC.

The principal accounting policies applied in the preparation of the consolidated and individual financial statements are set out below. These policies have been consistently applied.

3. Basis of preparation
The consolidated and individual financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments and contracts to buy or sell non-financial items and trading inventories to the extent required or permitted under accounting standards and as set out in the relevant accounting polices. They are stated in millions of pounds Sterling, (£m), the currency of the country in which Barclays Bank PLC is incorporated.

Critical accounting estimates
The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements such as fair value of financial instruments (note 58), allowance for loan impairment (note 16), goodwill (note 23), intangible assets (note 24), and retirement benefit obligations (note 35).

4. Consolidation
Subsidiaries
The consolidated financial statements combine the financial statements of Barclays Bank PLC and all its subsidiaries, including certain special purpose entities where appropriate, made up to 31st December. Entities qualify as subsidiaries where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls another entity. Details of the principal subsidiaries are given in Note 47.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed, plus any costs directly related to the acquisition. The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. See accounting policy 14 for the accounting policy for goodwill. Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

As the consolidated financial statements include partnerships where a Group member is a partner, advantage has been taken of the exemption of Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 with regard to the preparation and filing of individual partnership financial statements.

Associates and joint ventures
An associate is an entity in which the Group has significant influence, but not control, over the operating and financial management policy decisions. This is generally demonstrated by the Group holding in excess of 20%, but no more than 50%, of the voting rights.

A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, though not necessarily, through entities which are subject to joint control.

Unless designated as at fair value through profit and loss as set out in policy 7, the Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), or other movements reflected directly in the equity of the associated or jointly controlled entity. Goodwill arising on the acquisition of an associate or joint venture is included in the carrying amount of the investment (net of any accumulated impairment loss). When the Group's share of losses in an associate or joint venture equals or exceeds the recorded interest, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

The Group's share of the results of associates and joint ventures is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group. Unrealised gains on transactions are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

In the individual financial statements of Barclays Bank PLC, investments in subsidiaries, associates and joint ventures are stated at cost less impairment, if any.

5. Foreign currency translation
The consolidated and individual financial statements are presented in sterling, which is the functional currency of the parent company.

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement except for qualifying cash flow hedges or hedges of net investments. See accounting policy 12 for the policies on hedge accounting.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets and non-monetary items are included directly in equity.

For the purposes of translation into the presentational currency, assets, liabilities and equity of foreign operations are translated at the closing rate, and items of income and expense are translated into sterling at the rates prevailing on the dates of the transactions, or average rates of exchange where these approximate to actual rates.

The exchange differences arising on the translation of a foreign operation are included in cumulative translation reserves within shareholders' equity and included in the profit or loss on disposal or partial disposal of the operation.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are maintained in the functional currency of the foreign operation, translated at the closing rate and are included in hedges of net investments where appropriate.

On transition to IFRS, the Group brought forward a nil opening balance on the cumulative foreign currency translation adjustment arising from the re-translation of foreign operations, which is shown as a separate item in shareholders' equity.

6. Interest, fees and commissions

Interest

Interest is recognised in interest income and interest expense in the income statement for all interest-bearing financial instruments classified as held to maturity, available for sale or other loans and receivables using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating effective interest, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment.

Insurance premiums

Insurance premiums are recognised in the period earned.

Net trading income

Income arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. Trading positions are held at fair value and the resulting gains and losses are included in the Income statement, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Dividends from subsidiaries

In the individual financial statements of Barclays Bank PLC, dividends from subsidiaries are accounted for on the basis of dividends received in the accounting period.

7. Financial assets and liabilities

Financial Assets

The Group classifies its financial assets in the following categories: financial instruments at fair value through profit or loss; loans and receivables; held to maturity investments and available for sale financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

Financial instruments at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Instruments are classified as held for trading if they are:

(i) acquired principally for the purposes of selling or repurchasing in the near term;
(ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(iii) a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial instruments cannot be transferred into or out of this category after inception. Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the Income statement. Gains and losses arising from changes in fair value are included directly in the income statement. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

Regular way purchases and sales of financial instruments held for trading or designated under the fair value option are recognised on trade date, being the date on which the Group commits to purchase or sell the asset.

The fair value option is used in the following circumstances:

(i) financial assets backing insurance contracts and financial assets backing investment contracts are designated at fair value through profit or loss because the related liabilities have cash flows that are contractually based on the performance of the assets or the related liabilities are insurance contracts whose measurement incorporates current information. Fair valuing the assets through profit and loss significantly reduces the recognition inconsistencies that would arise if the financial assets were classified as available for sale.

(ii) financial assets, loans to customers, financial liabilities, financial guarantees and structured notes may be designated at fair value through profit or loss if they contain substantive embedded derivatives.

(iii) financial assets, loans to customers, financial liabilities, financial guarantees and structured notes may be designated at fair value through profit or loss where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.

(iv) Certain private equity and other investments that are managed, and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method (see accounting policy 6 on page 17). They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Regular way purchases and sales of loans and receivables are recognised on contractual settlement.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method (see accounting policy 6). They are derecognised when the rights to receive cash flows have expired.

Purchases of held to maturity financial assets are recognised on trade date, being the date on which the Group commits to purchase the asset.

Available for sale

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method (see accounting policy 6), impairment losses and translation differences on monetary items are recognised in the income statement. The assets are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Regular way purchases and sales of available for sale financial instruments are recognised on trade date, being the date on which the Group commits to purchase or sell the asset.

Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are derecognised when extinguished.

Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Profits or losses are only recognised on initial recognition when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs.

8. Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets carried at amortised cost is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

   (i) adverse changes in the payment status of borrowers in the portfolio;

   (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and recognised in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflect the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Equity securities acquired in exchange for loans and advances in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of equity securities. Where control is obtained over an entity as a result of the transaction, the entity is consolidated. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business and not as an impairment of the original instrument.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognised in the income statement. Reversals of impairment of equity shares are not recognised in the income statement, increases in the fair value of equity shares after impairment are recognised directly in equity.

9. Sale and repurchase agreements (including stock borrowing and lending)

Securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the balance sheet as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

10. Securitisation transactions

Certain Group undertakings have issued debt securities or have entered into funding arrangements with lenders in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

(i) substantially all the risks and rewards associated with the financial instruments have been transferred, in which case, the assets are derecognised in full or;

(ii) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where (i) or (ii) above applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

11. Collateral and netting

The Group enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. These items are assigned to deposits received from bank or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively except for funding costs relating to trading activities which are recorded in net trading income.

Netting

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross in the balance sheet.

12. Derivatives and hedge accounting

Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions. In addition, the use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities. Derivatives entered into for hedging purposes and for trading purposes include foreign exchange, interest rate, credit, equity and commodity derivatives mainly in the form of swaps, forwards, options and combinations of these instrument types.

Derivatives

Derivatives are measured initially at fair value and subsequently remeasured to fair value. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are included in assets when their fair value is positive, and liabilities when their fair value is negative, unless there is the legal ability and intention to settle net (as per accounting policy 11).

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement.

Profits or losses cannot be recognised on the initial recognition of embedded derivatives unless the host contract is also carried at fair value.

Hedge accounting

Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group discontinues hedge accounting when:

(i) It is determined that a derivative is not, or has ceased to be, highly effective as a hedge;

(ii) the derivative expires, or is sold, terminated, or exercised;

(iii) the hedged item matures or is sold or repaid; or

(iv) a forecast transaction is no longer deemed highly probable.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedging instrument. To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, the hedge is deemed ineffective. The amount of ineffectiveness, provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship using the effective interest method.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in shareholders' equity, and recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Hedges of net investments

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is recognised directly in equity and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement on the disposal or partial disposal of the foreign operation.

Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments although for a non-derivative liability only the foreign exchange risk is designated as a hedge.

Derivatives that do not qualify for hedge accounting

Derivative contracts entered into as economic hedges that do not qualify for hedge accounting are held at fair value through profit or loss.

13. Property, plant and equipment
Property and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The Group uses the following annual rates in calculating depreciation:

Freehold buildings and long-leasehold property (more than 50 years to run)	2-3.3%
Leasehold property (less than 50 years to run)	Over the remaining life of the lease
Costs of adaptation of freehold and leasehold property[(a)]	7-10%
Equipment installed in freehold and leasehold property[(a)]	7-10%
Computers and similar equipment	20-33%
Fixtures and fittings and other equipment	10-20%

Note
(a) Where leasehold property has a remaining useful life of less than 15 years, costs of adaptation and installed equipment are depreciated over the remaining life of the lease.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

When deciding on depreciation rates and methods, the principal factors the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful economic life.

No depreciation is provided on freehold land, although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

14. Intangible assets
Goodwill
Goodwill arises on the acquisition of subsidiary and associated entities and joint ventures, and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition, over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition.

For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows. Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill on acquisitions of associates and joint ventures is included in the amount of the investment. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

The carrying amount of goodwill in the UK GAAP balance sheet as at 31st December 2003 has been brought forward without adjustment on transition to IFRS.

Computer software
Computer software is stated at cost, less amortisation and provisions for impairment, if any.

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred.

Capitalised computer software is amortised over three to five years.

Other intangible assets
Other intangible assets consist of brands, customer lists, licences and other contracts, core deposit intangibles, mortgage servicing rights and customer relationships. Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method and the relief from royalty method that estimate net cash flows attributable to an asset over its economic life and discount to present value using an appropriate rate of return based on the cost of equity adjusted for risk.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 4-25 years.

15. Impairment of property, plant and equipment and intangible assets
At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date each year. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

The carrying values of fixed assets and goodwill are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment on assets.

16. Financial guarantees
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement in Provisions for undrawn contractually committed facilities and guarantees provided. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

17. Issued debt and equity securities
Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the company. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

Financial liabilities , other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest method as set out in policy 6. Derivatives embedded in financial liabilities that are not designated at fair value are accounted for as set out in accounting policy 12. Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Dividend and other payments to equity holders are deducted from equity, net of any related tax.

18. Share capital
Share issue costs
Incremental costs directly attributable to the issue of new shares or options including those issued on the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Barclays Bank PLC (the Bank) shareholders.

Treasury shares
Where the Bank or any member of the Group purchases the Bank's share capital, the consideration paid is deducted from shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

19. Insurance contracts and investment contracts
The Group offers wealth management, term assurance, annuity, property and payment protection insurance products to customers that take the form of long and short term insurance contracts.

The Group classifies its wealth management and other products as insurance contracts where these transfer significant insurance risk, generally where the benefits payable on the occurrence of an insured event are at least 5% more than the benefits that would be payable if the insured event does not occur.

Barclays Wealth contracts that do not contain significant insurance risk or discretionary participation features are classified as investment contracts. Financial assets and liabilities relating to investment contracts, and assets backing insurance contracts are classified and measured as appropriate under IAS 39, 'Financial Instruments: Recognition and Measurement'

Long term insurance contracts
These contracts, insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Claims and surrenders are accounted for when notified. Maturities on the policy maturity date and regular withdrawals are accounted for when due.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised, based on the expected discounted value of the benefit payments and directly related administration costs , less the expected discounted value of the future premiums that would be required to meet the benefits and other expenses. The calculation of the liability contains assumptions regarding mortality, maintenance expenses and investment income .

Liabilities under unit linked life insurance contracts (such as endowment policies) in addition reflect the value of assets held within unitised investment pools.

Short term insurance contracts
Under its payment protection insurance products the Group is committed to paying benefits to the policyholder rather than forgiving interest or principal on the occurrence of an insured event, such as unemployment, sickness, or injury. Property insurance contracts mainly compensate the policyholders for damage to their property or for the value of property lost.

Premiums are recognised as revenue proportionally over the period of the coverage. Claims and claims handling costs are charged to income as incurred, based on the estimated liability for compensation owed to policyholders arising from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group, based on assessments of individual cases reported to the Group and statistical analyses for the claims incurred but not reported.

Deferred acquisition costs (DAC)
Commissions and other costs that are related to securing new insurance and investment contracts are capitalised and amortised over the estimated lives of the relevant contracts.

Deferred Income Liability
Fees that are designed to recover commissions and other costs related to either securing new insurance and investment contracts or renewing existing investment contracts are included as a liability and amortised over the estimated life of the contract.

Value of business acquired
On acquisition of a portfolio of contracts, such as through the acquisition of a subsidiary, the Group recognises an intangible asset

representing the value of business acquired ('VOBA'), representing the future profits embedded in acquired insurance contracts and investment contracts with a discretionary participation feature. The asset is amortised over the remaining terms of the acquired contracts.

Liability adequacy test

Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of contract liabilities net of DAC and VOBA assets. Current best estimates of future contractual cash flows, claims handling and administration costs, and investment returns from the assets backing the liabilities are taken into account in the tests. Where a deficiency is highlighted by the test, DAC and VOBA assets are written off first, and insurance liabilities increased when these are written off in full. Any deficiency is immediately recognised in the income statement.

Reinsurance

Short and long-term insurance business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, investment and expenses. All such contracts are dealt with as insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance assets. The Group assesses reinsurance assets at each balance sheet date. If there is objective evidence of impairment, the carrying amount of the reinsurance asset is reduced accordingly resulting in a charge to the income statement.

20. Leases

Lessor

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are included within property, plant and equipment on the Group's balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

The leases entered into by the Group are primarily operating leases. Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

21. Employee benefits

The Group provides employees worldwide with post retirement benefits mainly in the form of pensions. The Group operates a number of pension schemes which may be funded or unfunded and of a defined contribution or defined benefit nature. In addition, the Group contributes, according to local law in the various countries in which it operates, to Governmental and other plans which have the characteristics of defined contribution plans.

For defined benefit schemes, actuarial valuation of each of the scheme's obligations using the projected unit credit method and the fair valuation of each of the scheme's assets are performed annually, using the assumptions set out in Note 35.The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date, adjusted for any historic unrecognised actuarial gains or losses and past service cost, is recognised as a liability in the balance sheet. An asset, arising for example, as a result of past over funding or the performance of the plan investments, is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Cumulative actuarial gains and losses in excess of the greater of 10% of the assets or 10% of the obligations of the plan are recognised in the income statement over the remaining average service lives of the employees of the related plan, on a straight-line basis.

For defined contribution schemes, the Group recognises contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

The Group also provides healthcare to certain retired employees, which are accrued as a liability in the financial statements over the period of employment, using a methodology similar to that for defined benefit pensions plans.

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the income statement in staff costs, which is included within operating expenses.

22. Share-based payments to employees

The Group engages in equity settled share-based payment transactions in respect of services received from certain of its employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that the services are received, which is the vesting period. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

23. Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When a leasehold property ceases to be used in the business or a demonstrable commitment has been made to cease to use a property where the costs exceed the benefits of the property, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income and other benefits. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. The provision raised is normally utilised within nine months.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

24. Taxes, including deferred taxes
Income tax payable on taxable profits ('current tax'), is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

25. Segment reporting
Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those of components operating in other economic environments. Business segments are the primary reporting segments. Group costs are allocated to segments on a reasonable and consistent basis. Transactions between segments are generally accounted for in accordance with Group policies as if the segment were a stand alone business with intra-segment revenue and costs being eliminated in Head office.

The analyses by geographical segment is based on the location of the customer.

26. Cash and cash equivalents
For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than 3 months. Trading balances, repos and reverse repos are not considered to be part of cash equivalents.

27. Trust activities
The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

Changes in accounting presentation
In order to provide more relevance to users and to enhance the comparability of its financial statement presentation, the Group has reformatted the income statement, the balance sheet, the statement of cash flows and certain notes to the accounts, including the presentation of discrete notes that contain information regarding securitisations and leasing disclosed elsewhere in the accounts for 2005. Where appropriate, comparative figures have been re-presented to conform with the current year presentation. Previously reported amounts of assets, liabilities, equity, profits and changes in cash and cash equivalents have not been affected by the changes.

Changes in presentation affecting operating cash flows in 2005 have been disclosed in Note 43.

Future accounting developments
IFRS 7 ('Financial Instruments Disclosures') and an amendment to IAS 1 ('Presentation of Financial Statements') on capital disclosures were issued by the IASB in August 2005 for application in accounting periods beginning on or after 1st January 2007 and have been adopted by the European Commission. The new or revised disclosures will be adopted by the Group for reporting in 2007.

The following International Financial Reporting Interpretations Committee (IFRIC) interpretations issued during 2005 and 2006 which first apply to accounting periods beginning on or after 1st January 2007 are not expected to result in any changes to the Group's accounting policies:

- Interpretation 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- Interpretation 8 – Scope of IFRS 2
- Interpretation 9 – Reassessment of Embedded Derivatives
- Interpretation 10 – Interim Financial Reporting and Impairment

Consideration will be given during 2007 to the implications, if any, of the following IFRIC interpretations issued during 2006 which would first apply to the Group accounting period beginning on 1st January 2008:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

IFRS 8 Operating Segments was issued in November 2006 and would first be required to be applied to the Group accounting period beginning on 1st January 2009. The standard replaces IAS 14 Segmental Reporting and would align operating segmental reporting with segments reported to senior management as well as requiring amendments and additions to the existing segmental reporting disclosures. The Group is considering the advantages that permitted early adoption in 2007 may make to the transparency of the segmental disclosures.

Acquisitions
2006: On 1st November 2006, Barclays Bank PLC ('Barclays') acquired the US mortgage servicing business of HomEq Servicing Corporation from Wachovia Corporation.

2005: On 1st June 2005, Barclays Asset and Sales Finance ('BASF') acquired a 51% share and controlling stake in Fiat's Iveco Vehicle Finance Business. The transaction will expand BASF's commercial vehicle expertise.

On 30th June 2005, EnterCard, the joint venture between Barclays Bank PLC and FöreningsSparbanken (also known as Swedbank), which was announced on 4th February 2005, began operations. Barclays Bank PLC has a 50% economic interest in the joint venture. EnterCard provides credit cards in the Nordic market, initially in Sweden and Norway.

On 1st July 2005, Barclays acquired the wealth business of ING Securities Bank (France) consisting of ING Ferri and ING Private Banking.

On 9th May 2005, Barclays announced the terms of a recommended acquisition of a majority stake in Absa Group Limited ('Absa'). Barclays has consolidated Absa from 27th July 2005.

Disposals
2006: On 1st January 2006, Barclays completed the sale of the Barclays South African branch business to Absa Group Limited. This consists of the Barclays Capital South African operations and Corporate and Business Banking activities previously carried out by the South African branch of International Retail and Commercial Banking – excluding Absa, together with the associated assets and liabilities.

On 25th July 2006, BASF disposed of its interest in its motor vehicle contract hire business, Appleyard Finance Holdings Limited.

On 31st August 2006, Barclays disposed of Bankhaus Wolbern which was formerly part of Absa.

On 22nd December 2006, Barclays disposed of its interest in FirstCaribbean International Bank to Canadian Imperial Bank of Commerce.

On 31st December 2006, BASF disposed of its European Vendor Finance business, including Barclays Industrie Bank GmbH and Barclays Technology Finance Ltd, to CIT Group.

Recent developments
On 19th January 2007, Barclays announced that it had entered into an agreement to purchase EquiFirst Corporation, the non-prime mortgage origination business of Regions Financial Corporation. Completion is expected in the first half of 2007, subject to the receipt of the required licences and applicable regulatory approval.

On 8th February 2007, Barclays completed the acquisition of Indexchange Investment AG, Germany's leading provider of exchange traded funds, from Bayerische Hypo-und Vereinsbank. The transaction was announced in November 2006.

On 28th February 2007, Barclays completed the acquisition of approximately 96% of the share capital of Nile Bank in Uganda. The transaction was announced in December 2006.

Consolidated income statement

For the year ended 31st December

	Notes	The Group 2006 £m	2005 £m
Continuing operations			
Interest income	2	**21,805**	17,232
Interest expense	2	**(12,662)**	(9,157)
Net interest income		**9,143**	8,075
Fee and commission income	3	**8,005**	6,430
Fee and commission expense	3	**(828)**	(725)
Net fee and commission income		**7,177**	5,705
Net trading income	4	**3,632**	2,321
Net investment income	4	**962**	858
Principal transactions		**4,594**	3,179
Net premiums from insurance contracts	5	**1,060**	872
Other income	6	**257**	178
Total income		**22,231**	18,009
Net claims and benefits incurred on insurance contracts	5	**(575)**	(645)
Total income net of insurance claims		**21,656**	17,364
Impairment charges	7	**(2,154)**	(1,571)
Net income		**19,502**	15,793
Staff costs	8	**(8,169)**	(6,318)
Administration and general expenses	9	**(3,914)**	(3,768)
Depreciation of property, plant and equipment	25	**(455)**	(362)
Amortisation of intangible assets	24	**(136)**	(79)
Operating expenses		**(12,674)**	(10,527)
Share of post-tax results of associates and joint ventures	21	**46**	45
Profit on disposal of subsidiaries, associates and joint ventures		**323**	–
Profit before tax		**7,197**	5,311
Tax	10	**(1,941)**	(1,439)
Profit after tax		**5,256**	3,872
Profit attributable to minority interests	39	**342**	177
Profit attributable to equity holders		**4,914**	3,695
		5,256	3,872

The Board of Directors approved the accounts set out on pages 16 to 130 on 8th March 2007.

The accompanying notes form an integral part of the accounts.

Balance sheets

As at 31st December

	Notes	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Assets					
Cash and balances at central banks		**6,795**	3,506	**4,411**	973
Items in the course of collection from other banks		**2,408**	1,901	**2,312**	1,848
Trading portfolio assets	11	**177,884**	155,730	**120,975**	108,257
Financial assets designated at fair value:					
– held on own account	12	**31,799**	12,904	**23,188**	11,899
– held in respect of linked liabilities to customers under investment contracts	12	**82,798**	83,193	**–**	–
Derivative financial instruments	13	**138,353**	136,823	**149,439**	142,624
Loans and advances to banks	14	**30,926**	31,105	**23,867**	23,915
Loans and advances to customers	15	**282,300**	268,896	**279,820**	249,214
Available for sale financial investments	17	**51,952**	53,703	**31,564**	49,025
Reverse repurchase agreements and cash collateral on securities borrowed	18	**174,090**	160,398	**180,625**	153,419
Other assets	19	**5,850**	4,734	**3,349**	1,904
Current tax assets	20	**557**	–	**1,193**	–
Investments in associates and joint ventures	21	**228**	546	**97**	410
Investments in subsidiaries	22	**–**	–	**14,317**	13,680
Goodwill	23	**6,092**	6,022	**3,591**	3,591
Intangible assets	24	**1,215**	1,269	**347**	116
Property, plant and equipment	25	**2,492**	2,754	**1,358**	1,517
Deferred tax assets	20	**764**	686	**1,104**	1,056
Total assets		**996,503**	924,170	**841,557**	763,448
Liabilities					
Deposits from banks	26	**79,562**	75,127	**100,572**	89,559
Items in the course of collection due to other banks		**2,221**	2,341	**2,204**	2,550
Customer accounts	27	**256,754**	238,684	**282,985**	219,876
Trading portfolio liabilities	11	**71,874**	71,564	**43,479**	47,805
Financial liabilities designated at fair value	28	**53,987**	33,385	**51,236**	46,947
Liabilities to customers under investment contracts	12	**84,637**	85,201	**–**	–
Derivative financial instruments	13	**140,697**	137,971	**147,382**	140,529
Debt securities in issue	29	**111,137**	103,328	**53,023**	56,992
Repurchase agreements and cash collateral on securities lent	18	**136,956**	121,178	**109,518**	114,555
Other liabilities	30	**10,337**	11,131	**16,752**	13,738
Balances due to Barclays PLC		**–**	–	**–**	4
Current tax liabilities	20	**1,020**	747	**512**	138
Insurance contract liabilities, including unit-linked liabilities	31	**3,878**	3,767	**–**	–
Subordinated liabilities	32	**13,786**	12,463	**13,460**	12,143
Deferred tax liabilities	20	**282**	700	**–**	–
Provisions	33	**462**	517	**343**	328
Retirement benefit liabilities	35	**1,807**	1,823	**1,584**	1,647
Total liabilities		**969,397**	899,927	**823,050**	746,811
Shareholders' equity					
Called up share capital	36	**2,363**	2,348	**2,363**	2,348
Share premium account	36	**9,452**	8,882	**9,452**	8,882
Other reserves	37	**(484)**	483	**(52)**	382
Other shareholders' equity	38	**2,534**	2,490	**2,598**	2,554
Retained earnings	37	**11,556**	8,462	**4,146**	2,471
Shareholders' equity excluding minority interests		**25,421**	22,665	**18,507**	16,637
Minority interests	39	**1,685**	1,578	**–**	–
Total shareholders' equity		**27,106**	24,243	**18,507**	16,637
Total liabilities and shareholders' equity		**996,503**	924,170	**841,557**	763,448

The accompanying notes form an integral part of the accounts.

Marcus Agius Chairman

John Varley Group Chief Executive

Naguib Kheraj Group Finance Director

Statements of recognised income and expense

For the year ended 31st December

	The Group		The Bank	
	2006 £m	2005 £m	2006[(a)] £m	2005[(a)] £m
Available for sale reserve:				
– Net gains/(losses) from changes in fair value	**107**	(217)	**(56)**	(116)
– Losses transferred to net profit due to impairment	**86**	–	**85**	
– Net gains transferred to net profit on disposal	**(327)**	(120)	**(40)**	(99)
– Net losses transferred to net profit due to fair value hedging	**14**	260	**–**	–
Cash flow hedging reserve:				
– Net losses from changes in fair value	**(437)**	(50)	**(611)**	94
– Net gains transferred to net profit	**(50)**	(69)	**(67)**	(103)
Currency translation differences arising	**(781)**	300	**(47)**	–
Tax	**253**	50	**397**	(25)
Other	**25**	(102)	**71**	(39)
Amounts included directly in equity	**(1,110)**	52	**(268)**	(288)
Profit after tax	**5,256**	3,872	**3,812**	2,149
Total recognised income and expense for the year	**4,146**	3,924	**3,544**	1,861
Attributable to:				
Equity holders	**4,132**	3,659	**3,544**	1,861
Minority interests	**14**	265	**–**	–
	4,146	3,924	**3,544**	1,861

The accompanying notes form an integral part of the accounts.

Note

(a) As permitted by section 230(3) of the Companies Act 1985 an income statement for the parent company has not been presented.

Cash flow statements

For the year ended 31st December

	The Group 2006 £m	The Group 2005 £m	The Bank 2006[(a)] £m	The Bank 2005[(a)] £m
Reconciliation of profit before tax to net cash flows from operating activities:				
Profit before tax	**7,197**	5,311	**4,235**	2,652
Adjustment for non-cash items:				
Allowance for impairment	**2,154**	1,571	**1,798**	1,408
Depreciation and amortisation and impairment of intangibles	**612**	450	**321**	246
Other provisions, including pensions	**558**	654	**503**	528
Net profit from associates and joint ventures	**(46)**	(45)	**–**	–
Net profit on disposal of investments and property, plant and equipment	**(778)**	(530)	**(425)**	(115)
Net profit from disposal of associates and joint ventures	**(263)**	–	**(263)**	–
Net profit from disposal of subsidiaries	**(60)**	–	**(60)**	–
Other non-cash movements	**1,661**	1,505	**450**	(2,587)
Changes in operating assets and liabilities:				
Net increase in loans and advances to banks and customers	**(27,385)**	(63,177)	**(57,987)**	(92,599)
Net increase in deposits and debt securities in issue	**46,944**	67,012	**66,697**	56,732
Net decrease/(increase) in derivative financial instruments	**1,196**	841	**38**	(1,626)
Net increase in trading portfolio assets	**(18,333)**	(42,585)	**(8,897)**	(3,345)
Net increase/(decrease) in trading liabilities	**310**	9,888	**(4,326)**	2,628
Net decrease/(increase) in financial investments	**1,538**	27,129	**(7,000)**	30,073
Net (increase)/decrease in other assets	**(1,527)**	(411)	**(1,891)**	5,276
Net (decrease)/increase in other liabilities	**(1,580)**	(2,852)	**2,119**	14,838
Tax paid	**(2,141)**	(1,082)	**(954)**	(633)
Net cash from operating activities	**10,057**	3,679	**(5,642)**	13,476
Purchase of available for sale investments	**(47,109)**	(53,626)	**(26,064)**	(44,539)
Proceeds from sale or redemption of available for sale investments	**46,069**	51,114	**41,315**	38,584
Purchase of intangible assets	**(212)**	(91)	**(177)**	(55)
Purchase of property, plant and equipment	**(654)**	(588)	**(399)**	(311)
Proceeds of disposal of property, plant and equipment	**786**	98	**644**	70
Acquisitions, net of cash acquired	**(248)**	(2,115)	**(248)**	(64)
Disposal of subsidiaries, net of cash disposed	**(15)**	–	**10**	–
Increase in investment in subsidiaries	**(432)**	(160)	**(432)**	(160)
Decrease in investment in subsidiaries	**44**	49	**44**	49
Acquisition of associates and joint ventures	**(162)**	(176)	**(6)**	(53)
Disposal of associates and joint ventures	**739**	40	**582**	9
Other cash flows associated with investing activities	**17**	23	**–**	–
Investment in subsidiaries	**–**	–	**(174)**	(3,278)
Net cash used in investing activities	**(1,177)**	(5,432)	**15,095**	(9,748)
Dividends paid	**(2,373)**	(2,325)	**(2,249)**	(2,231)
Proceeds of borrowings and issuance of debt securities	**2,493**	1,179	**2,485**	1,067
Repayments of borrowings and redemption of debt securities	**(366)**	(464)	**(361)**	(290)
Issue of shares and other equity instruments	**585**	2,383	**585**	2,383
Repurchases of shares and other equity instruments	**–**	–	**–**	–
Net purchase of treasury shares	**–**	–	**–**	–
Net issues of shares to minority interests	**226**	20	**–**	–
Net cash from financing activities	**565**	793	**460**	929
Exchange loss/(gain) on foreign currency cash and cash equivalents	**552**	(237)	**144**	(67)
Net increase/(decrease) in cash and cash equivalents	**9,997**	(1,197)	**10,057**	4,590
Cash and cash equivalents at beginning of year	**20,405**	21,602	**13,882**	9,292
Cash and cash equivalents at end of year	**30,402**	20,405	**23,939**	13,882
Cash and cash equivalents comprise:				
Cash and balances at central banks	**6,795**	3,506	**4,411**	973
Loans and advances to banks	**30,926**	31,105	**23,867**	23,915
Less: amounts with original maturity greater than three months	**(15,892)**	(17,987)	**(12,012)**	(14,644)
	15,034	13,118	**11,855**	9,271
Available for sale treasury and other eligible bills	**51,952**	53,703	**31,564**	49,025
Less: non-cash and amounts with original maturity greater than three months	**(50,933)**	(53,487)	**(31,445)**	(48,952)
	1,019	216	**119**	73
Trading portfolio assets	**177,884**	155,730	**120,975**	108,257
Less: non-cash and amounts with original maturity greater than three months	**(170,346)**	(152,190)	**(113,437)**	(104,717)
	7,538	3,540	**7,538**	3,540
Other	**16**	25	**16**	25
	30,402	20,405	**23,939**	13,882

The accompanying notes form an integral part of the accounts.

Note

(a) As permitted by section 230(3) of the Companies Act 1985 an income statement for the parent company has not been presented.

1 Dividends

Dividends are paid to enable Barclays PLC to fund its dividends to its shareholders.

Dividends paid in the year were:

	2006 £m	2005 £m
On ordinary shares		
Final dividend	730	1,017
Interim dividend	1,234	995
Dividends	1,964	2,012

The 2006 final dividend of £730m relates to the cash payment of the final dividend declared in 2005, paid in April 2006. The 2005 final dividend of £1,017m relates to the cash payment of the final dividend declared in 2004, paid in April 2005.

Dividends per ordinary share for 2006 were 84.3p (2005: 82.5p). Dividends paid on the 4.75% €100 preference shares amounted to £329.86 per share (2005: £nil). Dividends paid on the 4.875% €100 preference shares amounted to £327.81 per share (2005: £340.66). Dividends paid on the £100 preference shares amounted to £600.00 per share (2005: £289.32). Dividends paid on the US$100 preference shares amounted to £330.38 per share (2005: £189.61). Dividends paid on the US$0.25 preference shares amounted to 55.4p per share (2005: nil).

Dividends paid on preference shares amounted to £174m (2005: £74m). Dividends paid on other equity instruments as detailed in Note 38 amounted to £151m (2005: £143m).

2 Net interest income

	The Group	
	2006 £m	2005 £m
Cash and balances with central banks	91	9
Financial investments	2,811	2,272
Loans and advances to banks	903	690
Loans and advances to customers	16,290	12,944
Other	1,710	1,317
Interest income	21,805	17,232
Deposits from banks	(2,819)	(2,056)
Customer accounts	(3,076)	(2,715)
Debt securities in issue	(5,282)	(3,268)
Subordinated liabilities	(777)	(605)
Other	(708)	(513)
Interest expense	(12,662)	(9,157)
Net interest income	9,143	8,075

Interest income includes £98m (2005: £76m) accrued on impaired loans.

Included in net interest income is hedge ineffectiveness as detailed in Note 13.

3 Net fee and commission income

	The Group	
	2006 £m	2005 £m
Fee and commission income		
Brokerage fees	**70**	64
Investment management fees	**1,535**	1,250
Securities lending	**185**	151
Securities trading and investment activity fees	**1,790**	1,465
Banking and credit related fees and commissions	**6,031**	4,805
Foreign exchange commission	**184**	160
Fee and commission income	**8,005**	6,430
Fee and commission expense	**(828)**	(725)
Net fee and commission income	**7,177**	5,705

4 Principal transactions

	The Group	
	2006 £m	2005 £m
Rates related business	**2,866**	1,732
Credit related business	**766**	589
Net trading income	**3,632**	2,321
Net gain from disposal of available for sale assets/investment securities	**307**	120
Dividend income on equity investments	**15**	22
Net gain from financial instruments designated at fair value	**447**	389
Income from assets backing insurance policies	**n/a**	n/a
Other investment income	**193**	327
Net investment income	**962**	858
Principal transactions	**4,594**	3,179

Net trading income includes the profits and losses arising both on the purchase and sale of trading instruments and from the revaluation to market value, together with the interest income earned from these instruments and the related funding cost.

The gain/loss from disposal of available for sale assets was calculated on an instrument by instrument basis.

Of the total net trading income, £947m (2005: £498m) was earned on securities and £480m (2005: £340m) was earned in foreign exchange dealings.

Rates related business includes fixed income, foreign exchange, commodities, emerging markets, money markets sales, trading and research, prime services and equity products; Credit related business includes primary and secondary activities for loans and bonds for investment grade, high yield and emerging market credits, as well as hybrid capital products, asset based finance, commercial mortgage backed securities, credit derivatives, structured capital markets and large asset leasing.

The net gain on financial assets designated at fair value included within principal transactions was £489m (2005: £391m) of which gains of £42m (2005: £2m gain) were included in net trading income and gains of £447m (2005: £389m) were included in net investment income.

The net loss on financial liabilities designated at fair value included within principal transactions was £920m (2005: £666m) all of which was included within net trading income.

5 Insurance premiums and insurance claims and benefits

	The Group	
	2006 £m	2005 £m
Gross premiums from insurance contracts	**1,108**	909
Premiums ceded to reinsurers	**(48)**	(37)
Net premiums from insurance contracts	**1,060**	872

	The Group	
	2006 £m	2005 £m
Gross claims and benefits incurred on insurance contracts	**588**	694
Reinsurers' share of claims incurred	**(13)**	(49)
Net claims and benefits incurred on insurance contracts	**575**	645

6 Other income

	The Group	
	2006 £m	2005 £m
Increase in fair value of assets held in respect of linked liabilities to customers under investment contracts	**7,417**	9,234
Increase in liabilities to customers under investment contracts	**(7,417)**	(9,234)
Property rentals	**55**	54
Other income	**202**	124
Other income	**257**	178

Included in other income are sub-lease payments of £18m (2005: £18m).

Included in other income is a gain on reinsurance.

7 Impairment charges

	The Group	
	2006 £m	2005 £m
Impairment charges on loans and advances		
– New and increased impairment allowances	**2,722**	2,129
– Releases	**(389)**	(333)
– Recoveries	**(259)**	(222)
Impairment charges on loans and advances	**2,074**	1,574
Other credit provisions		
Release in respect of provision for undrawn contractually committed facilities and guarantees provided	**(6)**	(7)
Impairment charges on loans and advances and credit provisions	**2,068**	1,567
Impairment on available for sale assets	**86**	4
Impairment charges	**2,154**	1,571

8 Staff costs

	The Group	
	2006 £m	2005 £m
Salaries and accrued incentive payments	**6,635**	5,036
Social security costs	**502**	412
Pension costs – defined contribution plans	**128**	76
Pension costs – defined benefit plans (Note 35)	**282**	271
Other post-retirement benefits (Note 35)	**30**	27
Other	**592**	496
Staff costs	**8,169**	6,318

Included in salaries and accrued incentive payments for the Group is £640m (2005: £338m) arising from equity settled share-based payments, of which £78m (2005: £44m) is a charge related to options-based schemes. Also included is £6m (2005: £nil) arising from cash settled share-based payments.

The average number of persons employed by the Group worldwide during the year, excluding agency staff, was 118,600 (2005: 92,800).

9 Administration and general expenses

	2006 £m	2005 £m
Administrative expenses	**3,980**	3,443
Impairment loss		
– property and equipment (Note 25)	**14**	–
– intangible assets (Note 24)	**7**	9
Operating lease rentals	**345**	316
Gain on property disposals	**(432)**	–
Administration and general expenses	**3,914**	3,768

Auditors' remuneration

	2006				
	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
Audit of the Group's annual accounts	**7**	**–**	**–**	**–**	**7**
Other services:					
Fees payable for the audit of the Company's associates pursuant to legislation	**11**	**–**	**–**	**–**	**11**
Other services supplied pursuant to such legislation	**10**	**1**	**–**	**–**	**11**
Other services relating to taxation	**–**	**–**	**6**	**–**	**6**
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**–**	**–**	**–**	**4**	**4**
Other	**–**	**4**	**–**	**1**	**5**
Total auditor's remuneration	**28**	**5**	**6**	**5**	**44**

	2005				
	Audit £m	Audit related £m	Taxation services £m	Other services £m	Total £m
Audit of the Group's annual accounts	6	–	–	–	6
Other services:					
Fees payable for the audit of the Company's associates pursuant to legislation	8	–	–	–	8
Other services supplied pursuant to such legislation	1	–	–	–	1
Other services relating to taxation	–	–	4	–	4
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	–	–	–	3	3
Other	–	7	–	–	7
Total auditor's remuneration	15	7	4	3	29

The figures shown in the above table relate to fees paid to PricewaterhouseCoopers LLP and its associates. Fees paid to other auditors not associated with PricewaterhouseCoopers LLP in respect of the audit of the Company's subsidiaries are £2m (2005: £3m).

Fees payable for the audit of the Company's associates pursuant to legislation comprises the fees for the statutory audit of the subsidiaries and associated pension schemes both inside and outside Great Britain and fees for the work performed by the associates of PricewaterhouseCoopers LLP in respect of the consolidated financial statements of the Company. The fees relating to the audit of the associated pension schemes were £0.3m (2005: £0.3m).

Other services supplied pursuant to such legislation comprises services in relation to statutory and regulatory filings. This includes audit services for the review of the interim financial information under the Listing Rules of the UK listing authority, and for the first time in 2006, fees paid for preparation for reporting under Section 404 of the US Sarbanes-Oxley Act (Section 404). In addition, other services include Section 404 advisory, IFRS advisory, securitisations and services relating to the Absa acquisition.

Taxation services include compliance services such as tax return preparation and advisory services such as consultation on tax matters, tax advice relating to transactions and other tax planning and advice.

Services relating to corporate finance transactions comprise due diligence related to transactions and accounting consultations and audits in connection with such transactions.

10 Tax

The charge for tax is based upon the standard UK corporation tax rate of 30% (2005: 30%) and comprises:

	The Group	
	2006 £m	2005 £m
Current tax charge		
Current year	**1,929**	1,583
Adjustment for prior years	**8**	(59)
Total	**1,937**	1,524
Deferred tax charge/(credit)		
Origination and reversal of temporary differences	**(16)**	(7)
Adjustment for prior years	**20**	(71)
Change in tax rate	**4**	3
Other	**(4)**	(10)
Total	**4**	(85)
Tax charge	**1,941**	1,439

	The Group	
	2006 £m	2005 £m
Current tax charge		
United Kingdom	**1,138**	1,013
Overseas	**799**	511
Total	**1,937**	1,524
Deferred tax charge/(credit)		
United Kingdom	**96**	(52)
Overseas	**(92)**	(33)
Total	**4**	(85)
Tax charge	**1,941**	1,439

Available overseas tax credits for the Group of £515m (2005: £270m) have been applied to reduce UK tax in accordance with UK legislation.

The tax for the year in 2006 and 2005 is lower than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are set out below:

	The Group	
	2006 £m	2005 £m
Profit before tax	**7,197**	5,311
Tax charge at standard UK corporation tax rate of 30% (2005: 30%)	**2,159**	1,593
Adjustment for prior years	**28**	(130)
Differing overseas tax rates	**(17)**	(35)
Non-taxable gains and income (including amounts offset by previously unrecognised tax losses)	**(393)**	(138)
Share-based payments	**27**	(12)
Deferred tax assets not recognised	**(4)**	(7)
Other non-allowable expenses	**141**	168
Overall tax charge	**1,941**	1,439
Effective tax rate	**27%**	27%

11 Trading portfolio

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trading portfolio assets				
Treasury and other eligible bills	**2,960**	6,081	**2,135**	4,406
Debt securities				
United Kingdom government bonds	**4,986**	4,786	**4,622**	4,786
Other government bonds	**46,845**	46,426	**32,598**	33,478
Other mortgage and asset backed securities	**17,032**	10,290	**8,007**	4,012
Bank and building society certificates of deposit	**14,159**	15,837	**14,159**	15,812
Other issuers	**57,554**	51,028	**43,465**	36,984
Debt securities	**140,576**	128,367	**102,851**	95,072
Equity securities	**31,565**	20,299	**14,076**	8,102
Traded loans	**1,843**	408	**976**	100
Physical commodity trading positions	**940**	575	**937**	577
Trading portfolio assets	**177,884**	155,730	**120,975**	108,257
Trading portfolio liabilities				
Treasury and other eligible bills	**(608)**	(1,120)	**(203)**	(264)
Debt securities				
United Kingdom government bonds	**(6,889)**	(7,784)	**(6,889)**	(7,784)
Other government bonds	**(44,950)**	(44,601)	**(30,473)**	(32,801)
Other mortgage and asset backed securities	**(26)**	(40)	**(3)**	(17)
Bank and building society certificates of deposit	**(113)**	(45)	**(113)**	(45)
Other issuers	**(6,164)**	(9,903)	**(3,750)**	(5,183)
Debt securities	**(58,142)**	(62,373)	**(41,228)**	(45,830)
Equity securities	**(12,697)**	(8,071)	**(1,621)**	(1,711)
Short positions in commodity contracts	**(427)**	–	**(427)**	–
Trading portfolio liabilities	**(71,874)**	(71,564)	**(43,479)**	(47,805)

12 Financial assets designated at fair value

Held on own account

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Loans and advances designated at fair value	**13,196**	8,600	**14,951**	11,701
Debt securities designated at fair value	**12,100**	171	**8,237**	–
Equity securities designated at fair value	**3,711**	3,915	**–**	198
Other assets designated at fair value	**2,792**	218	**–**	
Financial assets designated at fair value – held on own account	**31,799**	12,904	**23,188**	11,899

Credit risks on loans and advances designated at fair value

The maximum exposure to credit risk on loans and advances designated at fair value at 31st December 2006 by the Group was £13,196m (2005: £8,600m). The amount by which related credit derivatives and similar instruments mitigate the Group's exposure to credit risk at 31st December 2006 was £28m (2005: £2,505m).

The net gain attributable to changes in credit risk for loans and advances designated at fair value by the Group was £nil in 2006 (2005: £3m). The gains or losses on related credit derivatives was £nil for the year (2005: £nil).

The cumulative net gain attributable to changes in credit risk for loans and advances designated at fair value since initial recognition by the Group is £3m (2005: £3m) at 31st December 2006. The cumulative change in fair value of related credit derivatives at 31st December 2006 is £nil (2005: £nil).

The maximum exposure to credit risk on loans and advances designated at fair value at 31st December 2006 by the Bank was £10,358m (2005: £11,701m). The amount by which related credit derivatives and similar instruments mitigate the Bank's exposure to credit risk at 31st December 2006 was £28m (2005: £2,505m).

The net gain attributable to changes in credit risk for loans and advances designated at fair value by the Bank was £nil (2005: £nil) in 2006. The gains or losses on related credit derivatives was £nil (2005: £nil) for the year.

The cumulative net gain attributable to changes in credit risk for loans and advances designated at fair value since initial recognition by the Bank is £nil (2005: £nil) at 31st December 2006. The cumulative change in fair value of related credit derivatives at 31st December 2006 is £nil (2005: £nil).

Certain loans and advances designated at fair value are subject to securitisation. See Note 34.

Held in respect of linked liabilities to customers under investment contracts/liabilities arising from investment contracts

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Financial assets designated at fair value held in respect of linked liabilities to customers under investment contracts	**82,798**	83,193	**–**	–
Cash and bank balances within the portfolio	**1,839**	2,008	**–**	–
Assets held in respect of linked liabilities to customers under investment contracts	**84,637**	85,201	**–**	–
Liabilities to customers under investment contracts	**(84,637)**	(85,201)	**–**	–

A portion of the Group's fund management business takes the legal form of insurance policies, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the customer. In the normal course of business, the Group's financial interest in such investments is restricted to fees for investment management services.

Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities and any change in the value of the assets results in an equal but opposite change in the value of the amounts due to the policyholders.

In the balance sheet, the assets are included as 'Financial assets designated at fair value – held in respect of linked liabilities to customers under investment contracts'. Cash balances within the portfolio have been included in the Group's cash balances. The associated obligation to deliver the value of the investments to customers at their fair value on balance sheet date is included as 'Liabilities to customers under investment contracts'.

The increase/decrease in the value arising from the return on the investments and the corresponding increase/decrease in linked liabilities to customers is included in Note 6 Other income.

13 Derivative financial instruments

Financial instruments

The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in Note 52 to Note 56 under the headings 'Financial Risks', 'Interest Rate Risk', 'Credit Risk', 'Currency Risk' and 'Liquidity Risk'.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

The fair value of a derivative contract represents the amount at which that contract could be exchanged in an arms-length transaction, calculated at market rates current at the balance sheet date.

The fair values and notional amounts of derivative instruments held for trading are set out in the following table:

	The Group 2006			The Bank 2006		
	Notional contract amount	Fair value		Notional contract amount	Fair value	
Year ended 31st December 2006 **Derivatives held for trading**	£m	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m
Foreign exchange derivatives						
Forward foreign exchange	767,734	8,074	(7,808)	755,357	7,706	(7,576)
Currency swaps	411,889	10,029	(10,088)	412,902	10,241	(9,917)
OTC options bought and sold	320,184	3,923	(3,849)	319,223	3,906	(3,835)
OTC derivatives	1,499,807	22,026	(21,745)	1,487,482	21,853	(21,328)
Exchange traded futures – bought and sold	852	–	–	787	–	–
Exchange traded options – bought and sold	115	–	–	115	–	–
Foreign exchange derivatives	1,500,774	22,026	(21,745)	1,488,384	21,853	(21,328)
Interest rate derivatives						
Interest rate swaps	8,718,015	61,267	(61,510)	8,670,621	60,897	(60,701)
Forward rate agreements	1,335,594	337	(374)	1,308,929	318	(357)
OTC options bought and sold	2,301,239	13,977	(13,558)	2,297,870	13,968	(13,547)
OTC derivatives	12,354,848	75,581	(75,442)	12,277,420	75,183	(74,605)
Exchange traded futures – bought and sold	1,057,767	188	(256)	1,005,681	188	(256)
Exchange traded options – bought and sold	848,629	241	(156)	843,639	241	(156)
Exchange traded swaps	3,405,109	–	–	3,405,109	–	–
Interest rate derivatives	17,666,353	76,010	(75,854)	17,531,849	75,612	(75,017)
Credit derivatives						
Swaps	1,224,548	9,275	(8,894)	1,223,730	9,270	(8,894)
Equity and stock index derivatives						
OTC options bought and sold	114,227	11,171	(15,613)	101,280	8,985	(13,452)
Equity swaps and forwards	24,580	656	(846)	18,585	194	(348)
OTC derivatives	138,807	11,827	(16,459)	119,865	9,179	(13,800)
Exchange traded futures – bought and sold	30,159	154	(176)	26,080	154	(176)
Exchange traded options – bought and sold	30,473	161	(171)	26,378	161	(169)
Equity and stock index derivatives	199,439	12,142	(16,806)	172,323	9,494	(14,145)
Commodity derivatives						
OTC options bought and sold	52,899	2,568	(2,443)	52,569	2,485	(2,367)
Commodity swaps and forwards	164,863	14,933	(13,497)	164,455	14,799	(13,541)
OTC derivatives	217,762	17,501	(15,940)	217,024	17,284	(15,908)
Exchange traded futures – bought and sold	68,710	13	(33)	67,464	–	(21)
Exchange traded options – bought and sold	9,169	306	(474)	9,165	306	(474)
Commodity derivatives	295,641	17,820	(16,447)	293,653	17,590	(16,403)
Derivatives with subsidiaries					15,240	(11,247)
Derivative assets/(liabilities) held for trading	20,886,755	137,273	(139,746)	20,709,939	149,059	(147,034)

13 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments held for trading are set out in the following table:

	The Group 2005			The Bank 2005		
	Notional contract amount	Fair value		Notional contract amount	Fair value	
Year ended 31st December 2005 **Derivatives held for trading**	£m	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m
Foreign exchange derivatives						
Forward foreign exchange	585,635	7,574	(6,707)	557,429	7,041	(6,172)
Currency swaps	351,319	8,316	(8,045)	349,102	7,897	(8,006)
OTC options bought and sold	244,810	2,595	(2,516)	244,588	2,592	(2,512)
OTC derivatives	1,181,764	18,485	(17,268)	1,151,119	17,530	(16,690)
Exchange traded futures – bought and sold	2,304	–	–	2,296	–	–
Exchange traded options – bought and sold	6	–	–	–	–	–
Foreign exchange derivatives	1,184,074	18,485	(17,268)	1,153,415	17,530	(16,690)
Interest rate derivatives						
Interest rate swaps	7,311,939	68,341	(67,669)	7,263,465	67,593	(66,783)
Forward rate agreements	1,345,368	431	(434)	1,313,766	409	(413)
OTC options bought and sold	1,267,683	12,256	(11,598)	1,262,747	12,243	(11,586)
OTC derivatives	9,924,990	81,028	(79,701)	9,839,978	80,245	(78,782)
Exchange traded futures – bought and sold	1,862,606	–	–	1,764,661	–	–
Exchange traded options – bought and sold	826,351	–	–	821,624	–	–
Exchange traded swaps	2,760,110	–	–	2,760,110	–	–
Interest rate derivatives	15,374,057	81,028	(79,701)	15,186,373	80,245	(78,782)
Credit derivatives						
Swaps	609,381	4,172	(4,806)	608,524	4,165	(4,806)
Equity and stock index derivatives						
OTC options bought and sold	208,068	9,974	(13,067)	126,169	6,938	(9,582)
Equity swaps and forwards	8,108	328	(164)	7,200	221	(160)
OTC derivatives	216,176	10,302	(13,231)	133,369	7,159	(9,742)
Exchange traded futures – bought and sold	52,454	–	–	38,450	–	–
Exchange traded options – bought and sold	26,789	–	–	23,634	–	–
Equity and stock index derivatives	295,419	10,302	(13,231)	195,453	7,159	(9,742)
Commodity derivatives						
OTC options bought and sold	68,377	4,070	(3,881)	67,941	4,017	(3,832)
Commodity swaps and forwards	211,541	17,674	(17,336)	211,571	17,604	(17,496)
OTC derivatives	279,918	21,744	(21,217)	279,512	21,621	(21,328)
Exchange traded futures – bought and sold	50,244	–	–	49,814	–	–
Exchange traded options – bought and sold	11,871	435	(680)	11,869	435	(680)
Commodity derivatives	342,033	22,179	(21,897)	341,195	22,056	(22,008)
Derivatives with subsidiaries					10,852	(8,063)
Derivative assets/(liabilities) held for trading	17,804,964	136,166	(136,903)	17,484,960	142,007	(140,091)

13 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments held for risk management are set out in the following table:

Year ended 31st December 2006 Derivatives held for risk management	The Group 2006 Notional contract amount £m	The Group 2006 Fair value Assets £m	The Group 2006 Fair value Liabilities £m	The Bank 2006 Notional contract amount £m	The Bank 2006 Fair value Assets £m	The Bank 2006 Fair value Liabilities £m
Derivatives designated as cash flow hedges						
Currency swaps	–	–	–	–	–	–
Interest rate swaps	51,614	132	(312)	43,524	123	(217)
OTC interest rate options bought	–	–	–	–	–	–
Exchange traded interest rate swaps	12,077	–	–	12,077	–	–
Commodity swaps and forwards	204	–	(89)	–	–	–
Derivatives designated as cash flow hedges	63,895	132	(401)	55,601	123	(217)
Derivatives designated as fair value hedges						
Currency swaps	1,454	–	(233)	–	–	–
Interest rate swaps	16,940	240	(152)	15,395	201	(75)
Equity options	1,029	58	(56)	1,027	56	(56)
Forward foreign exchange	66	–	–	66	–	–
OTC interest rate options bought	–	–	–	–	–	–
Derivatives designated as fair value hedges	19,489	298	(441)	16,488	257	(131)
Derivatives designated as hedges of net investments						
Forward foreign exchange	2,730	–	(78)	–	–	–
Currency swaps	9,320	650	(31)	–	–	–
Derivatives designated as hedges of net investments	12,050	650	(109)	–	–	–
Derivative assets/(liabilities) held for risk management	95,434	1,080	(951)	72,089	380	(348)

Year ended 31st December 2005 Derivatives held for risk management	The Group 2005 Notional contract amount £m	The Group 2005 Fair value Assets £m	The Group 2005 Fair value Liabilities £m	The Bank 2005 Notional contract amount £m	The Bank 2005 Fair value Assets £m	The Bank 2005 Fair value Liabilities £m
Derivatives designated as cash flow hedges						
Currency swaps	14	1	–	14	1	–
Interest rate swaps	27,042	230	(290)	21,346	207	(281)
OTC interest rate options bought	782	1	–	–	–	–
Exchange traded interest rate swaps	11,899	–	–	11,899	–	–
Commodity swaps and forwards	343	–	(193)	–	–	–
Derivatives designated as cash flow hedges	40,080	232	(483)	33,259	208	(281)
Derivatives designated as fair value hedges						
Currency swaps	1,686	–	(81)	–	–	–
Interest rate swaps	29,394	387	(190)	27,798	373	(119)
Equity options	1,084	36	(46)	979	36	(35)
Forward foreign exchange	28	–	(14)	28	–	(3)
OTC interest rate options bought	1,287	–	–	1,287	–	–
Derivatives designated as fair value hedges	33,479	423	(331)	30,092	409	(157)
Derivatives designated as hedges of net investments						
Currency swaps	5,919	2	(254)	–	–	–
Derivatives designated as hedges of net investments	5,919	2	(254)	–	–	–
Derivative assets/(liabilities) held for risk management	79,478	657	(1,068)	63,351	617	(438)

13 Derivative financial instruments (continued)

Interest rate derivatives, designated as cash flow hedges, primarily hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers, variable rate debt securities held and highly probable forecast financing transactions and reinvestments.

Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate borrowings in issue, fixed rate loans to banks and customers and investments in fixed rate debt securities held.

Currency derivatives are primarily designated as hedges of the foreign currency risk of net investments in foreign operations.

The Group's total derivative asset and liability position as reported on the balance sheet is as follows:

	The Group 2006			The Bank 2006		
	Notional contract amount	Fair value		Notional contract amount	Fair value	
Year ended 31st December 2006	**£m**	**Assets £m**	**Liabilities £m**	**£m**	**Assets £m**	**Liabilities £m**
Total derivative assets/(liabilities) held for trading	**20,886,755**	**137,273**	**(139,746)**	**20,709,939**	**149,059**	**(147,034)**
Total derivative assets/(liabilities) held for risk management	**95,434**	**1,080**	**(951)**	**72,089**	**380**	**(348)**
Recognised derivative assets/(liabilities)	**20,982,189**	**138,353**	**(140,697)**	**20,782,028**	**149,439**	**(147,382)**

	The Group 2005			The Bank 2005		
	Notional contract amount	Fair value		Notional contract amount	Fair value	
Year ended 31st December 2005	£m	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m
Total derivative assets/(liabilities) held for trading	17,804,964	136,166	(136,903)	17,484,960	142,007	(140,091)
Total derivative assets/(liabilities) held for risk management	79,478	657	(1,068)	63,351	617	(438)
Recognised derivative assets/(liabilities)	17,884,442	136,823	(137,971)	17,548,311	142,624	(140,529)

The Group has hedged the following forecast cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods, excluding any hedge adjustments that may be applied:

	2006						
The Group	**Total £m**	**Up to one year £m**	**Between one to two years £m**	**Between two to three years £m**	**Between three to four years £m**	**Between four to five years £m**	**More than five years £m**
Forecast receivable cash flows	**5,111**	**1,500**	**1,452**	**954**	**689**	**410**	**106**
Forecast payable cash flows	**1,280**	**704**	**349**	**121**	**73**	**30**	**3**

	2005						
The Group	Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	3,230	779	768	704	458	265	256
Forecast payable cash flows	2,300	358	350	337	287	238	730

13 Derivative financial instruments (continued)

The Bank	2006 Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	**4,581**	**1,305**	**1,372**	**876**	**642**	**295**	**91**
Forecast payable cash flows	**1,280**	**704**	**349**	**121**	**73**	**30**	**3**

The Bank	2005 Total £m	Up to one year £m	Between one to two years £m	Between two to three years £m	Between three to four years £m	Between four to five years £m	More than five years £m
Forecast receivable cash flows	2,960	716	714	660	423	236	211
Forecast payable cash flows	2,300	358	350	337	287	238	730

The maximum length of time over which the Group and the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments is eight years (2005: 29 years).

No gain or loss on forecast transactions accorded hedge accounting in 2006 that are no longer expected to occur remains in equity.

Net gains/(losses) arising on fair value hedges in net interest income during the year were:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
On hedging instruments	**(460)**	204	**(293)**	204
On the hedged items attributable to the hedged risk	**465**	(164)	**293**	(164)
Ineffectiveness	**5**	40	**–**	40

Ineffectiveness recognised in relation to cash flow hedges in net interest income for the Group was a loss of £23m (2005: loss of £34m). Ineffectiveness recognised in relation to hedge of net investment for the Group was a gain of £13m (2005: loss of £5m).

Ineffectiveness recognised in relation to cash flow hedges in net interest income for the Bank was a loss of £19m (2005: loss of £34m). Ineffectiveness recognised in relation to hedge of net investment for the Bank was a gain of £nil (2005: £nil).

14 Loans and advances to banks

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Repayable				
on demand	**2,887**	3,929	**2,214**	5,737
not more than three months	**18,809**	15,921	**17,226**	15,004
over three months but not more than six months	**800**	2,006	**546**	1,183
over six months but not more than one year	**3,064**	3,169	**672**	144
over one year but not more than three years	**1,595**	1,852	**785**	524
over three years but not more than five years	**1,130**	779	**789**	491
over five years but not more than ten years	**1,012**	1,047	**1,203**	178
over ten years	**1,633**	2,406	**434**	656
Total	**30,930**	31,109	**23,869**	23,917
less: Allowance for impairment (Note 16)	**(4)**	(4)	**(2)**	(2)
Loans and advances to banks	**30,926**	31,105	**23,867**	23,915
By geographical area				
United Kingdom	**6,229**	4,624	**3,157**	8,028
Other European Union	**8,513**	5,423	**11,481**	8,898
United States	**9,056**	13,267	**3,837**	2,732
Africa	**2,219**	880	**771**	79
Rest of the World	**4,913**	6,915	**4,623**	4,180
Total	**30,930**	31,109	**23,869**	23,917
Less: Allowance for impairment (Note 16)	**(4)**	(4)	**(2)**	(2)
Loans and advances to banks	**30,926**	31,105	**23,867**	23,915
Included above: due from subsidiaries	**n/a**	n/a	**8,871**	10,014

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £1,262m at 31st December 2006 (2005: £1,218m). The Bank balances with central banks and other regulatory authorities amounted to £403m at 31st December 2006 (2005: £354m).

Information relating to effective interest rates can be found in Note 53.

The geographical analysis is based on the location of the customer to which the lendings are made.

15 Loans and advances to customers

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Repayable:				
on demand	**33,994**	34,945	**43,539**	51,577
not more than three months	**44,728**	44,280	**85,524**	67,022
over three months but not more than six months	**10,092**	11,332	**5,997**	9,870
over six months but not more than one year	**15,904**	21,870	**8,433**	16,351
over one year but not more than three years	**32,559**	31,254	**23,098**	25,860
over three years but not more than five years	**27,868**	27,967	**22,802**	21,819
over five years but not more than ten years	**38,091**	26,840	**33,462**	18,686
over ten years	**82,395**	73,854	**59,529**	40,539
Total	**285,631**	272,342	**282,384**	251,724
Less: Allowance for impairment (Note 16)	**(3,331)**	(3,446)	**(2,564)**	(2,510)
Loans and advances to customers	**282,300**	268,896	**279,820**	249,214
By geographical area				
United Kingdom	**170,518**	163,759	**227,981**	206,793
Other European Union	**43,430**	38,923	**24,917**	24,990
United States	**25,677**	22,925	**15,358**	8,034
Africa	**31,691**	33,221	**2,100**	1,975
Rest of the World	**14,315**	13,514	**12,028**	9,932
Total	**285,631**	272,342	**282,384**	251,724
Less: Allowance for impairment (Note 16)	**(3,331)**	(3,446)	**(2,564)**	(2,510)
Loans and advances to customers	**282,300**	268,896	**279,820**	249,214
Included above: due from subsidiaries	**n/a**	n/a	**78,061**	55,334

Loans and advances to customers by industry

	The Group		The Bank	
At 31st December	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Financial services	**45,954**	43,102	**106,291**	80,020
Agriculture, forestry and fishing	**3,997**	3,785	**2,420**	2,413
Manufacturing	**15,451**	13,779	**12,971**	11,567
Construction	**4,056**	5,020	**3,170**	3,261
Property	**16,528**	16,325	**12,136**	12,924
Energy and water	**6,810**	6,891	**6,387**	6,370
Wholesale and retail distribution and leisure	**15,490**	17,760	**14,175**	14,865
Transport	**5,586**	5,960	**4,405**	4,649
Postal and communication	**2,180**	1,313	**1,943**	1,243
Business and other services	**29,425**	24,247	**24,481**	19,871
Home loans	**98,172**	89,529	**70,565**	67,542
Other personal	**31,840**	35,543	**23,355**	26,949
Finance lease receivables (Note 42)	**10,142**	9,088	**85**	50
	285,631	272,342	**282,384**	251,724
Less: Allowance for impairment (Note 16)	**(3,331)**	(3,446)	**(2,564)**	(2,510)
Loans and advances to customers	**282,300**	268,896	**279,820**	249,214

15 Loans and advances to customers (continued)

Loans and advances to customers in the UK

At 31st December	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Financial services	**14,011**	11,958	**83,222**	67,556
Agriculture, forestry and fishing	**2,307**	2,409	**2,289**	2,364
Manufacturing	**9,047**	8,469	**9,044**	8,379
Construction	**2,761**	3,090	**2,715**	3,054
Property	**10,010**	10,547	**9,719**	10,200
Energy and water	**2,360**	2,701	**2,290**	2,611
Wholesale and retail distribution and leisure	**12,951**	12,747	**12,758**	12,632
Transport	**2,745**	2,797	**2,688**	2,501
Postal and communication	**899**	455	**892**	456
Business and other services	**19,266**	15,403	**18,347**	14,116
Home loans	**67,687**	61,256	**62,736**	57,456
Other personal	**22,551**	26,724	**21,256**	25,435
Finance lease receivables	**3,923**	5,203	**25**	33
Loans and advances to customers in the UK	**170,518**	163,759	**227,981**	206,793

Loans and advances to customers outside the UK

At 31st December	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Financial Services	**31,943**	31,144	**23,069**	12,464
Agriculture, forestry and fishing	**1,690**	1,376	**131**	49
Manufacturing	**6,404**	5,310	**3,927**	3,188
Construction	**1,295**	1,930	**455**	207
Property	**6,518**	5,778	**2,417**	2,724
Energy and water	**4,450**	4,190	**4,097**	3,759
Wholesale and retail distribution and leisure	**2,539**	5,013	**1,417**	2,233
Transport	**2,841**	3,163	**1,717**	2,148
Postal and communication	**1,281**	858	**1,051**	787
Business and other services	**10,159**	8,844	**6,134**	5,755
Home loans	**30,485**	28,273	**7,829**	10,086
Other personal	**9,289**	8,819	**2,099**	1,514
Finance lease receivables	**6,219**	3,885	**60**	17
Loans and advances to customers outside the UK	**115,113**	108,583	**54,403**	44,931

The geographical analysis is based on the location of the customer to which the lendings are made.

Effective interest rates can be found in Note 53.

Certain of the loans and advances are subject to securitisations which are described in Note 34.

16 Allowance for impairment

The movement in the allowance for impairment is as follows:

	The Group		The Bank	
	2006 £m	2005 £m	2006 £m	2005 £m
At beginning of year	3,450	2,637	2,512	2,373
Acquisitions and disposals	(23)	555	–	(11)
Unwind of discount	(98)	(76)	(89)	(71)
Exchange and other adjustments	(153)	125	(24)	13
Amounts written off	(2,174)	(1,587)	(1,763)	(1,382)
Recoveries	259	222	209	175
Amounts charged against profit	2,074	1,574	1,721	1,415
At end of year	3,335	3,450	2,566	2,512

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios at the balance sheet date. For the retail and small business portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics, statistical techniques are used to calculate impairment allowances on a portfolio basis. These models contain judgemental inputs. The impairment charge in relation to retail and small business portfolios is £1,809m or 87% (2005: £1,254m or 80%) of the total impairment charge in 2006. For larger accounts, impairment allowances are calculated on an individual basis using discounted expected future cash flows. Subjective judgements are made in this process. Changes in these estimates could result in a change in allowances and have a direct impact on the impairment charge. The impairment charge in relation to larger accounts is £265m or 13% (2005: £320m or 20%) of the total impairment charge in 2006.

	The Group		The Bank	
Allowance for impairment at 31st December	2006 £m	2005 £m	2006 £m	2005 £m
United Kingdom	2,477	2,266	2,238	2,115
Other European Union	311	284	243	188
United States	100	130	71	114
Africa	417	647	7	14
Rest of the World	30	123	7	81
Allowance for impairment at 31st December	3,335	3,450	2,566	2,512

17 Available for sale financial investments

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Debt securities	**47,912**	50,024	**30,628**	48,170
Equity securities	**1,620**	1,456	**611**	411
Treasury bills and other eligible bills	**2,420**	2,223	**325**	444
Available for sale financial investments	**51,952**	53,703	**31,564**	49,025

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Movement in available for sale financial investments				
At beginning of year	**53,703**	48,293	**49,025**	40,469
Exchange and other adjustments	**(3,999)**	1,791	**(2,213)**	2,617
Acquisitions and transfers	**47,109**	54,556	**25,956**	44,539
Disposals (sale and redemption)	**(44,959)**	(50,609)	**(41,229)**	(38,485)
Gains/(losses) from changes in fair value recognised in equity	**182**	(238)	**28**	(116)
Impairment	**(86)**	(4)	**–**	–
Amortisation of discounts/premium	**2**	(86)	**(3)**	1
At end of year	**51,952**	53,703	**31,564**	49,025

	Book value			
	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Debt securities				
– United Kingdom government	**758**	31	**732**	1
– Other government	**12,587**	14,860	**10,966**	13,673
– Other public bodies	**280**	216	**–**	–
– Mortgage and asset backed securities	**1,706**	3,062	**–**	16
– Corporate issuers	**27,089**	25,590	**18,914**	29,881
– Other issuers	**5,492**	6,265	**16**	4,599
Total debt securities	**47,912**	50,024	**30,628**	48,170
Equity securities	**1,620**	1,456	**611**	411
Treasury bills and other eligible bills	**2,420**	2,223	**325**	444
Available for sale financial investments	**51,952**	53,703	**31,564**	49,025

Gross gains of £354m (2005: £318m) and gross losses of £47m (2005: £198m) have been realised on the sale of available for sale financial investments.

A maturity analysis of available for sale financial investments is included in Note 56.

The basis of determining cost during the calculation of gains and losses on available for sale investments is on an instrument by instrument basis.

18 Securities borrowing, securities lending, repurchase and reverse repurchase agreements

The following amounts were included in the balance sheet and are reported on a net basis where the Group has the intention and the ability to settle net, or realise simultaneously.

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Reverse repurchase agreements and cash collateral on securities borrowed				
Banks	**85,336**	83,610	**44,172**	45,791
Customers	**88,754**	76,788	**136,453**	107,628
Reverse repurchase agreements and cash collateral on securities borrowed	**174,090**	160,398	**180,625**	153,419

	The Group		The Bank	
Repurchase agreements and cash collateral on securities lent				
Banks	**79,833**	66,939	**48,187**	42,431
Customers	**57,123**	54,239	**61,331**	72,124
Repurchase agreements and cash collateral on securities lent	**136,956**	121,178	**109,518**	114,555

Reverse repurchase agreements and cash collateral on securities borrowed are accounted for as collateralised loans. It is the Group's policy to seek collateral at the outset equal to 100% to 105% of the loan amount. The level of collateral held is monitored daily and further collateral calls made to bring the level of cash held and the market value of collateral in line with the loan balance.

Under certain transactions, including reverse repurchase agreements and stock borrowing transactions, the Group is allowed to sell or repledge the collateral held. The fair value at the balance sheet date of collateral accepted and repledged to others was as follows:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Fair value of securities accepted as collateral under reverse repurchase agreements and stock borrowing transactions which can be repledged or resold	**279,591**	248,010	**244,392**	160,761
Of which, fair value of securities repledged/transferred to others	**210,182**	203,777	**209,978**	137,188

19 Other assets

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Sundry debtors	**4,298**	3,569	**2,873**	1,729
Prepayments	**658**	722	**340**	83
Accrued income	**722**	329	**136**	92
Reinsurance assets	**172**	114	**–**	–
Other assets	**5,850**	4,734	**3,349**	1,904

Included in the above Group balances, £5,065m (2005: £3,848m) are expected to be recovered within no more than 12 months after the balance sheet date and balances of £785m (2005: £886m) expected to be recovered more than 12 months after the balance sheet date.

Included in the above Bank balances, £2,636m (2005: £1,727m) are expected to be recovered within no more than 12 months after the balance sheet date, and balances of £713m (2005: £177m) expected to be recovered more than 12 months after the balance sheet date.

20 Current and deferred tax

The components of taxes are as follows:

	The Group				The Bank			
	2006 £m		2005 £m		**2006 £m**		2005 £m	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current tax								
United Kingdom	**420**	**481**	–	484	**1,193**	**488**	–	137
Overseas	**137**	**539**	–	263	**–**	**24**	–	1
Current tax	**557**	**1,020**	–	747	**1,193**	**512**	–	138
Deferred tax								
United Kingdom	**1,613**	**1,111**	1,425	1,517	**1,111**	**50**	1,158	125
Overseas	**392**	**412**	284	206	**60**	**17**	38	15
Deferred tax	**2,005**	**1,523**	1,709	1,723	**1,171**	**67**	1,196	140

Deferred taxes are calculated on all temporary differences under the liability method. The movement on the deferred tax account is as follows:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
At beginning of year	**(14)**	244	**1,056**	1,136
Income statement (charge)/credit	**(4)**	85	**(116)**	69
Equity				
Available for sale investments	**4**	10	**–**	1
Cash flow hedges	**128**	(112)	**263**	(112)
Share-based payments	**24**	101	**(98)**	27
Other equity movements	**48**	(24)	**12**	–
Acquisitions and disposals	**264**	(199)	**–**	(6)
Exchange and other adjustments	**32**	(119)	**(13)**	(59)
At end of year	**482**	(14)	**1,104**	1,056

20 Current and deferred tax (continued)

Deferred tax assets and liabilities are attributable to the following items:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Deferred tax liabilities				
Accelerated tax depreciation	**705**	883	**9**	8
Available for sale investments	**116**	119	**56**	32
Cash flow hedges	**–**	138	**2**	81
Other	**702**	583	**–**	19
Deferred tax liabilities	**1,523**	1,723	**67**	140
Deferred tax assets				
Pensions and other retirement benefits	**622**	609	**552**	608
Allowance for impairment on loans	**69**	41	**23**	–
Other provisions	**436**	342	**73**	150
Cash flow hedges	**91**	44	**57**	43
Tax losses carried forward	**1**	26	**1**	12
Share-based payments	**380**	232	**80**	136
Other	**406**	415	**385**	247
Deferred tax assets	**2,005**	1,709	**1,171**	1,196
Net deferred tax asset/(liability)	**482**	(14)	**1,104**	1,056
Disclosed as deferred tax liabilities	**282**	700	**–**	–
Disclosed as deferred tax assets	**764**	686	**1,104**	1,056
Net deferred tax asset/(liability)	**482**	(14)	**1,104**	1,056

Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to set off and the balances relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same tax group where there is the intention and ability to settle on a net basis or realise the assets and liabilities simultaneously.

The amount of deferred tax liability expected to be settled after more than 12 months for the Group is £1,046m (2005: £982m) and for the Bank is £65m (2005: £80m).

The amount of deferred tax asset expected to be recovered after more than 12 months for the Group is £1,582m (2005: £1,686m) and for the Bank is £824m (2005: £1,180m).

The deferred tax assets balance for the Group includes £106m (2005: £27m) which is the excess deferred tax assets over deferred tax liabilities in entities which have suffered a loss in either the current or prior year. This is based on management assessment that it is probable that the relevant entities will have taxable profits against which the temporary differences can be utilised.

The deferred tax charge/(credit) in the income statement comprises the following temporary differences:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Accelerated tax depreciation	**120**	130	**1**	13
Pensions and other retirement benefits	**(24)**	39	**56**	32
Allowance for impairment on loans	**(30)**	(1)	**(23)**	1
Other provisions	**(105)**	(133)	**77**	(20)
Tax losses carry forward	**25**	(20)	**11**	(9)
Available for sale investments	**8**	(52)	**24**	–
Cash flow hedges	**(14)**	1	**36**	(37)
Share-based payments	**(77)**	(115)	**(42)**	(114)
Other	**101**	66	**(24)**	65
Total	**4**	(85)	**116**	(69)

20 Current and deferred tax (continued)

Deferred tax assets have not been recognised in respect of the following items:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Deductible temporary differences	**395**	340	**14**	–
Unused tax losses	**190**	363	**–**	–
Unused tax credits	**98**	24	**–**	17

The following tax losses of the Group expire: £3m in 2007; £3m and £4m in 2009. The other tax losses, tax credits and temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The amount of temporary differences associated with investments in subsidiaries, branches, associates and in joint ventures for which deferred tax liabilities have not been recognised in the Group is £3,387m (2005: £2,126m).

21 Investment in associates and joint ventures

Share of net assets

	Associates		Joint ventures		Total	
The Group	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At beginning of year	**427**	399	**119**	30	**546**	429
Share of results before tax	**63**	63	**(6)**	(12)	**57**	51
Share of tax	**(10)**	(10)	**(1)**	4	**(11)**	(6)
Share of post-tax results	**53**	53	**(7)**	(8)	**46**	45
Dividends paid	**(17)**	(23)	**–**	–	**(17)**	(23)
New investments	**2**	–	**7**	81	**9**	81
Acquisitions	**51**	72	**102**	23	**153**	95
Disposals	**(404)**	(39)	**(72)**	(1)	**(476)**	(40)
Exchange and other adjustments	**(38)**	(35)	**5**	(6)	**(33)**	(41)
At end of year	**74**	427	**154**	119	**228**	546

	Associates		Joint ventures		Total	
The Bank	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At beginning of year	**326**	362	**84**	4	**410**	366
New investments	**–**	–	**6**	80	**6**	80
Disposals	**(319)**	(36)	**–**	–	**(319)**	(36)
At end of year	**7**	326	**90**	84	**97**	410

The fair value of the investment in Gabetti Holding SpA, which is listed on the Milan stock exchange, is £16m (2005: £15m).

Disposal of FirstCaribbean International Bank

On 22nd December 2006 the Group disposed of its investment in FirstCaribbean International Bank, its former principal associate, for cash consideration, net of transaction costs of £583m, which, after deducting the Group's share of its net assets on the date of disposal, resulted in a profit of £247m.

Following this transaction, there were no individually significant associates or joint ventures.

Of the £46m share of post-tax results of associates and joint ventures, FirstCaribbean International Bank contributed £41m (2005: £37m).

21 Investment in associates and joint ventures (continued)

Included within Barclays share of associates' and joint ventures' assets is goodwill as follows:

Goodwill

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Cost				
At beginning of year	**205**	122	**189**	122
Acquisitions	**–**	83	**–**	67
Disposals	**(121)**	–	**(121)**	–
Transfer	**(43)**	–	**(43)**	–
At end of year	**41**	205	**25**	189

The table below provides summarised financial information of the Group's associates and joint ventures (the entities' entire financial position and results of operations are presented, not the Group's share).

	2006			2005		
	FirstCaribbean International Bank £m	**Other associates £m**	**Joint ventures £m**	FirstCaribbean International Bank £m	Other associates £m	Joint ventures £m
Property, plant and equipment	**–**	**599**	**142**	86	454	119
Financial investments	**–**	**4**	**2**	376	66	24
Trading portfolio assets	**–**	**1**	**–**	389	–	–
Loans to banks and customers	**–**	**1,378**	**797**	4,379	1,575	393
Other assets	**–**	**541**	**199**	267	226	16
Total assets	**–**	**2,523**	**1,140**	5,497	2,321	552
Deposits from banks and customers	**–**	**1,421**	**769**	4,519	1,527	369
Trading portfolio liabilities	**–**	**1**	**–**	115	–	–
Other liabilities	**–**	**887**	**187**	270	572	188
Shareholders' equity	**–**	**214**	**184**	593	222	(5)
Total liabilities	**–**	**2,523**	**1,140**	5,497	2,321	552
Net income	**274**	**264**	**178**	234	213	176
Operating expenses	**(167)**	**(167)**	**(178)**	(148)	(161)	(213)
Profit/(loss) before tax	**107**	**97**	**–**	86	52	(37)
Profit/(loss) after tax	**96**	**90**	**(2)**	76	37	(26)

The amounts included above are based on accounts made up to 31st December 2006 with the exception of FirstCaribbean International Bank and certain undertakings included within the Other associates category for which the amounts are based on accounts made up to dates not earlier than three months before the balance sheet date.

Other associates in 2006 includes £1,525m (2005: £1,885m) of assets, £1,380m (2005: £1,741m) of liabilities and £25m (2005: £20m) of profit after tax in associates within the Absa Group.

The Group's share of commitments and contingencies incurred in relation to its joint ventures is £nil (2005: £1m) and its share of contingent liabilities of an associate or joint venture for which it is contingently liable is £nil (2005: £252m).

22 Investments in subsidiaries

Investments in subsidiaries, the principal of which are engaged in banking related activities, are recorded in the balance sheet at historical cost, less dividends received out of the pre-acquisition profits of the subsidiaries and any impairment. At 31st December 2006 the historical cost of investments in subsidiaries was £16,548m (2005: £15,939m), and allowances recognised against these investments was £1,767m (2005: £1,795m) of impairment and £464m (2005: £464m) dividends received out of pre-acquisition profits of the subsidiaries. Details of the principal subsidiaries are shown in Note 47.

23 Goodwill

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Net book value				
At beginning of year	**6,022**	4,518	**3,591**	3,539
Acquisitions	**390**	1,417	**–**	52
Disposals	**(14)**	–	**–**	–
Exchange and other adjustments	**(306)**	87	**–**	–
At end of year	**6,092**	6,022	**3,591**	3,591

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2006 (2005: £nil).

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
UK Banking	**2,820**	2,824	**2,818**	2,818
Barclaycard	**403**	418	**257**	257
International Retail and Commercial Banking	**1,481**	1,725	**94**	94
Barclays Capital	**72**	89	**–**	–
Barclays Global Investors	**673**	322	**15**	15
Barclays Wealth	**629**	629	**407**	407
Head office functions and other operations	**14**	15	**–**	–
Goodwill	**6,092**	6,022	**3,591**	3,591

Goodwill is allocated to business operations. The recoverable amount of each operation's goodwill is based on value-in-use calculations using an appropriate pre-tax cost of equity for the market and associated risk. The principal goodwill relating to UK Banking and International Retail and Commercial Banking are Woolwich and Absa respectively.

Woolwich and Absa future cash flows are based on approved budgets and plans. Woolwich has applied a growth factor of 3% (proxy for inflation) to cash flows for the period 2010 to 2020. Absa has applied a growth rate of 8% to cash flows for the four years from 2010 to 2013 and a rate of 4% for the years from 2014 to 2020.

Both businesses justify the use of longer cash flow projections due to the long-term nature of these businesses within the Group.

24 Intangible assets

The Group	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	Total £m
	2006							
Cost or valuation								
At 1st January 2006	**188**	**43**	**306**	**183**	**582**	**–**	**139**	**1,441**
Acquisitions	–	–	–	–	–	114	2	116
Additions	95	86	–	–	–	16	13	210
Exchange and other adjustments	(16)	(6)	(64)	(38)	(115)	(8)	(14)	(261)
At 31st December 2006	**267**	**123**	**242**	**145**	**467**	**122**	**140**	**1,506**
Accumulated amortisation and impairment								
At 1st January 2006	**(90)**	**(18)**	**(7)**	**(9)**	**(29)**	**–**	**(19)**	**(172)**
Amortisation charge	(29)	(7)	(20)	(16)	(44)	(11)	(9)	(136)
Impairment charge	(2)	(5)	–	–	–	–	–	(7)
Exchange and other adjustments	5	1	3	3	9	1	2	24
At 31st December 2006	**(116)**	**(29)**	**(24)**	**(22)**	**(64)**	**(10)**	**(26)**	**(291)**
Net book value	**151**	**94**	**218**	**123**	**403**	**112**	**114**	**1,215**

The Bank	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	Total £m
	2006							
Cost or valuation								
At 1st January 2006	**149**	**11**	**7**	**–**	**10**	**–**	**10**	**187**
Acquisitions	–	–	–	–	–	114	–	114
Additions	78	68	–	–	–	16	13	175
Exchange and other adjustments	(12)	–	(2)	–	1	(8)	–	(21)
At 31st December 2006	**215**	**79**	**5**	**–**	**11**	**122**	**23**	**455**
Accumulated amortisation and impairment								
At 1st January 2006	**(66)**	**(2)**	**–**	**–**	**(1)**	**–**	**(2)**	**(71)**
Amortisation charge	(24)	–	(1)	–	(1)	(11)	(1)	(38)
Impairment charge	(2)	–	–	–	–	–	–	(2)
Exchange and other adjustments	2	–	–	–	–	1	–	3
At 31st December 2006	**(90)**	**(2)**	**(1)**	**–**	**(2)**	**(10)**	**(3)**	**(108)**
Net book value	**125**	**77**	**4**	**–**	**9**	**112**	**20**	**347**

Impairment charges on internally generated and other software reflect impairment of certain capitalised IT assets following a review of the future economic benefits likely to be generated by them.

Impairment charges detailed above have been included within other operating expenses.

24 Intangible assets (continued)

The Group	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
	2005						
Cost or valuation							
At 1st January 2005	138	5	–	–	36	53	232
Acquisitions	–	9	288	172	524	10	1,003
Additions	68	23	–	–	–	82	173
Exchange and other adjustments	(18)	6	18	11	22	(6)	33
At 31st December 2005	188	43	306	183	582	139	1,441
Accumulated amortisation and impairment							
At 1st January 2005	(84)	(3)	–	–	(2)	(4)	(93)
Amortisation charge	(20)	(3)	(7)	(9)	(27)	(13)	(79)
Impairment charge	(5)	(3)	–	–	–	(1)	(9)
Exchange and other adjustments	19	(9)	–	–	–	(1)	9
At 31st December 2005	(90)	(18)	(7)	(9)	(29)	(19)	(172)
Net book value	98	25	299	174	553	120	1,269

The Bank	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Licences and other £m	Total £m
	2005						
Cost or valuation							
At 1st January 2005	100	2	–	–	–	–	102
Acquisitions	–	–	7	–	10	6	23
Additions	55	–	–	–	–	–	55
Exchange and other adjustments	(6)	9	–	–	–	4	7
At 31st December 2005	149	11	7	–	10	10	187
Accumulated amortisation and impairment							
At 1st January 2005	(57)	(2)	–	–	–	–	(59)
Amortisation charge	(13)	–	–	–	(1)	(1)	(15)
Impairment charge	(5)	–	–	–	–	(1)	(6)
Exchange and other adjustments	9	–	–	–	–	–	9
At 31st December 2005	(66)	(2)	–	–	(1)	(2)	(71)
Net book value	83	9	7	–	9	8	116

25 Property, plant and equipment

	The Group				The Bank			
2006	**Property £m**	**Equipment £m**	**Operating leased assets £m**	**Total £m**	**Property £m**	**Equipment £m**	**Operating leased assets £m**	**Total £m**
Cost								
At 1st January 2006	**2,450**	**2,541**	**365**	**5,356**	**1,972**	**1,580**	**–**	**3,552**
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Additions	**180**	**475**	**–**	**655**	**130**	**270**	**–**	**400**
Disposals	**(422)**	**(382)**	**–**	**(804)**	**(368)**	**(362)**	**–**	**(730)**
Fully depreciated assets written off	**(1)**	**(89)**	**–**	**(90)**	**–**	**(89)**	**–**	**(89)**
Exchange and other adjustments	**(53)**	**(116)**	**–**	**(169)**	**(3)**	**(16)**	**–**	**(19)**
At 31st December 2006	**2,154**	**2,429**	**365**	**4,948**	**1,731**	**1,383**	**–**	**3,114**
Accumulated depreciation and impairment								
At 1st January 2006	**(1,022)**	**(1,575)**	**(5)**	**(2,602)**	**(914)**	**(1,121)**	**–**	**(2,035)**
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation charge for year	**(118)**	**(335)**	**(2)**	**(455)**	**(96)**	**(171)**	**–**	**(267)**
Impairment	**(14)**	**–**	**–**	**(14)**	**(14)**	**–**	**–**	**(14)**
Disposals	**148**	**341**	**–**	**489**	**137**	**333**	**–**	**470**
Fully depreciated assets written off	**1**	**89**	**–**	**90**	**–**	**89**	**–**	**89**
Exchange and other adjustments	**12**	**26**	**(2)**	**36**	**(3)**	**4**	**–**	**1**
At 31st December 2006	**(993)**	**(1,454)**	**(9)**	**(2,456)**	**(890)**	**(866)**	**–**	**(1,756)**
Net book value	**1,161**	**975**	**356**	**2,492**	**841**	**517**	**–**	**1,358**

	The Group				The Bank			
2005	Property £m	Equipment £m	Operating leased assets £m	Total £m	Property £m	Equipment £m	Operating leased assets £m	Total £m
Cost								
At 1st January 2005	2,303	2,026	361	4,690	1,943	1,468	–	3,411
Acquisitions as a result of business combinations	126	159	–	285	–	–	–	–
Additions	125	463	–	588	104	207	–	311
Disposals	(80)	(130)	–	(210)	(63)	(114)	–	(177)
Fully depreciated assets written off	(1)	(1)	–	(2)	(1)	(1)	–	(2)
Exchange and other adjustments	(23)	24	4	5	(11)	20	–	9
At 31st December 2005	2,450	2,541	365	5,356	1,972	1,580	–	3,552
Accumulated depreciation and impairment								
At 1st January 2005	(978)	(1,429)	(1)	(2,408)	(862)	(1,079)	–	(1,941)
Acquisitions as a result of business combinations	(1)	(1)	–	(2)	–	–	–	–
Depreciation charge for year	(92)	(268)	(2)	(362)	(75)	(150)	–	(225)
Disposals	20	113	–	133	17	106	–	123
Fully depreciated assets written off	1	1	–	2	1	1	–	2
Exchange and other adjustments	28	9	(2)	35	5	1	–	6
At 31st December 2005	(1,022)	(1,575)	(5)	(2,602)	(914)	(1,121)	–	(2,035)
Net book value	1,428	966	360	2,754	1,058	459	–	1,517

Operating leased assets represent assets such as plant and equipment leased to customers under operating leases.

Certain of the Group's equipment is held on finance leases. See note 42.

Impairment of £14m follows a review of the future use of an existing office building in our UK property portfolio. In 2007, the freehold of the building will be disposed of by either a short- or long-term leaseback, depending on the conclusions of the review. Consequently the value has been written down to fair value, less cost of sale.

25 Property, plant and equipment (continued)

The carrying value of property on transition to IFRS was the deemed cost . The following table shows the historical cost of property.

	2006 £m	2005 £m
Historical cost of property		
At cost	**1,982**	2,257
Accumulated depreciation and impairment	**(958)**	(1,050)
Net book value	**1,024**	1,207

26 Deposits from banks

	The Group		The Bank	
	2006 £m	2005 £m	2006 £m	2005 £m
Repayable:				
on demand	**19,163**	13,924	**18,505**	24,275
no more than three months	**55,534**	54,620	**78,579**	58,451
over three months but not more than six months	**1,418**	2,488	**948**	2,980
over six months but not more than one year	**891**	1,168	**326**	1,268
over one year but not more than three years	**593**	442	**473**	390
over three years but not more than five years	**1,406**	725	**1,375**	667
over five years but not more than ten years	**367**	1,288	**366**	1,288
over ten years	**190**	472	**–**	240
Deposits from banks	**79,562**	75,127	**100,572**	89,559
By geographical area				
United Kingdom	**14,292**	7,307	**22,245**	25,673
Other European Union	**27,521**	23,496	**27,426**	22,562
United States	**5,140**	7,418	**10,786**	7,517
Africa	**4,508**	4,192	**2,290**	1,516
Rest of the World	**28,101**	32,714	**37,825**	32,291
Deposits from banks	**79,562**	75,127	**100,572**	89,559
Included above: due to subsidiaries	**–**	–	**26,268**	20,145

For details on the effective rate of interest please refer to Note 53.

27 Customer accounts

	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Repayable:				
on demand	**153,642**	144,015	**153,312**	122,201
no more than three months	**89,079**	72,590	**107,989**	78,498
over three months but not more than six months	**5,594**	9,282	**4,063**	3,869
over six months but not more than one year	**3,604**	2,606	**855**	2,119
over one year but not more than three years	**1,655**	3,072	**2,781**	1,392
over three years but not more than five years	**1,436**	1,503	**6,936**	6,542
over five years but not more than ten years	**807**	2,223	**1,412**	1,732
over ten years	**937**	3,393	**5,637**	3,523
Customer accounts	**256,754**	238,684	**282,985**	219,876
By geographical area				
United Kingdom	**170,120**	153,686	**223,846**	183,164
Other European Union	**21,260**	19,038	**21,673**	12,192
United States	**17,903**	16,690	**23,898**	11,500
Africa	**27,205**	29,866	**2,259**	2,699
Rest of the World	**20,266**	19,404	**11,309**	10,321
Customer accounts	**256,754**	238,684	**282,985**	219,876
Included above: due to subsidiaries	**–**	–	**86,503**	42,303

For details on the effective rate of interest please refer to Note 53.

28 Financial liabilities designated at fair value

	The Group		The Bank		The Group		The Bank	
	2006				2005			
	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m	Fair value £m	Contractual amount due on maturity £m
Financial liabilities designated at fair value								
Debt securities	**32,261**	**37,393**	**29,868**	**35,197**	25,951	26,260	39,513	39,845
Deposits	**19,990**	**20,465**	**19,836**	**20,466**	7,434	7,437	7,434	7,437
Other	**1,736**	**2,913**	**1,532**	**2,825**	–	–	–	–
Total financial liabilities designated at fair value	**53,987**	**60,771**	**51,236**	**58,488**	33,385	33,697	46,947	47,282

Financial liabilities designated at fair value includes certain financial instruments that pay out the higher of a guaranteed amount or a notional plus a performance related amount.

There were no significant gains or losses attributable to changes in either the Group's or Bank's own credit risk for financial liabilities designated at fair value in 2006 (2005: £nil).

29 Debt securities in issue

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Bonds and medium-term notes repayable:				
on demand	**–**	14	**–**	14
no more than three months	**578**	42	**168**	42
over three months but not more than six months	**311**	3,571	**310**	2,989
over six months but not more than one year	**991**	2,628	**91**	2,047
over one year but not more than three years	**5,243**	5,626	**518**	929
over three years but not more than five years	**2,187**	1,725	**327**	444
over five years but not more than ten years	**1,394**	299	**3**	207
over ten years	**4,848**	7,256	**179**	3,438
	15,552	21,161	**1,596**	10,110
Other debt securities in issue repayable:				
on demand	**17**	880	**17**	7
no more than three months	**70,227**	54,070	**40,635**	30,894
over three months but not more than six months	**8,358**	10,414	**6,647**	8,575
over six months but not more than one year	**4,320**	6,149	**2,264**	3,988
over one year but not more than three years	**5,165**	3,169	**1,781**	3,269
over three years but not more than five years	**1,611**	1,151	**78**	34
over five years but not more than ten years	**2,623**	7	**4**	7
over ten years	**3,264**	6,327	**1**	108
	95,585	82,167	**51,427**	46,882
Debt securities in issue	**111,137**	103,328	**53,023**	56,992

Debt securities in issue for the Group at 31st December 2006 included certificates of deposit of £52,800m (2005: £43,109m) and commercial paper of £26,546m (2005: £28,275m). Debt securities in issue for the Bank at 31st December 2006 included certificates of deposit of £47,765m (2005: £38,827m) and commercial paper of £4,028m (2005: £6,717m).

Debt securities in issue included amounts raised from securitisations, which are described in Note 34.

The average interest rate during 2006 for commercial paper was 4.9% (2005: 3.4%) and for negotiable certificates of deposit was 5.1% (2005: 3.5%).

30 Other liabilities

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Obligation under finance leases (Note 42)	**92**	289	**11**	29
Sundry creditors	**4,118**	6,131	**13,311**	12,344
Accruals and deferred income	**6,127**	4,711	**3,430**	1,365
Other liabilities	**10,337**	11,131	**16,752**	13,738

Included in the above Group balances, £9,265m (2005: £8,998m) are expected to be settled within no more than 12 months after the balance sheet date and balances of £1,072m (2005: £2,133m) expected to be settled more than 12 months after the balance sheet date.

Included in the above Bank balances, £9,904m (2005: £13,458m) are expected to be settled within no more than 12 months after the balance sheet date and balances of £6,848m (2005: £280m) expected to be settled more than 12 months after the balance sheet date.

Accruals and deferred income includes £107m (2005: £113) in relation to deferred income from investment contracts and £822m (2005: 819m) in relation to deferred income from insurance contracts for the Group. The equivalent balances for the Bank are £nil (2005: nil).

31 Insurance assets and liabilities

Insurance assets

Reinsurance assets are £172m (2005: £114m) and relate principally to the Group's long-term business. Reinsurers' share of provisions relating to the Group's short-term business are £82m (2005: £15m). The reinsurance assets expected to be recovered after more than one year are £92m (2005: £99m).

Insurance contract liabilities including unit-linked liabilities

Insurance liabilities comprise the following:

	The Group	
	2006 £m	2005 £m
Insurance contract liabilities:		
– linked liabilities	**1,591**	1,532
– non-linked liabilities	**2,121**	2,187
Provision for claims	**166**	48
Insurance contract liabilities including unit-linked liabilities	**3,878**	3,767

Insurance contract liabilities relate principally to the Group's long-term business. Insurance contract liabilities associated with the Group's short-term non-life business are £198m (2005: £133m).

Claims development

The amount and timing of claims payments is normally within one year.

Movements in insurance liabilities and reinsurance assets

Movements in insurance assets and insurance contract liabilities were as follows:

	The Group					
	2006			2005		
	Gross £m	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
At beginning of year	**3,767**	**(114)**	**3,653**	3,596	(109)	3,487
Acquisitions	**–**	**–**	**–**	252	(29)	223
Change in year	**111**	**(58)**	**53**	(81)	24	(57)
At end of year	**3,878**	**(172)**	**3,706**	3,767	(114)	3,653

Assumptions used to measure insurance liabilities

The assumptions that have the greatest effect on the measurement of the amounts recognised above, and the processes used to determine them were as follows:

Long-term business – linked and non-linked

Mortality – mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the Group's own experience. A margin is added to ensure prudence – for example, future mortality improvements for annuity business.

Renewal expenses level and inflation – expense reserves are a small part of overall insurance liabilities, however, increases in expenses caused by unanticipated inflation or other unforeseen factors could lead to expense reserve increases. Expenses are therefore set using prudent assumptions. Initial renewal expense levels are set by considering expense forecasts for the business and where appropriate building in a margin to allow for the increasing burden of fixed costs on the UK closed life book of business. The inflation assumption is set by adding a margin to the market rate of inflation implied by index-linked gilt yields.

Short-term business

Short-term business – for single premium policies the proportion of unearned premiums is calculated based on estimates of the frequency and severity of incidents.

Changes in assumptions

Sensitivity analysis regarding changes in these assumptions are described under the heading 'Sensitivity analysis' on page 61. There have been no changes in assumptions in 2006 that have had a material effect on the financial statements.

31 Insurance assets and liabilities (continued)

Uncertainties associated with cash flows related to insurance contracts and risk management activities

Long-term insurance contracts (linked and non-linked)

For long-term insurance contracts where death is the insured risk, the most significant factors that could detrimentally affect the frequency and severity of claims are the incidence of disease, such as AIDS, or general changes in lifestyle, such as in eating, exercise and smoking. Where survival is the insured risk, advances in medical care and social conditions are the key factors that increase longevity.

The Group manages its exposure to risk by operating in part as a unit-linked business, prudent product design, applying strict underwriting criteria, transferring risk to reinsurers, managing claims and establishing prudent reserves.

Short-term insurance contracts

For payment protection contracts where inability to make payments under a loan contract is the insured risk, the most significant factors are the health of the policyholder and the possibility of unemployment which depends upon, among other things, long-term and short-term economic factors. The Group manages its exposure to such risks through prudent product design, efficient claims management, prudent reserving methodologies and bases, regular product, economic and market reviews and regular adequacy tests on the size of the reserves.

Absa insures property and motor vehicles, for which the most significant factors that could effect the frequency and severity of claims are climatic change and crime. Absa manages its exposure to risk by diversifying insurance risks accepted and transferring risk to reinsurers.

Sensitivity analysis

The following table presents the sensitivity of the level of insurance contract liabilities disclosed in this note to movements in the actuarial assumptions used to calculate them. The percentage change in variable is applied to a range of existing actuarial modelling assumptions to derive the possible impact on net profit after tax. The disclosure is not intended to explain the impact of a percentage change in the insurance assets and liabilities disclosed above.

	The Group			
	2006		2005	
	Change in variable %	Net profit after tax impact £m	Change in variable %	Net profit after tax impact £m
Long-term insurance contracts:				
Improving mortality (annuitants only)	10	23	10	19
Worsening of mortality (assured lives only)	10	25	10	28
Worsening of base renewal expense level	20	23	20	20
Worsening of expense inflation rate	10	9	10	5
Short-term insurance contracts:				
Worsening of claim expense assumptions	10	9	10	13

Any change in net profit after tax would result in a corresponding increase or decrease in shareholders' equity.

The above analyses are based on a change in a single assumption while holding all other assumptions constant. In practice this is unlikely to occur.

Options and guarantees

The Group's contracts do not contain options or guarantees that could confer material risk.

32 Subordinated liabilities

Subordinated liabilities comprise dated and undated loan capital as follows:

	Notes	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Undated loan capital	(a)	**5,422**	4,397	**5,471**	4,452
Dated loan capital	(b)	**8,364**	8,066	**7,989**	7,691
		13,786	12,463	**13,460**	12,143

(a) Undated loan capital

	Notes	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Non-convertible					
The Bank					
6% Callable Perpetual Core Tier One Notes	(a,n)	**404**	432	**404**	432
6.86% Callable Perpetual Core Tier One Notes (US$1,000m)	(a,n)	**571**	623	**571**	623
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	(b,o)	**501**	–	**501**	–
5.926% Step-up Callable Perpetual Reserve Capital Instruments (US$1,350m)	(c,p)	**690**	–	**690**	–
Junior Undated Floating Rate Notes (US$121m)	(d,q)	**62**	71	**111**	126
Undated Floating Rate Primary Capital Notes Series 3	(d,r)	**146**	147	**146**	147
9.875% Undated Subordinated Notes	(e,s)	**319**	319	**319**	319
9.25% Perpetual Subordinated Bonds (ex-Woolwich plc)	(f,t)	**178**	186	**178**	186
9% Permanent Interest Bearing Capital Bonds	(g,u)	**102**	102	**102**	102
7.125% Undated Subordinated Notes	(h,v)	**550**	573	**550**	573
6.875% Undated Subordinated Notes	(i,w)	**656**	670	**656**	670
6.375% Undated Subordinated Notes	(j,x)	**481**	498	**481**	498
6.125% Undated Subordinated Notes	(k,y)	**571**	611	**571**	611
6.5% Undated Subordinated Notes (FFr 1,000m)	(l,z)	**105**	107	**105**	107
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	(m,aa)	**34**	23	**34**	23
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	(m,aa)	**52**	35	**52**	35
Undated loan capital – non-convertible		**5,422**	4,397	**5,471**	4,452

Security and subordination

None of the undated loan capital of the Bank is secured.

The Junior Undated Floating Rate Notes (the 'Junior Notes') rank behind the claims against the Bank of depositors and other unsecured unsubordinated creditors and holders of dated loan capital.

All other issues of the Bank's undated loan capital rank pari passu with each other and behind the claims of the holders of the Junior Notes, except for the 6% and 6.86% Callable Perpetual Core Tier One Notes (the 'TONs') and the 5.3304% and 5.926% Step-up Callable Perpetual Reserve Capital Instruments (the 'RCIs') (such issues, excluding the TONs and the RCIs, being the 'Undated Notes and Loans').

The TONs and the RCIs rank pari passu with each other and behind the claims of the holders of the Undated Notes and Loans.

Interest

Notes

(a) These TONs bear a fixed rate of interest until 2032. After that date, in the event that the TONs are not redeemed, the TONs will bear interest at rates fixed periodically in advance, based on London interbank rates.

(b) These RCIs bear a fixed rate of interest until 2036. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.

(c) These RCIs bear a fixed rate of interest until 2016. After that date, in the event that the RCIs are not redeemed, the RCIs will bear interest at rates fixed periodically in advance, based on London interbank rates.

(d) These Notes bear interest at rates fixed periodically in advance, based on London interbank rates.

(e) These Notes bear a fixed rate of interest until 2008. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(f) These Notes bear a fixed rate of interest until 2021. After that date, in the event that the Notes are not redeemed, the Notes will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(g) The interest rate on these Notes is fixed for the life of this issue.

32 Subordinated liabilities (continued)

(h) These Notes bear a fixed rate of interest until 2020. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(i) These Notes bear a fixed rate of interest until 2015. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(j) These Notes bear a fixed rate of interest until 2017. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(k) These Notes bear a fixed rate of interest until 2027. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(l) These Notes bear a fixed rate of interest until 2009. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on European interbank rates.

(m) These Loans bear a fixed rate of interest until 2028 based on a US Dollar principal amount, but the interest payments have been swapped, resulting in a Yen interest rate payable, which is fixed periodically in advance based on London interbank rates. After that date, in the event that the Loans are not redeemed, the Loans will bear Yen interest rates fixed periodically in advance, based on London interbank rates.

The Bank is not obliged to make a payment of interest on its Undated Notes and Loans excluding the 9.25% Perpetual Subordinated Bonds if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC or, in certain cases, any class of preference shares of the Bank. The Bank is not obliged to make a payment of interest on its 9.25% Perpetual Subordinated Bonds if, in the immediately preceding 12 months interest period, a dividend has not been paid on any class of its share capital. Interest not so paid becomes payable in each case if such a dividend is subsequently paid or in certain other circumstances. During the year, the Bank declared and paid dividends on its ordinary shares and on all classes of preference shares.

No payment of principal or any interest may be made unless the Bank satisfies a specified solvency test.

The Bank may elect to defer any payment of interest on the RCIs ((b) and (c) above). Any such deferred payment of interest must be paid on the earlier of (i) the date of redemption of the RCIs, and (ii) the coupon payment date falling on or nearest to the tenth anniversary of the date of deferral of such payment. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or Preference Shares.

The Bank may elect to defer any payment of interest on the TONs if it determines that it is, or such payment would result in it being, in non-compliance with capital adequacy requirements and policies of the FSA. Any such deferred payment of interest will only be payable on a redemption of the TONs. Until such time as the Bank next makes a payment of interest on the TONs, neither the Bank nor Barclays PLC may (a) declare or pay a dividend, subject to certain exceptions, on any of their respective ordinary shares or Preference Shares, or make payments of interest in respect of the Bank's Reserve Capital Instruments and (b) certain restrictions on the redemption, purchase or reduction of their respective share capital and certain other securities also apply.

Repayment

Notes

(n) These TONs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after June 2032.

(o) These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after December 2036.

(p) These RCIs are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after December 2016.

(q) These Notes are repayable, at the option of the Bank, in whole or in part on any interest payment date.

(r) These Notes are repayable, at the option of the Bank, in whole on any interest payment date.

(s) These Notes are repayable, at the option of the Bank, in whole in 2008, or on any fifth anniversary thereafter.

(t) These Bonds are repayable, at the option of the Bank, in whole in 2021, or on any fifth anniversary thereafter.

(u) These Bonds are repayable, at the option of the Bank, in whole at any time.

(v) These Notes are repayable, at the option of the Bank, in whole in 2020, or on any fifth anniversary thereafter.

(w) These Notes are repayable, at the option of the Bank, in whole in 2015, or on any fifth anniversary thereafter.

(x) These Notes are repayable, at the option of the Bank, in whole in 2017, or on any fifth anniversary thereafter.

(y) These Notes are repayable at the option of the Bank, in whole in 2027, or on any fifth anniversary thereafter.

(z) These Notes are repayable, at the option of the Bank, in whole in 2009, or on any fifth anniversary thereafter.

(aa) These Loans are repayable, at the option of the Bank, in whole in 2028, or on any fifth anniversary thereafter.

In addition, each issue of undated loan capital is repayable, at the option of the Bank, in whole for certain tax reasons, either at any time, or on an interest payment date. There are no events of default except non-payment of principal or mandatory interest.

Any repayments require the prior approval of the FSA.

All issues of undated loan capital have been made in the eurocurrency market and/or under Rule 144A, and no issues have been registered under the US Securities Act of 1933.

32 Subordinated liabilities (continued)

(b) Dated loan capital

Dated loan capital, issued by the Bank for the development and expansion of the Group's business and to strengthen its capital base, by Barclays Bank Spain SA (Barclays Spain), Barclays Bank of Botswana Ltd (BBB) and Barclays Bank Zambia PLC (Barclays Zambia) to enhance their respective capital bases and by Absa and Barclays Bank of Ghana Ltd (BBG) for general corporate purposes, comprise:

		The Group		The Bank	
	Notes	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Non-convertible					
The Bank					
Floating Rate Unsecured Capital Loan Stock 2006		**–**	2	**–**	2
7.4% Subordinated Notes 2009 (US$400m)	(a)	**204**	233	**204**	233
Subordinated Fixed to CMS-Linked Notes 2009 (€31m)	(b)	**21**	21	**21**	21
12% Unsecured Capital Loan Stock 2010	(a)	**27**	26	**27**	26
Floating Rate Subordinated Step-up Callable Notes 2011 (US$100m)		**–**	58	**–**	58
Floating Rate Subordinated Step-up Callable Notes 2011 (US$125m)		**–**	73	**–**	73
Floating Rate Subordinated Notes 2011 (US$400m)		**–**	235	**–**	235
5.75% Subordinated Notes 2011 (€1,000m)	(a)	**676**	783	**676**	783
5.25% Subordinated Notes 2011 (€250m) (ex-Woolwich plc)	(a)	**186**	200	**186**	200
Fixed/Floating Rate Subordinated Notes 2011 (Yen 5,000m)		**–**	25	**–**	25
Floating Rate Subordinated Notes 2012	(b,n)	**301**	298	**301**	298
Callable Subordinated Floating Rate Notes 2012	(b,n)	**44**	44	**44**	44
Step-up Callable Floating Rate Subordinated Bonds 2012 (ex-Woolwich plc)	(b,n)	**151**	150	**151**	150
Callable Subordinated Floating Rate Notes 2012 (US$150m)	(b,n)	**77**	88	**77**	88
Floating Rate Subordinated Notes 2012 (US$100m)	(b,n)	**51**	58	**51**	58
Capped Floating Rate Subordinated Notes 2012 (US$100m)	(b,n)	**51**	58	**51**	58
Floating Rate Subordinated Notes 2013 (US$1,000m)	(b,n)	**513**	585	**513**	585
5.015% Subordinated Notes 2013 (US$150m)	(a)	**77**	88	**77**	88
4.875% Subordinated Notes 2013 (€750m)	(a)	**540**	565	**540**	565
5.5% Subordinated Notes 2013 (DM 500m)	(d,n)	**179**	183	**179**	183
Floating Rate Subordinated Step-up Callable Notes 2013 (Yen 5,500m)	(b,n)	**24**	27	**24**	27
Floating Rate Subordinated Notes 2013 (AU$150m)	(c,n)	**61**	65	**61**	65
5.93% Subordinated Notes 2013 (AU$100m)	(e,n)	**41**	43	**41**	43
Callable Floating Rate Subordinated Notes 2015 (US$1,500m)	(b,n)	**767**	877	**767**	877
4.38% Fixed Rate Subordinated Notes 2015 (US$75m)	(a)	**37**	42	**37**	42
4.75% Fixed Rate Subordinated Notes 2015 (US$150m)	(a)	**76**	86	**76**	86
Floating Rate Subordinated Step-up Callable Notes 2016 (US$750m)	(b,n)	**382**	–	**382**	–
Callable Floating Rate Subordinated Notes 2016 (€1,250m)	(b,n)	**844**	–	**844**	–
Callable Floating Rate Subordinated Notes 2017 (US$500m)	(b,n)	**255**	292	**255**	292
10.125% Subordinated Notes 2017 (ex-Woolwich plc)	(k,n)	**113**	115	**113**	115
Floating Rate Subordinated Notes 2018 (€40m)	(b)	**27**	27	**27**	27
Floating Rate Subordinated Notes 2019 (€50m)	(b)	**32**	33	**32**	33
Callable Fixed/Floating Rate Subordinated Notes 2019 (€1,000m)	(l)	**696**	742	**696**	742
9.5% Subordinated Bonds 2021 (ex-Woolwich plc)	(a)	**290**	297	**290**	297
Subordinated Floating Rate Notes 2021 (€100m)	(b)	**66**	67	**66**	67
Subordinated Floating Rate Notes 2022 (€50m)	(b)	**34**	34	**34**	34
Subordinated Floating Rate Notes 2023 (€50m)	(b)	**34**	34	**34**	34
5.75% Fixed Rate Subordinated Notes 2026	(a)	**608**	631	**608**	631
5.4% Reverse Dual Currency Subordinated Loan 2027 (Yen 15,000m)	(m)	**66**	46	**66**	46
6.33% Subordinated Notes 2032	(a)	**50**	55	**50**	55
Subordinated Floating Rate Notes 2040 (€100m)	(b)	**67**	69	**67**	69
Other loans from subsidiaries		**–**	–	**321**	336
Barclays Bank SA, Spain (Barclays Spain)					
Subordinated Floating Rate Capital Notes 2011 (€50m)	(b)	**22**	27	**–**	–
Absa					
14.25% Subordinated Fixed Rate Callable Notes 2014 (ZAR 3,100m)	(f,n)	**269**	318	**–**	–
10.75% Subordinated Fixed Rate Callable Notes 2015 (ZAR 1,100m)	(g,n)	**89**	113	**–**	–
Subordinated Fixed Rate Callable Notes 2015 (ZAR 400m)	(h,n)	**29**	41	**–**	–
8.75% Subordinated Fixed Rate Callable Notes 2017 (ZAR 1,500m)	(i,n)	**113**	174	**–**	–
8.1% Subordinated Callable Notes 2020 (ZAR 2,000m)	(j,n)	**143**	–	**–**	–
Barclays Bank of Ghana Ltd (BBG)					
14% Fixed Rate BBG Subordinated Callable Notes 2016 (GHC 100,000m)	(a,n)	**6**	–	**–**	–
Dated loan capital – non-convertible		**8,339**	8,028	**7,989**	7,691

32 Subordinated liabilities (continued)

	Notes	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Convertible					
Barclays Bank of Botswana (BBB)					
Subordinated Unsecured Floating Rate Capital Notes 2014 (BWP 100m)	(n,o)	**9**	11	**–**	–
Barclays Bank Zambia PLC (Barclays Zambia)					
Subordinated Unsecured Floating Rate Capital Notes 2015 (ZMK 30,000m)	(n,p)	**5**	5	**–**	–
Absa					
Redeemable cumulative option-holding preference shares (ZAR 147m)	(q)	**11**	22	**–**	–
Total convertible		**25**	38	**–**	–
Repayable					
not more than one year		**–**	2	**–**	2
over one year but not more than five years		**1,147**	302	**1,114**	280
over five years		**7,217**	7,762	**6,875**	7,409
Total repayable		**8,364**	8,066	**7,989**	7,691

None of the Group's dated loan capital is secured. The debt obligations of the Bank, Barclays Spain, BBG, BBB, Barclays Zambia and Absa rank ahead of the interests of holders of their equity. Dated loan capital of the Bank, Barclays Spain, BBG,BBB, Barclays Zambia and Absa has been issued on the basis that the claims there under are subordinated to the respective claims of their depositors and other unsecured unsubordinated creditors.

Interest

Notes

(a) The interest rates on these Notes are fixed for the life of those issues.

(b) These Notes bear interest at rates fixed periodically in advance based on London or European interbank rates.

(c) These Notes bear interest at rates fixed periodically in advance based on Sydney Bill of exchange rates.

(d) These Notes bear a fixed rate of interest until 2008. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on London interbank rates.

(e) These Notes bear a fixed rate of interest until 2008. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Sydney Bill of exchange rates.

(f) These Notes bear a fixed rate of interest until 2009. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference rate for a further period of five years.

(g) These Notes bear a fixed rate of interest until 2010. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.

(h) These Notes bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.

(i) These Notes bear a fixed rate of interest until 2012. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.

(j) These Notes bear a fixed rate of interest until 2015. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on Johannesburg interbank acceptance rates.

(k) These Notes bear a fixed rate of interest until 2012. After that date, in the event that the Notes are not redeemed, the coupon will be reset to a fixed margin over a reference gilt rate for a further period of five years.

(l) These Notes bear a fixed rate of interest until 2014. After that date, in the event that the Notes are not redeemed, the Notes will bear interest at rates fixed periodically in advance based on European interbank rates.

(m) This Loan bears a fixed rate of interest based on a US Dollar principal amount, but the interest payments have been swapped, resulting in a Yen interest rate payable which is fixed periodically in advance based on London interbank rates.

(n) Repayable at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, some in whole or in part, and some only in whole.

(o) These Notes bear interest at rates fixed periodically in advance based on the Bank of Botswana Certificate Rate. All of these Notes will be compulsorily converted to Preference Shares of BBB, having a total par value equal in sum to the principal amount of Notes outstanding at the time of conversion, should BBB experience pre-tax losses in excess of its retained earnings and other capital surplus accounts.

(p) These Notes bear interest at rates fixed periodically in advance based on the Bank of Zambia Treasury Bill rate. All of these Notes will be compulsorily converted to Preference Shares of Barclays Zambia, having a total par value equal in sum to the principal amount of Notes outstanding at the time of conversion, should Barclays Zambia experience pre-tax losses in excess of its retained earnings and other capital surplus accounts.

(q) The dividends are compounded and payable semi-annually in arrears on 30th September and 31st March of each year. The shares were issued by Absa Group Limited on 1st July 2004 and the redemption dates commence on the first business day after the third anniversary of the date of issue of the redeemable preference shares and ending on the fifth anniversary of the date of issue. Such exercise and notice will be deemed to be effective only on the option exercise dates, being 1st March, 1st June, 1st September or 1st December of each year. The shares are convertible into ordinary shares at the option of the preference shareholders on the redemption dates in lots of 100.

32 Subordinated liabilities (continued)

The 7.4% Subordinated Notes 2009 (the '7.4% Notes') issued by the Bank have been registered under the US Securities Act of 1933. All other issues of dated loan capital by the Bank, Barclays Spain, BBG, BBB, Barclays Zambia and Absa, which were made in non-US markets, have not been so registered. With respect to the 7.4% Notes, the Bank is not obliged to make (i) a payment of interest on any interest payment date unless a dividend is paid on any class of share capital and (ii) a payment of principal until six months after the respective maturity date with respect to such Notes.

Repayment terms

Unless otherwise indicated, the Group's dated loan capital outstanding at 31st December 2006 is redeemable only on maturity, subject in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law or, in the case of BBB and Barclays Zambia to certain changes in legislation or regulations.

Any repayments prior to maturity require in the case of the Bank, the prior approval of the FSA, in the case of BBB, the prior approval of the Bank of Botswana, in the case of Barclays Zambia, the prior approval of the Bank of Zambia, and in the case of Absa, the prior approval of the South African Registrar of Banks.

There are no committed facilities in existence at the balance sheet date which permit the refinancing of debt beyond the date of maturity.

33 Provisions

The Group	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
At 1st January 2006	79	74	55	309	517
Exchange	(2)	2	–	(16)	(16)
Additions	45	180	35	159	419
Amounts used	(53)	(133)	(9)	(94)	(289)
Unused amounts reversed	(2)	(21)	(35)	(115)	(173)
Amortisation of discount	4	–	–	–	4
At 31st December 2006	71	102	46	243	462

The Bank	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
At 1st January 2006	76	53	54	145	328
Exchange	(2)	2	–	–	–
Additions	45	141	35	109	330
Amounts used	(53)	(92)	(9)	(83)	(237)
Unused amounts reversed	–	(19)	(35)	(28)	(82)
Amortisation of discount	4	–	–	–	4
At 31st December 2006	70	85	45	143	343

33 Provisions (continued)

The Group	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
At 1st January 2005	39	97	55	212	403
Acquisitions and disposals of subsidiaries	–	–	–	51	51
Exchange	–	–	–	7	7
Additions	63	196	20	170	449
Amounts used	(27)	(178)	–	(104)	(309)
Unused amounts reversed	–	(41)	(20)	(27)	(88)
Amortisation of discount	4	–	–	–	4
At 31st December 2005	79	74	55	309	517

The Bank	Onerous contracts £m	Redundancy and restructuring £m	Undrawn contractually committed facilities and guarantees provided £m	Sundry provisions £m	Total £m
At 1st January 2005	33	71	52	129	285
Exchange	–	–	–	(2)	(2)
Additions	66	148	17	120	351
Amounts used	(27)	(128)	–	(83)	(238)
Unused amounts reversed	–	(38)	(15)	(19)	(72)
Amortisation of discount	4	–	–	–	4
At 31st December 2005	76	53	54	145	328

Provisions expected to be recovered or settled for the Group within no more than 12 months after 31st December 2006 were £388m (2005: £360m).

Provisions expected to be recovered or settled for the Bank within no more than 12 months after 31st December 2006 were £333m (2005: £228m).

Sundry provisions are made with respect to commission clawbacks, warranties and litigation claims.

The Group has a restructuring programme, largely focused on activities within the UK, which involves the reshaping of the Group's operations through the centralisation of core processes, application of new technologies, and reduction of workforce. It is anticipated that the majority of the remaining provision will be utilised in 2007.

Redundancy and restructuring provisions are reported within operating expenses in the income statement.

34 Securitisations

During the year, the Group has engaged in securitisation transactions involving Barclays' residential mortgage loans, business loans and credit card balances. In addition, the Group acts as a conduit for commercial paper, whereby it acquires static pools of residential mortgage loans from other lending institutions for securitisation transactions.

In these transactions, the assets, or interests in the assets, or beneficial interests in the cash flows arising from the assets, are transferred to a special purpose entity, or to a trust, which then transfers its beneficial interests to a special purpose entity, which then issues floating rate debt securities to third party investors.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; partial continued recognition of the assets to the extent of the Group's continuing involvement in those assets; or derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Group transfers its both its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

The following table shows the carrying amount of securitised assets, stated at the amount of the Group's continuing involvement where appropriate, together with the associated liabilities, for each category of asset in the balance sheet:

	The Group			
	2006		2005	
	Carrying amount of assets £m	**Associated liabilities £m**	Carrying amount of assets £m	Associated liabilities £m
Loans and advances to customers (Note 15)				
Residential mortgage loans	**12,577**	**13,271**	6,779	6,861
Commercial loans	**6,081**	**5,558**	5,000	4,760
Credit card receivables	**5,700**	**5,195**	6,815	6,799
Total	**24,358**	**24,024**	18,594	18,420
Assets designated at fair value through profit or loss (Note 12)				
Retained interest in residential mortgage loans	**628**	**–**	175	–

	The Bank			
	2006		2005	
	Carrying amount of assets £m	**Associated liabilities £m**	Carrying amount of assets £m	Associated liabilities £m
Loans and advances to customers (Note 15)				
Residential mortgage loans	**12,577**	**13,271**	6,779	6,861
Commercial loans	**5,000**	**4,458**	5,000	4,760
Credit card receivables	**5,700**	**5,195**	6,815	6,799
Total	**23,277**	**22,924**	18,594	18,420
Assets designated at fair value through profit or loss (Note 12)				
Retained interest in residential mortgage loans	**628**	**–**	175	–

Retained interests in residential mortgage loans includes interest only strips which represent a continuing exposure to the prepayment and credit risk in the underlying securitised assets the total amount of which was £15,063m (2005: £6,291m) for the Group and £15,063m (2005: £6,291m) for the Bank. These are initially recorded as an allocation of the original carrying amount based on the relative fair values of the portion derecognised and the portion retained.

35 Retirement benefit obligations

Pension schemes

The UK Retirement Fund (UKRF), which is the main scheme of the Group, amounting to 91% of all the Group's schemes in terms of benefit obligations, comprises five sections.

The 1964 Pension Scheme

Most employees recruited before July 1997 are members of this non-contributory defined benefit scheme. Pensions are calculated by reference to service and pensionable salary and are normally subject to a deduction from State pension age.

The Retirement Investment Scheme (RIS)

A defined contribution plan for most joiners between July 1997 and 1st October 2003. This was closed to new entrants on 1st October 2003 and the large majority of existing members of the RIS transferred to **after**work in respect of future benefit accrual with effect from 1st January 2004. There are now no longer any active members of the RIS.

The Pension Investment Plan (PIP)

A defined contribution plan created from 1st July 2001 to provide benefits for certain employees of Barclays Capital.

afterwork

Combines a contributory cash balance element with a voluntary defined contribution element. New employees since 1st October 2003 are eligible to join **after**work. In addition, the large majority of active members of the RIS (now closed) were transferred to **after**work in respect of future benefit accrual after 1st January 2004.

Career Average Section (Career Average)

The Career Average Section was established in the UKRF with effect from 1st May 2004 following the transfer of members from the Woolwich Pension Fund. The Career Average Section is a non-contributory career average scheme and was closed to new entrants on 1st December 2006.

In addition, the costs of ill-health retirements and death in service benefits are generally borne by the UKRF for each of the five sections.

Governance

The assets of the UKRF are held separately from the assets of the Group and are administered by trustees.

Barclays Pension Fund Trustees Ltd (BPFTL) acts as corporate trustee for the UKRF. BPFTL is a private limited company, incorporated on 20th December 1990, and is a subsidiary of Barclays Bank PLC.

As the corporate trustee for the UKRF, BPFTL is the legal owner of the assets of the UKRF and BPFTL holds these assets in trust for the beneficiaries of the scheme.

BPFTL comprises nine Directors, of which six are Employer Directors selected by the Bank and three are Employee Directors nominated by the Pension Fund Advisory Committee (PFAC). Employee Directors are selected from those eligible active employees and pensioner members who apply to be considered for the role.

Employee Director vacancies are advertised to all eligible active and pensioner members. This enables any eligible member with an interest in becoming an Employee Director to express that interest and be considered for the role. The PFAC provides the mechanism through which Employee Directors are selected. The PFAC will accept nominations from eligible members and select from amongst all properly nominated candidates.

There are also three Alternate Employer Directors and three Alternate Employee Directors, the selection process for these appointments are as detailed above. The role of alternate directors is to provide cover for individual directors, should they not be available for meetings.

Currently, the Bank, after consulting with the trustees, decides the funding rate. Under the Pensions Act 2004, which has practical impact for the UKRF from its next triennial valuation due in September 2007, the Bank and the trustee must agree the funding rate (including a recovery plan to fund any deficit against the scheme specific statutory funding objective).

In addition to the UKRF, there are other defined benefit and defined contribution schemes in the UK and overseas.

The same approach to pensions governance applies to the other schemes in the UK but different legislation covers schemes outside of the UK where in most cases the Bank has the power to determine the funding rate.

35 Retirement benefit obligations (continued)

The following tables present an analysis of defined benefit obligation and fair value of plan assets for all the Group's pension schemes and post-retirement benefits (the latter are unfunded) and present the amounts recognised in the income statement including those related to post-retirement healthcare.

Income statement charge

	2006			2005			2004		
The Group	**Pensions £m**	**Other post-retirement benefits £m**	**Total £m**	Pensions £m	Other post-retirement benefits £m	Total £m	Pensions £m	Other post-retirement benefits £m	Total £m
Staff cost charge									
Current service cost	**378**	**21**	**399**	348	22	370	330	20	350
Interest cost	**900**	**8**	**908**	853	4	857	772	6	778
Expected return on scheme assets	**(999)**	**–**	**(999)**	(898)	–	(898)	(834)	–	(834)
Recognised actuarial loss	**3**	**1**	**4**	4	–	4	–	3	3
Past service cost	**29**	**–**	**29**	13	1	14	1	–	1
Curtailment or settlements	**(29)**	**–**	**(29)**	(49)	–	(49)	(34)	–	(34)
Total included in staff costs	**282**	**30**	**312**	271	27	298	235	29	264

Staff costs are included in other operating expenses.

Change in benefit obligation

	2006					2005				
	Pensions		**Post-retirement benefits**		**Total**	Pensions		Post-retirement benefits		Total
The Group	**UK £m**	**Overseas £m**	**UK £m**	**Overseas £m**	**£m**	UK £m	Overseas £m	UK £m	Overseas £m	£m
Benefit obligation at beginning of the year	**(18,149)**	**(938)**	**(103)**	**(79)**	**(19,269)**	(15,494)	(522)	(80)	(65)	(16,161)
Current service cost	**(358)**	**(20)**	**(20)**	**(1)**	**(399)**	(332)	(16)	(18)	(4)	(370)
Interest cost	**(863)**	**(37)**	**(4)**	**(4)**	**(908)**	(822)	(31)	(3)	(1)	(857)
Past service cost	**(4)**	**(25)**	**–**	**–**	**(29)**	(12)	(1)	–	(1)	(14)
Curtailments or settlements	**43**	**2**	**–**	**–**	**45**	58	3	–	–	61
Actuarial (loss)/gain	**1,566**	**15**	**11**	**(3)**	**1,589**	(2,024)	(28)	(18)	(4)	(2,074)
Contributions by plan participants	**(15)**	**(2)**	**–**	**–**	**(17)**	(13)	(2)	–	–	(15)
Benefits paid	**536**	**40**	**19**	**4**	**599**	490	24	16	5	535
Business combinations	**–**	**11**	**–**	**–**	**11**	–	(335)	–	–	(335)
Exchange and other adjustments	**(12)**	**60**	**–**	**7**	**55**	–	(30)	–	(9)	(39)
Benefit obligation at end of the year	**(17,256)**	**(894)**	**(97)**	**(76)**	**(18,323)**	(18,149)	(938)	(103)	(79)	(19,269)

35 Retirement benefit obligations (continued)

Change in benefit obligation (continued)

The Bank	2006 Pensions UK £m	2006 Pensions Overseas £m	2006 Post-retirement benefits UK £m	2006 Post-retirement benefits Overseas £m	2006 Total £m	2005 Pensions UK £m	2005 Pensions Overseas £m	2005 Post-retirement benefits UK £m	2005 Post-retirement benefits Overseas £m	2005 Total £m
Benefit obligation at beginning of the year	**(17,812)**	**(202)**	**(53)**	**(21)**	**(18,088)**	(15,172)	(161)	(40)	(14)	(15,387)
Current service cost	**(352)**	**(8)**	**(20)**	**–**	**(380)**	(320)	(9)	(17)	(1)	(347)
Interest cost	**(847)**	**(10)**	**(4)**	**(1)**	**(862)**	(807)	(9)	–	(1)	(817)
Past service cost	**(4)**	**–**	**–**	**–**	**(4)**	(12)	–	–	–	(12)
Curtailments or settlements	**45**	**–**	**–**	**–**	**45**	58	3	–	–	61
Actuarial (loss)/gain	**1,556**	**5**	**(3)**	**(3)**	**1,555**	(2,004)	(17)	(13)	(3)	(2,037)
Contributions by plan participants	**(15)**	**–**	**–**	**–**	**(15)**	(13)	–	–	–	(13)
Benefits paid	**527**	**6**	**17**	**4**	**554**	482	6	17	–	505
Business combinations	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Exchange and other adjustments	**(10)**	**18**	**(25)**	**3**	**(14)**	(24)	(15)	–	(2)	(41)
Benefit obligation at end of the year	**(16,912)**	**(191)**	**(88)**	**(18)**	**(17,209)**	(17,812)	(202)	(53)	(21)	(18,088)

The benefit obligation arises from plans that are wholly unfunded and wholly or partly funded as follows:

	The Group 2006 £m	The Group 2005 £m	The Bank 2006 £m	The Bank 2005 £m
Unfunded obligations	**(237)**	(224)	**(186)**	(125)
Wholly or partly funded obligations	**(18,086)**	(19,045)	**(17,023)**	(17,963)
Total	**(18,323)**	(19,269)	**(17,209)**	(18,088)

35 Retirement benefit obligations (continued)

Change in plan assets

	2006					2005				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
The Group	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
Fair value of plan assets at beginning of the year	15,571	819	–	–	16,390	13,261	436	–	–	13,697
Expected return on plan assets	965	34	–	–	999	867	31	–	–	898
Employer contribution	357	26	2	4	389	358	11	1	3	373
Settlements	(11)	(2)	–	–	(13)	(7)	–	–	–	(7)
Contributions by plan participants	15	2	–	–	17	13	2	–	–	15
Actuarial gain/(loss)	423	25	–	–	448	1,599	2	–	–	1,601
Benefits paid	(536)	(30)	(2)	(4)	(572)	(490)	(24)	(1)	(3)	(518)
Business combinations	–	–	–	–	–	–	335	–	–	335
Exchange and other adjustments	(23)	(129)	–	–	(152)	(30)	26	–	–	(4)
Fair value of plan assets at the end of the year	16,761	745	–	–	17,506	15,571	819	–	–	16,390

	2006					2005				
	Pensions		Post-retirement benefits		Total	Pensions		Post-retirement benefits		Total
The Bank	UK £m	Overseas £m	UK £m	Overseas £m	£m	UK £m	Overseas £m	UK £m	Overseas £m	£m
Fair value of plan assets at beginning of the year	15,305	122	–	–	15,427	13,034	103	–	–	13,137
Expected return on plan assets	945	8	–	–	953	851	7	–	–	858
Employer contribution	351	11	1	4	367	354	4	1	–	359
Settlements	(11)	–	–	–	(11)	(7)	–	–	–	(7)
Contributions by plan participants	15	–	–	–	15	13	–	–	–	13
Actuarial gain/(loss)	417	4	–	–	421	1,571	3	–	–	1,574
Benefits paid	(527)	(6)	(1)	(4)	(538)	(482)	(6)	(1)	–	(489)
Business combinations	–	–	–	–	–	–	–	–	–	–
Exchange and other adjustments	(35)	(4)	–	–	(39)	(29)	11	–	–	(18)
Fair value of plan assets at the end of the year	16,460	135	–	–	16,595	15,305	122	–	–	15,427

35 Retirement benefit obligations (continued)

Amounts recognised on balance sheet

The pension and post-retirement benefit assets and liabilities recognised on the balance sheet are as follows:

The Group	**2006 Pensions UK £m**	**2006 Pensions Overseas £m**	**2006 Post-retirement benefits UK £m**	**2006 Post-retirement benefits Overseas £m**	**2006 Total £m**	2005 Pensions UK £m	2005 Pensions Overseas £m	2005 Post-retirement benefits UK £m	2005 Post-retirement benefits Overseas £m	2005 Total £m
Benefit obligation at end of period	**(17,256)**	**(894)**	**(97)**	**(76)**	**(18,323)**	(18,149)	(938)	(103)	(79)	(19,269)
Fair value of plan assets at end of period	**16,761**	**745**	**–**	**–**	**17,506**	15,571	819	–	–	16,390
Net deficit	**(495)**	**(149)**	**(97)**	**(76)**	**(817)**	(2,578)	(119)	(103)	(79)	(2,879)
Unrecognised actuarial (gains)/losses	**(953)**	**20**	**17**	**14**	**(902)**	1,039	63	29	11	1,142
Unrecognised past service cost	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Net recognised liability	**(1,448)**	**(129)**	**(80)**	**(62)**	**(1,719)**	(1,539)	(56)	(74)	(68)	(1,737)
Recognised assets	**53**	**35**	**–**	**–**	**88**	52	34	–	–	86
Recognised liability	**(1,501)**	**(164)**	**(80)**	**(62)**	**(1,807)**	(1,591)	(90)	(74)	(68)	(1,823)
Net recognised liability	**(1,448)**	**(129)**	**(80)**	**(62)**	**(1,719)**	(1,539)	(56)	(74)	(68)	(1,737)

The Bank	**2006 Pensions UK £m**	**2006 Pensions Overseas £m**	**2006 Post-retirement benefits UK £m**	**2006 Post-retirement benefits Overseas £m**	**2006 Total £m**	2005 Pensions UK £m	2005 Pensions Overseas £m	2005 Post-retirement benefits UK £m	2005 Post-retirement benefits Overseas £m	2005 Total £m
Benefit obligation at end of period	**(16,912)**	**(191)**	**(88)**	**(18)**	**(17,209)**	(17,812)	(202)	(53)	(21)	(18,088)
Fair value of plan assets at end of period	**16,460**	**135**	**–**	**–**	**16,595**	15,305	122	–	–	15,427
Net deficit	**(452)**	**(56)**	**(88)**	**(18)**	**(614)**	(2,507)	(80)	(53)	(21)	(2,661)
Unrecognised actuarial (gains)/losses	**(950)**	**15**	**17**	**8**	**(910)**	1,026	25	15	5	1,071
Unrecognised past service cost	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Net recognised liability	**(1,402)**	**(41)**	**(71)**	**(10)**	**(1,524)**	(1,481)	(55)	(38)	(16)	(1,590)
Recognised assets	**53**	**7**	**–**	**–**	**60**	52	5	–	–	57
Recognised liability	**(1,455)**	**(48)**	**(71)**	**(10)**	**(1,584)**	(1,533)	(60)	(38)	(16)	(1,647)
Net recognised liability	**(1,402)**	**(41)**	**(71)**	**(10)**	**(1,524)**	(1,481)	(55)	(38)	(16)	(1,590)

The UKRF deficit measured using the IAS 19 assumptions has decreased over the year from £2.5bn at 31st December 2005 to £0.5bn at 31st December 2006. Among the reasons for this change were greater than expected returns on assets and an increase in AA long-term corporate bond yields which resulted in a higher discount rate of 5.12% (31st December 2005: 4.83%), partially offset by an increase in the inflation assumption to 3.08% (31st December 2005: 2.75%). A number of additional changes were made to the assumptions used in valuing the liabilities, including a decrease in the assumed rate of real salary increases to 1% (31st December 2005: 1.55%), a change in the assumption regarding pension increases to recognise the caps and floors which apply to guaranteed pension increases, and the introduction of an explicit allowance for early retirement and commutation. Mortality assumptions remain unchanged from those in force at 31st December 2005.

The Group operates a number of schemes that are insured with third-party insurers. Reimbursement rights of £60m in relation to these schemes have been included within Other Assets. The present value of the benefits payable under these schemes is £60m and has been included within the net pension liability recognised on the balance sheet.

The IAS 19 pension surplus of the Absa Group Pension Fund as at 31st December 2006 was £60m (2005: £90m). A net IAS 19 liability of £nil (2005: £nil) has been recognised on the Group balance sheet (consisting of £286m defined benefit obligation (2005: £335m) and £286m fair value of plan assets (2005: £335m)). These balances are not recognised in the financial statements of the Absa Group Limited in accordance with South African legislative requirements.

35 Retirement benefit obligations (continued)

Assumptions

Obligations arising under defined benefit schemes are actuarially valued using the projected unit credit method. Under this method, where a defined benefit scheme is closed to new members, such as in the case of the 1964 Pension Scheme, the current service cost expressed as a percentage of salary is expected to increase in the future, although this higher rate will be applied to a decreasing payroll. The latest actuarial IAS 19 valuations were carried out as at 31st December using the following assumptions:

	UK schemes		Overseas schemes	
The Group	**2006 % p.a.**	2005 % p.a.	**2006 % p.a.**	2005 % p.a.
Discount rate	**5.12**	4.83	**6.94**	7.42
Rate of increase in salaries	**4.08**	4.30	**5.66**	5.93
Inflation rate	**3.08**	2.75	**3.94**	4.11
Rate of increase for pensions in payment	**2.88**	2.75	**3.58**	3.66
Rate of increase for pensions in deferment	**3.08**	2.75	**2.24**	2.97
Initial health care inflation	**8.93**	10.00	**9.93**	10.87
Long-term health care inflation	**5.00**	5.00	**5.00**	5.03
Expected return on plan assets	**6.32**	6.30	**7.89**	8.58

	UK schemes		Overseas schemes	
The Bank	**2006 % p.a.**	2005 % p.a.	**2006 % p.a.**	2005 % p.a.
Discount rate	**5.12**	4.83	**5.62**	5.11
Rate of increase in salaries	**4.08**	4.30	**4.25**	4.32
Inflation rate	**3.08**	2.75	**2.24**	2.24
Rate of increase for pensions in payment	**2.88**	2.75	**1.75**	1.75
Rate of increase for pensions in deferment	**3.08**	2.75	**0.79**	1.73
Initial health care inflation	**9.00**	10.00	**9.99**	7.50
Long-term health care inflation	**5.00**	5.00	**5.01**	7.50
Expected return on plan assets	**6.30**	6.28	**6.41**	6.39

The expected return on plan assets assumption is weighted on the basis of the fair value of these assets. Health care inflation assumptions are weighted on the basis of the healthcare cost for the period. All other assumptions are weighted on the basis of the defined benefit obligation at the end of the period.

The UK Schemes discount rate assumption is based on the yield on the iBoxx (over 15 year) AA corporate bond index.

The overseas health care inflation assumptions relate to the US and Mauritius.

35 Retirement benefit obligations (continued)

Mortality assumptions

The post-retirement mortality assumptions used in valuing the liabilities of the UKRF were based on the standard tables PA92 as published by the Institute and Faculty of Actuaries. These tables are considered to be most relevant to the population of the UKRF based on their mortality history. These were then adjusted in line with both current industry experience and the actual experience of the UKRF's own pensioners relative to the standard table. An allowance has been made for future mortality improvements based on the medium cohort projections published by the CMIB. On this basis the post-retirement mortality assumptions for the UKRF are as follows:

	2006	2005	2004	2003
Longevity at 60 for current pensioners (years)				
– Males	**25.8**	25.8	25.7	23.3
– Females	**29.5**	29.5	29.4	26.4
Longevity at 60 for future pensioners currently aged 40 (years)				
– Males	**27.1**	27.1	27.0	24.9
– Females	**30.7**	30.6	30.6	27.9

Sensitivity analysis

Sensitivity analysis for each of the principal assumptions used to measure the benefit obligation of the UKRF are as follows:

	Impact on UKRF benefit obligation	
	(Decrease)/ Increase %	(Decrease)/ Increase £bn
0.5% increase to:		
– Discount rate	(10.5)	(1.8)
– Rate of inflation	10.0	1.7
– Rate of salary growth	2.3	0.4
1 year increase to longevity at 60	2.4	0.4

Post-retirement health care

A one percentage point change in assumed health care trend rates, assuming all other assumptions remain constant would have the following effects for 2006:

The Group	**1% increase £m**	**1% decrease £m**
Effect on total of service and interest cost components	**1.7**	**(1.4)**
Effect on post-retirement benefit obligation	**22.1**	**(18.7)**

The Bank	**1% increase £m**	**1% decrease £m**
Effect on total of service and interest cost components	**1.4**	**(1.1)**
Effect on post-retirement benefit obligation	**16.0**	**(13.4)**

35 Retirement benefit obligations (continued)

Assets

A long-term strategy has been set for the asset allocation of the UKRF which comprises a mixture of equities, bonds, property and other appropriate assets. This recognises that different asset classes are likely to produce different long-term returns and some asset classes may be more volatile than others.

The long-term strategy ensures that investments are adequately diversified. Asset managers are permitted some flexibility to vary the asset allocation from the long-term strategy within control ranges agreed with the trustee from time to time.

The UKRF also employs derivative instruments, where appropriate, to achieve a desired exposure or return, or to match assets more closely to liabilities.

The value of the assets of the schemes, their percentage in relation to total scheme assets, and their expected rate of return at 31st December 2006 and 31st December 2005 were as follows:

	2006								
	UK schemes			**Overseas schemes**			**Total**		
The Group	**Value £m**	**% of total fair value of scheme assets**	**Expected rate of return %**	**Value £m**	**% of total fair value of scheme assets**	**Expected rate of return %**	**Value £m**	**% of total fair value of scheme assets**	**Expected rate of return %**
UK equities	**2,099**	**12.5**	**7.9**	**13**	**1.7**	**7.4**	**2,112**	**12.0**	**7.9**
US equities	**1,815**	**10.8**	**7.9**	**86**	**11.5**	**7.4**	**1,901**	**10.9**	**7.9**
Other equities	**3,371**	**20.1**	**7.9**	**238**	**32.0**	**10.0**	**3,609**	**20.6**	**8.0**
UK government bonds	**3,309**	**19.8**	**4.4**	**–**	**–**	**–**	**3,309**	**18.9**	**4.4**
UK corporate bonds	**2,134**	**12.7**	**4.9**	**–**	**–**	**–**	**2,134**	**12.2**	**4.9**
Other bonds	**1,487**	**8.9**	**4.9**	**300**	**40.3**	**6.2**	**1,787**	**10.3**	**5.1**
Property	**1,995**	**11.9**	**6.4**	**15**	**2.0**	**13.4**	**2,010**	**11.5**	**6.5**
Derivatives[(a)]	**21**	**0.1**	**n/a**	**–**	**–**	**–**	**21**	**0.1**	**n/a**
Cash	**293**	**1.8**	**4.6**	**37**	**5.0**	**5.9**	**330**	**1.9**	**4.8**
Other	**237**	**1.4**	**5.9**	**56**	**7.5**	**9.4**	**293**	**1.6**	**6.6**
Fair value of plan assets[(b)]	**16,761**	**100**	**6.3**	**745**	**100**	**7.9**	**17,506**	**100**	**6.4**

	2005								
	UK schemes			Overseas schemes			Total		
The Group	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %	Value £m	% of total fair value of scheme assets	Expected rate of return %
UK equities	2,782	17.9	7.9	13	1.6	7.8	2,795	17.1	7.9
US equities	1,734	11.1	7.9	90	11.0	7.8	1,824	11.1	7.9
Other equities	3,007	19.3	7.9	228	27.8	11.6	3,235	19.7	8.2
UK government bonds	2,729	17.6	4.0	–	–	–	2,729	16.7	4.0
UK corporate bonds	1,827	11.7	4.6	–	–	–	1,827	11.1	4.6
Other bonds	899	5.7	4.6	343	41.9	7.0	1,242	7.6	5.3
Property	1,678	10.8	6.2	16	2.0	15.3	1,694	10.3	6.3
Derivatives[(a)]	1	–	n/a	10	1.2	n/a	11	0.1	n/a
Cash	755	4.8	4.0	33	4.0	4.4	788	4.8	4.0
Other	159	1.1	5.5	86	10.5	7.7	245	1.5	6.3
Fair value of plan assets[(b)]	15,571	100	6.3	819	100	8.6	16,390	100	6.4

Notes

(a) The expected return by asset class is based on the portfolio of assets, after considering the net impact of derivatives with a notional of £1,565m (2005: £281m).

(b) Excludes £613m (2005: £512m) representing the money purchase assets of the UKRF.

35 Retirement benefit obligations (continued)

The Bank	2006 UK schemes Value £m	% of total fair value of scheme assets	Expected rate of return %	Overseas schemes Value £m	% of total fair value of scheme assets	Expected rate of return %	Total Value £m	% of total fair value of scheme assets	Expected rate of return %
UK equities	**1,953**	**11.9**	**7.9**	**6**	**4.4**	**7.2**	**1,959**	**11.8**	**7.9**
US equities	**1,796**	**10.9**	**7.9**	**31**	**23.0**	**7.4**	**1,827**	**11.0**	**7.9**
Other equities	**3,316**	**20.2**	**7.9**	**23**	**17.1**	**7.5**	**3,339**	**20.1**	**7.9**
UK government bonds	**3,282**	**19.9**	**4.4**	**–**	**–**	**–**	**3,282**	**19.8**	**4.4**
UK corporate bonds	**2,108**	**12.8**	**4.9**	**–**	**–**	**–**	**2,108**	**12.7**	**4.9**
Other bonds	**1,487**	**8.9**	**4.9**	**53**	**39.3**	**5.7**	**1,540**	**9.4**	**4.9**
Property	**1,981**	**12.0**	**6.4**	**2**	**1.5**	**7.8**	**1,983**	**11.9**	**6.4**
Derivatives[a]	**21**	**0.1**	**n/a**	**–**	**–**	**–**	**21**	**0.1**	**n/a**
Cash	**290**	**1.8**	**4.6**	**11**	**8.1**	**3.4**	**301**	**1.8**	**4.5**
Other	**226**	**1.5**	**5.9**	**9**	**6.6**	**6.6**	**235**	**1.4**	**5.9**
Fair value of plan assets[b]	**16,460**	**100**	**6.3**	**135**	**100**	**6.4**	**16,595**	**100**	**6.3**

The Bank	2005 UK schemes Value £m	% of total fair value of scheme assets	Expected rate of return %	Overseas schemes Value £m	% of total fair value of scheme assets	Expected rate of return %	Total Value £m	% of total fair value of scheme assets	Expected rate of return %
UK equities	2,658	17.4	7.9	5	4.1	7.6	2,663	17.3	7.9
US equities	1,710	11.2	7.9	29	23.8	7.9	1,739	11.3	7.9
Other equities	2,956	19.3	7.9	22	18.0	7.8	2,978	19.3	7.9
UK government bonds	2,706	17.7	4.0	–	–	–	2,706	17.5	4.0
UK corporate bonds	1,803	11.8	4.6	–	–	–	1,803	11.7	4.6
Other bonds	898	5.8	4.6	52	42.7	4.9	950	6.1	4.6
Property	1,671	10.9	6.2	2	1.6	7.6	1,673	10.8	6.2
Derivatives[a]	1	–	n/a	2	1.6	n/a	3	–	n/a
Cash	753	4.9	4.0	4	3.3	3.6	757	4.9	4.0
Other	149	1.0	5.5	6	4.9	8.2	155	1.1	5.6
Fair value of plan assets[b]	15,305	100	6.3	122	100	6.4	15,427	100	6.3

The UKRF plan assets include £27m relating to UK private equity investments (2005: £53m) and £447m relating to overseas private equity investments (2005: £280m). These are disclosed within UK equities and Other equities respectively.

Amounts included in the Group fair value of plan assets include £7m (2005: £4m) relating to shares in Barclays Group, £10m (2005: £1m) relating to bonds issued by the Barclays Group, £1m (2005: £nil) relating to other investments in the Barclays Group, and £8m (2005: £5m) relating to property occupied by Group companies.

Amounts included in the Bank fair value of plan assets include £1m (2005: £1m) relating to property occupied by Bank companies.

The expected return on assets is determined by calculating a total return estimate based on weighted average estimated returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums.

The Group actual return on plan assets was £1,447m (2005: £2,499m). The Bank actual return on plan assets was £1,374m (2005: £2,432m).

Notes

(a) The expected return by asset class is based on the portfolio of assets, after considering the net impact of derivatives with a notional of £1,565m (2005: £281m).

(b) Excludes £613m (2005: £512m) representing the money purchase assets of the UKRF.

35 Retirement benefit obligations (continued)

Actuarial gains and losses

The actuarial gains and losses arising on plan liabilities and plan assets are as follows:

	UK schemes			Overseas schemes			Total		
The Group	**2006 £m**	2005 £m	2004 £m	**2006 £m**	2005 £m	2004 £m	**2006 £m**	2005 £m	2004 £m
Present value of obligations	**(17,353)**	(18,252)	(15,574)	**(970)**	(1,017)	(587)	**(18,323)**	(19,269)	(16,161)
Fair value of plan assets	**16,761**	15,571	13,261	**745**	819	436	**17,506**	16,390	13,697
Net deficit in the plans	**(592)**	(2,681)	(2,313)	**(225)**	(198)	(151)	**(817)**	(2,879)	(2,464)
Actuarial (losses)/gains									
– arising on benefit obligation	**1,577**	(2,042)	(1,204)	**12**	(32)	(62)	**1,589**	(2,074)	(1,266)
– arising on benefit obligation (% of plan liabilities)	**9%**	11%	8%	**1%**	3%	11%	**9%**	11%	8%
Actuarial gains									
– arising on plan assets	**423**	1,599	570	**25**	2	9	**448**	1,601	579
– arising on plan assets (% of plan assets)	**3%**	10%	4%	**3%**	–	2%	**3%**	10%	4%

	UK schemes			Overseas schemes			Total		
The Bank	**2006 £m**	2005 £m	2004 £m	**2006 £m**	2005 £m	2004 £m	**2006 £m**	2005 £m	2004 £m
Present value of obligations	**(17,000)**	(17,865)	(15,212)	**(209)**	(223)	(175)	**(17,209)**	(18,088)	(15,387)
Fair value of plan assets	**16,460**	15,305	13,034	**135**	122	103	**16,595**	15,427	13,137
Net deficit in the plans	**(540)**	(2,560)	(2,178)	**(74)**	(101)	(72)	**(614)**	(2,661)	(2,250)
Actuarial (losses)/gains									
– arising on benefit obligation	**1,553**	(2,017)	(1,164)	**2**	(20)	(19)	**1,555**	(2,037)	(1,183)
– arising on benefit obligation (% of plan liabilities)	**9%**	11%	8%	**1%**	9%	11%	**9%**	11%	8%
Actuarial gains									
– arising on plan assets	**417**	1,571	565	**4**	3	5	**421**	1,574	570
– arising on plan assets (% of plan assets)	**3%**	10%	4%	**3%**	2%	5%	**3%**	10%	4%

Funding

The most recent triennial funding valuation of the UK Retirement Fund was performed in September 2004 and forms the basis of the Group's commitment that the fund has sufficient assets to make payments to members in respect of their accrued benefits as and when they fall due. This funding valuation uses a discount rate that reflects the assumed future return from the actual asset allocation at that date, and takes into account projected future salary increases when assessing liabilities arising from accrued service. The funding valuation is updated annually on the basis of interim assumptions. The UK Retirement Fund recorded a funding surplus of £1.3bn as at 31st December 2006 (2005: £0.9bn).

The Group has agreed funding contributions which, in aggregate, are no less than those which are sufficient to meet the Group's share of the cost of benefits accruing over each year. The Group has, in the recent past, chosen to make funding contributions in excess of this, more consistent with the IAS service cost.

Defined benefit contributions paid with respect to the UKRF were as follows:

	£m
Contributions paid	
2004	255
2005	354
2006	351

In 2007 the Group will follow the same funding approach and expects to make a contribution to the UKRF of no less that £263m as per the schedule of contributions agreed with the Trustee. The next triennial valuation will be performed in September 2007. To comply with the requirements of the Pensions Act 2004, the Group and trustees plan to agree a scheme-specific funding target, statement of funding principles, and a schedule of contributions which in 2008 will supersede those in place under the current actuarial funding valuation.

Excluding the UKRF, the Group is expected to pay contributions of approximately £7m to UK schemes and £44m to overseas schemes in 2007. Excluding the UKRF, the Bank is expected to pay contributions of approximately £2m to UK schemes and £13m to overseas schemes in 2007.

The Pensions Protection Fund (PPF) solvency ratio[a] for the main UK scheme as at 31st December 2006 was estimated to be 121% (31st December 2005: 110%).

Note
(a) The PPF solvency ratio represents the funds assets as a percentage of pension liabilities calculated using a section 179 valuation model.

36 Ordinary shares, share premium and preference shares

Called up share capital

Ordinary shares

The authorised ordinary share capital of the Bank, as at 31st December 2006, was 3,000 million (2005: 3,000 million) ordinary shares of £1 each.

During the year, the Bank issued 11 million ordinary shares with an aggregate nominal value of £11m, for cash consideration of £179m.

Preference shares

The authorised preference share capital of Barclays Bank PLC, as at 31st December 2006, was 1,000 Preference Shares (2005: 1,000) of £1; 400,000 Preference Shares of €100 each (2005: 400,000); 400,000 Preference Shares of £100 each (2005: 400,000); 400,000 Preference Shares of US$100 each (2005: 400,000); 80 million Preference Shares of US$0.25 each (2005: 80 million).

The issued preference share capital of Barclays Bank PLC, as at 31st December 2006, comprised 1,000 (2005: 1,000) Sterling £1 Preference Shares of £1 each; 240,000 (2005: 240,000) Euro Preference Shares of €100 each; 75,000 (2005: 75,000) Sterling Preference Shares of £100 each; 100,000 (2005: 100,000) US Dollar Preference Shares of US$100 each; 30 million (2005: nil) US Dollar Preference Shares of US$0.25 each.

	2006 £m	2005 £m
Called up share capital, allotted and fully paid		
At beginning of year	2,318	2,309
Issued for cash	11	9
At end of year	**2,329**	2,318
Called up preference share capital, allotted and fully paid		
At beginning of year	30	7
Issued for cash	4	23
At end of year	**34**	30
Called up share capital	**2,363**	2,348

Share premium

	2006 £m	2005 £m
At beginning of year	**8,882**	6,531
Ordinary shares issued for cash	168	126
Preference shares issued for cash	402	2,225
At end of year	**9,452**	8,882

Sterling £1 preference shares

1,000 Sterling cumulative callable preference shares of £1 each (the '£1 Preference Shares') were issued on 31st December 2004 at nil premium.

The £1 Preference Shares entitle the holders thereof to receive sterling cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a rate reset semi-annually equal to the sterling interbank offered rate for six-month sterling deposits.

Barclays Bank PLC shall be obliged to pay such dividends if (1) it has profits available for the purpose of distribution under the Companies Act 1985 as at each dividend payment date and (2) it is solvent on the relevant dividend payment date, provided that a capital regulations condition is satisfied on such dividend payment date. The dividends shall not be due and payable on the relevant dividend payment date except to the extent that Barclays Bank PLC could make such payment and still be solvent immediately thereafter. Barclays Bank PLC shall be considered solvent on any date if (1) it is able to pay its debts to senior creditors as they fall due and (2) its auditors have reported within the previous six months that its assets exceed its liabilities.

If Barclays Bank PLC shall not pay, or shall pay only in part, a dividend for a period of seven days or more after the due date for payment, the holders of the £1 Preference Shares may institute proceedings for the winding-up of Barclays Bank PLC. No remedy against Barclays Bank PLC shall be available to the holder of any £1 Preference Shares for the recovery of amounts owing in respect of £1 Preference Shares other than the institution of proceedings for the winding-up of Barclays Bank PLC and/or proving in such winding-up.

36 Ordinary shares, share premium and preference shares (continued)

On a winding-up or other return of capital (other than a redemption or purchase by Barclays Bank PLC of any of its issued shares, or a reduction of share capital, permitted by the Articles of Barclays Bank PLC and under applicable law), the assets of Barclays Bank PLC available to shareholders shall be applied in priority to any payment to the holders of ordinary shares and any other class of shares in the capital of Barclays Bank PLC then in issue ranking junior to the £1 Preference Shares on such a return of capital and pari passu on such a return of capital with the holders of any other class of shares in the capital of Barclays Bank PLC then in issue (other than any class of shares in the capital of Barclays Bank PLC then in issue ranking in priority to the £1 Preference Shares on a winding-up or other such return of capital), in payment to the holders of the £1 Preference Shares of a sum equal to the aggregate of: (1) an amount equal to the dividends accrued thereon for the then current dividend period (and any accumulated arrears thereof) to the date of the commencement of the winding-up or other such return of capital; and (2) an amount equal to £1 per £1 Preference Share.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the £1 Preference Shares will have no right or claim to any of the remaining assets of Barclays Bank PLC and will not be entitled to any further participation in such return of capital. The £1 Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, subject to the Companies Act and its Articles. Holders of the £1 Preference Shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC.

Euro Preference Shares

100,000 euro 4.875% non-cumulative callable preference shares of €100 each (the '4.875% Preference Shares') were issued on 8th December 2004 for a consideration of €993.6m (£688.4m), of which the nominal value was €10m and the balance was share premium. The 4.875% Preference Shares entitle the holders thereof to receive euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.875% per annum on the amount of €10,000 per preference share until 15th December 2014, and thereafter quarterly at a rate reset quarterly equal to 1.05% per annum above the euro interbank offered rate for three-month euro deposits.

The 4.875% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th December 2014, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

140,000 euro 4.75% non-cumulative callable preference shares of €100 each (the '4.75% Preference Shares') were issued on 15th March 2005 for a consideration of €1,383.3m (£966.7m), of which the nominal value was €14m and the balance was share premium. The 4.75% Preference Shares entitle the holders thereof to receive euro non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 4.75% per annum on the amount of €10,000 per preference share until 15th March 2020, and thereafter quarterly at a rate reset quarterly equal to 0.71% per annum above the euro interbank offered rate for three-month euro deposits.

The 4.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th March 2020, and on each dividend payment date thereafter at €10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

Sterling Preference Shares

75,000 Sterling 6.0% non-cumulative callable preference shares of £100 each (the '6.0% Preference Shares') were issued on 22nd June 2005 for a consideration of £732.6m, of which the nominal value was £7.5m and the balance was share premium. The 6.0% Preference Shares entitle the holders thereof to receive Sterling non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 6.0% per annum on the amount of £10,000 per preference share until 15th December 2017, and thereafter quarterly at a rate reset quarterly equal to 1.42% per annum above the London interbank offered rate for three-month Sterling deposits.

The 6.0% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th December 2017, and on each dividend payment date thereafter at £10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

US Dollar Preference Shares

100,000 US Dollar 6.278% non-cumulative callable preference shares of US$100 each (the '6.278% Preference Shares'), represented by 100,000 American Depositary Shares, Series 1, were issued on 8th June 2005 for a consideration of US$995.4m (£548.1m), of which the nominal value was US$10m and the balance was share premium. The 6.278% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, semi-annually at a fixed rate of 6.278% per annum on the amount of US$10,000 per preference share until 15th December 2034, and thereafter quarterly at a rate reset quarterly equal to 1.55% per annum above the London interbank offered rate for three-month US Dollar deposits.

The 6.278% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th December 2034, and on each dividend payment date thereafter at US$10,000 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

30 million US Dollar 6.625% non-cumulative callable preference shares of US$0.25 each (the '6.625% Preference Shares'), represented by 30 million American Depositary Shares, Series 2, were issued on 25th and 28th April 2006 for a consideration of US$727m (£406m), of which the nominal value was US$7.5m and the balance was share premium. The 6.625% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 6.625% per annum on the amount of US$25 per preference share.

36 Ordinary shares, share premium and preference shares (continued)

The 6.625% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, on 15th September 2011, and on each dividend payment date thereafter at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

No redemption or purchase of any 4.875% Preference Shares, the 4.75% Preference Shares, the 6.0% Preference Shares, the 6.278% Preference Shares and the 6.625% Preference Shares (together the 'Preference Shares') may be made by Barclays Bank PLC without the prior consent of the UK FSA and any such redemption will be subject to the Companies Act and the Articles of Barclays Bank PLC.

On a winding-up of Barclays Bank PLC or other return of capital (other than a redemption or purchase of shares of Barclays Bank PLC, or a reduction of share capital), a holder of Preference Shares will rank in the application of assets of Barclays Bank PLC available to shareholders (1) junior to the holder of any shares of Barclays Bank PLC in issue ranking in priority to the Preference Shares, (2) equally in all respects with holders of other Preference Shares and any other shares of Barclays Bank PLC in issue ranking pari passu with the Preference Shares and (3) in priority to the holders of ordinary shares and any other shares of Barclays Bank PLC in issue ranking junior to the Preference Shares.

The holders of the £400m 6% Callable Perpetual Core Tier One Notes and the US$1,000m 6.86% Callable Perpetual Core Tier One Notes of Barclays Bank PLC (together, the 'TONs') and the holders of the US$1,250m 8.55% Step-up Callable Perpetual Reserve Capital Instruments, the US$750m 7.375% Step-up Callable Perpetual Reserve Capital Instruments, the €850m 7.50% Step-up Callable Perpetual Reserve Capital Instruments, the £500m 5.3304% Step-up Callable Perpetual Reserve Capital Instruments and the US$1,350m 5.926% Step-up Callable Perpetual Reserve Capital Instruments of Barclays Bank PLC (together, the 'RCIs') would, for the purposes only of calculating the amounts payable in respect of such securities on a winding-up of Barclays Bank PLC, subject to limited exceptions and to the extent that the TONs and the RCIs are then in issue, rank pari passu with the holders of the most senior class or classes of Preference Shares then in issue in the capital of Barclays Bank PLC. Accordingly, the holders of the Preference Shares would rank equally with the holders of such TONs and RCIs on such a winding-up of Barclays Bank PLC (unless one or more classes of shares of Barclays Bank PLC ranking in priority to the Preference Shares are in issue at the time of such winding-up, in which event the holders of such TONs and RCIs would rank equally with the holders of such shares and in priority to the holders of the Preference Shares).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of assets of Barclays Bank PLC available for distributions to shareholders, liquidating distributions in the amount of €10,000 per 4.875% Preference Share, €10,000 per 4.75% Preference Share, £10,000 per 6.0% Preference Share, US$10,000 per 6.278% Preference Share and US$25 per 6.625% Preference Share plus, in each case, an amount equal to the accrued dividend for the then current dividend period to the date of the commencement of the winding up or other such return of capital. If a dividend is not paid in full on any Preference Shares on any dividend payment date, then a dividend restriction shall apply.

This dividend restriction will mean that neither Barclays Bank PLC nor Barclays PLC may (a) declare or pay a dividend (other than payment by Barclays PLC of a final dividend declared by its shareholders prior to the relevant dividend payment date, or a dividend paid by Barclays Bank PLC to Barclays PLC or to a wholly owned subsidiary) on any of their respective ordinary shares, other Preference Shares or other share capital or (b) redeem, purchase, reduce or otherwise acquire any of their respective share capital, other than shares of Barclays Bank PLC held by Barclays PLC or a wholly owned subsidiary, until the earlier of (1) the date on which Barclays Bank PLC next declares and pays in full a preference dividend and (2) the date on or by which all the Preference Shares are redeemed in full or purchased by Barclays Bank PLC.

Holders of the Preference Shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC. Barclays Bank PLC is not permitted to create a class of shares ranking as regards participation in the profits or assets of Barclays Bank PLC in priority to the Preference Shares, save with the sanction of a special resolution of a separate general meeting of the holders of the Preference Shares (requiring a majority of not less than three-fourths of the holders of the Preference Shares voting at the separate general meeting), or with the consent in writing of the holders of three-fourths of the Preference Shares.

Except as described above, the holders of the Preference Shares have no right to participate in the surplus assets of Barclays Bank PLC.

37 Reserves

Other reserves

The Group	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
At 1st January 2006	**257**	**70**	**156**	**483**
Net gains/(losses) from changes in fair value	**91**	**(421)**	**–**	**(330)**
Net gains transferred to net profit	**(308)**	**(51)**	**–**	**(359)**
Currency translation differences arising during the year	**–**	**–**	**(464)**	**(464)**
Changes in insurance liabilities	**23**	**–**	**–**	**23**
Net losses transferred to net profit due to fair value hedging	**13**	**–**	**–**	**13**
Tax	**22**	**172**	**(130)**	**64**
Losses transferred to net profit due to impairment	**86**	**–**	**–**	**86**
At 31st December 2006	**184**	**(230)**	**(438)**	**(484)**

The Bank	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
At 1st January 2006	**1**	**250**	**131**	**382**
Net losses from changes in fair value	**(70)**	**(611)**	**–**	**(681)**
Net gains transferred to net profit	**(40)**	**(67)**	**–**	**(107)**
Currency translation differences arising during the year	**–**	**–**	**(47)**	**(47)**
Net losses transferred to net profit due to fair value hedging	**14**	**–**	**–**	**14**
Tax	**9**	**299**	**–**	**308**
Losses transferred to net profit due to impairment	**85**	**–**	**–**	**85**
Other	**(6)**	**–**	**–**	**(6)**
31st December 2006	**(7)**	**(129)**	**84**	**(52)**

The Group	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
At 1st January 2005	336	302	(58)	580
Net losses from changes in fair value	(240)	(51)	–	(291)
Net gains transferred to net profit	(120)	(69)	–	(189)
Currency translation differences arising during the year	–	–	214	214
Changes in insurance liabilities	(64)	–	–	(64)
Net losses transferred to net profit due to fair value hedging	260	–	–	260
Tax	85	(112)	–	(27)
At 31st December 2005	257	70	156	483

The Bank	Available for sale reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Total £m
At 1st January 2005	157	370	131	658
Net (losses)/gains from changes in fair value	(116)	94	–	(22)
Net gains transferred to net profit	(99)	(103)	–	(202)
Tax	59	(111)	–	(52)
At 31st December 2005	1	250	131	382

The currency translation reserve represents the cumulative gains and losses on the retranslation of the Group's and the Bank's net investment in foreign operations, net of the effects of instruments that have qualified as hedges of net investments.

The cash flow hedging reserve represents the net gains on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transaction affects profit or loss.

The available for sale reserve represents the unrealised change in the fair value of available for sale investments.

37 Reserves (continued)

Retained earnings	**The Group Retained earnings £m**	**The Bank Retained earnings £m**
At 1st January 2006	**8,462**	**2,471**
Profit attributable to equity holders	**4,914**	**3,812**
Equity-settled share schemes	**663**	**94**
Tax on equity-settled shares schemes	**96**	**26**
Vesting of Barclays PLC shares under share-based payment schemes	**(394)**	**(94)**
Dividends paid	**(1,964)**	**(1,964)**
Dividends on Preference Shares and other shareholders' equity	**(329)**	**(332)**
Other	**108**	**133**
At 31st December 2006	**11,556**	**4,146**

Retained earnings	The Group Retained earnings £m	The Bank Retained earnings £m
At 1st January 2005	6,657	2,509
Profit attributable to equity holders	3,695	2,149
Equity-settled share schemes	346	61
Tax on equity-settled shares schemes	101	27
Vesting of Barclays PLC shares under share-based payment schemes	(78)	(5)
Dividends paid	(2,012)	(2,012)
Dividends on Preference Shares and other shareholders' equity	(217)	(219)
Other	(30)	(39)
At 31st December 2005	8,462	2,471

The Group operates in a number of countries subject to regulations under which a local subsidiary undertaking has to maintain a minimum level of capital. The current policy of the Group is that local capital requirements are met, as far as possible, by the retention of profit. Certain countries operate exchange control regulations which limit the amount of dividends that can be remitted to non-resident shareholders. It is not possible to determine the amount of profit retained and other reserves that is restricted by these regulations, but the net profit retained of overseas subsidiaries, associates and joint ventures at 31st December 2006 totalled £5,667m (2005: £3,980m). If such overseas reserves were to be remitted, other tax liabilities, which have not been provided for in the accounts, might arise.

38 Other shareholders' equity

	The Group £m	**The Bank £m**
At 1st January 2006	**2,490**	**2,554**
Appropriations	**44**	**44**
At 31st December 2006	**2,534**	**2,598**

	The Group £m	The Bank £m
At 1st January 2005	2,494	2,558
Appropriations	(4)	(4)
At 31st December 2005	2,490	2,554

Included in other shareholders' equity are:

Issuances of reserve capital instruments which bear a fixed rate of interest ranging between 7.375%-8.55% until 2010 or 2011. After these dates, in the event that the reserve capital instruments are not redeemed, they will bear interest at rates fixed periodically in advance, based on London or European interbank rates. These instruments are repayable, at the option of the Bank, in whole on any coupon payment date falling in or after June or December 2010 or 2011. The Bank may elect to defer any payment of interest on the reserve capital instruments for any period of time. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or preference shares.

Issuance of capital notes which bear interest at rates fixed periodically in advance, based on London interbank rates. These notes are repayable in each case, at the option of the Bank, in whole on any interest payment date. The Bank is not obliged to make a payment of interest on its capital notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC.

39 Minority interests

	The Group	
	2006 £m	2005 £m
At beginning of year	**1,578**	147
Share of net profit	**342**	177
Dividend and other payments	**(127)**	(96)
Equity issued by subsidiaries	**233**	26
Available for sale reserve: net (loss)/gain from changes in fair value	**(2)**	1
Cash flow hedges: net (loss)/gain from changes in fair value	**(9)**	1
Currency translation differences	**(316)**	85
Additions	**20**	1,281
Disposals	**(34)**	4
Other	**–**	(48)
At end of year	**1,685**	1,578

40 Contingent liabilities and commitments

Contingent liabilities and commitments

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Nature of instruments

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities include transaction related customs and performance bonds and are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk.

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Acceptances and endorsements	**287**	283	**234**	237
Guarantees and letters of credit pledged as collateral security	**31,252**	38,035	**11,155**	11,992
Other contingent liabilities	**7,880**	8,825	**6,856**	7,376
Contingent liabilities	**39,419**	47,143	**18,245**	19,605
Documentary credits and other short-term trade related transactions	**414**	380	**312**	273
Undrawn note issuance and revolving underwriting facilities:				
Forward asset purchases and forward deposits placed	**360**	43	**347**	29
Standby facilities, credit lines and other	**204,730**	203,362	**181,826**	176,251
Commitments	**205,504**	203,785	**182,485**	176,553

40 Contingent liabilities and commitments (continued)

Capital commitments

At 31st December 2006 the Group commitments for capital expenditure under contract amounted to £9m (2005: £2m). At 31st December 2006 the Bank commitments for capital expenditure under contract amounted to £9m (2005: £2m).

Assets pledged

Assets are pledged as collateral to secure liabilities under repurchase agreements, securitisations and stock lending agreements or as security deposits relating to futures and options. The aggregate amount of secured liabilities for the Group is £108,928m (2005: £105,679m) and for the Bank is £54,058m (2005: £67,966m).

The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trading portfolio assets	**77,255**	79,648	**40,496**	43,757
Loans and advances to banks	**5,952**	4,480	**5,749**	–
Loans and advances to customers	**17,763**	14,094	**13,170**	14,094
Available for sale investments	**20,495**	26,818	**18,275**	25,210
Other	**4**	55	**–**	55
Assets pledged	**121,469**	125,095	**77,690**	83,116

41 Legal proceedings

Barclays has for some time been party to proceedings, including a class action, in the United States against a number of defendants following the collapse of Enron; the class action claim is commonly known as the Newby litigation. On 20th July 2006 Barclays received an Order from the United States District Court for the Southern District of Texas Houston Division (the 'Court') which dismissed the claims against Barclays PLC, Barclays Bank PLC and Barclays Capital Inc. in the Newby litigation. On 4th December 2006, in response to the plaintiffs' procedural objections, the Court stayed Barclays dismissal from the proceedings and allowed the plaintiffs to file a supplemental complaint. The Court will consider the plaintiffs' supplemental complaint in connection with consideration of a summary judgment motion filed by Barclays.

Barclays considers that the Enron related claims against it are without merit and is defending them vigorously. It is not possible to estimate Barclays possible loss in relation to these matters, nor the effect that they might have upon operating results in any particular financial period.

Barclays has been in negotiations with the staff of the US Securities and Exchange Commission with respect to a settlement of the Commission's investigations of transactions between Barclays and Enron. Barclays does not expect that the amount of any settlement with the Commission would have a significant adverse effect on its financial position or operating results.

On 3rd November 2006 Barclays announced that it had reached a settlement in principle with Enron in the Enron bankruptcy proceedings. A settlement agreement was signed on 30th November 2006 and became effective on 3rd January 2007. The settlement has had no negative impact on Barclays earnings as an adequate provision had already been made for the likely cost in prior periods. In reaching the settlement Barclays has denied any wrongdoing or liability.

Barclays is engaged in various other litigation proceedings both in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against it which arise in the ordinary course of business. Barclays does not expect the ultimate resolution of any of the proceedings to which Barclays is party to have a significant adverse effect on the financial position of the Group and Barclays has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

42 Leasing

The Group and the Bank are both lessor and lessee under finance and operating leases, providing asset financing for their customers and leasing assets for their own use. In addition, assets leased by the Group and the Bank may be sublet to other parties. An analysis of the impact of these transactions on the Group and the Bank balance sheet and income statement is as follows:

(a) As Lessor

Finance lease receivables

The Group and the Bank specialise in asset-based lending and work with a broad range of international technology, industrial equipment and commercial companies and provide customised finance programmes to assist manufacturers, dealers and distributors of assets.

Finance lease receivables are included within loans and advances to customers (see Note 15).

The Group and the Bank's net investment in finance lease receivables was as follows:

	The Group							
	2006				2005			
	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m
Not more than one year	3,650	(734)	2,916	166	2,038	(514)	1,524	61
Over one year but not more than five years	5,824	(1,490)	4,334	334	5,345	(1,222)	4,123	113
More than five years	3,790	(898)	2,892	15	5,252	(1,811)	3,441	31
Total	13,264	(3,122)	10,142	515	12,635	(3,547)	9,088	205

	The Bank							
	2006				2005			
	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m	Gross investment in finance lease receivables £m	Future finance income £m	Present value of minimum lease payments receivable £m	Unguaranteed residual values £m
Not more than one year	7	(1)	6	–	11	–	11	–
Over one year but not more than five years	48	(2)	46	–	32	(4)	28	–
More than five years	29	(2)	27	–	12	(1)	11	–
Total	84	(5)	79	–	55	(5)	50	–

The allowance for uncollectible finance lease receivables included in the allowance for impairment for the Group amounted to £22m at 31st December 2006 (2005: £11m).

Operating lease receivables

The Group and the Bank acts as lessor, whereby items of plant and equipment are purchased and then leased to third parties under arrangements qualifying as operating leases. The items purchased to satisfy these leases are treated as plant and equipment in the Group and the Bank's financial statements and are generally disposed of at the end of the lease term (see Note 25).

The future minimum lease payments expected to be received under non-cancellable operating leases at 31st December 2006 were as follows:

	The Group		The Bank	
	2006 Plant and equipment £m	2005 Plant and equipment £m	2006 Plant and equipment £m	2005 Plant and equipment £m
Not more than one year	18	22	–	–
More than one year but not more than two years	5	17	–	–
More than two years but not more than five years	9	14	–	–
More than five years	7	10	–	–
Total	39	63	–	–

42 Leasing (continued)

(b) As Lessee

Finance lease commitments

The Group and the Bank lease items of property, plant and equipment on terms that meet the definition of finance leases. Finance lease commitments are included within other liabilities (see Note 30).

Obligations under finance leases were as follows:

	The Group		The Bank	
	2006	2005	**2006**	2005
	Total future minimum payments £m	Total future minimum payments £m	**Total future minimum payments £m**	Total future minimum payments £m
Not more than one year	**11**	99	**3**	–
Over one year but not more than two years	**25**	71	**2**	8
Over two years but not more than five years	**55**	109	**7**	21
More than five years	**55**	97	**–**	–
Less: future finance charges	**(54)**	(87)	**(1)**	–
Net obligations under finance leases	**92**	289	**11**	29

The carrying amount of assets held under finance leases at the balance sheet date was:

	The Group		The Bank	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Cost	**44**	77	**14**	38
Less: accumulated depreciation	**(25)**	(18)	**(3)**	(10)
Net book value	**19**	59	**11**	28

Operating lease commitments

The Group and the Bank lease various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group and the Bank also lease equipment under non-cancellable lease arrangements.

Where the Group and the Bank are the lessees the future minimum lease payment under non-cancellable operating leases are as follows:

	The Group				The Bank			
	2006		2005		**2006**		2005	
	Property £m	**Equipment £m**	Property £m	Equipment £m	**Property £m**	**Equipment £m**	Property £m	Equipment £m
Less than one year	**335**	**9**	297	8	**228**	**8**	193	7
Between one to two years	**337**	**9**	271	7	**228**	**7**	180	7
Between two to three years	**311**	**2**	261	7	**218**	**2**	173	7
Between three to four years	**268**	**–**	242	2	**201**	**–**	167	2
Between four to five years	**223**	**–**	204	–	**189**	**–**	154	–
Over five years	**2,057**	**–**	1,672	–	**1,835**	**–**	1,477	–
Total	**3,531**	**20**	2,947	24	**2,899**	**17**	2,344	23

The total of future minimum sublease payments to be received under non-cancellable subleases at the balance sheet date is £251m (2005: £246m) for the Group and £230m (2005: £236m) for the Bank.

43 Consolidated cash flow statement

In order to provide more relevance to users and to enhance the comparability of its financial statement presentation, the Group has changed certain classifications within the cash flow statement in 2006.

These changes have increased net cash from operating activities by £14,147m in 2005, with a corresponding decrease in net cash used in investing activities of £111m and decrease in net cash from financing activities of £14,036m. The amounts of cash and cash equivalents in 2005 have not been affected by the changes.

Interest received in 2006 was £38,544m (2005: £32,124m) and interest paid in 2006 was £29,372m (2005: £23,319m).

44 Disposals

The Group was involved in the following disposals:

	% Disposal	Date
Bankhaus Wolbern	100%	31/08/06
European Vendor Finance Business	100%	31/12/06

	2006 £m
Total disposal consideration	140
Net assets disposed	(80)
Profit on disposal of subsidiaries	**60**
Total disposal consideration	140
Deferred consideration	(116)
Cash and cash equivalents disposed of	(39)
Disposal of subsidiaries, net of cash disposed	**(15)**
Cash received in respect of disposal of ownership in Barclays Global Investors UK Holdings Limited through the exercise of options under the BGI EOP scheme	44
Decrease in investment in subsidiary	**44**

Disposals in the cash flow statement for the Bank includes the disposal of the Barclays South African branch business to Absa Group Limited, a subsidiary company. Net assets with a book value of £54m, including cash balances of £29m, were disposed of for cash proceeds of the same amount. No profit or loss was recorded on the sale.

45 Acquisitions

The Group was involved in the following acquisition in 2006:

	Date
HomEq Servicing Corporation mortgage servicing business	01/11/06

Details of the net assets acquired and the consideration paid are set out below.

	Carrying value pre-acquisition £m	Fair value adjustments £m	2006 £m
Assets			
Cash and balances at central banks	10	–	10
Loans and advances to customers	153	–	153
Intangible assets	123	(9)	114
Other assets	–	1	1
Total assets	286	(8)	278
Liabilities			
Deposits by customers	2	–	2
Other liabilities	18	–	18
Total liabilities	20	–	20
Net assets acquired			258
Goodwill			–
Acquisition cost			
Cash paid			258
Total consideration			258
Total			258

The acquired business contributed £5m to consolidated profit before tax for the period from acquisition date to 31st December 2006.

If the acquisition had occurred on 1st January 2006 (for 2005 on 1st January 2005), total Group income would have been £22,319m (2005: £18,096m) and profit before tax would have been £7,228m (2005: £5,326m).

The initial accounting for the business combination that took effect during the year has been determined only provisionally as a result of the proximity of the acquisition to the year-end.

Cash outflows in respect of acquisitions

	2006 £m
Cash consideration in respect of acquisition	258
Cash and cash equivalents acquired	(10)
Net cash outflow on acquisition	248
Cash paid in respect of acquisition of shares in Barclays Global Investors UK Holdings Limited	410
Cash paid in respect of acquisition of shares in Absa Bank Limited	22
Increase in investment in subsidiaries	432

46 Related party transactions and Directors' remuneration

(a) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and the Group's pension schemes, as well as other persons.

(i) The Group

(a) Parent company

The parent company, which is also the ultimate parent company, is Barclays PLC, which holds 100% of the issued ordinary shares of Barclays Bank PLC.

(b) Subsidiaries

Transactions between Barclays PLC and subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group financial statements. A list of the Group's principal subsidiaries is shown at Note 47.

(c) Associates, joint ventures and other entities

The Group provides certain banking and financial services to associates and joint ventures.

Related party entity relationships

The Group provides banking services to its associates, joint ventures and the Group pension funds (principally the UK Retirement Fund), providing loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services. Group companies, principally within Barclays Global Investors, also provide investment management and custodian services to the Group pension schemes. The Group also provides banking services for unit trust and investment funds managed by Group companies.

All of these transactions are conducted on the same terms to third-party transactions and are not individually material.

Amounts included in the accounts, in aggregate by category of related party entity are as follows:

	For the year ended and as at 31st December 2006				
	Associates £m	Joint ventures £m	Entities under common director-ships £m	Pension funds unit trusts and investment funds £m	Total £m
Income statement					
Interest received	45	38	–	2	85
Interest paid	(31)	(57)	–	–	(88)
Fees received for services rendered (including investment management and custody and commissions)	14	7	–	28	49
Fees paid for services provided	(115)	(51)	–	(1)	(167)
Principal transactions	3	–	(2)	–	1
Assets					
Loans and advances to banks and customers	784	146	65	–	995
Derivative transactions	–	–	–	–	–
Other assets	19	3	–	17	39
Liabilities					
Deposits from banks	9	–	–	3	12
Customer accounts	19	18	5	34	76
Derivative transactions	–	–	2	–	2
Other liabilities	13	8	–	–	21

46 Related party transactions and Directors' remuneration (continued)

	For the year ended and as at 31st December 2005				
	Associates £m	Joint ventures £m	Entities under common director-ships £m	Pension funds unit trusts and investment funds £m	Total £m
Income statement					
Interest received	23	14	–	–	37
Interest paid	(37)	(45)	–	–	(82)
Fees received for services rendered (including investment management and custody and commissions)	5	7	–	17	29
Fees paid for services provided	(120)	(34)	–	–	(154)
Principal transactions	33	–	–	1	34
Assets					
Loans and advances to banks and customers	632	19	–	–	651
Derivative transactions	36	–	–	–	36
Other assets	26	1	–	19	46
Liabilities					
Deposits from banks	827	–	–	–	827
Customer accounts	13	22	–	501	536
Derivative transactions	1	–	–	–	1
Other liabilities	22	6	–	–	28

No guarantees, pledges or commitments have been given or received in respect of these transactions in 2006 or 2005.

There are no leasing transactions between related parties for 2006 or 2005.

Derivatives transacted on behalf of the Pensions Funds Unit Trusts and Investment funds amounted to £1,209m (2005: £280m).

In 2006 Barclays channelled £19m (2005: £nil) through the Charities Aid Foundation, a registered charitable organisation, in which a Director of the Company is a Trustee.

46 Related party transactions and Directors' remuneration (continued)

(ii) The Bank

Subsidiaries

Details of principal subsidiaries are shown in Note 47.

The Bank provides certain banking and financial services to subsidiaries.

The Bank also provides a number of normal current and interest bearing cash accounts to the Group pension funds (principally the UK Retirement Fund) in order to facilitate the day to day financial administration of the funds.

Group companies, principally within Barclays Global Investors, also provide investment management and custodian services. The Bank also provides normal banking services for unit trusts and investment funds managed by Group companies. These transactions are conducted on similar terms to third-party transactions and are not individually material.

In aggregate, amounts included in the accounts are as follows:

	For the year ended and as at 31st December 2006					
	Subsidiaries £m	**Associates £m**	**Joint ventures £m**	**Entities under common director-ships £m**	**Pension funds unit trusts and investment funds £m**	**Total £m**
Assets						
Loans and advances to banks and customers	**87,421**	**784**	**146**	**65**	**–**	**88,416**
Derivative transactions	**15,240**	**–**	**–**	**–**	**–**	**15,240**
Other assets	**87,750**	**19**	**3**	**–**	**17**	**87,789**
Liabilities						
Deposits from banks	**26,268**	**9**	**–**	**–**	**3**	**26,280**
Customer accounts	**86,503**	**19**	**18**	**5**	**34**	**86,579**
Derivative transactions	**11,247**	**–**	**–**	**2**	**–**	**11,249**
Other liabilities	**45,596**	**13**	**8**	**–**	**–**	**45,617**

	For the year ended and as at 31st December 2005					
	Subsidiaries £m	Associates £m	Joint ventures £m	Entities under common director-ships £m	Pension funds unit trusts and investment funds £m	Total £m
Assets						
Loans and advances to customers	66,595	632	19	–	–	67,246
Derivative transactions	10,852	36	–	–	–	10,888
Other assets	68,951	26	1	–	19	68,997
Liabilities						
Deposits from banks	20,145	827	–	–	–	20,972
Customer accounts	42,212	13	22	–	501	42,748
Derivative transactions	8,063	1	–	–	–	8,064
Other liabilities	71,452	22	6	–	–	71,480

It is the normal practice of the Bank to provide its subsidiaries with support and assistance by way of guarantees, indemnities, letters of comfort and commitments, as may be appropriate, with a view to enabling them to meet their obligations and to maintain their good standing, including commitment of capital and facilities.

For dividends paid to Barclays PLC see Note 1.

46 Related party transactions and Directors' remuneration (continued)

Key Management Personnel

The Group's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank PLC (directly or indirectly) and comprise the Directors of Barclays PLC and the Officers of the Group-certain direct reports of the Group Chief Executive and the heads of major business units.

In the ordinary course of business, the Bank makes loans to companies where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays. These loans are made on substantially the same criteria and terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavourable features.

There were no material related party transactions with companies where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays.

Details of transactions with Directors and other Key Management Personnel (and their connected persons) are as follows:

	Directors, other Key Management Personnel and connected parties	
Loans	**2006 £m**	2005 £m
Loans outstanding at 1st January	**7.6**	7.8
Loans issued during the year	**2.7**	3.6
Loan repayments during the year	**(2.3)**	(3.1)
Loans outstanding at 31st December	**8.0**	8.3
Interest income earned	**0.4**	0.4

No allowances for impairment were recognised in respect of loans to Directors or other members of Key Management Personnel (or any connected person) in 2006 or 2005.

Deposits		
Deposits outstanding at 1st January	**4.7**	2.5
Deposits received during the year	**105.4**	20.6
Deposits repaid during the year	**(94.9)**	(18.4)
Deposits outstanding at 31st December	**15.2**	4.7
Interest expense on deposits	**0.2**	0.1
Fees payable and other expenses	**–**	–
Fees receivable and other income	**–**	–
Guarantees issued by the Group	**–**	–

Of the loans outstanding above, £nil (2005: £0.7m) relates to Directors and other Key Management Personnel (and persons connected to them) that left during the year. Of the deposits outstanding above, £0.1m (2005: £nil; 2004: £nil) relates to Directors and other Key Management Personnel (and persons connected to them) that left the Group during the year.

All loans are provided on normal commercial terms to Directors and other Key Management Personnel (and persons connected to them) with the exception of £3,645 of loans which are provided to non-Director members of Key Management Personnel on staff preferential interest rates (5%) and £5,999 of loans which are provided on an interest free basis.

46 Related party transactions and Directors' remuneration (continued)

Remuneration of Directors and other Key Management Personnel

	Directors and other Key Management Personnel 2006 £m	Directors and other Key Management Personnel 2005 £m
Salaries and other short-term benefits	**34.3**	33.0
Pension costs	**0.8**	1.1
Other long-term benefits	**9.3**	21.5
Termination benefits	**1.4**	1.5
Share-based payments	**27.2**	25.3
Employer social security charges on emoluments	**10.0**	10.4
	83.0	92.8

(b) Disclosure required by the Companies Act 1985

The following information is presented in accordance with the Companies Act 1985.

Directors' remuneration

	2006 £m	2005 £m
Aggregate emoluments	**32.0**	17.3
Gains made on the exercise of share options	**5.5**	0.3
Amounts paid under long-term incentive schemes	**–**	–
Actual pension contributions to money purchase scheme (2006: one Director, £11,414 and 2005: two Directors, £114,856)	**–**	0.1
Notional pension contributions to money purchase scheme (2006: no Directors and 2005: no Directors)	**–**	–
	37.5	17.7

As at 31st December 2006, four Directors were accruing retirement benefits under a defined benefit scheme (2005: four Directors).

Of the figures in the table above, the amounts attributable to the highest paid Director, are as follows:

	2006 £m	2005 £m
Aggregate emoluments	**15.2**	6.4
Accrued pension (2006: £35,767, 2005: £36,906)	**–**	–
Notional pension contribution to a money purchase scheme	**–**	–
Actual pension contribution to a money purchase scheme (2006: £11,414, 2005: £7,103)	**–**	–

Three Directors (Naguib Kheraj, David Roberts and Frits Seegers) have agreed to waive their fees as non-executive Directors of Absa Group Limited and Absa Bank Limited. The respective fees for 2006 were ZAR0.4m (£0.03m), ZAR0.4m (£0.03m) and ZAR0.1m (£0.01m). The fees for 2005 were ZAR0.2m (£0.02m) for Naguib Kheraj and ZAR0.1m (£0.01m) for David Roberts (Frits Seegers was not a non-executive Director of Absa Group Limited or Absa Bank Limited in 2005). In both 2005 and 2006 the fees were paid to Barclays.

46 Related party transactions and Directors' remuneration (continued)

Chairman and executive Directors: shares provisionally allocated and shares under option under the Executive Share Award Scheme (ESAS)[(a)(h)(i)(j)(k)]

		During 2006							
	Number at 1st January 2006	Awarded in respect of the results for 2005[(b)]	Released[(c)]	Market price on Release date £	Exercised[(d)]	Market price on Exercise date £	Bonus shares lapsed	Number at 31st December 2006
Chairman								
Matthew W Barrett	350,534	–	–	–	55,592	7.11	4,633	290,309
Executive Directors								
John Varley	206,074	92,441	20,304	6.62	–	–	–	278,211
Robert E Diamond Jr[(e)]	6,261,163	499,679	1,191,843	6.62	–	–	–	5,282,875
			286,124	6.74	–	–	–	
Gary Hoffman	345,564	37,477	216,515	6.62	–	–	–	166,526
Naguib Kheraj	937,361	54,967	202,011	6.62	–	–	–	790,317
David Roberts	334,844	54,967	211,671	6.62	–	–	–	178,140
Frits Seegers	–	802,208	–	–	–	–	–	802,208

Shares under option under ESAS and voluntary ESAS at 31st December 2006 (with the exception of voluntary ESAS, shares under option are included in aggregate figures above)

	Nil cost option granted at 3rd anniversary[(f)]	Nil cost option held under voluntary ESAS[(g)]	Date from which exercisable	Latest expiry date
Chairman				
Matthew W Barrett	–	–	–	–
Executive Directors				
John Varley	48,036	–	07/03/05	28/02/08
Robert E Diamond Jr	–	–	–	–
Gary Hoffman	33,410	136,584	26/02/99	05/03/14
Naguib Kheraj	429,536	–	07/03/05	28/02/08
David Roberts	31,792	–	07/03/05	28/02/08
Frits Seegers	–	–	–	–

Notes

(a) The number of shares shown in the table includes the maximum potential 30% bonus share element where applicable.

(b) An award was granted to Frits Seegers in August 2006 following his appointment as an executive Director on 10th July 2006 in recognition of forfeited share awards and benefits from his previous employment. Bonus shares are not applicable to the award.

(c) The trustees may release additional shares to participants which represent accumulated dividends (net of withholding) in respect of shares under award. During 2006, the trustees released the following accumulated dividend shares – 4,486 to John Varley, 197,517 to Robert E Diamond Jr, 26,512 to Gary Hoffman, 23,309 to Naguib Kheraj and 25,443 to David Roberts. These are not awarded as part of the original award and consequently are not included in the Released column.

(d) The trustees may release additional shares to participants which represent accumulated dividends (net of withholding) in respect of shares under award. During 2006, the trustees released 8,223 accumulated dividend shares to Matthew W Barrett. These are not awarded as part of the original award and are consequently not included in the Exercised column.

(e) The number shown in the column headed 'Number at 1st January 2006' includes shares held by Robert E Diamond Jr which reflect interests built up over the course of successive years' service with Barclays. The awards were related to Robert E Diamond Jr's contribution to the performance of Barclays Capital, BGI and the Barclays Group.

(f) The shares under option shown in this column are already included in the numbers shown at 1st January 2006 and relate to provisional allocations made in 2002 and 2003 except that the figures do not include accumulated dividend shares under option as follows: 6,484 shares for John Varley, 4,484 shares for Gary Hoffman, 57,765 shares for Naguib Kheraj and 4,272 shares for David Roberts. Under ESAS, a participant pays £1 to exercise an option, irrespective of the number of shares involved.

(g) The shares under option in this column are not included in the numbers shown at 1st January 2006 or 31st December 2006 in the first table on this page.

(h) Awards in respect of 2006 will be made in March 2007. Including the maximum potential 30% bonus share element, awards will total £698,750 to John Varley, £4,517,500 to Robert E Diamond Jr, £203,125 to Gary Hoffman and £520,000 to Frits Seegers.

(i) The register of Directors' interests, which shows full details of Directors' current share awards and options, is available for inspection at the Group's head office in London.

(j) Nothing was paid by the participants on the grant of options or awards.

(k) ESAS is a deferred share award plan in which awards are initially granted in the form of a provisional allocation that does not give rise to any entitlement to the shares. The value of mandatory bonus deferrals under ESAS is subject to the same Group and individual performance criteria as the annual cash bonus. A mandatory ESAS award comprises shares with a value of 25% of the annual bonus plus an additional element for bonus shares which is approximately equal to 30% of the 25% of the bonus that has been deferred. Normally, the trustees of ESAS will permit the executive to call for the shares from the end of the third year from grant of an award by granting a right to acquire shares (a nil cost option) exercisable for two years. As this nil cost option is part of the structure of an ESAS award and as ESAS is a deferred share award plan, it would not be appropriate to attach a performance condition to the exercise of these options. If the right is not exercised, the trustees of ESAS will normally, at the end of the fifth year, release all of the shares, including bonus shares equal to 30% of the basic award. If the right is exercised, an executive may lose the opportunity of receiving one-third of the bonus shares. If an executive ceases to be employed he may forfeit his award depending on why he leaves. An award under ESAS may be forfeited if the executive resigns and commences employment with a competitor business.

In addition, eligible executives may request that all or part of the cash bonus to which they would otherwise become entitled be granted as an additional award under ESAS called Voluntary ESAS. An award under Voluntary ESAS will be granted as a right to acquire shares which will become fully exercisable after five years. The number of shares under any award will reflect the value of the amount waived together with a number of bonus shares representing 30% of the amount waived.

46 Related party transactions and Directors' remuneration (continued)

Executive Directors: awards under the Performance Share Plan (PSP)[(a)(e)]

	Shares under initial allocation at 1st January 2006	Shares under initial allocation granted during 2006[(b)]	Maximum number of shares granted during 2006	Market price on award date £[(c)]	Performance period[(d)]	Scheduled vesting date	Shares under initial allocation at 31st December 2006	Maximum number of shares under award at 31st December 2006
Executive Directors								
John Varley								
2005	142,045	–	–	–	01/01/05 – 31/12/07	16/06/08	142,045	426,135
2006	–	153,748	461,244	6.75	01/01/06 – 31/12/08	23/03/09	153,748	461,244
Total							295,793	887,379
Robert E Diamond Jr								
2005	52,083	–	–	–	01/01/05 – 31/12/07	16/06/08	52,083	156,249
2006	–	768,736	2,306,208	6.75	01/01/06 – 31/12/08	23/03/09	768,736	2,306,208
Total							820,819	2,462,457
Gary Hoffman								
2005	75,758	–	–	–	01/01/05 – 31/12/07	16/06/08	75,758	227,274
2006	–	96,092	288,276	6.75	01/01/06 – 31/12/08	23/03/09	96,092	288,276
Total							171,850	515,550
Naguib Kheraj								
2005	87,121	–	–	–	01/01/05 – 31/12/07	16/06/08	87,121	261,363
2006	–	107,624	322,872	6.75	01/01/06 – 31/12/08	23/03/09	107,624	322,872
Total							194,745	584,235
David Roberts								
2005	75,758	–	–	–	01/01/05 – 31/12/07	16/06/08	75,758	227,274
2006	–	92,250	276,750	6.75	01/01/06 – 31/12/08	23/03/09	92,250	276,750
Total							168,008	504,024
Frits Seegers								
2006	–	157,728	473,184	6.36	01/01/06 – 31/12/08	04/08/09	157,728	473,184
Total							157,728	473,184

Executive Directors: Retained Incentive Opportunity[(f)(g)]

	Date of award	Maximum potential value £000s	Performance period	Vesting date
Robert E Diamond Jr	25/05/05	14,850	01/01/05 – 31/12/07	No later than 15/03/08

Notes

(a) PSP replaced ISOP as the principal long-term incentive plan. Performance shares are an award of 'free' Barclays shares in the form of a provisional allocation for which no exercise price is payable and which qualify for dividends. The shares granted during 2005 and 2006 are scheduled for release in June 2008 and March 2009 (August 2009 for Frits Seegers) respectively, to the extent that the applicable performance conditions are achieved. Dividend shares may also be released in respect of the vested shares.

(b) In respect of John Varley, Robert E Diamond Jr, Gary Hoffman, Naguib Kheraj and David Roberts, the price used to convert the present fair value of the award to a number of shares was £6.50. This was an average over the period 21st February 2006 to 10th March 2006. In respect of Frits Seegers, the price used to convert the present fair value of the award to a number of shares was £6.34, which was the price at which shares were purchased in the market to fund the award.

(c) The price shown is the mid-market closing price on the date of the award.

(d) For PSP awards made in 2005, the award depends on growth in Barclays TSR relative to a peer group of 11 other international banks. For PSP awards made in 2006, 50% of each award depends on Barclays EP and 50% of each award depends on the growth in Barclays TSR relative to a peer group of 11 other international banks.

(e) Nothing was paid by the participants on the grant of awards.

(f) This Retained Incentive Opportunity is specific to Robert E Diamond Jr, under which he retains an opportunity broadly equivalent to a prior opportunity to participate in a Barclays Capital long-term incentive arrangement. It is intended to maintain close alignment of reward with Robert E Diamond Jr's continued contribution to the performance of Barclays Capital. The performance measure is the cumulative EP performance of Barclays Capital during the period 1st January 2005 to 31st December 2007. To achieve the maximum potential value shown above, Barclays Capital would need to generate cumulative EP of £2bn over the performance period. If EP for the performance period is less than £500m, Robert E Diamond Jr will not be eligible for any award. If the minimum performance requirement of £500m EP is met, the potential value of the award would be in a range of £0.65m to £1.08m. The potential value of the Retained Incentive Opportunity between £500m cumulative EP and £2bn cumulative EP is subject to a performance curve graduated to deliver higher proportionate value at higher levels of cumulative EP. Robert E Diamond Jr must normally be in the employment of the Barclays Group on the vesting date, to remain eligible. In determining the potential value of the Retained Incentive Opportunity, the Committee will take into account Robert E Diamond Jr's individual contribution during the performance period, and the underlying financial health of the Barclays Group. The amount and basis for determining any entitlement under the Retained Incentive Opportunity will not be altered to the advantage of Robert E Diamond Jr without prior approval of shareholders in general meeting.

(g) Under the Retained Incentive Opportunity, 50% of any potential award would be payable in cash on the vesting date. A recommendation would be made to the trustee of ESAS for an award of Barclays shares in the form of a provisional allocation, in respect of the remaining 50%. Any shares under the ESAS award would be releasable after 12 months from the award date. The Retained Incentive Opportunity is not pensionable.

46 Related party transactions and Directors' remuneration (continued)

Chairman and executive Directors: shares under option under Sharesave[a]

		During 2006				Information as at 31st December 2006			
	Number held at 1st January 2006	**Granted**	**Exercised**	Exercise price per share £	Market price on date of exercise £	Number of shares held under option	Weighted average exercise price of outstanding options £	Date from which exercisable	Latest expiry date
Chairman									
Matthew W Barrett	**2,479**	–	**2,479**	3.73	7.05	–	–	–	–
Executive Directors									
John Varley	**4,096**	–	–	–	–	4,096	4.11	01/11/06	30/04/07
Robert E Diamond Jr	–	–	–	–	–	–	–	–	–
Gary Hoffman	**6,091**	**1,743**	**1,360**	3.56	7.05	6,474	4.29	01/11/07	30/04/14
Naguib Kheraj	**4,007**	–	–	–	–	4,007	4.08	01/11/09	30/04/10
David Roberts	**5,227**	**631**	**1,068**	3.16	6.65	3,974	4.10	01/11/07	30/04/12
			816	4.11	7.05				
Frits Seegers[b]	–	–	–	–	–	–	–	–	–

Notes

(a) Nothing was paid by these participants on the grant of options.

(b) Frits Seegers was appointed as an executive Director on 10th July 2006 and was therefore not eligible to participate in the 2006 Sharesave invitation.

46 Related party transactions and Directors' remuneration (continued)

Chairman and executive Directors: plans used in previous years (ESOS, ISOP and the BGI EOP)

The Chairman and executive Directors continue to have interests in Barclays PLC ordinary shares under ESOS[(a)] and ISOP[(b)] and in Barclays Global Investors UK Holdings Limited under the BGI EOP[(c)] (as indicated in the table below). No awards were made to Directors under these plans during 2006.

Chairman and executive Directors: awards under plans used in previous years[(g)]

	Maximum number of shares under option at 1st January 2006	During 2006 Exercised	During 2006 Lapsed	Market price on exercise date £	Maximum number of shares under option at 31st December 2006	Weighted average exercise price of outstanding options £	Date from which exercisable	Latest expiry date	Target/vested number of shares at 31st December 2006[(d)]
Chairman									
Matthew W Barrett									
ESOS[(e)]	766,628	–	–	–	766,628	4.43	06/09/02	03/10/09	766,628
ISOP	2,832,000	2,000,000	–	7.11	832,000	4.45	18/05/03	11/03/11	832,000
Executive Directors									
John Varley									
ISOP	2,060,000	–	–	–	2,060,000	4.45	18/05/03	22/03/14	920,000
Robert E Diamond Jr									
ESOS	100,000	–	–	–	100,000	3.97	14/08/01	13/08/08	100,000
ISOP	1,340,000	–	–	–	1,340,000	4.42	12/03/04	22/03/14	560,000
BGI EOP	200,000	100,000	–	77.60	100,000	20.11	26/03/07	26/03/14	100,000
Gary Hoffman									
ISOP	1,520,000	200,000	–	6.93	1,320,000	4.40	12/03/04	22/03/14	540,000
Naguib Kheraj									
ESOS	60,000	–	–	–	60,000	3.97	14/08/01	13/08/08	60,000
ISOP	1,360,000	–	–	–	1,360,000	4.40	12/03/04	22/03/14	520,000
David Roberts									
ISOP	1,300,000	260,000	–	7.15	1,040,000	4.33	14/03/06	22/03/14	260,000
Frits Seegers[(f)]									
–	–	–	–	–	–	–	–	–	–

Notes

(a) Under the Executive Share Option Scheme (ESOS), options granted (at market value) to executives were exercisable only if the growth in Barclays earnings per share over the three-year period was at least equal to the percentage increase in the UK Retail Prices Index plus 6% over the same period. The performance condition for the 1999 ESOS grant was met.

(b) Under ISOP, executives were awarded options (at market value) over Barclays shares which are normally exercisable after three years. The number of shares over which options can be exercised depends upon performance against specific performance conditions. For ISOP awards granted in 2000 to 2003, the first 40,000 target shares under option for each award was subject to an EP performance condition, tested over a period of three years. Any amount above 40,000 target shares was subject to a relative TSR performance condition, to be tested initially over three years. Because the TSR performance condition was not met over three years in relation to the awards in 2003, the TSR condition was tested over a period of four years from the original start date. Awards in 2004 were subject to a relative TSR performance condition. For the 2003 and 2004 grants under ISOP, which become exercisable in 2007, Barclays was ranked 6th in the peer group under the TSR performance condition. This was sufficient for only 25% of the maximum number of shares under the TSR condition to vest. The remaining 75% will lapse.

(c) Robert E Diamond Jr received a grant under the Barclays Global Investors Equity Ownership Plan (BGI EOP) in March 2004. He was not a Director of Barclays PLC at that time. The BGI EOP is an option plan, approved by shareholders in 2000 and offered predominantly to participants in the US. Under the BGI EOP, participants receive an option to purchase shares in Barclays Global Investors UK Holdings Limited. The exercise price is based on the fair value at the time of grant. The option normally vests in three equal tranches on the first, second, and third anniversary of the date of grant. Participants must, in accordance with the Articles of Association of Barclays Global Investors UK Holdings Limited, keep their shares for 355 days after the date of exercise, before they may be offered for sale. In line with market practice, the options were not subject to performance conditions. Robert E Diamond Jr is not eligible to receive further awards under the BGI EOP. The shares shown in respect of the BGI EOP in the above table are shares in Barclays Global Investors UK Holdings Limited.

(d) The number of shares shown for ISOP options represents the target award shares under option, or the actual number of shares under option if the award had vested as at 31st December 2006. The target number of shares takes account of the stretch in the performance condition and the probability of vesting.

(e) The independent trustee of the Barclays Group (PSP) Employees' Benefit Trust granted Matthew W Barrett a share award in 1999 comprising an option on similar terms to options granted under ESOS. For convenience these are described as granted under ESOS in the above table.

(f) Frits Seegers was appointed as an executive Director on 10th July 2006 and therefore no participation in the above plans has been offered to him.

(g) Nothing was paid by the participants on the grant of options.

46 Related party transactions and Directors' remuneration (continued)

Directors: interests in ordinary shares of Barclays PLC[a]

	At 1st January 2006[b]		**At 31st December 2006**	
	Beneficial	Non-beneficial	**Beneficial**	**Non-beneficial**
Chairman				
Matthew W Barrett	302,264	–	**2,000**	**–**
Executive Directors				
John Varley[c]	360,049	–	**375,053**	**–**
Robert E Diamond Jr[e]	1,512,575	–	**2,531,582**	**–**
Gary Hoffman[c]	172,702	–	**319,186**	**–**
Naguib Kheraj[d]	8,550	–	**141,442**	**–**
David Roberts[d]	78,191	–	**225,577**	**–**
Frits Seegers[f]	–	–	**4,319**	**–**
Non-executive Directors[c]				
Marcus Agius[g]	–	–	**15,000**	**–**
Sir Richard Broadbent	6,068	–	**8,092**	**–**
Leigh Clifford	3,460	–	**5,219**	**–**
Fulvio Conti[h]	–	–	**2,538**	**–**
Dr Danie Cronjé[d]	2,000	–	**3,547**	**–**
Professor Dame Sandra Dawson	7,822	–	**9,953**	**–**
Sir Andrew Likierman	3,628	–	**5,441**	**–**
Sir Nigel Rudd	16,788	–	**51,117**	**–**
Stephen Russell	16,221	–	**18,661**	**–**
Sir John Sunderland	8,308	–	**10,054**	**–**

Notes

(a) Beneficial interests in the table above represent shares held by Directors who were on the Board as at 31st December 2006, either directly or through a nominee, their spouse and children under 18. They include any interests held through Sharepurchase, but do not include any awards under ESAS, ISOP, PSP, ESOS and Sharesave. At 31st December 2006, Matthew W Barrett and the executive Directors, together with other senior executives, were potential beneficiaries in respect of a total of 165,645,889 Barclays PLC ordinary shares (1st January 2006: 147,145,847) held by the trustees of the Barclays EBTs. At 27th February 2007, a total of 181,139,684 shares were held by the trustees.

(b) Or date appointed to the Board if later.

(c) Between 31st December 2006 and 27th February 2007, John Varley and Gary Hoffman each purchased 33 Barclays shares through Sharepurchase. On 21st February 2007, the non-executive Directors acquired ordinary shares pursuant to arrangements under which part of each non-executive Director's fee is used to buy shares in Barclays. Barclays shares were acquired by each non-executive Director as follows: Marcus Agius – 427; Sir Richard Broadbent – 806; Leigh Clifford – 763; Fulvio Conti – 732; Dr Danie Cronjé – 767; Professor Dame Sandra Dawson – 856; Sir Andrew Likierman – 786; Sir Nigel Rudd – 940; Stephen Russell – 917; Sir John Sunderland – 748. Except as described in this note, there were no changes to the beneficial or non-beneficial interests of Directors in the period 31st December 2006 to 27th February 2007.

(d) As at 1st January 2006, Naguib Kheraj, David Roberts and Dr Danie Cronjé held 1,200, 1,200, and 101,577 shares in Absa Group Limited respectively. As at 31st December 2006, Naguib Kheraj, David Roberts, Frits Seegers and Dr Danie Cronjé held 1,200, 1,200, 1,000 and 101,577 shares in Absa Group Limited, respectively. Dr Danie Cronjé also held 7,500 non-cumulative, non-redeemable preference shares in Absa Bank Limited as at 31st December 2006.

(e) As at 1st January 2006 and 31st December 2006, Robert E Diamond Jr also held 100,000 and 200,000 'A' ordinary shares in Barclays Global Investors UK Holdings Limited respectively.

(f) Appointed as an executive Director on 10th July 2006.

(g) Appointed as a non-executive Director on 1st September 2006.

(h) Appointed as a non-executive Director on 1st April 2006.

46 Related party transactions and Directors' remuneration (continued)

Contracts with Directors (and their connected persons) and Managers

The aggregate amounts outstanding at 31st December 2006 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were during the year, Directors of Barclays Bank PLC and persons connected with them and for Managers, within the meaning of the Financial Services and Markets Act 2000, of Barclays Bank PLC were:

	Number of Directors or Managers	Number of connected persons	Amount £m
Directors			
Loans	4	–	–
Quasi-loans and credit card accounts	17	6	0.1
Managers			
Loans	4	–	0.4
Quasi-loans and credit card accounts	3	–	–

47 Principal subsidiaries

Country of registration or incorporation	Company name	Nature of business	Percentage of equity capital held %
Botswana	Barclays Bank of Botswana Limited	Banking	74.9
Egypt	Barclays Bank Egypt SAE	Banking	100
England	Barclays Mercantile Business Finance Limited	Loans and advances including leases to customers	100*
England	Barclays Global Investors UK Holdings Limited	Holding company	90.6
England	Barclays Global Investors Limited	Investment management	90.6*
England	Barclays Life Assurance Company Limited	Life and pensions business	100
England	Barclays Bank Trust Company Limited	Banking, securities industries and trust services	100
England	Barclays Stockbrokers Limited	Stockbroking	100
England	Barclays Capital Securities Limited	Securities dealing	100
England	Barclays Global Investors Pensions Management Limited	Investment management	90.6*
England	FIRSTPLUS Financial Group PLC	Secured Loans	100*
England	Gerrard Investment Management Limited	Investment management	100*
Ghana	Barclays Bank of Ghana Limited	Banking	100
Ireland	Barclays Insurance (Dublin) Limited	Payment protection insurance	100*
Ireland	Barclays Assurance (Dublin) Limited	Payment protection assurance	100*
Isle of Man	Barclays Private Clients International Limited[a]	Banking	100*
Japan	Barclays Capital Japan Limited[b]	Securities dealing	100*
Jersey	Barclays Private Bank & Trust Limited	Banking, holding company	100*
Kenya	Barclays Bank of Kenya Limited	Banking, Financial and related services	68.5
South Africa	Absa Group Limited	Banking	56.5
Spain	Barclays Bank SA	Banking	99.7
Switzerland	Barclays Bank (Suisse) S.A.	Banking and trust services	100*
USA	Barclays Capital Inc.	Securities dealing	100*
USA	Barclays Financial Corporation	Credit card issuer	100
USA	Barclays Global Investors, National Association	Investments management and securities industry	90.6*
Zimbabwe	Barclays Bank of Zimbabwe Limited	Banking	67.8*

In accordance with Section 231(5) of the Companies Act 1985, the above information is provided solely in relation to principal subsidiaries.

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. Investments in these subsidiaries are held directly by Barclays Bank PLC except where marked *.

Full information of all subsidiaries will be included in the Annual Return to be filed at Companies House.

Notes

(a) BBPLC is the beneficial owner of 38.1% of shares and Barclays Holdings (Isle of Man) Limited is the beneficial owner of 61.9% of shares.

(b) Barclays Capital Japan Limited, Tokyo Branch was licensed to operate in Japan as a branch of a foreign principal subsidiary incorporated in the Cayman Islands until 30th April 2006. Pursuant to changes in the Japanese law, a Japanese domestic company was incorporated on 8th November 2005 into which the entire business was transferred in from the branch as at 30th April 2006. This domestic company was renamed Barclays Capital Japan Limited.

48 Other entities

There are a number of entities that do not qualify as subsidiaries under UK Law but which are consolidated under IAS 27 (SIC-12) when the substance of the relationship between the Group and the entity (usually a Special Purpose Entity (SPE)) indicates that the entity is controlled by the Group. Such entities are deemed to be controlled by the Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

The consolidation of such entities may be appropriate in a number of situations, but primarily when:

- the operating and financial polices of the entity are closely defined from the outset (i.e. it operates on an 'autopilot' basis) with such policies being largely determined by the Group;
- the Group has rights to obtain the majority of the benefits of the entity and/or retains the majority of the residual or ownership risks related to the entity; or
- the activities of the entity are being conducted largely on behalf of the Group according to its specific business objectives.

Such entities are created for a variety of purposes including securitisation, structuring, asset realisation, intermediation and management.

Entities may have a different reporting date from that of the parent of 31st December. Dates may differ for a variety of reasons including local reporting regulations or tax laws. In accordance with our accounting policies, for the purpose of inclusion in the consolidated financial statements of Barclays Bank PLC, entities with different reporting dates are made up until 31st December.

Entities may have restrictions placed on their ability to transfer funds, including payment of dividends and repayment of loans, to their parent entity. Reasons for the restrictions include:

- Central bank restrictions relating to local exchange control laws.
- Central bank capital adequacy requirements.
- Company law restrictions relating to treatment of the entities as going concerns.

Although the Group's interest in the equity voting rights in certain entities exceeds 50%, these entities are excluded from consolidation because the Group either does not direct the financial and operating policies of these entities, or on the ground that another group has a superior economic interest in such entities. Consequently, these entities are not deemed to be controlled by Barclays Bank under IAS 27 (SIC-12).

The table below includes information in relation to such entities as required by the Companies Act 1985, Section 231 (5).

Subsidiaries excluded from consolidation

Country of registration or incorporation	Name	Percentage of ordinary share capital held %	Equity share-holders' funds £m	Retained profit/ (loss) for the year £m
UK	Oak Dedicated Limited	100	(7)	(2)
UK	Oak Dedicated Two Limited	100	(5)	(1)
UK	Oak Dedicated Three Limited	100	–	–
USA	Ivanhoe Funding LLC[(a)]	75	6	–
UK	Fitzroy Finance	100	–	–
UK	St James Fleet Investments Two Limited	100	2	–
Cayman Islands	29 Park Investment No1 Limited[(b)]	–	–	–
Cayman Islands	29 Park Investment No2 Limited[(b)]	–	–	–

49 Events after the balance sheet date

On 19th January 2007 Barclays announced that it entered into an agreement to purchase EquiFirst Corporation, the non-prime mortgage origination business of Regions Financial Corporation, for a consideration of approximately US$225m. Completion, which is subject to receipt of the required licences and applicable regulatory approval, as well as a post-closing adjustment based on EquiFirst's balance sheet at the actual completion date, is expected in the first half of 2007.

On 8th February 2007 Barclays completed the acquisition of Indexchange Investment AG from Bayerische Hypo-und Vereinsbank for a consideration of approximately €240m.

Notes

(a) Barclays Bank has 51% of voting rights in the entity.

(b) Barclays Bank appoint the majority of Directors of these entities.

50 Trust activities

Barclays provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date there were the following assets under administration:

	The Group		The Bank	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Indexed assets	**612**	609	**1**	9
Active assets	**235**	198	**5**	–
Managed cash and other assets	**170**	153	**23**	5
Total	**1,017**	960	**29**	14

51 Share-based payments

The Group operates share schemes for employees throughout the world. The main current schemes are:

Sharesave

Eligible employees in the UK, Spain and Ireland may participate in the Barclays Sharesave scheme. Under this scheme, employees may enter into contracts to save up to £250 per month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings to acquire shares in the Company at a discount, calculated in accordance with the rules of the scheme. The discount is currently 20% of the market price at the date the options are granted. Participants in the scheme have six months from the date of vest in which the option can be exercised.

Sharepurchase

Sharepurchase was introduced in January 2002. It is an HM Revenue & Customs approved all-employee share plan. The plan is open to all eligible UK employees, including executive Directors. Under the plan, participants are able to purchase up to £1,500 worth of Barclays PLC ordinary shares per tax year, which, if kept in trust for five years, can be withdrawn from the plan tax-free. Matching shares were introduced to the scheme during 2005 where the purchase of Barclays shares by the participant are matched equally by the Company up to a value of £600 per tax year. Any shares in the plan will earn dividends in the form of additional shares, which must normally be held by the trustee for three years before being eligible for release.

Executive Share Award Scheme (ESAS)

For certain employees of the Group an element of their annual bonus is in the form of a deferred award of a provisional allocation of Barclays PLC shares under ESAS. The total value of the bonus made to the employee of which ESAS is an element is dependent upon the business unit, Group and individual employee performance. The ESAS element of the annual bonus must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and vest upon achieving continued service for three and five years from the date of award. ESAS awards are also made to eligible employees for recruitment purposes. All awards are subject to potential forfeit if the individual resigns and commences work with a competitor business.

Performance Share Plan (PSP)

The Performance Share Plan (PSP) was approved by shareholders at the 2005 AGM to replace the ISOP scheme. Performance shares are 'free' Barclays shares for which no exercise price is payable and which qualify for dividends. Performance share awards are communicated to participants as an initial allocation. Barclays performance over a three-year period determines the final number of shares that may be released to participants.

Options granted under the following schemes are over subsidiaries of Barclays PLC:

Barclays Global Investors Equity Ownership Plan (BGI EOP)

The Equity Ownership Plan extends to key employees of BGI. The exercise price of the options is determined by the Remuneration Committee of Barclays PLC based on the fair value of BGI as determined by an independent appraiser. The options are granted over shares in Barclays Global Investors UK Holdings Limited, a subsidiary of Barclays Bank PLC. Options are normally not exercisable until vesting, with a third of the options held generally becoming exercisable at each anniversary of grant. The shareholder has the right to offer to sell the shares to Barclays Bank PLC 355 days following the exercise of the option. Barclays Bank PLC may accept the offer and purchase the shares at the most recent agreed valuation but is under no obligation to do so. Options lapse ten years after grant. The most recently agreed valuation at 30th June 2006 was £91.43.

Absa Group Limited Black Economic Empowerment (BEE) Transaction

On 25th June 2004, Absa shareholders approved the allocation of 73,152,300, redeemable cumulative option-holding Absa preference shares to Batho Bonke Capital Limited. Each redeemable preference share carries the option to acquire one Absa ordinary share. The shares carry the same rights as ordinary shares including voting rights, and receive dividends which are payable semi-annually. Options vest after three years and lapse after five years from the date of issue. Exercise may occur in lots of 100 only and within a price range varying from ZAR48 to ZAR69 (£3.50-£5.03) dependent on the 30-day volume weighted trading price on the JSE Limited. Options are redeemed by Absa on the final exercise date.

Absa Group Limited Share Incentive Trust (AGLSIT)

In terms of the rules of Absa Group Limited Share Incentive Trust the maximum number of shares which may be issued or transferred and/or in respect of which options may be granted to the participants shall be limited to shares representing 10% of the total number of issued shares. Options are allocated to Absa employees according to the normal Human Resources talent management process. The options issued up to August 2005 had no performance criteria linked to them and vested in equal tranches after three, four and five years respectively. No dividends accrue to the option holder over the period. The options expire after a period of ten years from the issuing date. Options issued since August 2005 have vesting performance criteria associated with them, which require headline earnings per share to exceed an agreed benchmark over a three-year period from July 2005 for the options to vest.

51 Share-based payments (continued)

Absa Group Limited Share Ownership Trust (AGLSOT)

The Absa Group Limited Share Ownership Trust (AGLSOT) enabled all Absa employees to participate in a one-off offer to purchase 200 redeemable cumulative option-holding preference shares. Each redeemable preference share carries the option to acquire one Absa ordinary share. Options vest after three years and lapse after five years from the date of issue. Exercise may occur in lots of 100 only and within a price range varying from ZAR48 to ZAR69 (£3.50-£5.03) dependent on the 30-day volume weighted trading price on the JSE Limited. Options are redeemed by Absa on the final exercise date.

Absa Group Limited Executive Share Award Scheme (AGLESAS)

For certain employees of Absa an element of their annual bonus is in the form of a deferred award of a provisional allocation of Absa Group Limited shares under Absa ESAS. The total value of the bonus made to the employee of which ESAS is an element is dependent upon the business unit and individual employee performance. The ESAS element of the annual bonus must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and vest upon achieving continued service for three and five years from the date of award. All awards are subject to potential forfeit if the individual resigns.

In addition, options remain outstanding under the following closed schemes:

Incentive Share Option Plan (ISOP)

The ISOP was open by invitation to the employees and Directors of Barclays PLC. Options were granted at the market price at the date of grant calculated in accordance with the rules of the plan, and are normally exercisable between three and ten years from that date. The final number of shares over which the option may be exercised is determined by reference to set performance criteria. The number of shares under option represents the maximum possible number that may be exercised. No awards were made under ISOP during 2006.

Executive Share Option Scheme (ESOS)

The ESOS is a long-term incentive scheme and was available by invitation to certain senior executives of the Group with grants usually made annually. Options were issued with an exercise price equivalent to the market price at the date of the grant without any discount, calculated in accordance with the rules of the scheme, and are normally exercisable between three and ten years from that date. No further awards are made under ESOS.

Woolwich Executive Share Option Plan (Woolwich ESOP)

Options originally granted over Woolwich PLC shares at market value were exercised in 2001 or exchanged, in accordance with the proposals made under the offer to acquire the Woolwich, for options over Barclays PLC shares. Under the rules of ESOP, the performance conditions attached to the exercise of options were disapplied on acquisition of Woolwich PLC by Barclays. Options lapse ten years after grant.

At the balance sheet date, nil options remained outstanding or exercisable in respect of the following closed scheme:

Woolwich Save as You Earn (Woolwich SAYE)

Under this scheme, employees entered into contracts to save up to £250 per month and, at the expiry of a fixed term of three, five, or seven years, have the option to use these savings to acquire the shares in the Company at a discount calculated in accordance with the rules of the scheme. The discount was 20% of the market price at the date the options were granted.

Several cash-settled schemes also operate within the Group.

Barclays Africa Share Plan

The Barclays Africa Share Plan grants a number of notional shares and settles in a cash award linked to the Barclays PLC share price. The exercise price of options is equal to the increment of the market price of Barclays shares over the original price on the date of grant. The final number of notional shares over which the option may by exercised is determined by reference to set performance criteria. Awards will vest three years from grant and expire four years from that date.

Absa Group Phantom Performance Share Plan (Absa Phantom PSP)

The Absa Phantom PSP was implemented during the year to replace the Absa Group Limited Share Incentive Trust (AGLSIT) scheme. Shares are awarded at no cost to participants and the cash paid is equal to the market value of ordinary shares of Absa Group Limited. The performance of Absa over a three-year period determines the final number of notional shares that any cash payment would be based on. Awards vest after three years to the extent that the performance conditions are satisfied.

The weighted average fair value per option granted during the year is as follows:

	The Group	
	2006 £m	2005 £m
Sharesave	**1.88**	1.29
Sharepurchase	**6.55**	5.57
ESAS	**6.73**	5.03
PSP	**7.53**	3.99
BGI EOP	**21.18**	10.41
AGLSIT	**2.70**	2.42
AGLESAS	**8.42**	–
ISOP	**–**	2.78

Fair values for Sharesave, PSP, BGI EOP, AGLSIT and ISOP are calculated at the date of grant using either a Black-Scholes model or Monte Carlo simulation. Sharepurchase, ESAS and AGLESAS are nil cost awards on which the performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards is based on the market value at that date.

51 Share-based payments (continued)

The significant weighted average assumptions used to estimate the fair value of the options granted in 2006 for the Group are as follows:

	2006			
	Sharesave	PSP	BGI EOP	AGLSIT
Weighted average share price	6.20	6.74	81.12	8.92
Weighted average exercise price	5.11	–	81.12	6.57
Expected volatility	25%	25%	24%	29%
Expected option life	4 years	3 years	4 years	5 years

Expected volatility and dividend yield on the date of grant have been used as inputs into the respective valuation models for Sharesave and PSP. Expected volatility has been determined using historical volatility of its peers over the expected life of the options for BGI EOP and AGLSIT applies a five-year rolling period.

The yield on UK government bonds with a commensurate life has been used to determine the risk-free discount rate of 5% for all schemes other than AGLSIT. Option life is estimated based upon historical data for the holding period of options between grant and exercise dates. The risk-free rate on the AGLSIT scheme represents the yield, recorded on date of option grant, on South African government zero coupon bond of a term commensurate to the expected life of the option.

For the purposes of determining the expected life and number of options to vest, historical exercise patterns have been used, together with an assumption that a certain percentage of options will lapse due to leavers.

The assumed dividend yield for Barclays PLC is the average annual dividend yield on the date of grant of 4%. The expected dividends for BGI UK Holdings Limited are assumed to grow in line with the expected increases in share prices for the industry sector until exercise giving a yield of 2%. Dividend yield for AGLSIT of 3.5% was based on the average 12 month trailing yield over the year to grant date.

51 Share-based payments (continued)

Analysis of the movement in the number and weighted average exercise price of options for the Group is set out below:

	Sharesave[a]				Sharepurchase[a][d]			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at beginning of year	**85,686**	97,266	**3.95**	3.69	**1,126**	–	**–**	–
Granted in the year	**17,449**	19,492	**5.11**	4.44	**1,561**	1,190	**–**	–
Exercised/released in the year	**(18,727)**	(24,365)	**3.84**	3.34	**(113)**	(41)	**–**	–
Less: forfeited in the year	**(5,479)**	(6,670)	**4.11**	3.82	**(102)**	(23)	**–**	–
Less: expired in the year	**–**	(37)	**–**	3.46	**–**	–	**–**	–
Outstanding at end of year	**78,929**	85,686	**4.22**	3.95	**2,472**	1,126	**–**	–
Of which exercisable:	**915**	1,189	**3.87**	3.28	**–**	–	**–**	–

	ESAS[a][d]				PSP[a][d]			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at beginning of year	**121,515**	100,284	**–**	–	**20,269**	–	**–**	–
Granted in the year	**59,758**	46,374	**–**	–	**22,563**	20,269	**–**	–
Exercised/released in the year	**(33,663)**	(22,237)	**–**	–	**–**	–	**–**	–
Less: forfeited in the year	**(5,251)**	(2,906)	**–**	–	**–**	–	**–**	–
Less: expired in the year	**–**	–	**–**	–	**–**	–	**–**	–
Outstanding at end of year	**142,359**	121,515	**–**	–	**42,832**	20,269	**–**	–
Of which exercisable:	**9,607**	9,548	**–**	–	**–**	–	**–**	–

	BGI EOP[b]				Absa BEE[c]			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at beginning of year/ acquisition date	**5,442**	7,575	**25.26**	12.74	**73,152**	73,152	**4.41-6.35**	4.41-6.35
Granted in the year	**3,973**	2,360	**81.12**	39.09	**–**	–	**–**	–
Exercised/released in the year	**(2,188)**	(4,368)	**19.92**	11.21	**–**	–	**–**	–
Less: forfeited in the year	**(298)**	(125)	**52.66**	18.52	**–**	–	**–**	–
Less: expired in the year	**–**	–	**–**	–	**–**	–	**–**	–
Outstanding at end of year	**6,929**	5,442	**57.79**	25.26	**73,152**	73,152	**3.50-5.03**	4.41-6.35
Of which exercisable:	**1,050**	1,751	**18.99**	11.18	**–**	–	**–**	–

Notes

(a) Options/award granted over Barclays PLC shares.

(b) Options/award granted over Barclays Global Investors UK Holdings Limited shares.

(c) Options/award granted over Absa Group Limited shares.

(d) Nil cost award.

51 Share-based payments (continued)

	AGLSIT(c)				AGLSOT(c)			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at beginning of year/ acquisition date	**25,126**	31,138	**4.38**	3.33	**5,359**	5,509	**4.41-6.35**	4.41-6.35
Granted in the year	**586**	4,347	**6.57**	8.41	**–**	–	**–**	–
Exercised/released in the year	**(6,137)**	(9,606)	**2.86**	2.80	**–**	–	**–**	–
Less: forfeited in the year	**(797)**	(753)	**4.12**	3.83	**(512)**	(150)	**3.85-5.53**	4.41-6.35
Less: expired in the year	**–**	–	**–**	–	**–**	–	**–**	–
Outstanding at end of year	**18,778**	25,126	**3.87**	4.38	**4,847**	5,359	**3.50-5.03**	4.41-6.35
Of which exercisable:	**5,305**	3,390	**2.43**	2.82	**–**	–	**–**	–

	AGLESAS(c)(d)			
	Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005
Outstanding at beginning of year/ acquisition date	**–**	–	**–**	–
Granted in the year	**37**	–	**–**	–
Exercised/released in the year	**–**	–	**–**	–
Less: forfeited in the year	**–**	–	**–**	–
Less: expired in the year	**–**	–	**–**	–
Outstanding at end of year	**37**	–	**–**	–
Of which exercisable:	**–**	–	**–**	–

	ISOP(a)				ESOS(a)			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at beginning of year	**105,081**	137,870	**4.46**	4.59	**2,552**	4,546	**4.16**	4.13
Granted in the year	**–**	220	**–**	5.66	**–**	–	**–**	–
Exercised/released in the year	**(25,122)**	(8,489)	**4.04**	4.90	**(768)**	(1,924)	**4.20**	4.09
Less: forfeited in the year	**(2,452)**	(24,520)	**4.75**	5.06	**(36)**	(70)	**4.71**	4.10
Less: expired in the year	**–**	–	**–**	–	**–**	–	**–**	–
Outstanding at end of year	**77,507**	105,081	**4.59**	4.46	**1,748**	2,552	**4.14**	4.16
Of which exercisable:	**14,544**	19,970	**4.29**	4.95	**1,748**	2,552	**4.14**	4.16

	Woolwich ESOP(a)				Woolwich SAYE(a)			
	Number (000s)		Weighted average ex. price (£)		Number (000s)		Weighted average ex. price (£)	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Outstanding at beginning of year	**1,260**	2,301	**3.80**	3.80	**3**	164	**3.32**	3.32
Granted in the year	**–**	–	**–**	–	**–**	–	**–**	–
Exercised/released in the year	**(560)**	(1,030)	**3.79**	3.81	**(1)**	(148)	**3.32**	3.32
Less: forfeited in the year	**–**	(11)	**–**	3.78	**(2)**	(13)	**3.32**	3.34
Less: expired in the year	**–**	–	**–**	–	**–**	–	**–**	–
Outstanding at end of year	**700**	1,260	**3.81**	3.80	**–**	3	**–**	3.32
Of which exercisable:	**700**	1,260	**3.81**	3.80	**–**	3	**–**	3.32

Notes
(a) Options/award granted over Barclays PLC shares.
(b) Options/award granted over Barclays Global Investors UK Holdings Limited shares.
(c) Options/award granted over Absa Group Limited shares.
(d) Nil cost award.

51 Share-based payments (continued)

The table below shows the weighted average share price at the date of exercise/release of shares for the Group:

	2006 £	2005 £
Sharesave[(a)]	6.95	5.63
Sharepurchase[(a)(d)]	6.59	5.67
ESAS[(a)(d)]	6.78	5.69
BGI EOP[(b)]	81.08	42.98
AGLSIT[(c)]	8.81	7.59
ISOP[(a)]	6.75	5.86
ESOS[(a)]	6.64	5.89
Woolwich ESOP[(a)]	6.65	5.78
WoolwichSAYE[(a)]	6.09	5.61

The exercise price range, the weighted average contractual remaining life, weighted average fair values at the date of grant, and number of options outstanding (including those exercisable) at the balance sheet date are as follows:

	The Group							
	2006				2005			
Exercise price range	Weighted average exercise price £	Weighted average remaining contractual life in years	Weighted average fair value per option £	Number of options outstanding	Weighted average exercise price £	Weighted average remaining contractual life in years	Weighted average fair value per option £	Number of options outstanding
Sharesave[(a)]								
£2.50-£3.49	3.16	1	1.89	2,177,121	3.15	1	1.83	3,081,016
£3.50-£4.49	4.00	2	1.62	59,531,668	3.98	3	1.72	82,605,783
£4.50-£5.49	5.11	4	1.88	17,220,043	–	–	–	–
Sharepurchase[(a)(d)]	–	3	6.18	2,472,304	–	3	5.57	1,125,779
ESAS[(a)(d)]	–	3	5.80	142,359,494	–	3	4.98	121,515,063
PSP[(a)(d)]	–	2	5.80	42,832,026	–	2	3.99	20,268,666
BGI EOP[(b)]								
£6.11-£13.99	10.21	5	3.50	602,914	10.28	7	3.56	1,659,353
£14.00-£20.11	20.11	7	5.59	771,553	20.11	8	5.59	1,447,696
£20.12-£56.94	39.02	8	10.39	1,716,714	39.10	9	10.41	2,335,000
£56.95-£91.43	81.24	9	21.18	3,838,000	–	–	–	–
Absa BEE[(c)]								
£4.41-£6.35	3.50-5.03	3	1.08	73,152,300	4.41-6.35	4	1.36	73,152,300
AGLSIT[(c)]								
£1.92-£8.19	3.87	7	1.32	18,778,473	4.38	8	1.42	25,125,744
AGLSOT[(c)]								
£4.41-£6.35	3.50-5.03	3	1.08	4,847,400	4.41-6.35	4	1.36	5,359,400
AGLESAS[(c)(d)]	–	3	7.66	37,059	–	–	–	–
ISOP[(a)]								
£2.50-£3.49	3.26	6	0.75	11,055,352	3.26	7	0.75	24,896,000
£3.50-£4.49	3.90	4	1.70	2,411,828	3.90	5	1.70	4,665,028
£4.50-£5.49	4.85	7	2.44	63,746,456	4.89	8	2.40	75,158,832
£5.50-£6.49	5.65	8	2.61	293,096	5.64	8	2.51	361,096
ESOS[(a)]								
£1.50-£2.49	–	–	–	–	2.22	1	0.59	22,024
£2.50-£3.49	3.47	1	1.49	45,288	3.47	2	1.49	70,576
£3.50-£4.49	4.16	2	1.19	1,702,612	4.20	3	1.14	2,459,094
Woolwich ESOP[(a)]								
£2.50-£3.49	3.29	3	2.94	128,624	3.29	4	2.94	240,826
£3.50-£4.49	3.93	3	2.63	571,836	3.92	4	2.63	1,019,612
Woolwich SAYE[(a)]								
£2.50-£3.49	–	–	–	–	3.32	–	2.76	2,632

Notes

(a) Options/award granted over Barclays PLC shares.

(b) Options/award granted over Barclays Global Investors UK Holdings Limited shares.

(c) Options/award granted over Absa Group Limited shares.

(d) Nil cost award.

51 Share-based payments (continued)

There were no modifications to the share-based payment arrangements during the period. As at 31st December 2006, the total liability arising from cash-settled share-based payment transactions was £7m (2005: £nil) for the Group and £1m (2005: £nil) for the Bank.

At 31st December 2006, 6.9 million (2005: 5.4 million) options were outstanding under the terms of the BGI EOP (which would represent a 7.3% interest if exercised). Employees in BGI own 9.4% of the shares in Barclays Global Investors UK Holdings Limited (2005: 12.1%). If all the current options were exercised, £400.5m (2005: £137.5m) would be subscribed. Since the scheme was introduced, options over 19.3 million (2005: 17.1 million) shares have been exercised, of which 8.3 million are still held by employees and represent a minority interest in the Group.

At 31st December 2006, there were 73.2 million, 18.8 million and 4.8 million options granted over Absa Group Limited shares under the Absa Group Limited Black Economic Empowerment Transaction, Absa Group Limited Share Incentive Trust and Absa Group Limited Share Ownership Trust respectively. In aggregate, these options would represent a 14.4% interest in Absa Group Limited if exercised.

52 Financial risks

The main sources of financial risk that the Group faces are those arising from financial instruments – credit risk, liquidity risk, market risk and insurance risk. The Group devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that these are the best available.

Financial instruments are fundamental to the Group's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Group's balance sheet. These risks and the Group's policies and objectives for managing such risks are outlined below.

Credit Risk Management

Credit risk is the risk of suffering financial loss from any of the Group's customers, clients or market counterparties failing to fulfil their contractual obligations to the Group. Credit risk mainly arises from loans and advances, but may also arise where the downgrading of an entity's credit rating causes the fair value of the Group's investment in that entity's financial instruments to fall.

Credit risk is the Group's most significant risk and it deploys considerable resources to controlling it. Nearly two-thirds of risk based economic capital is allocated to businesses for credit risks.

Each business has an embedded risk management team reporting to a Business Risk Director who reports to the Group Risk Director, who leads the Group Risk function, including credit, which is charged with devising and implementing Group risk policy, such as ensuring:

- maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- country risk policy specifies risk appetite by country and avoids excessive concentrations of credit in individual countries; and
- policies are in place that limit lending to certain industries, for example, commercial real estate.

A Credit Committee of Directors and experienced senior managers formulates overall Group credit policy and resolves all significant credit policy issues.

Credit Risk Measurement
The Group's credit rating systems use statistical modelling techniques throughout its business which assist the Group in front line credit decisions, such as managing its existing portfolios and making new commitments.

The Group assesses the credit quality and assigns an internal risk rating to all borrowers and other counterparties, including retail customers. Each internal rating corresponds to the statistical probability of a customer in that rating class defaulting within the next 12-month period. The probability of default, the exposure at default and the loss given default are calculated for all loan portfolios. This allows the Group to monitor its exposures, enabling it to derive measures such as Risk Tendency. Risk Tendency is a statistical estimate of the average loss for each loan portfolio for a 12-month period, taking into account the size of the portfolio and its risk characteristics under current economic conditions, and is used to track the change in risk as the portfolio of loans changes over time.

The Group monitors its financial exposure to individual counterparties, to industries and countries to ensure that no undue concentrations of credit arise.

Credit Risk Mitigation
The Group uses a wide variety of techniques to reduce credit risk on its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. In addition, the Group commonly obtains security for the funds advanced, such as in the case of a retail or commercial mortgage, a reverse repurchase agreement, or a commercial loan with a floating charge over book debts and inventories. The Group also uses various forms of specialised legal agreements to reduce risk, including netting agreements which permit it to offset positive and negative balances with customers in certain circumstances to minimise the exposure at default, financial guarantees, and the use of covenants in commercial lending agreements. Other techniques include the use of credit derivatives and other forms of credit collateral.

In addition, the Group actively manages its exposures to clients, countries and industries through diversificaiton, minimising individual concentrations.

52 Financial risks (continued)

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 main market risks arise from trading activities. Barclays is also exposed to non-trading market risks to asset and liability management and to the Pension Fund.

To facilitate the management, control, measurement and reporting of market risk, Barclays has grouped market risk into three broad categories:

- Trading market risk. These risks arise in trading transactions where Barclays acts as principal with clients or with the market. Barclays policy is that market risks arising from trading activities are concentrated in Barclays Capital.
- Asset and liability risk. These risks arise from banking activities, including those incurred on non-trading positions such as customer assets and liabilities and capital balances.
- Other market risks. Barclays also incurs market risks that are assessed under a slightly different framework. The principal risks of this type are defined benefit pension scheme risk and asset management structural market risk.

The Board approves the market risk appetite for all types of market risk. The Market Risk Director is responsible for the market risk control framework and, under delegated authority from the Risk Director, 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 Risk Director, the Market Risk Director, the Finance Director and the appropriate Business Risk Directors.

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. Daily market risk reports are produced for the main Barclays Capital business areas covering the six main types of trading market risk: interest rate, inflation, credit spread, commodity, equity and foreign exchange. A more detailed trading market risk presentation is produced fortnightly and discussed at Barclays Capital's Traded Products Risk Review meeting. The attendees at this meeting include the senior managers from Barclays Capital and the central market risk team.

Market Risk Measurement

The measurement techniques used to measure and control market risk include:

- Daily Value at Risk;
- Stress Tests;
- Annual Earnings at Risk;
- Economic Capital.

Daily Value at Risk (DVaR)

DVaR is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Daily losses exceeding the DVaR figure are likely to occur, on average, twice in every 100 business days.

Stress Tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Barclays Capital include risk factor stress testing, where stress movements are applied to each of the six risk categories namely interest rate, inflation, credit spread, commodity, equity and foreign exchange rate; emerging market stress testing where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying stress scenarios to the trading risk book.

If potential stressed losses exceed the trigger limit, the positions captured by the stress test are reviewed and discussed by Barclays Capital Market Risk and the respective senior management.

Outside Barclays Capital, stress testing is carried out by the business centres and is reviewed by the senior management and business-level asset and liability committees. The stress testing is tailored to the business and is typically scenario analysis and historical stress movements applied to respective portfolios.

Annual Earnings at Risk (AEaR)

AEaR measures the sensitivity of annual earnings to shocks in market rates at the 99th percentile for change over a one year period. This shock is consistent with the standardised interest rate shock recommended by the Basel II framework for assessing banking book interest rate risk.

AEaR is used to measure structural interest rate market risk and structural asset management risk.

Economic Capital

The total average economic capital required by the Group is determined by risk assessment models and after considering the Group's estimated portfolio effects. Methodologies are used for both operational and business risks to calculate risk sensitive capital allocations. The Group regularly enhances its economic capital methodologies and benchmarks outputs to external reference points. Economic capital is allocated on a consistent basis across all of the Group's businesses and risk activities, and these allocations reflect varying levels of risk.

52 Financial risks (continued)

Trading Market Risk

Group 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 anticipation of future customer demand, Barclays maintains access to market liquidity by quoting bid and offer prices with other market makers and carries an inventory of capital market and treasury instruments, including a broad range of cash, securities and derivatives. Trading positions and any offsetting hedges are established as appropriate to accommodate customer or Barclays requirements.

Analysis of trading market risk exposures

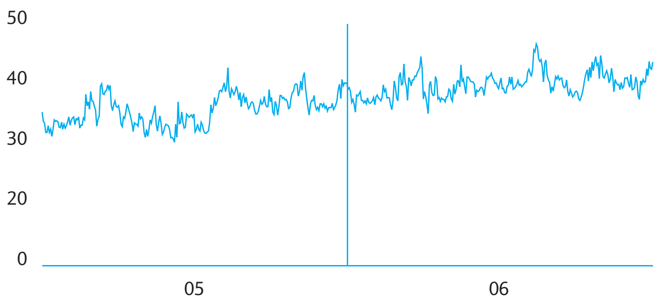
The table below shows the DVaR statistics for Barclays Capital's trading activities:

Barclays Capital DVaR: Summary table for 2006 and 2005

	12 months to 31st December 2006			12 months to 31st December 2005[b]		
	Average £m	High[a] £m	Low[a] £m	Average £m	High[a] £m	Low[a] £m
Interest rate risk	20.1	28.8	12.3	25.4	44.8	15.4
Credit spread risk	24.3	33.1	17.9	23.0	28.3	19.0
Commodities risk	11.3	21.6	5.7	6.8	11.4	4.5
Equities risk	7.8	11.6	5.8	6.0	8.3	3.9
Foreign exchange risk	4.0	7.7	1.8	2.8	5.4	1.6
Diversification effect	(30.4)	n/a	n/a	(32.0)	n/a	n/a
Total DVaR	37.1	43.2	31.3	32.0	40.7	25.4

The graph below shows the history of total DVaR on a daily basis for 2005 and 2006.

DVaR in 2005 and 2006 (daily values) (£m)



DVaR Back-testing

Barclays recognises the importance of assessing the effectiveness of its DVaR model. The main approach employed is the technique known as back-testing, which counts the number of days when trading losses are bigger than the estimated DVaR figure. The regulatory standard for backtesting is to measure DVaR assuming a one-day holding period with a 99% level of confidence. For Barclays Capital's regulatory trading book, there were no instances in 2006 or 2005, of a daily trading revenue loss exceeding the corresponding back-testing DVaR.

Asset and Liability Market Risk

Interest rate exposures arise from mismatches of fixed rate assets and liabilities in UK banking operations and are passed to Treasury where these positions are aggregated and the net position passed to the market via Barclays Capital. Due mainly to timing considerations, market risk can arise when some of the net position stays with Treasury. Similarly, market risk can arise due to the impact of interest rates on customer behaviour. The latter risk is managed and measured by the Retail Market Risk team using behavioural models. The positions are converted into wholesale swap or option exposures, passed to Treasury and managed by the process outlined above.

Structural interest rate risk arises from the variability of income from non-interest bearing products, managed variable rate products and the Group's equity. Structural foreign currency risk results from holding non-Sterling investments in subsidiaries, branches, associates or joint ventures. These structural risks are managed by Treasury.

Interest rate exposures, structural interest rate risk and other market risks may be managed through the use of derivatives. Where this is the case, hedge accounting is obtained where possible so that the benefits of Risk management are reflected in the financial statements.

Notes

(a) The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) DVaR reported as a whole. Consequently a diversification effect number for the high (and low) DVaR figures would not be meaningful and it is therefore omitted from the above table.

(b) 2005 has been restated. The increase reflects the inclusion of Absa Capital.

52 Financial risks (continued)

Liquidity Risk Management

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due or to replace funds when they are withdrawn.

The Group has several core liquidity management strategies. The first is to project future cash flows and make plans to address normal operating requirements, as well as variable scenarios and contingencies. The second is to manage day to day funding, by controlling intraday liquidity in real time and by forecasting future cash flows to ensure that requirements can be met. The third is maintaining a diverse and stable funding base. Finally, the Group maintains a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.

The Group's funding base comprises a mixture of different funding sources, including retail and corporate customer deposits, and short- and long-term debt issuances. Although 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. Important factors in assuring liquidity are competitive rates and the maintenance of depositors' confidence. Such confidence is based on a number of factors including the Group's reputation, the strength of earnings and the Group's financial position.

The ability to raise funds is in part dependent on maintaining the Bank's credit rating. The funding impact of a credit downgrade is regularly estimated. Whilst the impact of a single downgrade may affect the price at which funding is available, the effect on liquidity is not considered material in Group terms.

Liquidity Risk Measurement

Based on principles agreed by the FSA, monitoring and reporting of liquidity risk involves the measurement of cash flows and projections for the next day, week and month.

In addition to cash flow management, Treasury also monitors unmatched medium-term assets and 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.

Treasury develops and implements the process for submitting the Group's projected cash flows to stress scenarios. The output of stress testing informs the Group's contingency funding plan. This is maintained by Treasury and is aligned with the Group and country business resumption plans to encompass decision-making authorities, internal and external communication and, in the event of a systems failure, the restoration of liquidity management and payment systems.

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term. An important source of structural liquidity is provided by our core retail deposits in the UK, Europe and Africa, comprising mainly current accounts and savings accounts. 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.

An analysis of the Group's liquidity position is presented at Note 56.

Insurance Risk Management

Insurance risk is the risk that the Group will have to make higher than anticipated payments to settle claims arising from its long-term and short-term insurance businesses.

Long-term insurance business

For long-term insurance contracts where death is the insured risk, the most significant factors that could detrimentally affect the frequency and severity of claims are the incidence of disease, such as AIDS, or general changes in lifestyle, such as in eating, exercise and smoking. Where survival is the insured risk, advances in medical care and social conditions are the key factors that increase longevity.

The Group manages its exposure to risk by operating in part as a unit-linked business, prudent product design, applying strict underwriting criteria, transferring risk to reinsurers, managing claims and establishing prudent reserves.

Short-term insurance business

For payment protection contracts where inability to make payments under a loan contract is the insured risk, the most significant factors are the health of the policyholder and the possibility of unemployment which depends upon, among other things, long-term and short-term economic factors. The Group manages its exposure to such risks through prudent product design, efficient claims management, prudent reserving methodologies and bases, regular product, economic and market reviews and regular adequacy tests on the size of the reserves.

Absa insures property and motor vehicles, for which the most significant factors that could effect the frequency and severity of claims are climatic change and crime. Absa manages its exposure to risk by diversifying insurance risks accepted and transferring risk to reinsurers.

Derivatives held for Risk Management

The Group uses both cash flow hedging and fair value hedging techniques to achieve hedge accounting for interest rate portions. For example, cash flow hedge relationships have been established between interest rate swaps receive fixed with pay variable legs and cash flows generated by customer assets on which we receive a variable interest rate (including forecast customer assets which are expected to be originated in the future). The cash flows on the variable leg of the swap and the interest flows on the assets are both based on the same benchmark rate (e.g. LIBOR or EURIBOR). Fair value hedge relationships are also established between interest rate swaps with receive fixed/pay variable legs and fixed rate liabilities (e.g. issued loan stock).

Various techniques are used to ensure that the hedge relationship results in an effective reduction in the risks intended to be hedged. For cash flow hedging a hypothetical interest rate swap is created which would completely offset the risks which are being hedged. The ratio of movements (due to changes in the risk being hedged) in the fair value of this instrument (or the hedged item for fair value hedges) and the movement in the fair value of the actual interest rate swaps used as hedges is calculated to determine how close the actual interest rate swap is to a perfect hedging instrument. In some circumstances these ratios are calculated for various scenarios and regression analysis is used to assess the level of effectiveness.

53 Interest rate risk

The Group's objectives and policies in managing the interest rate risks that arise in connection with the use of financial instruments are set out in Note 52 under the headings 'Market Risk Management' and 'Asset and Liability Market Risk'. The table below summarises the repricing profiles of the Group's financial instruments and other assets and liabilities as at 31st December 2006. Items are allocated to time periods by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

As at 31st December 2006

	The Group									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Assets										
Cash and balances at central banks	6,462	–	–	–	–	–	–	–	333	6,795
Items in course of collection from other banks	654	–	–	–	–	–	–	–	1,754	2,408
Trading portfolio assets	–	–	–	–	–	–	–	177,884	–	177,884
Financial assets designated at fair value:										
– held on own account	17,831	834	387	1,121	2,544	1,131	6,231	–	1,720	31,799
– held in respect of linked liabilities to customers under investment contracts	5,351	369	740	860	1,196	2,912	12,946	–	58,424	82,798
Derivative financial instruments	–	–	–	–	–	–	–	138,353	–	138,353
Loans and advances to banks	25,012	483	233	211	69	36	1	–	4,881	30,926
Loans and advances to customers	195,500	15,048	14,225	24,850	9,485	6,399	7,699	–	9,094	282,300
Available for sale financial instruments	26,148	2,427	7,780	3,737	3,234	6,701	1,091	–	834	51,952
Reverse repurchase agreements and cash collateral on securities borrowed	157,592	4,721	8,338	–	3,431	–	–	–	8	174,090
Total financial assets	434,550	23,882	31,703	30,779	19,959	17,179	27,968	316,237	77,048	979,305
Non-financial assets	–	–	–	–	–	–	–	–	17,198	17,198
Total assets	434,550	23,882	31,703	30,779	19,959	17,179	27,968	316,237	94,246	996,503

Not more than three months includes instruments at floating interest rates.

53 Interest rate risk (continued)

As at 31st December 2006 (continued)

	The Group									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Liabilities										
Deposits from other banks	72,353	1,377	763	351	–	7	199	–	4,512	79,562
Items in course of collection to other banks	20	–	–	–	–	–	–	–	2,201	2,221
Customer accounts	207,023	3,965	3,963	2,371	506	43	216	–	38,667	256,754
Trading portfolio liabilities	–	–	–	–	–	–	–	71,874	–	71,874
Financial liabilities designated at fair value:										
– held on own account	20,186	5,635	3,800	1,538	1,607	1,843	774	–	18,604	53,987
– liabilities to customers under investment contracts	6,931	372	730	806	1,164	2,875	12,794	–	58,965	84,637
Derivative financial instruments	–	–	–	–	–	–	–	140,697	–	140,697
Debt securities in issue	92,649	5,624	2,430	4,020	1,630	3,249	1,535	–	–	111,137
Repurchase agreement and cash collateral on securities lent	122,612	6,132	2,348	1,662	–	–	2,818	–	1,384	136,956
Subordinated liabilities	3,192	377	21	1,074	783	3,475	4,842	–	22	13,786
Total financial liabilities	524,966	23,482	14,055	11,822	5,690	11,492	23,178	212,571	124,355	951,611
Non-financial liabilities	–	–	–	–	–	–	–	–	17,786	17,786
Total liabilities	524,966	23,482	14,055	11,822	5,690	11,492	23,178	212,571	142,141	969,397
Interest rate repricing gap	(90,416)	400	17,648	18,957	14,269	5,687	4,790			
Cumulative gap	(90,416)	(90,016)	(72,368)	(53,411)	(39,142)	(33,455)	(28,665)			

Not more than three months includes instruments at floating interest rates.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for:

- Trading Portfolio Assets and Liabilities, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by Barclays Capital, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology, see Note 52 for more information.
- Retail deposits, which are repayable on demand or at short notice. These instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – numerically and by depositor type.

53 Interest rate risk (continued)

As at 31st December 2006

	The Bank									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Assets										
Cash and balances at central banks	4,400	–	–	–	–	–	–	–	11	4,411
Items in course of collection from other banks	599	–	–	–	–	–	–	–	1,713	2,312
Trading portfolio assets	–	–	–	–	–	–	–	120,975	–	120,975
Financial assets designated at fair value:										
– held on own account	15,556	374	138	443	917	732	5,028	–	–	23,188
Derivative financial instruments	–	–	–	–	–	–	–	149,439	–	149,439
Loans and advances to banks	18,499	357	211	309	553	449	100	–	3,389	23,867
Loans and advances to customers	190,402	14,282	7,408	19,233	6,602	3,514	2,054	–	36,325	279,820
Available for sale financial instruments	14,850	985	6,142	1,364	2,459	5,252	301	–	211	31,564
Reverse repurchase agreements and cash collateral on securities borrowed	167,548	4,607	6,815	343	1,185	127	–	–	–	180,625
Total financial assets	411,854	20,605	20,714	21,692	11,716	10,074	7,483	270,414	41,649	816,201
Non-financial assets	–	–	–	–	–	–	–	–	25,356	25,356
Total assets	411,854	20,605	20,714	21,692	11,716	10,074	7,483	270,414	67,005	841,557

Not more than three months includes instruments at floating interest rates.

53 Interest rate risk (continued)

As at 31st December 2006 (continued)

	The Bank									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Liabilities										
Deposits from other banks	95,387	905	214	355	–	–	–	–	3,711	100,572
Items in course of transmission due to other banks	8	–	–	–	–	–	–	–	2,196	2,204
Customer accounts	236,731	6,373	2,908	1,345	779	370	366	–	34,113	282,985
Trading portfolio liabilities	–	–	–	–	–	–	–	43,479	–	43,479
Financial liabilities designated at fair value: – held on own account	19,377	5,626	3,738	1,307	950	1,001	774	–	18,463	51,236
Derivative financial instruments	–	–	–	–	–	–	–	147,382	–	147,382
Debt securities in issue	46,418	4,864	1,137	152	353	5	94	–	–	53,023
Repurchase agreements and cash collateral on securities lent	101,311	5,926	2,281	–	–	–	–	–	–	109,518
Subordinated liabilities	3,113	399	21	848	703	3,217	5,155	–	4	13,460
Total financial liabilities	502,345	24,093	10,299	4,007	2,785	4,593	6,389	190,861	58,487	803,859
Non-financial liabilities	–	–	–	–	–	–	–	–	19,191	19,191
Total liabilities	502,345	24,093	10,299	4,007	2,785	4,593	6,389	190,861	77,678	823,050
Interest rate repricing gap	(90,491)	(3,488)	10,415	17,685	8,931	5,481	1,094			
Cumulative liquidity gap	(90,491)	(93,979)	(83,564)	(65,879)	(56,948)	(51,467)	(50,373)			

Not more than three months includes instruments at floating interest rates.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for:

- Trading Portfolio Assets and Liabilities, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by Barclays Capital, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology, see Note 52 for more information.
- Retail deposits, which are repayable on demand or at short notice. These instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – numerically and by depositor type.

53 Interest rate risk (continued)

As at 31st December 2005

	The Group									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Assets										
Cash and balances at central banks	3,295	–	–	–	–	–	–	–	211	3,506
Items in course of collection from other banks	397	–	–	–	–	–	–	–	1,504	1,901
Trading portfolio assets	–	–	–	–	–	–	–	155,730	–	155,730
Financial assets designated at fair value:										
– held on own account	2,750	1,968	336	612	590	806	4,611	–	1,231	12,904
– held in respect of linked liabilities to customers under investment contracts	1,936	76	458	1,834	930	3,252	12,852	–	61,855	83,193
Derivative financial instruments	–	–	–	–	–	–	–	136,823	–	136,823
Loans and advances to banks	27,454	589	11	18	6	14	1,206	–	1,807	31,105
Loans and advances to customers	175,632	26,086	12,255	22,248	10,874	5,574	6,657	–	9,570	268,896
Available for sale financial instruments	17,458	7,275	5,561	11,756	2,188	4,164	3,621	–	1,680	53,703
Reverse repurchase agreements and cash collateral on securities borrowed	152,509	3,656	3,863	99	215	26	30	–	–	160,398
Total financial assets	381,431	39,650	22,484	36,567	14,803	13,836	28,977	292,553	77,858	908,159
Non-financial assets	–	–	–	–	–	–	–	–	16,011	16,011
Total assets	381,431	39,650	22,484	36,567	14,803	13,836	28,977	292,553	93,869	924,170

Not more than three months including instruments at floating interest rates.

53 Interest rate risk (continued)

As at 31st December 2005 (continued)

	The Group									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Liabilities										
Deposits from other banks	69,837	2,418	1,000	243	264	9	165	–	1,191	75,127
Items in course of transmission due to other banks	117	16	–	–	–	–	–	–	2,208	2,341
Customer accounts	191,633	6,948	4,038	2,917	1,119	845	581	–	30,603	238,684
Trading portfolio liabilities	–	–	–	–	–	–	–	71,564	–	71,564
Financial liabilities designated at fair value:										
– held on own account	8,127	3,497	7,243	3,016	3,308	5,629	2,557	–	8	33,385
– liabilities to customers under investment contracts	–	–	–	–	–	–	–	–	85,201	85,201
Derivative financial instruments	–	–	–	–	–	–	–	137,971	–	137,971
Debt securities in issue	82,044	5,187	1,981	4,890	2,463	206	6,557	–	–	103,328
Repurchase agreements and cash collateral on securities lent	106,389	7,186	2,994	431	–	–	4,170	–	8	121,178
Subordinated liabilities	3,909	459	97	955	500	2,688	3,738	–	117	12,463
Total financial liabilities	462,056	25,711	17,353	12,452	7,654	9,377	17,768	209,535	119,336	881,242
Non-financial liabilities	–	–	–	–	–	–	–	–	18,685	18,685
Total liabilities	462,056	25,711	17,353	12,452	7,654	9,377	17,768	209,535	138,201	899,927
Interest rate repricing gap	(80,625)	13,939	5,131	24,115	7,149	4,459	11,209			
Cumulative gap	(80,625)	(66,686)	(61,555)	(37,440)	(30,291)	(25,832)	(14,623)			

Not more than three months includes instruments at floating interest rates.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for:

- Trading Portfolio Assets and Liabilities, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by Barclays Capital, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology, see Note 52 for more information.
- Retail deposits, which are repayable on demand or at short notice. These instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – numerically and by depositor type.

53 Interest rate risk (continued)

As at 31st December 2005

	The Bank									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Assets										
Cash and balances at central banks	787	–	–	–	–	–	–	–	186	973
Items in course of collection from other banks	353	–	–	–	–	–	–	–	1,495	1,848
Trading portfolio assets	–	–	–	–	–	–	–	108,257	–	108,257
Financial assets designated at fair value:										
– held on own account	4,875	1,972	15	334	406	431	3,866	–	–	11,899
Derivative financial instruments	–	–	–	–	–	–	–	142,624	–	142,624
Loans and advances to banks	20,891	926	17	15	9	24	77	–	1,956	23,915
Loans and advances to customers	174,102	28,921	7,096	20,024	6,877	3,658	2,357	–	6,179	249,214
Available for sale financial investments	21,811	6,752	3,704	8,853	2,209	4,073	149	–	1,474	49,025
Reverse repurchase agreements and cash collateral on securities	145,809	4,055	3,532	12	11	–	–	–	–	153,419
Total financial assets	368,628	42,626	14,364	29,238	9,512	8,186	6,449	250,881	11,290	741,174
Non financial assets	–	–	–	–	–	–	–	–	22,274	22,274
Total assets	368,628	42,626	14,364	29,238	9,512	8,186	6,449	250,881	33,564	763,448

Not more than three months includes instruments at floating interest rates.

53 Interest rate risk (continued)

As at 31st December 2005 (continued)

	The Bank									
	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	Trading portfolio and derivatives £m	Non-interest bearing £m	Total £m
Liabilities										
Deposits from other banks	83,765	3,112	1,201	314	341	12	178	–	636	89,559
Items in course of transmission due to other banks	97	–	–	–	–	–	–	–	2,453	2,550
Customer accounts	177,059	4,707	1,891	1,233	2,770	213	203	–	31,800	219,876
Trading portfolio liabilities	–	–	–	–	–	–	–	47,805		47,805
Financial liabilities designated at fair value: – held on own account	22,466	3,879	6,498	3,027	2,915	5,605	2,557	–	–	46,947
Derivative financial instruments	–	–	–	–	–	–	–	140,529	–	140,529
Debt securities in issue	50,394	4,556	1,383	321	65	113	160	–	–	56,992
Repurchase agreements and cash collateral on securities lent	108,889	4,057	1,609	–	–	–	–	–	–	114,555
Subordinated liabilities	3,855	454	25	518	362	3,019	3,883	–	27	12,143
Total financial liabilities	446,525	20,765	12,607	5,413	6,453	8,962	6,981	188,334	34,916	730,956
Non-financial liabilities	–	–	–	–	–	–	–	–	15,855	15,855
Total liabilities	446,525	20,765	12,607	5,413	6,453	8,962	6,981	188,334	50,771	746,811
Interest rate repricing gap	(77,897)	21,861	1,757	23,825	3,059	(776)	(532)			
Cumulative gap	(77,897)	(56,036)	(54,279)	(30,454)	(27,395)	(28,171)	(28,703)			

Not more than three months includes instruments at floating interest rates.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for:

- Trading Portfolio Assets and Liabilities, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by Barclays Capital, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology, see Note 52 for more information.
- Retail deposits which are repayable on demand or at short notice form a stable base for the Group's operations and liquidity needs because of the broad base of customers – numerically and by depositor type.

Effective interest rates

Weighted average effective interest rates were as follows:

	The Group		The Bank	
As at 31st December	**2006 %**	2005 %	**2006 %**	2005 %
Assets				
Cash and balances at central banks	**4.1**	3.1	**4.1**	3.1
Loans and advances to banks	**4.1**	3.5	**3.5**	2.8
Loans and advances to customers	**6.5**	4.5	**6.5**	4.7
Available for sale financial instruments	**4.6**	4.2	**4.2**	4.1
Reverse repurchase agreements and cash collateral on securities borrowed	**4.2**	3.4	**3.8**	2.9
Liabilities				
Deposits from other banks	**4.3**	3.6	**4.2**	3.6
Customer accounts	**3.4**	2.5	**3.1**	2.4
Debt securities in issue	**5.0**	4.5	**4.7**	4.6
Repurchase agreements and cash collateral on securities lent	**4.2**	3.1	**4.2**	3.0
Subordinated liabilities	**5.9**	5.6	**5.7**	5.6

54 Credit Risk

The Group's objectives and policies in managing the credit risks that arise in connection with the use of financial instruments and other credit exposures are set out in Note 52 under the heading 'Credit Risk Management'.

Concentration of credit risk

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The concentrations of credit exposure described below are not proportionally related to credit loss. Some segments of the Group's portfolio have and are expected to have proportionally higher credit charges in relation to the exposure than others. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus comparatively large credit charges could arise in parts of the portfolio not mentioned below.

The single biggest geographical concentration of credit risk is in the UK. Gross credit exposure to borrowers in the UK (based on the location of the customer) for the Group was £170.5bn at 31st December 2006 (2005: £163.8bn) and for the Bank was £228.0bn at 31st December 2006 (2005: £206.8bn). In the UK, the Group's collateral policy differs by line of business and product but is broadly consistent with UK market practice. Netting agreements are made with wholesale counterparties whenever practical and to the extent that such agreements are legally enforceable. Outside the UK, the Group's geographical spread ensures a wide variety of counterparties in the main areas of operation in Europe, the United States and other areas of the world.

Barclays also has significant concentrations of exposures to home loans and banks. All these concentrations may spread across one or more of the line items described below.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk is the carrying amount of assets held on the balance sheet. The actual exposure to credit risk is less than this in most cases.

Cash and demand balances at central banks – By their nature, the Group expects that these balances will have close to nil credit risk attached to them.

Items in the course of collection from other banks/loans and advances to banks – The Group maintains relationships with a wide range of banking counterparties. While banking counterparties are generally of high quality, the Group also monitors its exposure to individual banks to ensure that the credit risk is diversified. The Group is also exposed to credit risk with banks on other financial assets including derivatives and also on letters of credit and guarantees. The Group may require collateral before entering into a credit commitment with another bank, depending on the type of the financial product and the counterparty involved. Netting agreements are secured whenever possible and to the extent that such agreements are legally enforceable.

Trading portfolio assets/financial assets designated at fair value/available for sale financial investments – The Group's practice is to take into account credit risk when valuing these assets. The Group therefore expects little additional credit risk on these instruments, other than the credit risk component of trading market risk on these instruments. The trading market risk is monitored through the Daily Value at Risk (DVaR) methodology. In addition, many of the trading portfolio and available for sale assets held are of very high quality, including treasury bill and government bonds. An analysis of trading portfolio assets by instrument type is included in Note 11 and a similar analysis for available for sale assets is included in Note 17.

Derivative financial instruments – In addition to including the credit risk on these instruments in the DVaR methodology, the Group also uses a number of other techniques to reduce it's exposure to credit risk on these instruments. These techniques include master netting agreements, which do not qualify for offset under IAS 32 but which give a legally enforceable right to net receivables and payables with the same counterparty, and the obtaining of cash collateral from counterparties who have a net exposure to the Group through Collateral Service Agreements.

Loans and advances to customers – A significant portion of the Group's loans and advances to customers comprises lending in respect of home loans. Home loan lending for the Group totalled £98.2bn at 31st December 2006 (2005: £89.5bn) and for the Bank totalled £70.6bn at December 2006 (2005: £67.5bn). This represents 34% (2005: 33%) of loans to customers for the Group and 25% (2005: 27%) for the Bank. As collateral, Barclays requires a first mortgage over the residential property for the acquisition of which the loan is made. For other lending to customers, the Group may require various forms of credit protection, including the use of netting agreements and covenants and the obtaining of security such as mortgages or charges. Finally, the Group actively seeks to manage credit risk by ensuring diversification of its lending across clients, regions and industries. An analysis of loans to customers according to geographic region and industry sector is set out in Note 15.

Reverse repurchase agreements and cash collateral on securities borrowed – By their nature these balances have a low credit risk, as they are largely secured by obtaining collateral from counterparties. The Group's policy is to seek collateral at the outset equal to 100% to 105% of the loan amount, with further collateral calls made as required.

Barclays manages its credit exposure by counterparty exposure which may be spread across one or more of the items described above.

55 Currency risk

Foreign currency exposures comprise structural foreign currency exposures, which arise from investments in the Group's overseas operations and other investments; and those originating in trading activities.

The Group holds foreign currency net investments and is exposed to fluctuations in the Group's share of their net assets measured in their functional currencies caused by movements in exchange rates between these currencies and Sterling, the Group's reporting currency.

The carrying value of the Group's foreign currency net investments and the foreign currency borrowings and derivatives used to hedge them were as follows:

	2006				2005			
Functional currency of the operation involved	**Foreign currency net investments £m**	**Borrowings which hedge the net investments £m**	**Derivatives which hedge the net investments £m**	**Remaining structural currency exposures £m**	Foreign currency net investments £m	Borrowings which hedge the net investments £m	Derivatives which hedge the net investments £m	Remaining structural currency exposures £m
United States Dollar	**4,462**	**2,141**	**–**	**2,321**	2,254	428	–	1,826
Euro	**3,409**	**1,185**	**–**	**2,224**	3,326	1,017	–	2,309
Rand	**2,849**	**–**	**2,665**	**184**	3,143	–	3,056	87
Japanese Yen	**2,754**	**202**	**2,527**	**25**	3,118	195	2,914	9
Swiss Franc	**2,071**	**158**	**1,900**	**13**	138	129	–	9
Other	**2,069**	**205**	**410**	**1,454**	1,736	222	228	1,286
Total	**17,614**	**3,891**	**7,502**	**6,221**	13,715	1,991	6,198	5,526

In addition to the above, the Group has US Dollar and Euro Preference Shares and reserve capital instruments in issue that are treated as equity under IFRS.

In accordance with Group policy, as at 31st December 2006 and 31st December 2005, there were no material net currency exposures in the non-trading book relating to transactional (or non-structural) positions that would give rise to net currency gains and losses recognised in the profit and loss account.

The Daily Value at Risk (DVaR) methodology is used by the Group to estimate potential losses arising from exposure to market risk, including currency risk, on trading positions. The tables shown on page 110 show an analysis of DVaR for the market risk exposures in Barclays Capital.

56 Liquidity risk

The Group's objectives and policies in managing the liquidity risks that arise in connection with the use of financial instruments are set out in Note 52 under the heading 'Liquidity Risk Management'.

The following table provides detail on the contractual maturity of all financial instruments and other assets and liabilities:

	The Group								
At 31st December 2006	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
Assets									
Cash and balances with central banks	6,500	295	–	–	–	–	–	–	6,795
Items in course of collection from other banks	1,782	626	–	–	–	–	–	–	2,408
Trading portfolio assets	1,528	28,433	7,034	10,540	27,738	21,606	28,809	52,196	177,884
Financial assets designated at fair value:									
– held on own account	1,899	1,975	295	942	5,692	5,239	4,018	11,739	31,799
– held in respect of linked liabilities to customers under investment contracts	59,462	1,026	366	999	2,856	1,266	2,994	13,829	82,798
Derivative financial instruments	–	11,991	7,803	12,570	24,072	28,249	30,949	22,719	138,353
Loans and advances to banks	2,887	18,806	800	3,063	1,595	1,130	1,012	1,633	30,926
Loans and advances to customers	32,492	44,424	9,901	15,508	31,986	27,668	38,036	82,285	282,300
Available for sale financial investments	564	9,084	2,516	8,733	14,103	4,621	6,999	5,332	51,952
Reverse repurchase agreements and cash collateral on securities borrowed	32,795	117,077	4,670	11,025	1,375	6,939	168	41	174,090
Total financial assets	139,909	233,737	33,385	63,380	109,417	96,718	112,985	189,774	979,305
Non-financial assets	–	–	–	–	–	–	–	17,198	17,198
Total assets	139,909	233,737	33,385	63,380	109,417	96,718	112,985	206,972	996,503
Liabilities									
Deposits from other banks	19,163	55,534	1,418	891	593	1,406	367	190	79,562
Items in course of collection to other banks	2,154	67	–	–	–	–	–	–	2,221
Customer accounts	153,642	89,079	5,594	3,604	1,655	1,436	807	937	256,754
Trading portfolio liabilities	114	11,578	2,885	1,709	12,242	7,495	17,740	18,111	71,874
Financial liabilities designated at fair value:									
– held on own account	6	13,958	6,297	5,143	7,090	8,447	10,978	2,068	53,987
– liabilities to customers under investment contracts	56,612	1,481	367	912	2,976	1,446	3,737	17,106	84,637
Derivative financial instruments	59	12,040	7,589	13,143	25,510	30,499	32,010	19,847	140,697
Debt securities in issue	17	70,805	8,669	5,311	10,408	3,798	4,017	8,112	111,137
Repurchase agreements and cash collateral on securities lent	2,230	119,048	6,362	2,659	2,305	–	–	4,352	136,956
Subordinated liabilities	–	–	–	–	236	911	4,623	8,016	13,786
Total financial liabilities	233,997	373,590	39,181	33,372	63,015	55,438	74,279	78,739	951,611
Non-financial liabilities	–	–	–	–	–	–	–	17,786	17,786
Total liabilities	233,997	373,590	39,181	33,372	63,015	55,438	74,279	96,525	969,397
Cumulative liquidity gap	(94,088)	(233,941)	(239,737)	(209,729)	(163,327)	(122,047)	(83,341)	27,106	27,106

56 Liquidity risk (continued)

The following table provides detail on the contractual maturity of all financial instruments and other assets and liabilities:

	The Bank								
At 31st December 2006	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
Assets									
Cash and balances with central banks	4,391	20	–	–	–	–	–	–	4,411
Items in course of collection from other banks	1,713	599	–	–	–	–	–	–	2,312
Trading portfolio assets	–	16,079	3,356	7,436	16,961	16,079	21,754	39,310	120,975
Financial assets designated at fair value:									
– held on own account	–	543	267	727	4,573	2,502	2,220	12,356	23,188
Derivative financial instruments	–	11,950	7,696	14,987	25,040	28,831	38,183	22,752	149,439
Loans and advances to banks	2,220	17,216	546	672	785	791	1,203	434	23,867
Loans and advances to customers	43,672	85,224	5,861	8,238	22,780	22,609	33,439	57,997	279,820
Available for sale financial investments	133	4,467	1,519	6,819	8,097	3,901	5,396	1,232	31,564
Reverse repurchase agreements and cash collateral on securities borrowed	1,955	157,866	5,202	9,493	1,515	4,426	127	41	180,625
Total financial assets	54,084	293,964	24,447	48,372	79,751	79,139	102,322	134,122	816,201
Non-financial assets	–	–	–	–	–	–	–	25,356	25,356
Total assets	54,084	293,964	24,447	48,372	79,751	79,139	102,322	159,478	841,557
Liabilities									
Deposits from banks	18,505	78,579	948	326	473	1,374	367	–	100,572
Items in the course of collection due to other banks	2,143	61	–	–	–	–	–	–	2,204
Customer accounts	153,312	107,989	4,063	855	2,781	6,936	1,412	5,637	282,985
Trading portfolio liabilities	–	514	83	449	7,189	5,650	14,598	14,996	43,479
Financial liabilities designated at fair value:									
– held on own account	7	13,152	6,286	5,134	6,786	7,695	10,108	2,068	51,236
Derivative financial instruments	0	11,665	7,545	14,813	25,587	30,324	37,157	20,291	147,382
Debt securities in issue	12	40,804	6,957	2,356	2,299	404	11	180	53,023
Repurchase agreements and cash collateral on securities lent	302	98,638	6,157	2,593	1,828	–	–	–	109,518
Subordinated liabilities	–	–	–	–	226	895	4,228	8,111	13,460
Total financial liabilities	174,281	351,402	32,039	26,526	47,169	53,278	67,881	51,283	803,859
Non-financial liabilities	–	–	–	–	–	–	–	19,191	19,191
Total liabilities	174,281	351,402	32,039	26,526	47,169	53,278	67,881	70,474	823,050
Cumulative liquidity gap	(120,197)	(177,635)	(185,227)	(163,381)	(130,799)	(104,938)	(70,497)	18,507	18,507

56 Liquidity risk (continued)

The following table provides detail on the contractual maturity of all financial instruments and other assets and liabilities:

	The Group								
At 31st December 2005	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
Assets									
Cash and balances with central banks	3,393	113	–	–	–	–	–	–	3,506
Items in course of collection from other banks	1,526	375	–	–	–	–	–	–	1,901
Trading portfolio assets	610	21,437	9,401	14,328	27,077	17,775	22,906	42,196	155,730
Financial assets designated at fair value:									
– held on own account	1,436	484	103	555	2,157	822	836	6,511	12,904
– held in respect of linked liabilities to customers under investment contracts	62,636	1,039	75	546	1,841	939	3,261	12,856	83,193
Derivative financial instruments	1,839	16,254	6,924	8,479	29,086	20,246	29,618	24,377	136,823
Loans and advances to banks	3,929	15,917	2,000	3,175	1,844	787	1,048	2,405	31,105
Loans and advances to customers	33,999	43,884	11,407	21,340	32,713	25,476	30,030	70,047	268,896
Available for sale financial investments	476	3,775	2,765	7,744	19,654	9,488	4,798	5,003	53,703
Reverse repurchase agreements and cash collateral on securities borrowed	690	149,276	3,923	4,028	1,537	888	26	30	160,398
Total financial assets	110,534	252,554	36,598	60,195	115,909	76,421	92,523	163,425	908,159
Non-financial assets	–	–	–	–	–	–	–	16,011	16,011
Total assets	110,534	252,554	36,598	60,195	115,909	76,421	92,523	179,436	924,170
Liabilities									
Deposits from banks	13,924	54,620	2,488	1,168	442	725	1,288	472	75,127
Items in the course of collection due to other banks	2,238	103	–	–	–	–	–	–	2,341
Customer accounts	144,015	72,590	9,282	2,606	2,981	1,594	2,223	3,393	238,684
Trading portfolio liabilities	6	1,580	1,448	4,047	18,424	10,172	17,293	18,594	71,564
Financial liabilities designated at fair value:									
– held on own account	6	6,692	3,186	7,293	3,582	3,718	5,882	3,026	33,385
Liabilities to customers under investment contracts	79,985	–	–	83	191	213	1,518	3,211	85,201
Derivative financial instruments	1,512	17,238	6,594	8,436	29,740	21,359	29,360	23,732	137,971
Debt securities in issue	894	54,112	13,985	8,777	8,795	2,876	307	13,582	103,328
Repurchase agreements and cash collateral on securities lent	275	104,063	7,217	3,208	431	–	–	5,984	121,178
Subordinated liabilities	2	185	2	74	28	721	4,672	6,779	12,463
Total financial liabilities	242,857	311,183	44, 202	35,692	64,614	41,378	62,543	78,773	881,242
Non-financial liabilities	–	–	–	–	–	–	–	18,685	18,685
Total liabilities	242,857	311,183	44,202	35,692	64,614	41,378	62,543	97,458	899,927
Cumulative liquidity gap	(132,323)	(190,952)	(198,556)	(174,653)	(122,758)	(87,715)	(57,735)	24,243	24,243

Expected maturity dates do not differ significantly from the contract dates, except for:

- Trading Portfolio Assets and Liabilities and derivative financial instruments, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by Barclays Capital, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology.
- Retail deposits which are repayable on demand or at short notice. These instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – both numerically and by depositor type.
- Financial assets designated at fair value held in respect of linked liabilities, which are managed with the associated liabilities.

56 Liquidity risk (continued)

As at 31st December 2005	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
	The Bank								
Assets									
Cash and balances with central banks	937	36	–	–	–	–	–	–	973
Items in course of collection from other banks	1,499	349	–	–	–	–	–	–	1,848
Trading portfolio assets	26	18,630	4,180	7,284	13,836	13,460	18,722	32,119	108,257
Financial assets designated at fair value:									
– held on own account	880	3,988	100	15	340	406	431	5,739	11,899
Derivative financial instruments	124	15,921	7,200	9,539	31,769	22,176	31,129	24,766	142,624
Loans and advances to banks	5,737	15,002	1,175	152	541	474	178	656	23,915
Loans and advances to customers	50,790	66,693	9,880	15,964	26,048	20,852	18,543	40,444	249,214
Available for sale financial investments	61	12,903	2,292	5,503	15,453	7,242	4,265	1,306	49,025
Reverse repurchase agreements and cash collateral on securities borrowed	35,818	107,449	4,321	3,697	1,450	684	–	–	153,419
Total Financial Assets	95,872	240,971	29,148	42,154	89,437	65,294	73,268	105,030	741,174
Non-financial assets	–	–	–	–	–	–	–	22,274	22,274
Total assets	95,872	240,971	29,148	42,154	89,437	65,294	73,268	127,304	763,448
Liabilities									
Deposits from banks	24,275	58,451	2,980	1,268	391	666	1,288	240	89,559
Items in the course of collection due to other banks	2,224	326	–	–	–	–	–	–	2,550
Customer accounts	122,201	78,498	3,869	2,119	1,392	6,542	1,732	3,523	219,876
Trading portfolio liabilities	10	302	277	2,461	8,212	6,633	12,892	17,018	47,805
Financial liabilities designated at fair value:									
– held on own account	5,545	15,571	3,569	6,547	3,526	3,312	5,851	3,026	46,947
Derivative financial instruments	176	16,623	6,743	8,870	31,172	23,093	30,049	23,803	140,529
Debt securities in issue	7	30,951	11,564	6,034	4,198	478	214	3,546	56,992
Repurchase agreements and cash collateral on securities lent	222	108,454	4,057	1,822	–	–	–	–	114,555
Subordinated liabilities	–	162	2	–	–	279	4,439	7,261	12,143
Total financial liabilities	154,660	309,338	33,061	29,121	48,891	41,003	56,465	58,417	730,956
Non-financial liabilities	–	–	–	–	–	–	–	15,855	15,855
Total liabilities	154,660	309,338	33,061	29,121	48,891	41,003	56,465	74,272	746,811
Cumulative liquidity gap	(58,788)	(127,155)	(131,068)	(118,035)	(77,489)	(53,198)	(36,395)	16,637	16,637

57 Insurance risk

The Group's objectives and policies in managing the insurance risks that arise in connection with the use of financial instruments are set out in Note 52 under the heading 'Insurance Risk Management'.

Concentration of insurance risk

The Group considers that the concentration of insurance risk that is most relevant to the Group financial statements is according to the type of cover offered and the location of insured risk. The following table shows the maximum amounts payable under all of the Group's insurance products. It ignores the probability of insured events occurring and the contribution from investments backing the insurance policies. The table shows the location of the insured risk and the broad product types; before and after the impact of reinsurance that represents the risk that is passed to other insurers.

	The Group					
	2006			2005		
	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m
Total benefits insured by product type						
Long term insurance contracts	24,934	(9,445)	15,489	28,877	(12,128)	16,749
Short term insurance contracts	39,870	(901)	38,969	57,049	(753)	56,296
Total benefits insured	64,804	(10,346)	54,458	85,926	(12,881)	73,045

	2006			2005		
	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m	Before Reinsurance £m	Reinsurance £m	After Reinsurance £m
Total benefits insured by geographic location						
United Kingdom	25,403	(8,010)	17,393	28,687	(8,697)	19,990
Other European Union	3,317	(1,802)	1,515	5,418	(2,981)	2,437
Africa	36,084	(534)	35,550	51,821	(1,203)	50,618
Total benefits insured	64,804	(10,346)	54,458	85,926	(12,881)	73,045

Reinsurer credit risk

For the long-term business, reinsurance programmes are in place to restrict the amount of cover to any single life. The reinsurance cover is spread across highly rated companies to diversify the risk of reinsurer solvency. Net insurance reserves include a margin to reflect reinsurer credit risk.

58 Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arms-length transaction between knowledgeable willing parties.

The following table summarises the carrying amounts of financial assets and financial liabilities presented on the Group and Bank's balance sheet, and their fair values:

		The Group			
		2006		2005	
	Notes	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets:					
Cash and balances at central banks	(a)	**6,795**	**6,795**	3,506	3,506
Items in the course of collection from other banks	(a)	**2,408**	**2,408**	1,901	1,901
Trading portfolio assets	(b)	**177,884**	**177,884**	155,730	155,730
Financial assets designated at fair value:					
– held on own account	(b)	**31,799**	**31,799**	12,904	12,904
– held in respect of linked liabilities to customers under investment contracts	(b)	**82,798**	**82,798**	83,193	83,193
Derivative financial instruments	(b)	**138,353**	**138,353**	136,823	136,823
Loans and advances to banks	(c)	**30,926**	**30,895**	31,105	31,094
Loans and advances to customers	(c)	**282,300**	**282,061**	268,896	268,786
Available for sale financial investments	(b)	**51,952**	**51,952**	53,703	53,703
Reverse repurchase agreements and cash collateral on securities borrowed	(c)	**174,090**	**174,090**	160,398	160,398
Financial liabilities:					
Deposits from banks	(d)	**79,562**	**79,436**	75,127	75,145
Items in the course of collection due to other banks	(a)	**2,221**	**2,221**	2,341	2,341
Customer accounts	(d)	**256,754**	**256,661**	238,684	238,608
Trading portfolio liabilities	(b)	**71,874**	**71,874**	71,564	71,564
Financial liabilities designated at fair value: held on own account	(b)	**53,987**	**53,987**	33,385	33,385
Liabilities to customers under investment contracts	(g)	**84,637**	**84,637**	85,201	85,201
Derivative financial instruments	(b)	**140,697**	**140,697**	137,971	137,971
Debt securities in issue	(e)	**111,137**	**111,131**	103,328	103,294
Repurchase agreements and cash collateral on securities lent	(d)	**136,956**	**136,956**	121,178	121,178
Subordinated liabilities	(f)	**13,786**	**13,976**	12,463	13,610

		The Bank			
		2006		2005	
	Notes	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets:					
Cash and balances at central banks	(a)	**4,411**	**4,411**	973	973
Items in the course of collection from other banks	(a)	**2,312**	**2,312**	1,848	1,848
Trading portfolio assets	(b)	**120,975**	**120,975**	108,257	108,257
Financial assets designated at fair value:					
– held on own account	(b)	**23,188**	**23,188**	11,899	11,899
Derivative financial instruments	(b)	**149,439**	**149,439**	142,624	142,624
Loans and advances to banks	(c)	**23,867**	**23,856**	23,915	23,915
Loans and advances to customers	(c)	**279,820**	**279,242**	249,214	249,125
Available for sale financial investments	(b)	**31,564**	**31,564**	49,025	49,025
Reverse repurchase agreements and cash collateral on securities borrowed	(c)	**180,625**	**180,625**	153,419	153,419
Financial liabilities:					
Deposits from banks	(d)	**100,572**	**100,563**	89,559	89,578
Items in the course of collection due to other banks	(a)	**2,204**	**2,204**	2,550	2,550
Customer accounts	(d)	**282,985**	**282,932**	219,876	219,807
Trading portfolio liabilities	(b)	**43,479**	**43,479**	47,805	47,805
Financial liabilities designated at fair value: held on own account	(b)	**51,236**	**51,236**	46,947	46,947
Derivative financial instruments	(b)	**147,382**	**147,382**	140,529	140,529
Debt securities in issue	(e)	**53,023**	**53,016**	56,992	56,958
Balances due to Barclays PLC		**–**	**–**	4	4
Repurchase agreements and cash collateral on securities lent	(d)	**109,518**	**109,518**	114,555	114,555
Subordinated liabilities	(f)	**13,460**	**13,668**	12,143	13,210

58 Fair value of financial instruments (continued)

Notes

(a) Fair value approximates carrying value due to the minimal credit losses and short-term nature of the financial assets and liabilities.

(b) Financial instruments at fair value (including those held for trading, designated at fair value, derivatives and available for sale) are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices. Changes to assumptions or estimated levels can potentially impact the fair value of an instrument as reported. The effect of changing these assumptions, for those financial instruments for which the fair values were measured using valuation techniques that are determined in full or in part on assumptions that are not supported by observable market prices, to a range of reasonably possible alternative assumptions, would be to increase the fair value by up to £139m (2005: £121m) or to decrease the fair value by up to £123m (2005: £87m). The decrease in fair value was arrived at by imposing more conservative assumptions in the estimation of valuation model inputs. The increase in fair value was arrived at by taking less conservative assumptions in the estimation of valuation model inputs and less conservative assumptions over the uncertainty of valuation models. These variations in the assumptions have been estimated on a product by product basis and form part of the Bank's internal control processes over the determination of fair value.

The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model, market data and assumptions or estimates in these are all subject to internal review and approval procedures and consistent application between accounting periods.

The net asset fair value position of those financial instruments where the fair values were estimated using valuation techniques which are based in full or in part on assumptions that are not supported by observable market prices decreased by £2,814m for the year ended 31st December 2006 (31st December 2005: £2,877m). In many cases these changes in fair values were offset by changes in fair values of other financial instruments, which were priced in active markets or valued by using a valuation technique which is supported by observable market prices or rates, or by transactions which have been realised.

(c) The fair value for loans and advances, and other lending (including reverse repurchase agreements and cash collateral on securities borrowed) is estimated using discounted cash flows, applying either market rates where practicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics. In many cases the fair value approximates carrying value because the instruments are short term in nature or have interest rates that reprice frequently.

(d) Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate to their carrying value. The fair value of all other deposits and other borrowings (including repurchase agreements and cash collateral on securities lent) is estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Group for deposits of similar remaining maturities.

(e) Fair values of short-term debt securities in issue are approximately equal to their carrying amount. Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using other valuation techniques.

(f) The estimated fair values for dated and undated convertible and non-convertible loan capital were based upon quoted market rates for the issue concerned or equivalent issues with similar terms and conditions.

(g) The fair value of liabilities to customers under investment contracts approximates carrying value.

The Group considers that, given the lack of an established market, the diversity of fee structures and the difficulty of separating the value of the instruments from the value of the overall transaction, it is not meaningful to provide an estimate of the fair value of financial commitments and contingent liabilities.

59 Segmental reporting

Business segments

The Group reports the results of its operations through eight business segments: UK Banking, Barclaycard, International Retail and Commercial Banking, Barclays Capital, Barclays Global Investors, Barclays Wealth, Barclays Wealth – Closed Life Assurance Business and Head Office and other operations.

UK Banking provides banking solutions to Barclays UK retail and business banking customers. Barclaycard provides credit card services across Europe and the United States. International Retail and Commercial Banking provides banking services to personal and corporate customers in Europe, Africa and the Middle East. Barclays Capital conducts the Group's investment banking business providing corporate, institutional and government clients with financing and risk management products. Barclays Global Investors provides investment management products and services to international institutional clients. Barclays Wealth provides banking and asset management services to affluent and high net worth clients. Head Office functions and other operations comprise all the Group's central function costs and other central items including businesses in transition.

During 2006 Barclays realigned a number of reportable business segments to better reflect the type of client served, the nature of the products offered and the associated risks and rewards. The changes have no impact on the Group Income Statement or Balance Sheet, and are summarised as follows:

The majority of Absa Corporate and Merchant Banking, previously reported in International Retail and Commercial Banking, has been relaunched as Absa Capital and is being managed and reported in Barclays Capital. A number of financial institution, large corporate and property clients previously reported within UK Banking are now managed by and reported in Barclays Capital. Certain portfolios previously reported in UK Banking have been reclassified as businesses in transition and are now centrally managed and reported in Head Office functions and other operations.

The structure remains unchanged for Barclays Global Investors, Barclays Wealth, Barclays Wealth – closed life assurance activities and Barclaycard.

All transactions between business segments are conducted on an arms length basis. Internal charges and transfer pricing adjustments are reflected in the performance of each business. Head office functions and other operations contains a centralised treasury function, which deals with the Group's funding requirements. The funding requirements of each business segment reflects funding at market rates and not internally generated transfer prices and is therefore not separately disclosed within inter-segment net income.

As at 31st December 2006	UK Banking £m	Barclaycard £m	International Retail and Commercial Banking £m	Barclays Capital £m	Barclays Global Investors £m	Barclays Wealth £m	Barclays Wealth – closed life assurance activities £m	Head office functions and other operations £m	Total £m
Income from external customers, net of insurance claims	6,253	2,816	3,308	6,222	1,670	1,073	127	187	21,656
Inter-segment income	(30)	121	29	61	(5)	(37)	4	(143)	–
Total income net of insurance claims	6,223	2,937	3,337	6,283	1,665	1,036	131	44	21,656
Impairment charge and other credit provisions	(461)	(1,493)	(167)	(42)	–	(2)	–	11	(2,154)
Segment expenses – external	(2,439)	(805)	(2,170)	(3,988)	(940)	(759)	(87)	(1,486)	(12,674)
Inter-segment expenses	(826)	(249)	(26)	(21)	(11)	(62)	(22)	1,217	–
Total expenses	(3,265)	(1,054)	(2,196)	(4,009)	(951)	(821)	(109)	(269)	(12,674)
Share of post-tax results of associates and joint ventures	5	(8)	49	–	–	–	–	–	46
Profit on disposal of subsidiaries, associates and joint ventures	76	–	247	–	–	–	–	–	323
Business segment performance before tax	2,578	382	1,270	2,232	714	213	22	(214)	7,197
Additional information									
Depreciation and amortisation	95	45	180	132	13	12	–	114	591
Impairment loss – intangible assets	–	–	5	–	–	–	–	2	7
Capital expenditure[(a)]	217	99	193	246	406	44	–	166	1,371
Investments in associates and joint ventures	12	89	56	71	–	–	–	–	228
Total assets	139,955	27,635	68,872	658,053	80,518	7,301	7,605	6,564	996,503
Total liabilities	159,503	1,909	37,567	632,208	79,366	26,817	7,499	24,528	969,397

Note
(a) Capital expenditure comprises purchased goodwill, intangible assets and property, plant and equipment acquired during the year.

59 Segmental reporting (continued)

As at 31st December 2005	UK Banking £m	Barclaycard £m	International Retail and Commercial Banking £m	Barclays Capital £m	Barclays Global Investors £m	Barclays Wealth £m	Barclays Wealth – closed life assurance activities £m	Head office functions and other operations £m	Total £m
Income from external customers, net of insurance claims	5,712	2,635	1,983	4,388	1,318	922	120	286	17,364
Inter-segment income	33	80	–	117	–	–	–	(230)	–
Total income net of insurance claims	5,745	2,715	1,983	4,505	1,318	922	120	56	17,364
Impairment charge and other credit provisions	(327)	(1,098)	(32)	(111)	–	(2)	–	(1)	(1,571)
Segment expenses – external	(2,545)	(816)	(1,343)	(2,952)	(769)	(676)	(105)	(1,321)	(10,527)
Inter-segment expenses	(670)	(162)	(21)	(11)	(10)	(78)	(22)	974	–
Total expenses	(3,215)	(978)	(1,364)	(2,963)	(779)	(754)	(127)	(347)	(10,527)
Share of post-tax results of associates and joint ventures	(3)	1	46	–	1	–	–	–	45
Business segment performance before tax	2,200	640	633	1431	540	166	(7)	(292)	5,311
Additional information									
Depreciation and amortisation	53	41	111	99	10	10	–	117	441
Impairment loss – intangible assets	–	6	3	–	–	–	–	–	9
Capital expenditure[(a)]	67	165	2577	294	155	14	–	194	3,466
Investments in associates and joint ventures	31	80	415	20	–	–	–	–	546
Total assets	130,304	25,775	63,556	601,334	80,900	6,094	7,276	8,931	924,170
Total liabilities	143,100	1,559	34,787	576,350	80,115	24,775	7,181	32,060	899,927

Geographic segments

Year ended 31st December 2006	United Kingdom £m	Other European Union £m	United States £m	Africa £m	Rest of the World £m	Total £m
Total income net of insurance claims	**12,215**	**2,882**	**2,840**	**2,791**	**928**	**21,656**
Total assets (by location of asset)	**406,044**	**203,929**	**229,779**	**44,696**	**112,055**	**996,503**
Capital expenditure (by location of asset)[(a)]	**569**	**62**	**565**	**136**	**39**	**1,371**

Year ended 31st December 2005	United Kingdom £m	Other European Union £m	United States £m	Africa £m	Rest of the World £m	Total £m
Total income net of insurance claims	10,728	1,995	2,421	1,445	775	17,364
Total assets (by location of asset)	348,516	196,965	230,200	48,803	99,686	924,170
Capital expenditure (by location of asset)[(a)]	449	119	276	2,586	36	3,466

Note
(a) Capital expenditure comprises purchased goodwill, intangible assets and property, plant and equipment acquired during the year.

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