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

Barclays PLC
Annual report 2000
Barclays PLC and Barclays Bank PLC
Annual report on Form 20-F 2000

Contents

Registered No. 48839

This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act 1995 with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including UK domestic and global economic and business conditions, market related risks such as interest rate and exchange rate risks, the policies and actions of regulatory authorities and the impact of competition, a number of which are beyond the Group's control. As a result, the Group's actual future results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. For a discussion of some of the factors that may cause actual future results and developments to differ materially from these forward-looking statements, see Risk factors on page 59.

Profit/(loss) before tax

	2000 £m	1999 £m	1998 £m
Retail Financial Services	1,710	1,312	1,142
Barclaycard	418	401	334
Corporate Banking			
– before impact of Finance Act	1,070	947	991
– write-down of leases	–	–	(40)
	1,070	947	951
Barclays Capital	403	311	(281)
Barclays Global Investors	65	43	51
Businesses in Transition			
– former BZW businesses	–	–	(33)
– other	–	–	48
Other operations	(1)	13	(167)
Head office functions	(93)	(77)	(72)
Restructuring charge	(232)	(344)	–
Integration costs	(7)	–	–
Goodwill amortisation	(51)	(13)	(12)
Provision for litigation settlement	–	–	(76)
Operating profit*	3,282	2,593	1,885
Loss on sale or restructuring of BZW	–	(30)	(3)
Profit/(loss) on disposal of other Group undertakings	214	(108)	4
Write-down of fixed asset investments	–	–	(4)
	3,496	2,455	1,882

* including (loss)/income from joint ventures and associated undertakings (2000 (£8m), 1999 (£14m), 1998 £22m).

Total assets and weighted risk assets

	Total assets			Weighted risk assets		
	2000 £m	1999 £m	1998 £m	2000 £m	1999 £m	1998 £m
Retail Financial Services	80,128	41,383	39,955	47,246	26,152	25,386
Barclaycard	8,705	7,343	6,195	8,523	7,210	6,113
Corporate Banking	52,869	47,422	45,341	54,651	48,218	45,869
Barclays Capital	156,869	144,807	114,706	34,431	32,032	29,344
Barclays Global Investors	259	232	183	653	456	207
Businesses in Transition	–	–	554	–	–	594
Other operations and head office functions	4,380	5,383	5,279	1,536	1,810	2,287
Goodwill	4,269	183	196	–	–	–
Retail life-fund assets attributable to policyholders	8,711	8,040	7,085	–	–	–
	316,190	254,793	219,494	147,040	115,878	109,800

Summary profit and loss account

	2000 £m	1999 £m	1998 £m
Operating income*	9,598	8,373	7,386
Impact of Finance Act	–	–	(40)
Operating income	9,598	8,373	7,346
Operating expenses	(5,492)	(5,144)	(4,915)
Operating profit before provisions	4,106	3,229	2,431
Provisions for bad and doubtful debts	(817)	(621)	(492)
Provisions for contingent liabilities and commitments	1	(1)	(76)
Operating profit	3,290	2,607	1,863
Loss from joint ventures	(1)	(1)	–
(Loss)/income from associated undertakings	(7)	(13)	22
Loss on sale or restructuring of BZW	–	(30)	(3)
Profit/(loss) on disposal of other Group undertakings	214	(108)	4
Write-down of fixed asset investments	–	–	(4)
Profit on ordinary activities before tax	3,496	2,455	1,882

* Before the impact of the Finance Act.

Introduction

The Group's operating profit increased by 26% to £3,290m (1999 £2,607m). The 2000 result is after accounting for £232m of restructuring costs (1999 £344m) and a profit after fair value amortisation of £64m reported by The Woolwich from 25th October 2000. Earnings per share increased by 39% to 163.3p from 117.5p.

Retail Financial Services performed strongly with a 30% increase in operating profit to £1,710m (1999 £1,312m). Retail customers and Wealth Management profits rose 27% and 22% to £1,124m and £522m respectively. The Woolwich's operating profit contribution was £64m for the last two months of the year following the acquisition. Total costs were held flat at £2,294m, excluding two months costs of The Woolwich of £98m.

Barclaycard operating profit increased 4% to £418m (1999 £401m). Net interest income improved by 12% benefiting from continued strong growth in average UK extended credit balances. Net fees and commissions increased 9% as a result of growth in UK transaction volumes.

Corporate Banking operating profit increased 13% to £1,070m (1999 £947m). Net interest income rose by 6% reflecting growth in average customer lending balances. Net fees and commissions increased by 9% as a result of growing in lending related fees. Costs excluding strategic investment fell by 6%.

Barclays Capital operating profit increased 30% to £403m (1999 £311m) reflecting continued strong performances in both the Rates and the Credit businesses. The growth in profits was achieved despite difficult market conditions in the second half of 2000.

Barclays Global Investors operating profit increased 51% to £65m (1999 £43m) in a year of major investments and flat or declining markets in most parts of the business. Total assets under management grew to £550bn (1999 £486bn).

Total provisions for bad and doubtful debts rose by £196m, or 32%, to £817m, mainly as a result of higher levels of new and increased provisions reflecting strong volume growth in Retail Financial Services and Barclaycard.

The restructuring charge of £232m for 2000 primarily relates to Retail Financial Services, Corporate Banking and Service Provision. The staff cost charge of £171m is in respect of 4,800 job reductions, 2,700 of which were achieved in 2000.

Non-performing lendings increased by £768m of which The Woolwich accounted for £592m. Potential problem lendings increased by £0.4bn reflecting overseas exposures held by both Barclays Capital and Corporate Banking. Excluding the impact of The Woolwich, non-performing lendings coverage has increased from 76.4% to 81.2% while the coverage of total potential problem lendings has marginally fallen from 60.0% to 58.1%.

The exceptional profit of £214m included a £186m profit on the sale of the Dial business in June 2000 and £18m profit on the sale of Barclays Property Investment in October 2000.

Shareholders' funds increased by a net £4,687m before favourable exchange differences resulting from shares issued in respect of The Woolwich acquisition (£3,359m) and profit retentions of £1,546m after allowing for a 24% increase in dividends to £927m. A further £311m of buy-backs were completed in the year. Risk weighted assets increased by £31bn or 27% to £147bn of which £19bn (13%) related to The Woolwich. The tier 1 ratio reduced from 7.5% to 7.2% and the total risk asset ratio was 11.0% from 11.3% at the end of 1999. Total assets increased by £61bn in 2000, and included £37bn of assets and £4.1bn of goodwill in respect of The Woolwich.

In 1999, Group profit before tax increased by 30% to £2,455m. The 1999 profit was after charging £344m for restructuring and a £75m provision for the possible cost of redress to personal pension customers. The 1998 profit was after charging £76m in respect of the settlement of the Atlantic litigation and £40m from the impact of taxation changes arising under the Finance Act.

Analysis of results by business

The following section analyses the Group's performance within the businesses, showing selected income and expenditure information extracted from the Group's profit and loss account. As inter-business activities are included within these figures, the total income and expenditure for the businesses do not equate to the amounts reported in the Group's results.

Retail Financial Services

Financial performance

	2000 £m	1999 £m	1998 £m
Net interest income	2,761	2,471	2,390
Net fees and commissions	1,419	1,300	1,267
Income from long-term assurance business*	171	44	109
Other operating income	169	143	61
Total income	4,520	3,958	3,827
Total costs	(2,392)	(2,326)	(2,439)
Provisions for bad and doubtful debts	(418)	(320)	(246)
Operating profit**	1,710	1,312	1,142

* 1999 figures included a £75m provision for the possible cost of redress to personal pension customers (2000 and 1998 £nil).

** Including the two months results of The Woolwich since acquisition and £6m of fair value adjustments.

Retail Financial Services performed strongly with a 30%, or £398m, increase in operating profit to £1,710m. Total income increased by 14% to £4,520m. Adjusted for the impact of the personal pension redress provision of £75m in 1999 and for the two months results of The Woolwich, operating profit and total income rose 19% and 8%, respectively.

Net interest income increased 12%, to £2,761m, primarily as a result of strong growth in lending and deposit balances. In the UK, current accounts and average UK savings balances benefited from good volume growth despite pressure on margins.

Net fees and commissions grew 9%, or £119m, to £1,419m. There was good growth in Retail Customers and Wealth Management.

Income from long-term assurance business increased 44% or £52m, adjusting for the £75m personal pension provisions raised in 1999. No additional provision for possible redress for personal pension customers has been taken in the year.

Total customer funds (excluding The Woolwich), which include assets under management and on-balance sheet deposits, grew 4% to £123bn (1999 £118bn). Assets under management (excluding The Woolwich) increased 4%, or £2bn, to £57bn, primarily due to growth in Private Banking and managed investment portfolios. Deposits (excluding The Woolwich) grew 6% as a result of strong growth in European and offshore banking as well as in current accounts and UK savings, specifically ISAs. Loans to customers (excluding The Woolwich) rose 9% to £36bn (1999 £33bn).

For The Woolwich total customer funds were £23.5bn, assets under management were £3.0bn, deposits were £20.5bn and loans to customers were £32.7bn.

Total customers registered for on-line banking were 1,700,000 (1999 500,000) at the end of 2000, confirming Barclays position as the UK's leading on-line bank. On-line personal customers now have 2.7 products, compared to 2.3 for all personal current account customers.

Total costs were held flat at £2,294m after adjusting for the impact of two months results for The Woolwich (1999 £2,326m). This was despite a significant increase in strategic investment expenditure, up 49%, or £47m, to £143m and higher revenue related costs up 12%, or £13m, to £125m. Total staff costs, excluding restructuring costs, were down 2% compared with 1999 resulting principally from the job reduction programmes carried out during 1999 and 2000.

Provisions rose 31% to £418m (1999 £320m). Adjusted for The Woolwich and an £11m release of general provision in 1999 relating to the disposal of Merck Finck, the underlying increase in provisions was 24%. This growth was mainly attributable to the volume growth in personal and small business unsecured lending and as a result of difficult market conditions in Kenya and Zimbabwe.

Operating profit increased in 1999 by 15%, or £170m, to £1,312m. Adjusting for the impact of the personal pension redress provision, operating profit rose by 21%. This increase was primarily due to an increase in net interest income arising from strong volume growth in UK consumer lending and strong growth in fees and commissions resulting from increased volumes in Private Banking, Stockbrokers and UK Premier. In addition a decrease in total costs of 5% resulted from lower operating costs achieved through efficiency improvements, particularly in the branch network.

Retail Customers

	2000 £m	1999 £m	1998 £m
Net interest income	2,015	1,916	1,865
Net fees and commissions	780	735	777
Income from long-term assurance business*	161	32	98
Other operating income	139	114	42
Total income*	3,095	2,797	2,782
Total costs	(1,573)	(1,588)	(1,714)
Provisions for bad and doubtful debts	(398)	(325)	(243)
Operating profit*	1,124	884	825

* 1999 includes a £75m provision for possible redress for personal pension customers (2000 and 1998 £nil).

Operating profit in Retail Customers increased 27%, or £240m, to £1,124m. Adjusted for the impact of the provision for the redress of personal pension customers of £75m during the year ended 31st December 1999, operating profit increased by 17% and total income by 8% to £3,095m.

Net interest income increased by 5%, mainly as a result of good volume growth in current accounts and average UK savings balances. Net fees and commissions increased by 6% mainly as a result of additional current account and overdraft lending activity and higher fee income from the Additions accounts, which more than offset the absence of £19m ATM commissions received during 1999. Additions accounts increased by 21% to 1,050,000 (1999 871,000).

Total costs were flat at £1,573m resulting from the implementation of a number of improvements in operational and processing activities throughout the network, including centralisation of call centres. These savings have been partially offset by the additional costs associated with significant increased strategic investment of £110m (1999 £79m) in infrastructure, particularly in on-line banking.

Total customer funds, which include assets under management and on-balance sheet deposits increased by 4% to £50bn (1999 £48bn). Loans to customers rose slightly to £24bn (1999 £23bn).

UK Personal Customers

Average current account deposits increased 9% to £9.5bn (1999 £8.7bn) reflecting the rise in the number of current account customers due to the improvement of the current account proposition.

Average UK savings balances grew 7% to £20.9bn (1999 £19.6bn), ahead of market growth. Overall average margins remained broadly flat.

Average UK mortgage lending increased 7% to £17.3bn (1999 £16.1bn). Gross new lendings remained flat at £4.8bn (1999 £4.8bn) and market share of balances outstanding was broadly maintained at 4%. Average margins decreased from 1.21% to 1.12% during the year as a result of a change in the mix of products, reflecting the high level of sales of the base rate tracker mortgages.

Average consumer lending balances increased 7% to £6.4bn. Against a background of increasing and historically high consumer debt, the risk assessment criteria were further tightened to improve the overall quality of the portfolio and as a result consumer lending balance growth was slower than the market.

In November, individual pricing was introduced on the Barclayloan product as part of a drive to increase product penetration for existing customers and further improve asset quality.

Income from payment protection and underwriting benefited in line with improved volumes of consumer lending, overdraft, credit card and mortgage lending.

Annual premium income of UK based unit trusts, managed investment portfolios and life and pension products totalled £222m (1999 £238m). Sales of managed investment portfolios were broadly similar at £80m and sales of UK based unit trusts were down 9% at £89m because of exceptionally high sales in the period up to the withdrawal of PEPs in 1999. Sales of life and pension products were down 14% at £53m; this was primarily as a result of the cessation of endowment sales.

In 1999 operating profit increased by 7% to £884m. Excluding a further provision of £75m (1998 £nil) for the possible cost of redress to personal pension customers (non-priority cases) operating profit increased by 16%.

UK Small Business

Total income within UK Small Business increased 9% during the year as a result of growth in its customer base, combined with new product development and enhanced customer information management techniques. Deposits grew 4% to £6.7bn and lending balances grew 8% to £1.8bn.

Fees and commissions were maintained at similar levels to 1999, despite significant continuing competitive pressures on money transmission tariffs. Margins were also held at levels similar to last year.

Total costs fell 4% during the year, benefiting from increased efficiency arising from the continued centralisation of non-customer facing activities. Removal of processing from the branch network has enabled relationship managers increasingly to focus on customer activity.

UK Small Business launched a series of innovative new products and services during 2000. Most significant was the launch in August of the internet portal Clearlybusiness.com, a joint e-commerce development with Freeserve, which offers advice and information on starting-up and running a successful small business.

The number of Small Business customers registered for on-line banking continued to grow, up 123% to 150,000 (1999 67,000).

Africa

Operating profit rose by 24%, or £24m, to £122m. Total income across Africa increased 20% to £290m. Overall costs increased £5m to £140m, predominantly due to the high inflationary environment in Zimbabwe. Provisions increased to £28m (1999 £9m), reflecting the difficult political and economic situations experienced during the year in Kenya and Zimbabwe.

The Woolwich

	Period from 25th October to 31st December 2000 £m
Net interest income	119
Net fees and commissions	49
Income from long-term assurance business	5
Other operating income	4
Total income	177
Total costs	(99)
Provisions for bad and doubtful debt	(8)
Operating profit before fair value amortisation	70
Amortisation of fair value adjustments	(6)
Operating profit after fair value amortisation	64

Operating profit for the period from 25th October to 31st December 2000 was £70m before the amortisation of fair value adjustments (note 55) and includes £3m of mortgage incentives and £8m of software costs which have been written off in accordance with Barclays' accounting policies.

Net new lending on UK mortgages was £2.2bn for the year 2000, 40% higher than last year and gross new lending was £6.7bn, both representing a market share performance above The Woolwich's 5.3% market share of UK mortgage balances outstanding. As a result total UK mortgage balances rose 8.4% to £28.5bn at the end of 2000. The overall mortgage margin based on Barclays' accounting policies decreased slightly during the year to 0.83%.

Retail savings balances rose to £19.0bn (1999 £18.3bn) with increases being experienced in both UK mainland and offshore operations. This reversed previous years' trends of net annual outflows which were the result of competition from both established providers and new entrants to the market. The overall deposit margin for the full year was maintained at 1.28% despite continuing intense competition for retail funds.

Funds under management as at 31st December 2000 were £3bn, being composed of unit trust balances and life assurance assets.

Total costs of £99m for the period included £14m ongoing strategic investment expenditure primarily to support the Open Plan proposition as well as the cost of Sedgwick Independent Financial Consultants which became a subsidiary in October 2000. The Woolwich exceeded its targeted number of Open Plan customers for 2000 and ended the year with 544,000 (1999 44,000).

Wealth Management

	2000 £m	1999 £m	1998 £m
Net interest income	634	555	525
Net fees and commissions	590	565	490
Income from long-term assurance business	5	12	11
Other operating income	26	29	19
Total income	1,255	1,161	1,045
Total costs	(721)	(738)	(725)
Provisions for bad and doubtful debts	(12)	5	(3)
Operating profit	522	428	317

Operating profit in Wealth Management increased 25%, or £106m, to £522m after adjusting for the contribution of £12m from Merck Finck in 1999. The principal sources of profit growth were the UK (15% to £161m), continental Europe (31% to £98m), the Caribbean (62% to £76m) and offshore banking (23% to £184m).

Total income grew 10% to £1,255m, after adjusting for the adverse impact of exchange rate movements and the sale of Merck Finck.

Net interest income increased 14%, or £79m, to £634m as a result of good growth in lending and deposit balances across the businesses. Particularly strong growth was achieved in the UK with mortgage volumes increasing 19% and also in continental Europe where lending and deposits grew 24% and 15% respectively on a comparable basis.

Net fees and commissions grew 10%, or £52m, to £590m on a comparable basis. This growth is attributable to increased investment sales, introduction of new fee-based products and higher dealing commissions. Stockbroking volumes in the UK increased to 8,100 average deals per day (1999 6,600), and the leading position in the UK, as measured by retail client orders was maintained.

Total customer funds, which include assets under management and on balance sheet deposits, grew 9% to £74bn (1999 £68bn excluding discontinued businesses) despite adverse market movements. Loans to customers grew 20% to £12bn (1999 £10bn).

Business as usual costs reduced 6%, or £46m, absorbing the impact of inflation and volume growth through business efficiency improvements. Strategic investment expenditure grew £21m to £33m in 2000, arising from major initiatives to strengthen our customer propositions. The key features were the development of a single banking and investment relationship for our customers including the qualification of UK relationship managers to provide investment advice, and the development of a seamless multi-channel service.

Across the business there are now 225,000 customers who are registered to use internet services (1999 73,000).

In 1999 operating profit in Wealth Management rose by 35% to £428m predominantly driven by strong growth in UK Premier Banking, Private Banking, Offshore Services, Stockbrokers and the Continental European retail businesses.

Barclaycard

Financial performance

	2000 £m	1999 £m	1998 £m
Net interest income	548	488	435
Net fees and commissions	521	480	456
Total income	1,069	968	891
Total costs	(410)	(397)	(413)
Provisions for bad and doubtful debts	(239)	(170)	(144)
Loss from joint ventures	(2)	–	–
Operating profit	418	401	334

Operating profit for Barclaycard increased 4% to £418m.

Net interest income increased 12% to £548m benefiting from continued strong growth in average UK extended credit balances, which rose 19% year on year to £5.5bn. This compared with the market growth rate of 13%. The proportion of interest earning balances to non-interest earning balances was maintained at over 70%.

The net interest margin reduced compared to 1999, mainly as a result of the balance consolidation promotions of 2000 and the increased range of rates available to cardholders.

Recruitment of UK retail customers improved 15% on last year to 740,000. Barclaycard has increased its share of the market across most measures such as interest earning balances and number of cards.

Fees and commissions increased 9% to £521m, principally reflecting cardholder turnover which grew by 12% year on year.

Barclaycard's international businesses in Europe recorded an operating loss of £27m (1999 loss £16m). This resulted from increased strategic investment expenditure and higher provisions as the business continued to grow. Average extended credit balances increased 58% and the number of cards in issue overseas increased 16% to 1.2m.

Business as usual costs fell 2% despite a rise in fraud costs. Strategic investment spend increased £19m, to £59m representing the development of information management capabilities, international expansion and e-commerce businesses. Barclaycard continues to invest in chip technology and fraud identification systems to mitigate growth in fraud.

Provisions for bad and doubtful debts increased by 41% to £239m (1999 £170m). This increase was attributable to strong lending growth across the UK and international businesses and reflecting high levels of recruitment over the last two years.

Barclaycard has continued to build on its technological developments. It was the first UK credit card company to offer products on the web and now has 390,000 registered users of its website for on-line services. It also has over 80,000 active merchant relationships, of which over 4,400 are utilising Barclaycard's payment systems to provide shopping facilities on-line. In 2000, Barclaycard launched a joint venture with Nomura called IndigoSquare. This is an internet-based shopping portal, designed to provide a comprehensive and easy to use on-line shopping facility with products available from 80 retailers. The goal is to have more than 350 retailers supplying over 5 million products to 500,000 users by the end of 2001. IndigoSquare represents a new business opportunity providing Barclaycard with non-traditional revenue growth.

Barclaycard's 1999 operating profit at £401m was 20% higher than in 1998 following strong growth in extended credit balances and merchant transaction volumes.

Corporate Banking

Financial performance

	2000 £m	1999 £m	1998 £m
Net interest income	1,324	1,252	1,214
Net fees and commissions	752	690	613
Other operating income	(6)	1	3
Total income	2,070	1,943	1,830
Total costs	(870)	(863)	(862)
Provisions for bad and doubtful debts	(124)	(120)	2
(Loss)/income from associated undertakings	(6)	(13)	21
Operating profit before impact of Finance Act	1,070	947	991
Write-down of leases	–	–	(40)
Operating profit	1,070	947	951

Corporate Banking operating profit increased 13% to £1,070m in 2000. This reflected the combined effect of continued growth in total income of 7%, a significant increase in strategic investment and an increase in overseas provision levels.

Net interest income rose 6%. Average customer lending balances increased 10% to £47bn as a result of strong growth in UK lending and in the rest of Europe. Average customer deposit balances increased 6% to £37bn.

UK middle market lending volumes grew strongly, resulting from the implementation of the new sales strategy, providing relationship managers with a more focused sales management approach, together with mobile working technology. Lending growth was concentrated towards larger and higher quality customers and as a result the overall quality of the portfolio has improved. The Sales Financing product range, which includes factoring and invoice discounting, saw rapid growth in total volumes, up 63% to £7.1bn. This resulted from the ongoing investment programme to develop this business.

Growth in customer lending within the rest of Europe was predominantly in the established operations in Germany and France. Lending exposure to Latin America fell.

UK lending margins were maintained in line with the improved quality of the lending portfolio. Overseas margins were held as stability returned to Latin American markets.

The growth in average UK deposits was stronger in branch based accounts which attract a higher margin compared with treasury deposit products. As a result, the overall deposit margin was maintained, despite competitive pressures and a reduced contribution from non-interest bearing current accounts.

Net fees and commissions increased 9% to £752m. Lending related fees rose strongly as a result of the growth in the use of on and off balance sheet financing products and strong sales of products relating to structured trade and export finance. Money transmission income reduced slightly due to intensifying competitive pressure. Foreign exchange related income increased in line with volume growth. Increased use of electronic products, such as BusinessMaster, has led to over 35% of UK corporate customers now being registered for these services.

The loss from associated undertakings primarily reflected the Group's Brazilian associate, Banco Barclays e Galicia SA.

Costs excluding strategic investment fell 6%, with the continued reduction in headcount and the sale of Dial (the contract hire business) in June 2000 being contributory factors. There was a significant increase in strategic investment to £93m (1999 £37m) including investment in Barclays B2B.com and enhancements to the Corporate Banking middle market franchise.

In collaboration with Accenture and Oracle, Barclays B2B.com was created in 2000 to e-enable the delivery of business services to companies with a turnover of between £5m and £250m. Its initial offering, the Barclays B2B exchange, has created a secure marketplace enabling buyers and sellers to benefit from lower processing costs and increased management control in their business transactions. Barclays B2B.com had over 2,000 businesses registered to trade on-line at the end of 2000.

The net provisions charge increased to £124m (1999 £120m) and included a charge for two larger non-UK items. The net charge was also impacted by lower levels of releases and recoveries at £76m (1999 £85m). UK provisions, while showing a slightly rising trend, currently remain at relatively low levels.

Corporate Banking operating profit in 1999 (excluding the impact of a £40m write down in lease receivables in 1998), reduced by £44m or 4% to £947m as a result of a reduction in the level of releases and recoveries to £86m (1998 £168m).

Barclays Capital

Financial performance

	2000 £m	1999 £m	1998 £m
Net interest income	483	400	417
Dealing profits	672	549	(38)
Net fees and commissions	268	163	159
Other operating income	39	40	42
Total income	1,462	1,152	580
Total costs	(998)	(805)	(701)
Provisions for bad and doubtful debts	(61)	(36)	(160)
Operating profit	403	311	(281)

Operating profit increased 30% to £403m reflecting continued strong performance in both the Rates and the Credit businesses. The growth in profits was achieved despite difficult market conditions in the second half of 2000.

Dealing profits rose 22%, or £123m, to £672m. The Rates businesses continued to perform well, in particular interest rate derivatives. In the Credit businesses, equity derivatives and credit repackaging made good contributions but in the second half these were in part offset by difficult market conditions in the secondary bond market due to the widening of credit spreads.

Risk management continued to be an important focus. Operating profit growth significantly exceeded the increase in risk utilisation; average daily value at risk (DVAR) increased 9%.

Net interest income increased 21% to £483m primarily as a result of continued strong growth in revenues from structured capital markets and the credit portfolio.

Net fees and commissions rose 64% to £268m reflecting the increased number and size of transactions completed in the Credit businesses. Fees and commissions growth was strong across all the Credit businesses, in particular primary loans, primary bonds and structured capital markets. Primary loans activity included large acquisition related lending across Europe, America and Asia, while in primary bonds, Barclays Capital strengthened its position in euros and maintained its leading position in sterling new issues.

Provisions for bad and doubtful debts grew 69% to £61m (1999 £36m) and were mainly related to overseas exposures.

Total costs rose 24% to £998m (1999 £805m). Revenue related costs grew due to higher performance related remuneration. There was also increased strategic investment in product, client coverage and distribution capabilities, most notably the distribution and coverage networks in Germany, France and Switzerland.

Business as usual costs increased 4%, mainly reflecting growth in headcount in the second half of the year. Headcount increased by 8% over the previous year.

The 1999 operating profit of £311m, compared to an operating loss of £281m in 1998, was a result of stability returning to the world credit markets.

Barclays Global Investors

Financial performance

	2000 £m	1999 £m	1998 £m
Net fees and commissions	435	318	277
Net interest income	10	6	9
Other operating income	(1)	1	1
Total income	444	325	287
Total costs	(379)	(281)	(236)
Loss from associated undertakings	–	(1)	–
Operating profit	65	43	51

Operating profit grew 51% to £65m in a year of major investments and flat or declining markets in most parts of the business. This was mainly as a result of a 37% growth in fees and commissions. This revenue growth resulted from strong active product growth and performance, which generated significant incentive fees (active fees comprised almost 50% of total fees and commissions). There was also strong securities lending revenue growth, reflecting value chain extension strategies to enhance the profitability of indexing.

Total assets under management grew 13% to £550bn from £486bn at 31st December 1999; £34bn of the increase was attributable to net new business and £30bn was attributable to market and exchange rate translation movements. Assets under management consist of £435bn of indexed funds and £115bn under advanced active management. Most geographical regions experienced good growth in assets.

The strong profit performance was achieved notwithstanding a 21% increase in business as usual costs which largely reflected the growth in business volumes. Strategic investment expenditure increased to £51m (1999 £35m) with investments aimed at ensuring sustained growth and increased market share in one of the fastest growing sectors in the financial services industry. Revenue related costs grew £31m with a 53% increase in performance related remuneration reflecting the strong revenue and profit performance for the year.

Notable accomplishments in 2000 include a successful and extensive launch of iShares (exchange-traded funds) in the US, UK and Canada; the introduction of several new Advanced Active products in the US, UK and Europe; and first-to-market internet-based product and service offerings that both open new markets to BGI and enhance client service.

Operating Profit in 1999 declined by £8m and costs rose by £45m reflecting the doubling of strategic investments (£28m). Fees and commissions increased by 15% and assets under management by 31% because of growth in assets, favourable market conditions and new markets for securities lending.

Businesses in Transition

Financial performance

	2000 £m	1999 £m	1998 £m
France in Transition	–	–	18
United States Transition	–	–	19
Other Businesses in Transition	–	–	11
	–	–	48
Former BZW businesses	–	–	(33)
Operating profit	–	–	15

These asset portfolios, which continue to be managed down, have been reported primarily within Other operations since 1999.

Other operations

Financial performance

	2000 £m	1999 £m	1998 £m
Property management	41	21	(17)
Central services	(75)	(52)	(52)
Management of Group capital	33	44	(98)
Operating (loss)/profit	(1)	13	(167)

The increased surplus on Property management reflects an increase in the profit on disposal of properties (2000 £11m, 1999 £3m) and an increase in costs recharged to Group businesses. The Central services deficit for the year increased by £23m as a result of increased strategic investment in e-commerce and other infrastructure technology by Service Provision.

The surplus reported in Management of Group capital is attributable to credits arising in transition businesses that are managed centrally. These have been partly offset by a deficit from the central management of Group capital, compared with a surplus in 1999. This is mainly attributable to increased interest allocations to business groups, reflecting higher short-term interest rates and increased usage of regulatory capital by individual businesses. The basis of allocation to the businesses remains in line with previous years. Lower average medium term rates have also had an adverse effect on the earnings from capital balances as have the costs of share buy-backs.

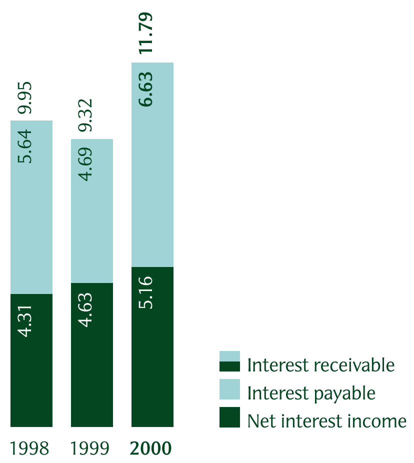
Head office functions

Financial performance

	2000 £m	1999 £m	1998 £m
Operating costs	(93)	(77)	(72)

Results by nature of income and expense

In the tables below, income and cost totals excluding, where appropriate, the results of The Woolwich, related integration costs, restructuring costs, the results of former BZW businesses and the write-down of leases are shown to assist in the analysis of the ongoing business performance.



Net interest income (£bn)

Net Interest Income

	2000 £m	1999 £m	1998 £m
Interest receivable	11,788	9,320	9,952
Interest payable	(6,635)	(4,696)	(5,604)
Profit on redemption/ repurchase of loan capital	2	3	3
	5,155	4,627	4,351
Write-down of leases	–	–	(40)
	5,155	4,627	4,311
Excluding The Woolwich, former BZW businesses and write-down of leases	5,068	4,627	4,353

Net interest income increased 11% to £5,155m. Adjusting for the impact of The Woolwich acquisition (including interest forgone on the cash element of the acquisition cost), loss of interest income arising from the share repurchases and business disposals, underlying net interest income also increased by 11%.

In Retail Financial Services net interest income increased 7% to £2,649m excluding net interest arising in The Woolwich. This was primarily as a result of strong growth in Wealth Management and increased UK lending and deposit balances. In Wealth Management, particularly strong growth was achieved in the UK, with average Premier Banking mortgage balances increasing by 19% and, in continental Europe, where average lendings and deposits grew by 24% and 15% respectively. In Small Business average deposits grew by 4% to £6.7bn and average lending balances grew 8% to £1.8bn. In UK Personal Customers, current accounts and average savings balances benefited from good volume growth, despite some pressure on margins. Excluding The Woolwich, the overall UK retail lending margin reduced primarily as a result of pricing decisions in respect of consumer lending products and a change in mix of mortgage products. The overall UK retail deposit margin, excluding The Woolwich, experienced some downward pressure in the second half of the year.

Net interest income in Barclaycard improved 12% to £548m benefiting from continued strong growth in average UK extended credit balances which rose 19% year on year to £5.5bn. This compared with the market growth rate of 13%. The net interest margin fell slightly compared to 1999, mainly as a result of the balance consolidation promotions of 2000 and the increased range of rates available to cardholders.

Corporate Banking net interest income rose 6% to £1,324m. Average customer lending balances increased 10% to £47bn as a result of strong growth in UK lending and in the rest of Europe. Average customer deposit balances increased 6% to £37bn with relatively strong growth in the UK. The overall UK lending margin in Corporate Banking was maintained in line with the improving quality of the portfolio.

In Barclays Capital net interest income increased 21% to £483m primarily as a result of continued strong growth in revenues from structured capital markets and the credit portfolio.

Overall banking margins reduced to 3.11% from 3.40% as a result of increased volumes in lower margin wholesale business in Barclays Capital and also reductions in UK margins in Retail Financial Services, Barclaycard and Corporate Banking. Additionally, the two month impact of the acquisition of The Woolwich on the Group's mix of interest earning assets has been to reduce the Group margin by 6 basis points.

The benefit of free funds was flat at 0.51% (1999 0.52%). The rise in short-term market rates of interest reduced the contribution to the net margin from the central management of Group interest rate exposure to 0.05% from 0.21%. The overall benefit of free funds on a hedged basis has reduced to 0.56% from 0.73% in 1999 as a result of a decrease in the effective rate of the hedge and a reduction in the proportion of free funds to interest earning assets.

In 1999 net interest income increased by £274m or 6% excluding the contribution from the former BZW businesses and the write-down of leases. This reflected volume growth in Retail Financial Services and Corporate Banking and an improved contribution from the central management of Group capital.

Prevailing average Interest rates

	2000 %	1999 %	1998 %
UK:			
Barclays Bank PLC base rate	5.96	5.35	7.23
London Inter-Bank Offered Rate (LIBOR):			
three month sterling	6.10	5.54	7.43
three month eurodollar	6.47	5.37	4.90
United States prime rate	9.24	7.99	8.36

Average interest earning assets and liabilities – banking business

	2000 £m	1999 £m	1998 £m
Average interest earning assets:			
Group	166,200	136,267	127,396
Domestic	104,845	87,407	82,095
International	61,355	48,860	45,301
Average interest bearing liabilities:			
Group	147,367	118,496	109,225
Domestic	89,130	73,850	66,492
International	58,237	44,646	42,733

Yields, spreads and margins – banking business

	2000 %	1999 %	1998 %
Gross yield (a)			
Group	7.09	6.84	7.81
Domestic	7.90	7.66	8.90
International	5.71	5.38	5.84
Interest spread (b)			
Group	2.60	2.88	2.69
Domestic	3.54	3.89	3.40
International	1.01	1.10	1.30
Interest margin (c)			
Group	3.11	3.40	3.42
Domestic	4.19	4.47	4.44
International	1.25	1.47	1.55

Notes

(a) Gross yield is the interest rate earned on average interest earning assets.

(b) Interest spread is the difference between the interest rate earned on average interest earning assets and the interest rate paid on average interest bearing liabilities.

(c) Interest margin is net interest income as a percentage of average interest earning assets.

Domestic business is conducted primarily in sterling and is transacted by Retail Financial Services, Barclaycard, Corporate Banking, Barclays Capital and Group Treasury. International business is conducted primarily in foreign currencies.
In addition to the business carried out by overseas branches and subsidiaries, international business is transacted in the UK by Barclays Capital, mainly with customers domiciled outside the UK.

The yields, spreads and margins shown opposite have been computed on this basis, which generally reflects the domicile of the borrower. They exclude profits and losses on the redemption and repurchase of loan capital, one-off write-downs of leases and the unwinding of the discount on vacant leasehold property provisions.

The net interest income and average balances of the trading business are shown separately on the average balance sheet on pages 28 and 29.

Net fees and commissions

	2000 £m	1999 £m	1998 £m
Fees and commissions receivable	3,689	3,207	3,008
Less: fees and commissions payable	(320)	(275)	(229)
	3,369	2,932	2,779
Excluding The Woolwich and former BZW businesses	3,320	2,932	2,771

Net fees and commissions, excluding The Woolwich, increased 13% to £3,320m reflecting strong growth in Barclays Global Investors and Barclays Capital and good performances in the other businesses.

In Barclays Global Investors fee income increased by 37% to £435m driven by strong active product growth and performance which has generated significant incentive fees. Fees on active products comprised almost 50% of total fees and commissions. The increase also reflects strong securities lending revenue growth and a net increase in assets under management of 13% despite flat or declining global markets.

Net fees and commissions in Barclays Capital rose 64% to £268m reflecting the increased number and size of transactions completed in the Credit businesses. Growth was strong across all the Credit businesses, in particular, primary loans, primary bonds and structured capital markets.

In Retail Financial Services, fees and commissions, excluding The Woolwich increased 5% to £1,370m. Within Retail Customers net fees increased 6% mainly as a result of additional current account and overdraft lending activity and higher fee income from Additions accounts. In Wealth Management, fees and commissions grew 10% to £590m on a comparable basis (including adjustments for disposals) reflecting increased investment sales, introduction of new fee based products and higher dealing commissions.

Corporate Banking fees increased 9% to £752m. Lending related fees rose strongly and foreign exchange income increased in line with volume growth. Money transmission income reduced slightly due to intensifying competitive pressures.

In Barclaycard, fees and commissions increased 9% to £521m, principally reflecting cardholder turnover which grew by 12% year on year.

Corporate Banking and Retail Financial Services fees and commissions include £120m (1999 £100m) in respect of foreign exchange income on customer transactions with Barclays Capital.

In 1999 net fees and commissions were 6% higher at £2,932m reflecting strong performances in all businesses.

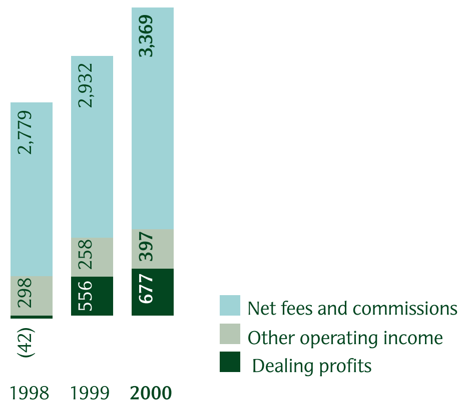
Dealing Profits

	2000 £m	1999 £m	1998 £m
Rates related business	536	397	134
Credit related business	141	159	(176)
	677	556	(42)
Excluding The Woolwich acquisition and former BZW businesses	677	556	(36)

Dealing profits rose 22% with almost all the Group's dealing profits arising in Barclays Capital. The Rates businesses continued to perform well, in particular interest rate derivatives. In the Credit businesses, equity derivatives and credit repackaging made good contributions, but in the second half these were in part offset by continuing difficult market conditions in the secondary bond market due to the widening of credit spreads.

Total foreign exchange income for the year was £388m (1999 £380m) and consisted of the revenues earned from both retail and wholesale activities. The foreign exchange revenue earned by Retail Financial Services and Corporate Banking on customer transactions is reported within fees and commissions.

Dealing profits in 1999 increased by £592m as a result of stability returning to the world credit markets.



Non interest income (£m)

Other operating Income

	2000 £m	1999 £m	1998 £m
Dividend income from equity shares	14	12	10
Profits on disposal of investment securities	45	41	41
Income from the long-term assurance business	171	44	109
Property rentals	22	27	44
Premium income on insurance underwriting	126	102	31
Other income	19	32	63
	397	258	298
Excluding The Woolwich	388	258	298

Income from the long term assurance business increased £52m adjusting for the £75m provision for possible redress to personal pension customers (non priority cases), which was raised during 1999. The increase in 2000 benefited from reductions in costs charged to the funds, a net £18m increase from applying current actuarial assumptions and £5m from the inclusion of Woolwich Life. Total provisions of £226m, including £16m in The Woolwich, have been raised to date for the cost of the redress for personal pension customers for priority and non-priority cases, of which £97m remains unutilised as at 31st December 2000. The result of the long term assurance business is after charging costs borne directly in the funds of £146m (1999 £165m).

Premium income on insurance underwriting increased to £126m (1999 £102m), benefiting from improved volumes of consumer lending, overdrafts, mortgages and credit card lending.

In 1999 other operating income was £40m lower than in 1998. Increased premium income on insurance underwriting was offset by the £75m charge in respect of the possible cost of redress to personal pension customers (non-priority cases), lower property rentals and reduced other income.

Administrative expenses – staff costs

	2000 £m	1999 £m	1998 £m
Salaries and accrued incentive payments	2,559	2,387	2,211
Social security costs	178	190	173
Pension costs	(31)	38	37
Post-retirement health care	1	15	17
UK profit sharing	96	80	88
Other staff costs	416	347	285
	3,219	3,057	2,811
Included above:			
The Woolwich	42	–	–
Integration costs	1	–	–
Restructuring charge	171	192	–
Former BZW businesses	–	–	22
Excluding The Woolwich, integration costs, restructuring charge and former BZW businesses	3,005	2,865	2,789

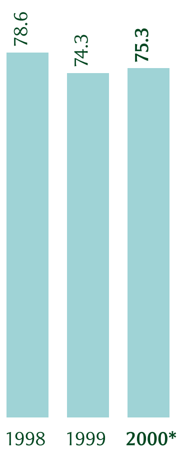
Staff numbers

	2000	1999	1998
Retail Financial Services**	49,900	46,100	49,100
Barclaycard	3,900	3,600	4,000
Corporate Banking	9,700	11,400	11,500
Barclays Capital	4,300	4,000	4,400
Barclays Global Investors	2,100	1,700	1,500
Other operations	4,900	7,100	7,600
Head office functions	500	400	400
Businesses in Transition	–	–	100
Staff numbers (period end)*	75,300	74,300	78,600

* Staff numbers do not include temporary and agency staff of 4,800 (31st December 1999 3,600, 31st December 1998 4,000) whose costs are included in staff costs.

** Staff numbers also exclude 1,000 UK regulated sales force and field sales managers (31st December 1999 1,000) and 1,100 administrative staff (31st December 1999 1,300) whose costs are borne within the long-term assurance fund.

Of the 75,300 staff at 31st December 2000, 58,200 (including 1,200 in the Channel Islands and Isle of Man) were based in the UK, 4,400 in other EU countries, 2,700 in the United States and 10,000 in the Rest of the world.



Staff numbers (000's)

* Including 6,500 in respect of The Woolwich

Staff costs

Staff costs excluding the restructuring charge and costs relating to The Woolwich increased 5% to £3,005m. Salaries and accrued incentive payments rose by 7% largely reflecting increased performance related payments in Barclays Capital and BGI. Excluding performance related payments, salary costs across the Group were flat compared with 1999. In Retail Financial Services, Corporate Banking and Service Provision savings from job reductions offset the impact of the annual UK pay award.

Pension costs include a £74m credit (1999 £nil) in respect of the Group's main UK schemes following a review of the assumptions relating to the surplus and the continued nil contribution.

In 1999 staff costs, excluding the restructuring charge and costs in relation to former BZW businesses, rose by 3% over 1998. The increase reflected higher performance related payments in Barclays Capital in line with improved profitability. Underlying staff costs, excluding performance related payments, were slightly below 1998 levels.

Staff number reduction in 2000

Excluding The Woolwich, staff numbers decreased by 5,500 to 68,800, primarily as a result of continuing job reductions in the UK. The reduction in staff numbers relating to the 2000 restructuring programme amounted to 2,700 with a further 1,500 attributable to the 1999 programme where the notice process was underway at the end of 1999. The reduction in Corporate Banking staff numbers includes 700 as a result of the sale of Dial. Staff numbers also reduced by a net 600 as a result of outsourcing and other movements.

In addition to the 4,200 staff who have left the Group in 2000 under the 2000 and 1999 restructuring programmes, a further 2,100 staff were in the process of being served notice at 31st December 2000 and are covered by the 2000 restructuring charge of £171m (total jobs affected 4,800).

The increases in Barclays Capital, Barclays Global Investors and Barclaycard staff numbers reflected increased business volumes and investments in new activities.

Administrative expenses – other

	2000 £m	1999 £m	1998 £m
Property and equipment expenses			
Hire of equipment	20	21	28
Property rentals	157	218	195
Other property and equipment expenses	641	613	635
	818	852	858
Other administrative expenses			
Stationery, postage and telephones	261	236	230
Advertising and market promotion	221	190	225
Travel, accommodation and entertainment	123	117	113
Subscriptions and publications	65	58	46
Securities clearing and other operational expenses	26	20	49
Sundry losses, provisions and write-offs	115	78	53
Statutory and regulatory audit and accountancy fees	7	6	6
Consultancy fees	158	121	126
Professional fees	99	88	91
Other expenses	74	41	32
	1,967	1,807	1,829
Included above:			
The Woolwich	47	–	–
Integration costs	6	–	–
Restructuring charge	61	152	–
Former BZW businesses	–	–	17
Excluding The Woolwich, integration costs, restructuring charge and former BZW businesses	1,853	1,655	1,812

Administrative expenses increased by 12% to £1,853m, excluding operational costs of The Woolwich following acquisition, integration costs and restructuring costs.

Advertising and market promotion expenditure returned to pre-1999 levels; increased stationery, postage and telephone expenses was in part volume related; consultancy fees increased primarily as a result of strategic project initiatives. Increased fraud losses reflecting industry experience are reflected in sundry losses.

Administrative expenses in 1999 included £152m in respect of the 1999 restructuring programme, of which £87m related to provisions for future costs on surplus leasehold properties. Excluding this charge and the costs of the former BZW businesses in 1998, there was a fall in the costs of the ongoing businesses of £157m to £1,655m.

Depreciation and amortisation

	2000 £m	1999 £m	1998 £m
Property depreciation	85	93	88
Equipment depreciation	166	170	172
Loss on sale of equipment	4	4	5
Write back of surplus properties	–	–	(2)
	255	267	263
Goodwill amortisation			
– The Woolwich	38	–	–
– other	13	13	12
	306	280	275
Excluding The Woolwich	259	280	275

Goodwill amortisation relating to The Woolwich acquisition is based on total goodwill of £4,121m and an estimated economic life of 20 years which will result in a charge of £206m per annum, £38m for the period from 25th October 2000 to 31st December 2000.

Provisions for bad and doubtful debts

	2000 £m	1999 £m	1998 £m
Credit risk provision charge/(release)			
specific	782	637	505
general	40	(16)	(20)
Country risk provision charge/(release)			
specific	(5)	(2)	(13)
general	–	2	20
	817	621	492
Excluding The Woolwich	809	621	492

The net provisions charge rose 32% to £817m (including £8m relating to The Woolwich). The increase in the net specific credit risk charge reflected both an increase in new and increased provisions of £94m and a reduction in releases and recoveries of £51m.

The rise in new and increased provisions primarily relates to Retail Financial Services and Barclaycard with both experiencing increased volumes. Corporate Banking experienced new provisions in respect of two larger individual customers as well as lower releases and recoveries. £33m of the £124m charge in Corporate Banking related to overseas specific provisions. There was an increase in provisions in relation to overseas exposures in Barclays Capital.

The credit risk general provision charge was £40m compared to a release of £16m in 1999. The charge for general provision was mainly in respect of Barclays Capital and Corporate Banking.

The net provision charge for the period as a percentage of average banking loans and advances was 0.67% compared with 0.58% in 1999.

In 1999 the net charge for provisions rose by £129m to £621m largely reflecting volume growth in UK consumer lending and extended credit transactions at Barclaycard and to a lesser extent less favourable economic factors that affected the first half of 1999.

Provisions for contingent liabilities and commitments

2000 £m	1999 £m	1998 £m
(1)	1	76

The charge in 1998 related to the contribution to the overall settlement to the Administrators of British and Commonwealth Holdings PLC.

(Loss)/profit from joint ventures and associated undertakings

	2000 £m	1999 £m	1998 £m
Loss from joint ventures	(1)	(1)	–
(Loss)/Income from associated undertakings	(7)	(13)	22
	(8)	(14)	22

The loss from associated undertakings in 2000 and 1999 largely arose in the Group's Brazilian associate Banco Barclays e Galicia SA.

Loss on sale or restructuring of BZW

2000 £m	1999 £m	1998 £m
–	(30)	(3)

Profit/(loss) on disposal of other Group undertakings

2000 £m	1999 £m	1998 £m
214	(108)	4

The profit on disposal of other Group undertakings includes a £186m profit on the sale of Dial in June 2000 and £18m profit on the sale of Barclays Property Investment Management in October 2000.

The loss on disposal of other Group undertakings in 1999 includes a £117m loss (after £138m charge for goodwill which had been previously written off to reserves) on the sale of Merck Finck in March 1999.

Tax

The overall tax charge is explained in the following table:

	2000 £m	1999 £m	1998 £m
Tax charge at average UK corporation tax rate of 30% (1999 30.25%, 1998 31%)	1,049	743	583
Deferred tax adjustments for the leasing business	–	–	(18)
Prior year adjustments	9	(44)	18
Effect of change in non-allowable general provisions	24	4	–
Effect of non-allowable property write-downs and depreciation	6	7	9
Net effect of differing tax rates overseas	(43)	(34)	(21)
Net effect of overseas losses not available for relief in the UK	(5)	–	(16)
Other non-allowable expenses	16	9	11
Gains covered by capital losses brought forward	(53)	–	(4)
Other items	(59)	(41)	(42)
Overall tax charge	944	644	520
Effective tax rate %	27.0	26.2	27.6

The increase in the effective rate to 27.0% from 26.2% in 1999 reflects the gain on the sale of Dial being sheltered by capital gains tax losses offset by an increase in non-allowable general provisions and the effect of prior year adjustments.

Restructuring charge

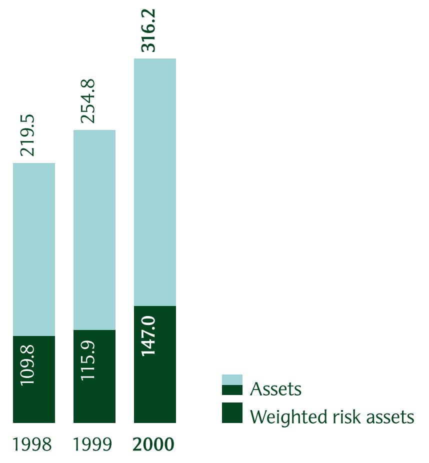
In 2000 the Group incurred a restructuring charge of £232m (1999 £344m) of which £134m related to Retail Financial Services with the remainder arising mainly in Corporate Banking and Central Services. The 1999 charge related to job reductions in the UK, principally in Retail Financial Services and Corporate Banking, and in certain international operations of Retail Financial Services.

£171m of the £232m restructuring charge is contained within staff costs (1999 £192m) and relates to some 2,700 job reductions in 2000 (1999 5,300) and a further 2,100 staff (1999 900) who were in the process of being served notice at the year end.

Administrative expenses charged in connection with the restructuring amounted to £61m (1999 £152m).

Related expenditure of £166m was incurred in the year against the provisions raised for the 1999 programme and a further £118m in respect of the 2000 programme. The accrued provision at 31st December 2000 amounted to £132m (1999 £184m).

Total assets and liabilities



Total assets and weighted risk assets (£bn)

The Group's balance sheet grew £61bn, or 24%, to £316bn in 2000, and included £37bn of assets and £4.1bn of goodwill in respect of The Woolwich. This compared to a 16% increase in 1999. Weighted risk assets rose 27% to £147bn, of which £19bn (13%) relates to The Woolwich.

Retail Financial Services assets (excluding The Woolwich) grew 6% to £44.1bn, compared with a 4% increase in 1999. Weighted risk assets were 9% higher at £28.5bn. Consumer lending balances in the UK increased by 5% to £6.5bn over the year and mortgage outstandings grew by 6% to £17.7bn. Wealth Management assets have grown strongly across most business units, with particularly high growth in UK Premier Banking and Iberia.

The assets of Barclays Capital increased 8%, to £157bn (1999 £145bn). This was largely due to a £10bn increase in the holdings of debt securities across both the Rates and Credit businesses and a £2bn increase in reverse repos and stock lending assets due to increased customer financing. Total weighted risk assets increased 7% to £34bn (1999 £32bn) in line with the increase in assets.

Corporate Banking assets grew 13% to £53bn, adjusted for the sale of Dial (1999 £47bn). Weighted risk assets increased by 13% to £55bn on the same basis. UK middle market lending grew strongly, particularly to larger and higher quality customers. Lending volumes in the international business continued to grow strongly in Europe while volumes in Latin America reduced. In 2000 the sale of Dial reduced total assets by £800m.

Barclaycard assets grew £1.4bn, or 19%, to £8.7bn in 2000 reflecting strong growth in credit card outstandings in the UK and Europe. Weighted risk assets increased by 18%.

Assets of other operations fell by £1bn mainly because of lower holdings of government loan stock.

Retail life fund assets, excluding The Woolwich (£721m), reduced by £50m.

Repo transactions

Under a repo (sale and repurchasing agreement), an asset is sold to a counterparty with a commitment to repurchase it at a future date at an agreed price. The Group engages in repos and also in reverse repos, which are the same transaction in the opposite direction, the Group buying an asset with a fixed commitment to resell. The Group aims to earn spread and trading income from these activities as well as funding its own holdings of securities.

The following amounts were included in the balance sheet for repos and reverse repos and are reported on a net basis where permitted:

	2000 £m	1999 £m	1998 £m
Reverse repos (assets)			
Loans and advances to banks	25,595	26,040	14,952
Loans and advances to customers	20,758	19,910	10,635
	46,353	45,950	25,587
Repos (liabilities)			
Deposits by banks	16,275	16,631	6,512
Customer accounts	17,053	17,422	11,200
	33,328	34,053	17,712

The average and maximum amount of reverse repos for 2000 were £48,952m and £60,356m (1999 £35,495m and £47,468m, 1998 £39,174m and £62,913m) respectively. The average and maximum amount of repos for 2000 were £40,462m and £52,163m (1999 £29,671m and £39,099m, 1998 £32,181m and £55,274m) respectively.

Average balance sheet and net interest income (year ended 31st December)

	2000			1999			1998		
	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %
Assets									
Treasury bills and other eligible bills:									
in offices in the UK	4,491	146	3.3	3,697	175	4.7	2,445	154	6.3
in offices outside the UK	844	88	10.4	898	90	10.0	963	103	10.7
Loans and advances to banks:									
in offices in the UK	6,579	355	5.4	7,762	361	4.7	10,561	605	5.7
in offices outside the UK	6,361	397	6.2	8,224	442	5.4	11,138	535	4.8
Loans and advances to customers:									
in offices in the UK	83,651	6,810	8.1	68,752	5,549	8.1	62,304	5,757	9.2
in offices outside the UK	20,693	1,298	6.3	16,154	893	5.5	11,596	863	7.4
Lease receivables:									
in offices in the UK	4,683	316	6.7	5,059	346	6.8	5,499	452	8.2
in offices outside the UK	366	39	10.6	537	67	12.5	240	21	8.8
Debt securities:									
in offices in the UK	26,973	1,630	6.0	15,256	851	5.6	13,804	910	6.6
in offices outside the UK	11,559	709	6.1	9,928	546	5.5	8,846	552	6.2
Average assets of banking business	166,200	11,788	7.1	136,267	9,320	6.8	127,396	9,952	7.8
Average assets of trading business	98,156	4,808	4.9	67,278	3,655	5.4	77,599	3,809	4.9
Total average interest earning assets	264,356	16,596	6.3	203,545	12,975	6.4	204,995	13,761	6.7
Provisions	(2,115)			(1,955)			(1,847)		
Non-interest earning assets	43,125			42,526			39,957		
Total average assets and interest income	305,366	16,596	5.4	244,116	12,975	5.3	243,105	13,761	5.7
Percentage of total average assets in offices outside the UK	31.4			31.0			29.6		
Average interest earning assets and net interest income:									
Banking business	166,200	5,161	3.1	136,267	4,630	3.4	127,396	4,352	3.4
Trading business	98,156	(216)	(0.2)	67,278	(31)	–	77,599	(25)	–
Write-down of leases		–	–		–	–		(40)	–
Discount rate adjustment on provisions		(8)	–		(6)	–		(4)	–
Profit on redemption/repurchase of loan capital		2	–		3	–		3	–
Total average interest earning assets and net interest income	264,356	4,939	1.9	203,545	4,596	2.3	204,995	4,286	2.1
Total average interest earning assets related to:									
Interest income		16,596	6.3		12,975	6.4		13,761	6.7
Interest expense		(11,651)	(4.4)		(8,376)	(4.1)		(9,434)	(4.6)
Write-down of leases		–	–		–	–		(40)	–
Discount rate adjustment on provisions		(8)	–		(6)	–		(4)	–
Profit on redemption/repurchase of loan capital		2	–		3	–		3	–
		4,939	1.9		4,596	2.3		4,286	2.1

Average balance sheet and net interest income (year ended 31st December)

	2000			1999			1998		
	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %
Liabilities and shareholders' funds									
Deposits by banks:									
in offices in the UK	21,465	932	4.3	14,210	479	3.4	17,911	719	4.0
in offices outside the UK	13,736	545	4.0	11,506	460	4.0	11,726	505	4.3
Customer accounts – demand deposits:									
in offices in the UK	13,302	220	1.7	12,786	168	1.3	11,072	201	1.8
in offices outside the UK	1,707	50	2.9	1,827	35	1.9	2,088	44	2.1
Customer accounts – savings deposits:									
in offices in the UK	27,349	1,005	3.7	24,517	772	3.1	22,635	1,110	4.9
in offices outside the UK	1,312	62	4.7	1,307	55	4.2	1,120	63	5.6
Customer accounts – other time deposits – retail:									
in offices in the UK	28,639	1,634	5.7	23,998	1,231	5.1	22,703	1,574	6.9
in offices outside the UK	5,785	316	5.5	5,076	234	4.6	5,262	266	5.1
Customer accounts – other time deposits – wholesale:									
in offices in the UK	22,596	1,165	5.2	19,555	848	4.3	17,379	890	5.1
in offices outside the UK	10,005	553	5.5	6,067	306	5.0	5,904	307	5.2
Debt securities in issue:									
in offices in the UK	19,904	1,057	5.3	15,656	777	5.0	14,554	913	6.3
in offices outside the UK	7,279	457	6.3	7,130	379	5.3	6,181	340	5.5
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	4,643	335	7.2	4,092	263	6.4	3,372	244	7.2
Internal funding of trading business	(30,355)	(1,704)	5.6	(29,231)	(1,317)	4.5	(32,682)	(1,576)	4.8
Average liabilities of banking business	147,367	6,627	4.5	118,496	4,690	4.0	109,225	5,600	5.1
Average liabilities of trading business	98,297	5,024	5.1	71,535	3,686	5.2	79,513	3,834	4.8
Total average interest bearing liabilities	245,664	11,651	4.7	190,031	8,376	4.4	188,738	9,434	5.0
Interest free customer deposits:									
in offices in the UK	9,468			8,677			8,333		
in offices outside the UK	1,858			1,597			1,278		
Other non-interest bearing liabilities	37,637			35,190			36,652		
Minority and other interests and shareholders' funds	10,739			8,621			8,104		
Total average liabilities, shareholders' funds and interest expense	305,366	11,651	3.8	244,116	8,376	3.4	243,105	9,434	3.9
Percentage of total average non-capital liabilities in offices outside the UK	30.5			30.3			30.0		

Notes

(a) Loans and advances to customers and banks include all doubtful lendings, including non-accrual lendings. Interest receivable on such lendings has been included to the extent to which either cash payments have been received or interest has been accrued in accordance with the income recognition policy of the Group.

(b) Average balances are based upon daily averages for most UK banking operations and monthly averages elsewhere.

(c) The average balance sheet does not include the retail life-fund assets attributable to policyholders nor the related liabilities.

Changes in net interest income – volume and rate analysis

The following table allocates changes in net interest income between changes in volume and changes in interest rates for the last two years. Volume and rate variances have been calculated on the movement in the average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Where variances have arisen from changes in both volumes and interest rates, these have been allocated proportionately between the two.

		2000/1999 Change due to increase/(decrease) in:			1999/1998 Change due to increase/(decrease) in:	
	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest receivable						
Treasury bills and other eligible bills:						
in offices in the UK	(29)	33	(62)	21	66	(45)
in offices outside the UK	(2)	(6)	4	(13)	(7)	(6)
	(31)	27	(58)	8	59	(51)
Loans and advances to banks:						
in offices in the UK	(6)	(59)	53	(244)	(143)	(101)
in offices outside the UK	(45)	(110)	65	(93)	(151)	58
	(51)	(169)	118	(337)	(294)	(43)
Loans and advances to customers:						
in offices in the UK	1,261	1,213	48	(208)	562	(770)
in offices outside the UK	405	274	131	30	286	(256)
	1,666	1,487	179	(178)	848	(1,026)
Lease receivables:						
in offices in the UK	(30)	(25)	(5)	(106)	(34)	(72)
in offices outside the UK	(28)	(19)	(9)	46	34	12
	(58)	(44)	(14)	(60)	–	(60)
Debt securities:						
in offices in the UK	779	703	76	(59)	90	(149)
in offices outside the UK	163	96	67	(6)	63	(69)
	942	799	143	(65)	153	(218)
Total banking business interest receivable:						
in offices in the UK	1,975	1,865	110	(596)	541	(1,137)
in offices outside the UK	493	235	258	(36)	225	(261)
	2,468	2,100	368	(632)	766	(1,398)
Total trading business interest receivable	1,153	1,542	(389)	(154)	(537)	383
Total interest receivable	3,621	3,642	(21)	(786)	229	(1,015)

Changes in net interest income – volume and rate analysis

	Total change £m	2000/1999 Change due to increase/(decrease) in: Volume £m	Rate £m	Total change £m	1999/1998 Change due to increase/(decrease) in: Volume £m	Rate £m
Interest payable						
Deposits by banks:						
in offices in the UK	453	290	163	(240)	(135)	(105)
in offices outside the UK	85	89	(4)	(45)	(9)	(36)
	538	379	159	(285)	(144)	(141)
Customer accounts – demand deposits:						
in offices in the UK	52	7	45	(33)	28	(61)
in offices outside the UK	15	(2)	17	(9)	(5)	(4)
	67	5	62	(42)	23	(65)
Customer accounts – savings deposits:						
in offices in the UK	233	95	138	(338)	86	(424)
in offices outside the UK	7	–	7	(8)	9	(17)
	240	95	145	(346)	95	(441)
Customer accounts – other time deposits – retail:						
in offices in the UK	403	256	147	(343)	86	(429)
in offices outside the UK	82	35	47	(32)	(9)	(23)
	485	291	194	(375)	77	(452)
Customer accounts – other time deposits – wholesale:						
in offices in the UK	317	143	174	(42)	104	(146)
in offices outside the UK	247	215	32	(1)	8	(9)
	564	358	206	(43)	112	(155)
Debt securities in issue:						
in offices in the UK	280	223	57	(136)	65	(201)
in offices outside the UK	78	8	70	39	51	(12)
	358	231	127	(97)	116	(213)
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	72	38	34	19	48	(29)
Internal funding of trading businesses	(387)	(52)	(335)	259	160	99
Total banking business interest payable:						
in offices in the UK	1,423	1,000	423	(854)	442	(1,296)
in offices outside the UK	514	345	169	(56)	45	(101)
	1,937	1,345	592	(910)	487	(1,397)
Total trading business interest payable	1,338	1,368	(30)	(148)	(400)	252
Total interest payable	3,275	2,713	562	(1,058)	87	(1,145)
Movement in net interest income						
Increase/(decrease) in interest receivable	3,621	3,642	(21)	(786)	229	(1,015)
(Increase)/decrease in interest payable	(3,275)	(2,713)	(562)	1,058	(87)	1,145
	346	929	(583)	272	142	130
Movement in write-down of leases	–			40		
Movement in profit on redemption/repurchase of loan capital	(1)			–		
Movement in discount rate adjustment on provisions	(2)			(2)		
	343			310		

Capital resources

The Group continues to manage actively both its debt and equity capital. Total capital resources increased in the year by £7,725m.

	2000 £m	1999 £m	1998 £m
Barclays PLC Group			
Shareholders' funds	13,187	8,483	7,842
Minority & other interests	1,600	352	314
	14,787	8,835	8,156
Undated loan capital	2,672	1,749	1,742
Dated loan capital	3,698	2,848	1,992
Total capital resources	21,157	13,432	11,890

	2000 £m	1999 £m	1998 £m
Barclays Bank PLC Group			
Shareholders' funds	14,679	8,753	8,105
Minority interests	108	82	51
	14,787	8,835	8,156
Undated loan capital	2,672	1,749	1,742
Dated loan capital	3,698	2,848	1,992
Total capital resources	21,157	13,432	11,890

Shareholders' funds increased by £4,687m before favourable exchange differences of £17m. This increase resulted from shares issued in respect of The Woolwich acquisition (£3,359m) and profit retentions of £1,546m, offset by share buy-backs, including costs, of £311m.

The increase in minority interests in Barclays PLC Group reflects the issue by Barclays Bank PLC of €850m (£510m) and US $1,250m (£860m) Reserve Capital Instruments on 3rd May and 19th September 2000 respectively. This increase is reflected in shareholders' funds in Barclays Bank PLC Group. 17,920,000 outstanding Series C1 and C2 Non cumulative Dollar Denominated Preference Shares of $0.01 each were redeemed on 30th June 2000. The aggregate redemption cost was $224m (£149m).

Loan capital rose by £1,773m reflecting raisings of £861m, loan capital of The Woolwich on acquisition of £957m and exchange rate movements of £169m. This was offset by repayments of £214m.

Capital ratios

Capital adequacy and the use of regulatory capital are monitored by the Group, employing techniques based on the guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and European Community Directives, as implemented by the Financial Services Authority (FSA) for supervisory purposes.

These techniques include the risk asset ratio calculation, which the FSA regards as a key supervisory tool. The FSA sets ratio requirements for individual banks in the UK at or above the internationally agreed minimum of 8%. The ratio calculation involves the application of designated risk weightings to reflect an estimate of credit, market and other risks associated with broad categories of transactions and counterparties.

Regulatory guidelines define three 'tiers' of capital resources. Tier 1 ('core') capital, comprising mainly shareholders' funds and including Reserve Capital Instruments (included in minority and other interests in Barclays PLC Group and within shareholders' funds in Barclays Bank PLC Group) is the highest tier and can be used to meet trading and banking activity requirements. Tier 2 includes perpetual, medium-term and long-term subordinated debt, general provisions for bad and doubtful debts and fixed asset revaluation reserves. Tier 2 capital can be used to support both trading and banking activities. Tier 3 capital comprises short-term subordinated debt with a minimum original maturity of two years. The use of tier 3 capital is restricted to trading activities only and it is not eligible to support counterparty or settlement risk. The aggregate of tiers 2 and 3 capital included in the risk asset ratio calculation may not exceed tier 1 capital.

The following table analyses capital resources at 31st December 2000, as defined for regulatory purposes:

Capital adequacy data

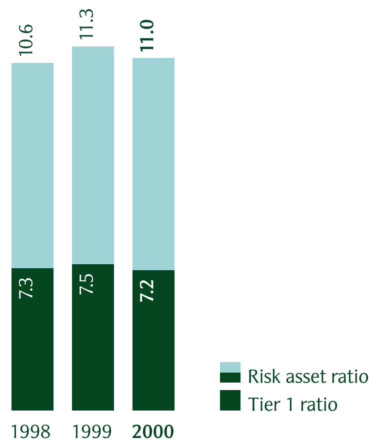
	2000		1999	
	Barclays PLC Group £m	Barclays Bank PLC Group £m	Barclays PLC Group £m	Barclays Bank PLC Group £m
Tier 1				
Shareholders' funds (as defined for regulatory purposes)	8,878	10,370	8,267	8,537
Minority interests in tier 1	1,669	177	429	159
Total tier 1 capital	10,547	10,547	8,696	8,696

	2000 £m	1999 £m
Tier 2		
Fixed asset revaluation reserves	40	43
Qualifying undated and dated loan capital (a)	5,819	4,233
	5,859	4,276
General allowances for bad and doubtful debts	760	672
Total tier 2 capital	6,619	4,948
Tier 3		
Short-term subordinated loans	331	343
Total tier 3 capital	331	343
Gross capital resources	17,497	13,987
Less: supervisory deductions (b)	(1,312)	(853)
Total net capital resources	16,185	13,134

Notes

(a) Dated and undated subordinated debt is included in tier 2 or 3, subject to limits laid down in the supervisory requirements. Barclays retains significant capacity to raise additional capital within these limits.

(b) Includes £820m (1999 £555m) of shareholders' interest in the retail life-fund.



Capital ratios (%)

	2000		1999	
	Barclays PLC Group %	Barclays Bank PLC Group %	Barclays PLC Group %	Barclays Bank PLC Group %
Capital ratios				
Tier 1 ratio	7.2	7.2	7.5	7.5
Risk asset ratio	11.0	11.0	11.3	11.3

	£m	£m
Weighted risk assets		
Banking book		
on-balance sheet	112,633	84,535
off-balance sheet	18,413	15,567
associated undertakings	783	1,341
Total banking book	131,829	101,443
Trading book		
market risks	6,440	6,015
counterparty and settlement risks	8,771	8,420
Total trading book	15,211	14,435
Total risk weighted assets	147,040	115,878

Deposits

	Average: year ended 31st December		
	2000 £m	1999 £m	1998 £m
Deposits by banks			
Offices in the UK	21,465	14,210	17,911
Offices outside the UK:			
Other European Union	3,996	5,025	4,913
United States	4,618	3,816	3,500
Rest of the World	5,122	2,665	3,313
	35,201	25,716	29,637
Customer accounts			
Offices in the UK	101,354	89,533	82,122
Offices outside the UK:			
Other European Union	5,050	4,991	5,392
United States	5,201	2,515	2,720
Rest of the World	10,416	8,368	7,540
	122,021	105,407	97,774

Average deposits (excluding trading balances) are analysed by type in the average balance sheet on page 29 and are based on the location of the office in which the deposits are recorded.

'Demand deposits' in offices in the UK are mainly current accounts with credit balances, obtained through the UK branch network.

'Savings deposits' in offices in the UK are also obtained through, and administered by, the UK branch network. Interest rates are varied from time to time in response to competitive conditions. These deposits are not drawn against by cheque or similar instrument.

'Other time deposits – retail' in offices in the UK are interest bearing and also are not drawn against by cheque or similar instrument. They are generally distinguished from savings deposits by having fixed maturity requirements and from wholesale deposits by being collected, in the main, through the UK branch network.

'Other time deposits – wholesale' in offices in the UK are obtained through the London money market and are booked mainly within the Group's money market operations. These deposits are of fixed maturity and bear interest rates which relate to the London inter-bank money market rates.

'Other time deposits' includes commercial paper and inter-bank funds.

Although the types of deposit products offered through offices located outside the UK are broadly similar to those described above, they are tailored to meet the specific requirements of local markets.

Short-term borrowings

Short-term borrowings include Deposits by banks as reported in 'Deposits'.

Deposits by banks (excluding trading business)

	2000 £m	1999 £m	1998 £m
Year-end balance	32,445	26,915	25,951
Average balance	35,201	25,716	29,637
Maximum balance	45,923	35,384	35,092
Average interest rate during year	4.2%	3.7%	4.1%
Year-end interest rate	4.5%	3.8%	4.4%

Commercial paper

Commercial paper is issued by the Group, mainly in the United States, generally in denominations of not less than $100,000, with maturities of up to 270 days.

	2000 £m	1999 £m	1998 £m
Year-end balance	2,209	1,082	1,098
Average balance	2,001	857	913
Maximum balance	3,668	2,131	1,546
Average interest rate during year	6.6%	5.2%	5.2%
Year-end interest rate	6.4%	5.3%	5.3%

Negotiable certificates of deposit

	2000 £m	1999 £m	1998 £m
Year-end balance	22,413	19,496	14,764
Average balance	20,918	19,781	17,971
Maximum balance	29,125	26,118	20,573
Average interest rate during year	5.2%	5.0%	6.2%
Year-end interest rate	6.3%	5.3%	6.4%

Securities

The following table analyses the book value and valuation of securities

	2000		1999		1998	
	Book value £m	Valuation £m	Book value £m	Valuation £m	Book value £m	Valuation £m
Investment securities						
Debt securities:						
UK government	1,496	1,571	1,666	1,664	1,730	1,775
other government	12,117	12,378	9,315	9,340	5,937	6,053
other public bodies	20	19	69	71	87	89
other issuers	16,087	16,103	9,741	9,748	6,548	6,595
Equity shares	244	295	179	206	336	379
	29,964	30,366	20,970	21,029	14,638	14,891
Other securities						
Debt securities:						
UK government	845	845	1,278	1,278	3,621	3,621
other government	15,555	15,555	7,031	7,031	10,377	10,377
other public bodies	1,280	1,280	503	503	775	775
bank and building society certificates of deposit	16,682	16,682	18,005	18,005	8,677	8,677
other issuers	6,688	6,688	6,311	6,311	7,428	7,428
Equity shares	3,818	3,818	5,425	5,425	4,552	4,552
	74,832	75,234	59,523	59,582	50,068	50,321

Investment debt securities include government securities held as part of the Group's treasury management portfolio for asset and liability, liquidity and regulatory purposes and are for use on a continuing basis in the activities of the Group. In addition, the Group holds as investments listed and unlisted corporate securities. Investment securities are valued at cost, adjusted for the amortisation of premiums or discounts to redemption, less any provision for diminution in value.

Other securities comprise dealing securities and short-term certificates of deposit and are principally valued at market value.

Bank and building society certificates of deposit are freely negotiable and have original maturities of up to 5 years, but are typically held for shorter periods.

A further analysis of the book value and valuation of securities is given in notes 19 and 20 to the accounts.

In addition to UK government securities shown above, at 31st December 2000 and 1999 the Group held the following government securities which exceeded 10% of shareholders' funds:

	2000		1999	
	Book value £m	Valuation £m	Book value £m	Valuation £m
US government securities	6,429	6,426	5,457	5,408
Japanese government securities	5,584	5,586	1,805	1,815
Italian government securities	5,266	5,382	2,827	2,876
German government securities	2,838	2,838	1,692	1,648
French government securities	1,963	1,968	1,547	1,567
Spanish government securities*	–	–	1,160	1,194

* Holdings did not exceed 10% of shareholders' funds at 31st December 2000.

Maturities and weighted average yield of investment debt securities

	Maturing within one year:		Maturing after one but within five years:		Maturing after five but within ten years:		Maturing after ten years:			
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Total Yield %
Government	4,688	5.6	6,204	6.1	1,612	6.7	1,109	7.0	13,613	6.1
Other public bodies	13	10.9	3	5.1	3	10.9	1	2.9	20	9.7
Other issuers	4,358	4.9	7,441	6.0	881	7.5	3,407	6.3	16,087	5.9
Total book value	9,059	5.2	13,648	6.1	2,496	7.0	4,517	6.5	29,720	6.0
Total valuation	9,157		13,599		2,621		4,694		30,071	

The weighted average yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 2000 by the book value of securities held at that date. Yields on certain US securities, which are exempt from tax, have been calculated using interest income adjusted to reflect a taxable equivalent basic.

Risk management – overview

Barclays aim in risk management is to achieve superior shareholder value through high quality risk management techniques and processes.

Risk management governance

Barclays manages a variety of risks in the ordinary course of business. These risks are identified, measured and monitored through various control mechanisms across the Group, in accordance with the requirements of the guidance 'Internal control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales.

The Board sets risk management standards and risk appetite for the Group, and is supported in this role by the Board Risk Committee, whose responsibilities include:

» Reviewing, and recommending to the Board, standards for risk management, including risk control principles, behavioural standards, and overall risk measures.
» Reviewing the overall risk appetite and profile of the Group.
» Reviewing significant changes in risk governance policy.
» Reviewing reports on specific material aspects of the Group's risk governance and risk management processes.

The responsibility for managing risk lies with the Group Chief Executive and the Group Executive Committee. On a day to day basis, risks are managed through a number of management committees (see chart on the following page) and through a Group Risk organisation which reports to the Group Risk Director. Through this process, Barclays monitors compliance within the overall risk policy framework and ensures that the framework is kept up to date. Risk management information is provided on a regular basis to Group Executive Committee, the Board Risk Committee and the Board.

Risk management organisation

Against a background of a rapidly changing business environment, Barclays believes that its risk organisation needs to be capable of adapting quickly to new product and business structures. During 2000, Barclays embarked on the development of a more integrated risk organisation which is both flexible in the face of changing business needs and supports the implementation of Value Based Management in Barclays.

A key feature of the new integrated risk management organisation is that it brings together both business risk functions and specialist risk teams.

Risk management in the businesses (including The Woolwich) is the responsibility of the risk business partners, who have a functional reporting line to the Group Risk Director. The key role of risk business partners is to assist the businesses to maximise value by:

» Performing high quality analysis of risks.
» Ensuring that risks are properly controlled.
» Evaluating economic trade-offs between risks.
» Designing cost-effective ways of mitigating and transferring risks.
» Generating alternative strategies regarding risk.

Specialist risk teams measure and control aggregate risk, and provide high level policies and standards within the overall corporate governance framework. Specialist areas also perform research & development and quality assurance, and provide analytical support to the businesses.

The following risks are covered by this process:

» Credit.
» Market.
» Treasury asset and liability management (comprising liquidity/funding risk and non-trading interest rate and exchange rate risk).
» Operational (comprising operational process risk, IT security risk, business continuity management, fraud risk, premises-related risk and people-related risk).
» Compliance.
» Legal.
» Tax.

Further analysis of these risks is provided in subsequent sections of the Financial Review.

Risk management committees

Group Chief Executive
Group Executive Committee

Group Treasury Committee

- Reviews and determines policy for liquidity and maturity transformation.
- Reviews and determines policy for structural interest rate exposure.

Group Risk Management Committee

- Approves high level polices and procedures for risk management and control throughout the Group.
- Reviews and recommends the overall risk appetite for the Group.
- Approves policy for asset class concentrations.

Group Operating Committee

- Ensures integrity of the operational, control and governance framework.
- Agrees polices and governance arrangements relating to operational management.

Group Credit Committee

- Sanctions large credit exposures.
- Approves revisions to country gradings.
- Sanctions large syndicated loan, bond and equity underwritings.

Group Risk Oversight Committee

- Approves risk limits, guidelines and triggers within high level appetite and framework agreed by Group Risk Management Committee.
- Monitors performance of business units against risk limits.

Group Risk Technical Committee

- Reviews and approves risk measurement and economic capital methodologies and new products with major risk implications.
- Approves the quality assurance framework to which all risk models are subject.

Credit risk management

Credit risk arises because the Bank's customers, clients or counterparties may not be willing or able to fulfil their contractual obligations. This type of risk may be divided into a number of different categories which includes primary, trading and settlement risks.

In relation to its management of credit risk, the Group Credit Risk Unit (GCRU) has day-to-day responsibility for monitoring compliance with Group policies. GCRU also reviews portfolio management and risk concentration issues, including country exposure, sector exposure, product risking and credit grading. GCRU is headed by the Group Credit Risk Director.

Risk Measurement
The Group uses a grading structure to show the probability of future default by borrowers. This is used to estimate levels of annualised credit losses from the overall lending portfolio (termed Risk Tendency). Risk Tendency assists in portfolio management decisions, such as setting exposure limits to any single counterparty or borrower, establishing the desired aggregate exposure levels to individual sectors, determining pricing policy and setting the level of the general provision. Gradings also provide a guide to changes in the underlying credit quality of the lending portfolio over time. A similar structure is also in place to control exposures to countries.

Credit exposure, or replacement cost, on derivative instruments represents the potential cost to replace contracts with a positive value if counterparties failed to perform their obligations. This cost is usually less than the face value of the contracts and the actual amount is monitored on an ongoing basis. To control the level of credit risk taken, the Group assesses counterparties, using the same techniques and grading structure as for lending decisions. Dealings are predominantly with counterparties of high credit quality.

Risk Control
The Group Credit Committee is responsible for sanctioning large credit exposures to all customers and counterparties arising from lending, trading activities, derivative instruments and settlement risks.

The Group Credit Committee is supported by business line focused risk management departments (RMDs) either in or responsible to each of the Strategic Business Units. Each RMD ensures that the SBU adheres to Group Standards for Credit Risk analysis and sanctioning. The SBUs' credit risk positions are reviewed and challenged by the Group Credit Risk Unit on a regular basis.

Retail Financial Services and Corporate Banking, which have the majority of the Group's personal and corporate credit exposures, each operate a hierarchy of credit exposure discretions, whereby credit risk teams, overseas country offices and specialist lending departments are allocated discretionary limits. Local management are sub-allocated varying levels of discretionary limits, which vary according to their skills, experience, seniority and the quality of the borrower as measured by the credit grading structure. A similar hierarchy exists for monitoring and provisioning purposes. The application of this structure results in a large proportion of local lending portfolios being sanctioned and controlled at local and regional level.

Credit risk within Barclaycard is controlled by their Risk Management Department. Policy relating to exposures is set by this department and implemented by the Customer Management Teams. Within Customer Management, advisors are allocated discretionary limits, according to grade and experience. Any lending decision falling outside policy may only be sanctioned after reference to Risk Management.

Barclays Capital has a lesser number of credit exposures, but typically for larger individual amounts and with significant credit exposures arising from money market, foreign exchange, derivatives, securities dealing and other similar products. These trading activities, which include the use of on-and off-balance sheet instruments, result in certain credit risks. The majority are referred to the Group Credit Committee or are sanctioned within Barclays Capital's risk management department in London or in its office in New York. Smaller credit exposures, however, are sanctioned and controlled by specialist departments and individual Barclays Capital business units under a hierarchy of credit exposure discretions.

Since Barclays Global Investors passes credit risk upon its transactions to its investor clients, it is excluded from this structure. However, the procedures for assessing such credit risk are similar to those undertaken elsewhere in the Group and fall under the overall supervision of GCRU.

Environmental Risk Management Unit, part of the credit risk management function, aims to protect the Group from material environmental risks, worldwide. These risks may be direct (lender liability) or indirect (environmental issues may impact the viability of our borrowing customers). Potential reputational risks are also addressed. These would arise through the Group's association with companies or projects which may be perceived to be environmentally damaging.

Group Treasury is responsible for the monitoring and regulatory reporting of intra-group exposures under the EC Large Exposures Directive.

Risk Mitigation
As the credit markets develop, Barclays is expanding the mechanisms used to manage credit risk. This includes the use of credit derivatives and securitisation, with the primary objective of reducing the uncertainty of returns from the credit portfolio. There will be greater opportunities to use these techniques as the credit markets develop. The cost of these transactions is generally treated as a deduction from the related category of income with any benefits being reflected in reduced credit risk provisions.

The Group enters into master agreements whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Concentrations of credit risk, which arise through the Group's trading and non-trading activities, are presented in note 64 to the accounts.

Analysis of loans and advances

The following sections analyse loans and advances to banks and customers. The geographical analyses of the banking business are based on the location of the office from which the lendings are made. The trading business, which is international in nature, primarily constitutes settlement and reverse repo balances and has not been analysed geographically. This business is largely carried out in the UK and the United States.

Loans and advances to banks

The majority of loans and advances to banks are placings, amounting to £32,170m at 31st December 2000 (1999 £36,080m,1998 £33,817m) and includes reverse repo transactions. Also included are loans to banks and building societies, balances with central banks (excluding those balances which can be withdrawn on demand), inter-bank settlement accounts and federal funds sold.

Loans and advances to banks

	2000 £m	1999 £m	1998 £m
Banking business:			
UK	3,345	6,307	4,037
Other European Union	2,042	2,173	3,847
United States	2,056	2,118	2,230
Rest of the World	2,153	2,497	10,243
Total banking business	9,596	13,095	20,357
Total trading business	26,856	26,555	17,326
	36,452	39,650	37,683

The amounts shown are before the deduction of attributable provisions and interest in suspense.

Maturity analysis of loans and advance to banks

At 31st December 2000	On demand £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK	392	1,463	985	398	107	3,345
Other European Union	248	1,526	63	151	54	2,042
United States	26	880	874	276	–	2,056
Rest of the World	318	1,414	417	4	–	2,153
Total banking business	984	5,283	2,339	829	161	9,596
Total trading business	1,110	22,118	3,628	–	–	26,856
	2,094	27,401	5,967	829	161	36,452

At 31st December 1999	On demand £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK	304	4,215	1,139	500	149	6,307
Other European Union	126	1,530	384	121	12	2,173
United States	40	816	960	295	7	2,118
Rest of the World	251	1,002	1,221	18	5	2,497
Total banking business	721	7,563	3,704	934	173	13,095
Total trading business	246	23,583	2,671	–	55	26,555
	967	31,146	6,375	934	228	39,650

Interest rate sensitivity of loans and advances to banks

At 31st December 2000	Fixed rate £m	Variable rate £m	Total £m
Banking business:			
UK	2,552	793	3,345
Other European Union	1,564	478	2,042
United States	2,030	26	2,056
Rest of the World	1,894	259	2,153
Total banking business	8,040	1,556	9,596
Total trading business	15,662	11,194	26,856
	23,702	12,750	36,452

Loan and advances to customers

The Group provides lending facilities to corporate and personal customers in the form of loans, overdrafts and finance lease receivables. The amounts shown below are before deduction of attributable provisions and interest in suspense.

Maturity analysis of loans and advances to customers

At 31st December 2000	On demand (a) £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK						
Corporate lending	8,041	5,768	4,281	10,579	8,887	37,556
Other lending from UK offices (b)	2,545	5,928	6,153	12,936	50,196	77,758
Total UK	10,586	11,696	10,434	23,515	59,083	115,314
Other European Union	920	1,789	1,485	2,749	3,260	10,203
United States	442	890	1,411	2,802	831	6,376
Rest of the World	658	2,783	3,932	771	806	8,950
Total banking business	12,606	17,158	17,262	29,837	63,980	140,843
Total trading business	846	22,049	792	–	–	23,687
	13,452	39,207	18,054	29,837	63,980	164,530

At 31st December 1999	On demand (a) £m	Not more than three months £m	Over three months but not more than one year £m	Over one year but not more than five years £m	Over five years £m	Total £m
Banking business:						
UK						
Corporate lending	5,882	5,650	4,099	9,341	7,345	32,317
Other lending from UK offices (b)	2,662	5,211	4,780	11,768	21,939	46,360
Total UK	8,544	10,861	8,879	21,109	29,284	78,677
Other European Union	748	1,533	1,140	1,797	758	5,976
United States	104	491	860	1,730	863	4,048
Rest of the World	504	1,018	5,405	683	734	8,344
Total banking business	9,900	13,903	16,284	25,319	31,639	97,045
Total trading business	3	21,355	192	–	12	21,562
	9,903	35,258	16,476	25,319	31,651	118,607

Notes
(a) Overdrafts are included in the ‘on demand’ category.

(b) Other lending from UK offices includes finance lease receivables.

Interest rate sensitivity of loans and advances to customers

At 31st December 2000	Fixed rate £m	Variable rate £m	Total £m
Banking business:			
UK	37,210	78,104	115,314
Other European Union	3,998	6,205	10,203
United States	1,449	4,927	6,376
Rest of the World	6,005	2,945	8,950
Total banking business	48,662	92,181	140,843
Total trading business	11,291	12,396	23,687
	59,953	104,577	164,530

Loans and advances to customers in offices in the UK – banking business

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Financial institutions	1,420	1,552	1,839	2,258	2,388
Agriculture, forestry and fishing	1,689	1,693	1,612	1,726	1,768
Manufacturing	7,573	6,954	6,840	5,556	5,976
Construction	1,666	1,331	1,227	1,046	1,242
Property	5,130	3,689	3,205	2,927	3,619
Energy and water	1,120	613	668	586	863
Wholesale and retail distribution and leisure	7,531	6,455	6,778	5,895	5,553
Transport	1,353	1,270	1,164	875	1,320
Postal and communication	180	345	261	86	101
Business and other services	9,894	8,415	7,549	6,425	6,178
Home loans	47,235	18,316	16,580	15,937	14,958
Other personal	18,200	15,673	14,376	12,403	11,315
Overseas customers	7,819	7,277	3,056	3,421	2,561
	110,810	73,583	65,155	59,141	57,842
Finance lease receivables	4,504	5,094	5,279	5,635	5,825
	115,314	78,677	70,434	64,776	63,667

Loans and advances to customers in offices in other European Union countries – banking business

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Financial institutions	455	178	220	215	437
Agriculture, forestry and fishing	303	223	109	19	14
Manufacturing	1,549	1,322	975	964	966
Construction	330	193	148	164	246
Property	183	144	182	237	296
Energy and water	384	145	114	114	81
Wholesale and retail distribution and leisure	144	207	323	378	349
Transport	172	119	133	184	461
Postal and communication	83	37	9	11	39
Business and other services	1,321	918	1,433	980	864
Home loans	4,436	1,029	932	670	796
Other personal	582	505	500	352	313
Overseas customers	110	462	358	304	314
	10,052	5,482	5,436	4,592	5,176
Finance lease receivables	151	494	503	485	497
	10,203	5,976	5,939	5,077	5,673

Loans and advances to customers in offices in the United States – banking business

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Financial institutions	616	320	527	350	190
Agriculture, forestry and fishing	–	1	1	1	4
Manufacturing	1,123	727	592	325	337
Construction	–	–	12	5	27
Property	30	69	80	195	412
Energy and water	1,440	1,168	645	647	510
Wholesale and retail distribution and leisure	214	138	323	76	97
Transport	580	356	53	98	129
Postal and communication	88	166	383	240	115
Business and other services	2,174	1,000	1,471	1,138	929
Home loans	1	1	1	3	12
Other personal	6	58	7	25	69
Overseas customers	56	–	27	15	24
	6,328	4,004	4,122	3,118	2,855
Finance lease receivables	48	44	42	44	42
	6,376	4,048	4,164	3,162	2,897

Loans and advances to customers in offices in the Rest of the World – banking business

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Loans and advances	8,920	8,316	2,883	2,980	2,951
Finance lease receivables	30	28	28	29	28
	8,950	8,344	2,911	3,009	2,979

Total loans and advances to customers

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Banking business	140,843	97,045	83,448	76,024	75,216
Trading business	23,687	21,562	13,611	25,712	16,441
	164,530	118,607	97,059	101,736	91,657

Total loans and advances to customers

Barclays lendings are widely dispersed over customer categories within the UK, the main area of operation, and are also well spread geographically outside the UK. No one concentration of lendings, with the exception of home loans and other personal lendings in the UK, accounts for more than 10% of total Group lendings. Other than the UK, the United States is the only country to account for 10% or more of total Group lendings.

In the geographical analyses of lendings shown on pages 41 and 42, overseas customers are customers resident outside the country in which the lending business is based.

In addition to the lendings categorised as postal and communications in the UK and other geographical areas, exposure to the telecommunications sector is also included in overseas customers. Total loans and advances world-wide to this sector at 31st December 2000 amounted to £1.49bn.

Loans and advances in offices in the UK

Loans and advances within banking business activities increased by 47% to £115,314m (1999 growth of 12%). £29,810m of the increase was attributable to the acquisition of The Woolwich. There was strong growth in unsecured personal lending and credit card advances, with the mortgage business benefiting from a relatively strong housing market. The growth in corporate lending was concentrated in larger middle market customers.

Loans and advances in offices in Other European Union countries

£3,129m of the £3,407m growth in home loans was attributable to the acquisition of The Woolwich.

Loans and advances in offices in the United States and the Rest of the World

Business loans and advances in the United States grew by 58% with significant increases in lendings to financial institutions and manufacturing businesses. Rest of the world lendings were 7% higher than in 1999.

Credit risk management mechanisms

Barclays has entered into securitisation and credit derivative transactions in order to reduce the uncertainty of returns from the credit portfolio. Details of the securitisation transactions are included in note 17 on page 94 while the year-end level of credit derivatives is provided in note 46 on page 119.

Exposure to countries subject to International Monetary Fund liquidity support programmes

Amounts outstanding, net of provisions, and commitments to counterparties in countries which make significant use of International Monetary Fund liquidity support programmes were as follows:

	2000 £bn	1999 £bn	1998 £bn
Asia			
Indonesia	0.1	0.1	0.1
South Korea	0.2	0.4	0.5
Thailand	0.1	0.1	0.1
	0.4	0.6	0.7
Latin America			
Argentina	0.9	*	*
Brazil	*	0.8	0.9
Mexico	*	0.9	1.0
	1.3	2.3	2.6

* Not reportable.

The total was broken down, as follows:

	2000 £bn	1999 £bn	1998 £bn
Banks	0.8	1.3	1.6
Governments/sovereigns	0.1	0.4	0.5
Corporates & project financings	0.4	0.6	0.5
	1.3	2.3	2.6

The Group has a 50% shareholding in Banco Barclays e Galicia SA which in 2000 was equity accounted as an associated undertaking. As at 31st December 2000 this holding was included in the balance sheet at a value of £31m (31st December 1999 £33m, 31st December 1998 £47m).

From 1st January 2001, following the completion of management changes, the Group considers itself to exert dominant influence so that it has control over the operations of Banco Barclays e Galicia SA and consequently from that date the entity will be consolidated as a subsidiary in accordance with Financial Reporting Standard 2.

The general provision in respect of country transfer risk arising from the Group's business world wide, including exposures in these countries, was £57m as at 31st December 2000 (31st December 1999 £57m). This is in addition to £703m of general provision held against credit risk (31st December 1999 £615m).

Provisions for bad and doubtful debts

It is Barclays policy to establish, through charges against profit, a provision in respect of the estimated loss inherent in the lending book. The provision raised consists of an element which is specific to individual counterparties or a homogeneous portfolio of lendings and also a general element which, while determined as reflecting losses already within the lending book, cannot be specifically applied.

Risk managers conduct a continuous review of the quality of exposures for which they are responsible based on a knowledge of the counterparty and, where applicable, the relevant industry and country of operation. A specific charge is raised when the Bank considers that the credit-worthiness of a borrower has undergone deterioration such that the recovery of the whole outstanding advance is in serious doubt. Typically, this will be done on an individual basis, although scope exists to raise specific provisions on a portfolio basis where statistical techniques permit and the portfolio comprises homogeneous assets. This applies in parts of Retail Financial Services, Barclaycard and Corporate Banking and is in keeping with Barclays policy of raising provisions as soon as impairment is identified.

General provisions are raised to cover losses which are judged to be present in loans and advances at the balance sheet date, but which have not been specifically identified as such. These provisions are adjusted at least half yearly by an appropriate charge or release of general provision based on a statistical analysis. The accuracy of this analysis is periodically assessed against actual losses. Gradings are used to rate the credit quality of borrowers. Each grade corresponds to an Expected Default Frequency and is calculated by using manual or computer driven score-sheets validated by an analysis of the Group's own historic data. This grade can be derived from different sources depending upon the borrower (e.g. internal model, credit rating agency). The general provision also takes into account the economic climate in the market in which the Group operates and the level of security held in relation to each category of counterparty. Since 1997, the general provision has included a specifically identified element to cover country transfer risk calculated on a basis consistent with the overall general provision calculation.

The aggregate specific and general provisions which are made during the year, less amounts released and recoveries of bad debts previously written off, are charged against operating profit. Impaired lendings are written off in part, or in whole, when the extent of the loss incurred has been confirmed, the decision to do so being a matter of banking judgement.

The following tables have been divided between those provisions which have been raised against the perceived credit risks and those provisions which have been raised in respect of country risk (i.e. that related to a country's difficulty in servicing its external debt, as evidenced by rescheduling or arrears of payment of principal or interest):

Analysis of provisions for bad and doubtful debts

	As at 31st December				
	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Specific – credit risk*					
UK	1,343	1,075	928	765	834
Other European Union	111	126	213	245	353
United States	20	23	23	27	59
Rest of the World	118	74	35	41	48
	1,592	1,298	1,199	1,078	1,294
Specific – country risk	1	13	16	44	80
Total specific provisions	1,593	1,311	1,215	1,122	1,374
General provisions – credit risk	703	615	663	683	756
General provisions – country risk	57	57	65	45	–
	2,353	1,983	1,943	1,850	2,130
Average loans and advances for the year (excluding trading business)	122,333	106,488	101,338	96,656	95,899
(including trading business)	176,938	147,139	145,749	136,581	122,503

* The geographic analysis of provisions is based on location of office.

The increased specific provision balance in the UK reflects the impact of volume growth in UK unsecured lendings to both personal and small business customers and strong growth across the Barclaycard businesses, combined with record levels of customer recruitment over the last two years.

Ratios

	As at 31st December				
	2000 %	1999 %	1998 %	1997 %	1996 %
Provisions at end of year as a percentage of loans and advances at end of year (excluding trading business):					
Specific provision for credit risk	1.06	1.18	1.16	1.10	1.41
General provision for credit risk	0.47	0.56	0.64	0.70	0.83
	1.53	1.74	1.80	1.80	2.24
Specific provision for country risk	–	0.01	0.01	0.04	0.09
General provision for country risk	0.04	0.05	0.06	0.05	–
	1.57	1.80	1.87	1.89	2.33
Provisions at end of year as a percentage of loans and advances at end of year (including trading business):					
Specific provision for credit risk	0.79	0.82	0.89	0.78	1.07
General provision for credit risk	0.35	0.39	0.49	0.49	0.63
	1.14	1.21	1.38	1.27	1.70
Specific provision for country risk	–	0.01	0.01	0.03	0.07
General provision for country risk	0.03	0.03	0.05	0.03	–
	1.17	1.25	1.44	1.33	1.77

Ratios

	Year ended 31st December				
	2000 %	1999 %	1998 %	1997 %	1996 %
Provisions as a percentage of average loans and advances for the year (excluding trading business):					
Specific provisions for credit risk	0.64	0.60	0.50	0.28	0.35
General provisions for credit risk	0.03	(0.02)	(0.02)	(0.07)	(0.06)
	0.67	0.58	0.48	0.21	0.29
Specific provisions for country risk	–	–	(0.01)	(0.03)	(0.06)
General provisions for country risk	–	–	0.02	0.05	–
	0.67	0.58	0.49	0.23	0.23
Amounts written off (net of recoveries)	0.47	0.52	0.40	0.47	0.71
Provisions as a percentage of average loans and advances for the year (including trading business):					
Specific provisions for credit risk	0.44	0.43	0.35	0.20	0.28
General provisions for credit risk	0.02	(0.01)	(0.01)	(0.05)	(0.05)
	0.46	0.42	0.34	0.15	0.23
Specific provisions for country risk	–	–	(0.01)	(0.02)	(0.05)
General provisions for country risk	–	–	0.01	0.03	–
	0.46	0.42	0.34	0.16	0.18
Amounts written off (net of recoveries)	0.32	0.38	0.28	0.33	0.55

Movements in provisions for bad and doubtful debts

	Year ended 31st December 2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Provisions for credit risk					
Provision at beginning of year	1,913	1,862	1,761	2,050	2,554
Acquisitions and disposals	119	(10)	–	(14)	(24)
Exchange and other adjustments	8	(2)	5	(39)	(100)
Amounts written off:					
UK	(592)	(546)	(506)	(441)	(593)
Other European Union	(45)	(44)	(43)	(93)	(138)
United States	(26)	(40)	(7)	(23)	(30)
Rest of the World	(17)	(21)	(9)	(14)	(61)
	(680)	(651)	(565)	(571)	(822)
Recoveries (analysed below)	113	93	176	126	165
Sub total	1,473	1,292	1,377	1,552	1,773
Provisions charged against profit					
New and increased specific provisions:					
UK	843	768	751	536	623
Other European Union	35	27	31	49	123
United States	27	45	11	12	21
Rest of the World	76	47	23	28	26
	981	887	816	625	793
Releases of specific provisions:					
UK	(50)	(114)	(81)	(143)	(164)
Other European Union	(17)	(21)	(31)	(34)	(66)
United States	(6)	(7)	(8)	(33)	(45)
Rest of the World	(13)	(15)	(15)	(15)	(16)
	(86)	(157)	(135)	(225)	(291)
Recoveries:					
UK	(100)	(85)	(156)	(111)	(140)
Other European Union	(6)	(4)	(4)	(6)	(8)
United States	(4)	(4)	(13)	(4)	(12)
Rest of the World	(3)	–	(3)	(5)	(5)
	(113)	(93)	(176)	(126)	(165)
Net specific provisions charge	782	637	505	274	337
General provision releases/(charges)*	40	(16)	(20)	(65)	(60)
Net credit risk charge to profit	822	621	485	209	277
Provisions at end of year	2,295	1,913	1,862	1,761	2,050
Provisions for country risk					
Provision at beginning of year	70	81	89	80	174
Exchange and other adjustments	(4)	(11)	1	1	(12)
Amounts written off (net of recoveries)	(3)	–	(16)	(10)	(20)
Net specific credit:					
Provisions charges	–	–	3	7	3
Releases	(4)	(2)	(16)	(34)	(63)
Recoveries	(1)	–	–	–	(2)
Net specific releases	(5)	(2)	(13)	(27)	(62)
General provision charge*	–	2	20	45	–
Provision at end of year	58	70	81	89	80
Total provisions for bad and doubtful debts	2,353	1,983	1,943	1,850	2,130

* An analysis of the movement in general provisions is shown in note 18 to the accounts.

The geographic analysis of provisions is based on location of office. The UK charge in 1998 includes £153m raised in respect of exposure to Russian counterparties.

Credit risk provisions

	Net specific provision for the year					Specific provisions for credit risk at 31st December				
	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
UK:										
Banks and other financial institutions	7	10	11	(3)	6	7	9	14	5	6
Agriculture, forestry and fishing	6	4	(5)	–	1	11	7	4	5	6
Manufacturing	8	4	15	25	6	43	48	41	51	39
Construction	7	4	(7)	5	9	8	7	10	26	28
Property	1	(5)	(20)	(66)	15	8	8	12	29	92
Energy and water	8	–	–	3	6	8	2	2	2	6
Wholesale and retail distribution and leisure	21	34	(10)	12	13	42	42	18	10	50
Transport	2	4	(1)	3	4	4	4	2	5	63
Postal and communication	–	–	1	–	–	1	1	1	–	–
Business and other services	27	14	(7)	4	17	40	34	43	61	69
Home loans	10	5	(4)	8	7	102	39	35	44	50
Other personal	577	504	376	281	237	1,000	830	664	522	414
Overseas customers*	11	(21)	165	10	(10)	58	33	79	2	3
Finance lease receivables	8	12	–	–	8	11	11	3	3	8
	693	569	514	282	319	1,343	1,075	928	765	834
Foreign	89	68	(9)	(8)	18	249	223	271	313	460
	782	637	505	274	337	1,592	1,298	1,199	1,078	1,294

Analysis of amounts written off and recovered – credit risk

	Amounts written off for the year					Recoveries of amounts previously written off				
	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
UK:										
Banks and other financial institutions	13	14	16	1	10	4	2	12	3	3
Agriculture, forestry and fishing	6	6	2	4	5	2	3	7	3	–
Manufacturing	30	20	28	20	22	16	12	12	7	13
Construction	8	12	12	12	38	2	3	5	7	16
Property	5	9	17	28	61	3	7	22	31	29
Energy and water	2	–	–	8	3	–	–	–	–	1
Wholesale and retail distribution and leisure	34	35	25	48	74	12	17	45	15	22
Transport	3	4	2	63	17	1	1	1	3	3
Postal and communication	–	1	–	–	–	–	–	–	–	–
Business and other services	33	43	36	32	79	11	12	27	16	21
Home loans	15	3	8	19	21	3	2	4	4	4
Other personal	435	363	254	193	260	28	24	21	20	21
Overseas customers*	4	31	106	11	–	17	1	–	–	5
Finance lease receivables	4	5	–	2	3	1	1	–	2	2
	592	546	506	441	593	100	85	156	111	140
Foreign	88	105	59	130	229	13	8	20	15	25
	680	651	565	571	822	113	93	176	126	165

* Include amounts in 1998 in respect of Russian counterparties recorded in the UK.

Potential credit risk lendings

The US Securities and Exchange Commission (SEC) requires potential credit risk lendings to be analysed by categories which reflect US lending and accounting practices. These differ to some extent from those employed in the UK. In particular:

» US banks may write off problem lendings more quickly than is the practice in the UK. As a result, Barclays may report a somewhat higher level of lendings than if it had followed such US practice and also a higher level of potential credit risk lendings.

» US banks typically stop accruing interest when loans are overdue by 90 days or more, or when recovery is doubtful. In accordance with the UK Statement of Recommended Practice on Advances, Barclays continues to charge interest to a doubtful customer's account for collection purposes, but the interest is suspended and excluded from interest income in the profit and loss account. This addition of interest continues until such time as its recovery is considered to be unlikely. While such practice does not affect net income in comparison with that followed in the United States, it again has the effect of increasing the reported level of potential credit risk lendings. The amount of this difference at 31st December 2000 was £93m (1999 £80m).

The table which follows presents an analysis of potential credit risk lendings in accordance with the SEC guidelines. Additional categories of disclosure are included, however, to record lendings where interest continues to be accrued and where either interest is being suspended or specific provisions have been raised. Normal US banking practice would be to place such lendings on non-accrual status. The amounts, the geographical presentation of which is based on the location of the office recording the transaction, are stated before deduction of the value of security held, the specific provisions carried or interest suspended.

Non-performing lendings

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Non-accrual lendings:					
UK	1,223	1,007	985	911	1,084
Foreign – credit risk	316	244	282	309	455
Accruing lendings where interest is being suspended:					
UK	351	326	266	234	358
Foreign – credit risk	145	110	118	153	170
Other accruing lendings against which provisions have been made:					
UK	873	423	457	408	492
Foreign – credit risk	149	130	134	117	232
Sub totals:					
UK	2,447	1,756	1,708	1,553	1,934
Foreign – credit risk	610	484	534	579	857
Accruing lendings 90 days overdue, against which no provisions have been made:					
UK	296	343	309	388	473
Foreign – credit risk	18	18	19	14	20
Reduced rate lendings:					
UK	6	6	7	37	38
Foreign – credit risk	–	2	–	–	–
Total non-performing lendings:					
UK	2,749	2,105	2,024	1,978	2,445
Foreign – credit risk	628	504	553	593	877
	3,377	2,609	2,577	2,571	3,322

The increase in UK non-performing lending primarily relates to the inclusion of The Woolwich (£592m). The residual increase largely arose in Barclaycard and Barclays Capital.

Potential problem lendings

In addition to the data above, lendings which are current as to payment of principal and interest, but where there exists serious doubt as to the ability of the borrower to comply with repayment terms in the near future (potential problem lendings), were as follows:

	2000 £bn	1999 £bn	1998 £bn	1997 £bn	1996 £bn
UK	0.7	0.6	0.6	0.6	0.9
Foreign	0.4	0.1	0.1	0.1	0.1
	1.1	0.7	0.7	0.7	1.0

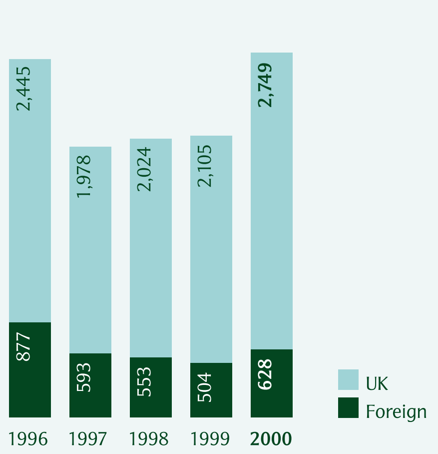
	%	%	%	%	%
Total provision coverage of:					
credit risk non-performing lendings	70.7	76.4	75.2	71.8	65.6
total potential credit risk lendings	53.3	60.0	59.4	56.3	50.4

The increase in foreign potential problems lendings reflect exposures held by both Barclays Capital and Corporate Banking.

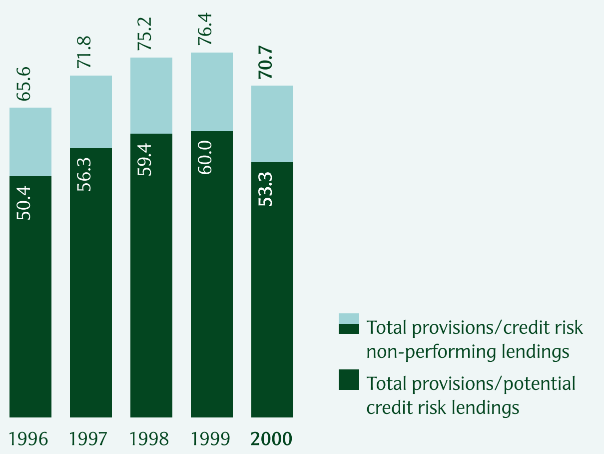
The high level of security held against the exposures included following the acquisition of The Woolwich reduces the level of provisions required and consequently this reduces the Group's coverage ratios. Excluding balances and provisions relating to The Woolwich, the coverage would be 81.2% and 58.1% respectively.

Interest forgone on non-performing lendings

	2000 £m	1999 £m	1998 £m
Interest income that would have been recognised under original contractual terms	246	165	182
Interest income included in profit	(48)	(45)	(63)
Interest forgone	198	120	119



Credit risk non-performing lendings (£m)



Provision ratios (%)

Cross-border outstandings

The world-wide operations of the Group involve significant exposures in non-local currencies. These cross-border outstandings are controlled through a well-developed system of country limits, which are frequently reviewed to avoid concentrations of transfer, economic or political risks.

Cross-border outstandings, which exclude finance provided within the Group, are based on the country of domicile of the borrower or guarantor of ultimate risk and comprise loans and advances to customers and banks (including placings), finance lease receivables, interest bearing investments, acceptances, other monetary assets and on-balance sheet amounts arising from off-balance sheet financial instruments, denominated in currencies other than the borrower's local currency.

At 31st December 2000, the countries where Barclays cross-border outstandings exceeded 1% of assets were Germany, the United States, and Japan and consisted substantially of placings with banks due within one year. In this context, assets comprise total assets, as presented in the consolidated balance sheet, and include acceptances. On this basis, assets amounted to £317,325m at 31st December 2000 (1999 £256,308m, 1998 £220,564m).

Cross-border outstandings exceeding 1% of assets

	As % of assets %	Total £m	Banks and other financial institutions £m	Governments and official institutions £m	Commercial industrial and other private sector £m
At 31st December 2000					
Germany	2.4	7,505	6,829	554	122
United States	1.9	6,104	3,125	5	2,974
Japan	1.1	3,493	2,721	96	676
At 31st December 1999					
Germany	2.5	6,438	5,526	239	673
United States	2.1	5,281	2,036	11	3,234
France	1.6	4,022	3,274	202	546
Switzerland	1.1	2,756	2,129	–	627
Netherlands	1.1	2,740	1,761	6	973
At 31st December 1998					
United States	3.3	7,211	2,864	54	4,293
Germany	1.4	3,142	2,932	6	204
France	1.4	3,094	2,784	8	302
Netherlands	1.3	2,772	1,395	5	1,372
Japan	1.1	2,420	1,720	1	699

Cross-border outstandings between 0.75% and 1% of assets

At 31st December 2000, The Netherlands and France had cross-border outstandings of between 0.75% and 1% of total Group assets amounting to £5,745m. At 31st December 1999, Canada and Japan had cross-border outstandings of between 0.75% and 1% of total Group assets amounting to £4,320m. At 31st December 1998, Barclays had no countries with cross-border outstandings of between 0.75% and 1% of total Group assets.

Market risk management

Market risk is the risk of loss arising from changes in the level or volatility of market prices, which can occur in the interest rate, foreign exchange, equity and commodity markets. It is incurred as a result of both trading and asset/liability management activities.

The market risk management policies of the Group are determined by the Group Risk Management Committee, which also determines overall market risk appetite. The Group's policy is that exposure to market risk arising from trading activities is concentrated in Barclays Capital.

The Group's banking businesses are also subject to market risk, which arises in relation to non-trading positions, such as capital balances, demand deposits and customer originated transactions and flows. The management of market risk in this context is discussed further under Treasury asset and liability management on page 54.

Trading activities

Trading includes both customer oriented business and positions which are taken on Barclays Capital's own account. For maximum efficiency, these two activities are managed together.

In anticipation of future customer demand, the Group 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 Group requirements. Barclays Capital also takes positions in the interest rate, foreign exchange, debt, equity and commodity markets based on expectations of customer demand or a change in market conditions.

Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. For a description of the nature of derivative instruments, see page 53.

In Barclays Capital, the formal process for the management of risk is through the Barclays Capital Risk Management Committee. Day to day responsibility for managing exposure to market risk lies with the Chief Executive of Barclays Capital, supported by a dedicated global market risk management unit that operates independently of the business areas.

Risk control

The Group uses a daily 'value at risk' measure as the primary mechanism for controlling market risk. Daily Value at Risk (DVAR) is an estimate, with a confidence level of 98%, of the potential loss which might arise if the current positions were to be held unchanged for one business day. Daily losses exceeding the DVAR figure are likely to occur, on average, only twice in every one hundred business days.

The Group Risk Management Committee allocates a total DVAR limit for the Group and delegates the day to day control and monitoring of market risk to the Group Market Risk Director, who sets limits for each business area. In the case of Barclays Capital, the overall limit is cascaded down to the trading business areas, subject to endorsement by the Group Market Risk Director and the Barclays Capital Risk Management Committee. Daily risk utilisation reports are produced across four main risk categories, namely interest rate (including credit spread risk), currency, equity and commodity risk.

As DVAR does not provide a direct indication of the potential size of losses that could arise in extreme conditions, Barclays Capital uses a number of complementary techniques for controlling market risk. Weekly firm-wide stress tests, based on both historical and hypothetical extreme movements of market prices, are produced. These are reviewed by the senior management of Barclays Capital at a risk meeting chaired by the Chief Executive of Barclays Capital. If the potential loss indicated by a stress test exceeds an agreed trigger level, then the positions captured by the stress test are reported to, and reviewed by, Group Risk Oversight Committee. Revenue losses are also subject to triggers, which can also lead to positions being reported to Group Risk Oversight Committee.

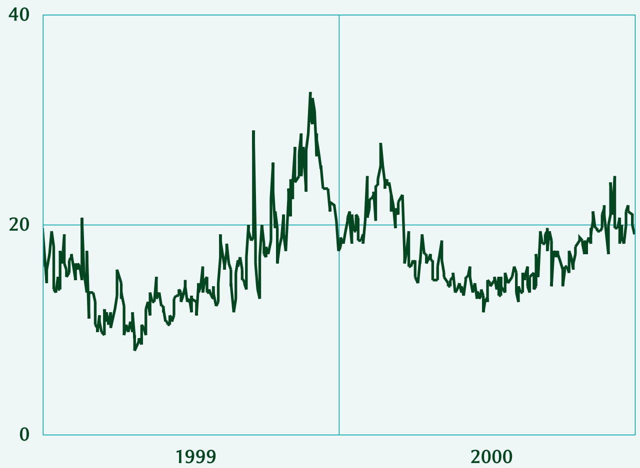
Analysis of market risk exposures

There has been no significant change in overall market risk exposure in 2000, although average DVAR was slightly higher than in 1999 (see table and chart below). Year-end DVAR was £19.0m (1999 £20.2m).

DVAR: Summary table for 2000 and 1999

	Twelve months to 31st December 2000			Twelve months to 31st December 1999		
	Average £m	High* £m	Low* £m	Average £m	High* £m	Low* £m
Interest rate risk	16.2	23.7	10.7	13.7	30.2	6.2
Foreign exchange risk	2.9	4.7	1.8	2.8	11.7	0.8
Equities risk	3.9	7.1	1.4	1.7	3.7	0.6
Commodities risk	1.4	3.5	0.9	1.2	2.2	0.5
Diversification effect	(6.9)			(3.3)		
Total DVAR	17.5	27.7	11.5	16.1	32.5	7.7

* 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. A corresponding diversification effect cannot be calculated and is therefore omitted from the above table.



Total DVAR Daily exposures in 1999 and 2000 (£m)

Risk measurement

Barclays Capital uses the historical simulation method for calculating DVAR. At the beginning of 2000, the length of the historical sample was increased from one to two years. This change has not had a material impact on the reported numbers. The table on page 51 includes the daily average, maximum and minimum values of DVAR, calculated using a one year sample for 1999 and a two year sample for 2000.

In August 2000, Barclays Capital introduced an enhanced methodology for calculating DVAR. The previous methodology segregated interest rate exposures into two categories: government and non-government. For risk measurement purposes, all non-government exposures were assumed to trade at LIBOR flat, and were therefore implicitly assumed to have the same price volatility as an interest rate swap.

The new methodology maps interest rate exposures into eight categories: government, interest rate swaps and six credit grades for non-government exposures. The greater definition provided allows the system to discriminate between the market risk of holding bonds with different credit qualities, for example AAA securities as against non-investment grade securities. In particular, it will better measure the effectiveness of hedging strategies such as shorting governments or swaps against non-government bond portfolios.

Since the introduction of the new method, Barclays Capital has also continued to produce DVAR estimates using the old methodology. The impact of the change has been to increase reported DVAR by an amount which has averaged £3.2m and which has ranged between £1.3m and £5.8m. It has not been possible to apply the new methodology retrospectively to daily positions prior to August 2000, and so the figures tabulated above are based on the old methodology. As at 31st December 2000, the total DVAR using the new methodology was £21.3m compared with £19.0m using the old methodology.

Barclays Capital recognises the importance of assessing the effectiveness of DVAR. The main approach employed is the technique known as back-testing, which counts the number of days when trading related losses are bigger than the estimated DVAR figure. For Barclays Capital as a whole there were no instances in 2000 of a trading revenue loss exceeding the corresponding DVAR.

Derivatives

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

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

The Group participates both in exchange traded and 'over the counter' (OTC) derivatives markets.

Exchange traded derivatives

The Group buys and sells exchange traded financial instruments, primarily financial futures and options on financial futures. Holders of exchange traded instruments provide margin daily with cash or other security at the exchange, to which the holders look for ultimate settlement.

OTC traded derivatives

The Group buys and sells financial instruments that are traded over the counter, rather than on a recognised exchange. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers, although the majority conform to normal market practice. In many cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where a counterparty is in default, including the ability to net outstanding balances where the rules of offset are legally enforceable. For further explanation of the Group's policies on netting, see page 77.

Foreign exchange derivatives

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

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

Interest rate derivatives

The Group's principal interest rate related contracts are interest rate swaps, forward rate agreements, caps, floors, collars, swaptions and bond options.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference rates.

In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Equity derivatives

The Group's principal equity related contracts are equity and stock index swaps and options (including warrants, which are options listed on an exchange).

An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. No principal amounts are exchanged.

An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

Commodity derivatives

The Group's commodity related contracts are mainly swaps and options on commodities such as oil price indices and precious and base metals price indices.

Property forwards

Property index forwards are OTC contracts for differences between the contract price and the settlement price on a given date in the future of a specified property index.

Credit derivatives

Credit derivatives are financial instruments that enable banks to manage credit risk without changing their underlying loan portfolios. The effect of a credit derivative is to transfer credit risk from one party, the protection buyer, to another party, the protection seller, who receives premium or interest related payments in return for contracting to make payments to the protection buyer. The payments are linked to the standing of a reference asset, which may be a security, a loan or an obligation on other derivative instruments. The term credit derivative may also be applied to cash instruments where repayment is linked to the credit standing of a reference asset.

Treasury asset and liability management

Treasury asset and liability management involves management of liquidity, funding, interest risk and exchange rate risk arising from non-trading positions through use of both on- and off-balance sheet instruments. The Group policy is to manage the earnings volatility arising from the effects of movements in interest rates and exchange rates on the non-trading positions inherent in the Group balance sheet. The policies for Group asset and liability management are set by the Group Treasury Committee, which is chaired by the Group Finance Director. On a regular basis, the Group Treasury Committee receives reports on the non-trading interest mismatch positions of the Group and the maturity transformation of the Group's assets and liabilities. These are monitored within defined limits.

Liquidity risk management

The management of liquidity within the Barclays Group has two principal strands. Firstly, day to day funding is managed by monitoring future cash flows to ensure that requirements can be met including the replacement of existing funds as they mature or are withdrawn to satisfy demand by customers for additional borrowings. Secondly, to maintain a stock of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.

In order to avoid reliance on a particular group of customers or market sectors the distribution of sources and the maturity profile of deposits are actively managed. Important factors in assuring liquidity are competitive rates and the maintenance of depositors' confidence. Such confidence is based on reputation, the strength of earnings and the Group's financial position.

A substantial portion of Barclays assets in the UK, and in certain other retail banking areas, are funded with 'core retail deposits'. These important sources of liquidity are mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts are repayable at short notice, maintaining a broad base of customers, both numerically and by type of depositor, helps to protect against unexpected fluctuations. Such accounts form a stable deposit base for the Group's operations and liquidity needs.

Liquidity management includes control over asset maturities and the volume and quality of liquid assets and short-term funds. Additionally, in evaluating the Group's liquidity position, management takes account of undrawn lending commitments; the usage of overdraft facilities and the possible impact of certain contingent liabilities such as standby letters of credit and guarantees.

The responsibility for the Group's overall liquidity policy and control lies with Group Treasury. In order to maximise the benefits from knowledge gained in overseas domestic markets, local treasury management in each location manage day-to-day liquidity within the parameters set by Group Treasury and subject to regular reports to Group Treasury. Local asset and liability management committees comprising senior local executives also review liquidity management depending on the size and complexity of the treasury operation.

Monitoring and reporting take the form of cash flow measurement based on principles agreed by the UK Financial Services Authority. Each operation is required to maintain sufficient access to funds, in terms of maturing assets and proven capacity to borrow in the money markets. Special attention is paid to cash flow projections for the next day, the next week and the next month as these are key periods for liquidity management. These positions are scrutinised daily to prevent problems developing in the future. In addition emphasis is placed on the need to monitor unmatched medium-term assets and the level and type of undrawn commitments.

The Group's liquidity policy is designed to ensure that access to appropriate funding is maintained. In accordance with the policy the Group believes that the liquidity position was satisfactory at 31st December 2000.

Interest rate exposure

The interest rate risk attached to the positions arising from the UK banking operations is managed by Group Treasury, which is responsible for the overall Group position. In managing the non-trading positions inherent in the Group's balance sheet, consideration is given to the substantial liabilities represented by interest free deposits, other interest free or fixed rate liabilities as well as, for these purposes, part of the Group's shareholders' funds. The positions arising from these balances are managed by the maintenance of a portfolio of assets with interest rates fixed for several years, including loans and advances to customers, debt securities and interest rate swaps and options. Similarly, mismatches of fixed rate assets and liabilities are managed through the use of interest rate swaps and other derivatives. Care is taken to ensure that the management of the portfolio is not inflexible, as market circumstances and customer requirements can rapidly change the desirable portfolio structure.

International banking operations also incur interest rate risk. Policies for managing this risk are agreed between Group Treasury and Group Risk Analysis and Policy and are applied through Asset and Liability Management Committees (ALCOs) as appropriate. Guidance on the scope and constitution of ALCOs is provided by Group Risk Analysis and Policy, who maintain regular contact with the businesses on risk management and control issues. Compliance with the applied policy is controlled via a comprehensive financial risk reporting framework including interest rate gap limits or, where more appropriate, value at risk limits issued by Group Risk Analysis and Policy. These limits enable positions, transactions and flows emanating from the banking books to be managed by local treasury operations in an orderly fashion, either through Barclays Capital managed trading outlets or, where necessary, through local markets.

The total Group exposure, excluding Barclays Capital trading risk, is shown for the purposes of this review in the form of an interest rate repricing table (see note 46 on page 113). This summarises the repricing profile of the Group's assets, liabilities and off-balance sheet exposures at 31st December 2000 and also reflects the non-trading hedges referred to above. This table can be used as the basis for the assessment of the sensitivity of the Group's earnings to interest rate movements, although allowance is also made for other factors such as asset and liability currency composition and customer behaviour (e.g. early prepayment of loans). It is estimated that as at 31st December 2000, the Group's earnings in 2001 would not be significantly affected either by a hypothetical immediate and sustained increase of 1% in interest rates or by a similar decrease in interest rates.

Foreign exchange exposure

The corporate and retail banking businesses incur foreign exchange risk in the course of providing services to their customers. The part of this risk that arises in UK operations is transferred to and managed by Barclays Capital. In the case of the international operations, Group Risk Analysis and Policy allocates modest foreign exchange open position limits to facilitate the management of customer originated flows. Exposures are reported daily to Group Risk Analysis and Policy and Group Treasury. As at 31st December 2000, aggregate DVAR of these businesses for foreign exchange rate risk was £0.2m (1999 £0.2m).

Management of foreign currency investments

Non-trading positions in foreign currencies arise from the currency investments which the Group makes in its overseas businesses. The Group's policy is to manage the currency balance of the funding, financing these investments so as to limit the effect of exchange rate movements on the Group's risk asset ratios. Management of the funding of investments in overseas branches and subsidiary and associated undertakings and joint ventures is carried out by Group Treasury, where the operation of the funding policy is frequently reviewed. Regular reports are made to Group Treasury Committee. The principal structural currency exposures of the Group are set out in note 46 on page 115.

These positions, together with the currency composition of tier 2 and tier 3 capital and minority interests in tier 1 capital, ensure that movements in exchange rates have little impact on the Group's risk asset ratios. Such movements have an impact on reserves (see exchange rate translation differences on page 84). With the positions in place at 31st December 2000, a hypothetical increase of 10% in the value of sterling against all currencies would have led to a fall of some £68m in reserves (1999 £110m).

Hedging

Risk management activities employ interest rate swaps, currency swaps and other derivatives that are designated as hedges.

The following table provides examples of certain activities undertaken by the Group, together with the related market risks and the types of derivatives that may be used in managing such risks.

Activity	Risk	Type of hedge
Fixed rate lending and fixed rate investment.	Reduced earnings due to an increase in interest rates.	Pay fixed interest rate swaps and buy interest rate caps.
Fixed rate funding (e.g medium-term note issuance).	Reduced earnings due to a fall in interest rates.	Receive fixed interest rate swaps and buy interest rate floors.
Firm foreign currency commitments (e.g. asset purchases and sales).	Reduced earnings due to changes in exchange rates between arranging a transaction and completion.	Foreign currency transactions.
Managing the Group's risk asset ratios.	Reduced risk asset ratio due to strengthening of foreign currency against sterling.	Currency swaps.

The hedge transactions which are linked to these activities are centralised within Group Treasury and the exposure is then passed to the market principally via independently managed dealing units within Barclays Capital, who treat these transactions as part of their normal trading activities, and also via third parties. Risks arising in the Group's other banking operations are managed in a similar way. The disclosure that follows relates to derivative components of the Group's hedging programme transferred to the market via internal or external counterparties.

The reported figures do not take account of underlying balance sheet items being hedged, the net interest income thereon or their mark to market values.

For interest rate swaps and cross currency interest rate swaps that are used in the management of the non-trading exposures, the weighted average pay fixed rates and receive fixed rates by maturity date and nominal amount at 31st December 2000 were as follows in the table below:

The nominal amounts below include £5,120m and £641m, in respect of sterling and non-sterling basis swaps respectively. Basis swaps are swaps where both payable and receivable legs are variable.

In managing the non-trading exposures relating to capital balances and demand deposits, both on-balance sheet and derivative positions are held. The net effect of the derivative positions, in isolation, on net interest income resulted in a debit of £5m (1999 credit of £79m). This included debits of £70m (1999 £19m) and credits of £65m (1999 £98m) for interest rate and exchange rate derivatives respectively.

	Sterling denominated contracts				Non-sterling denominated contracts			
	Pay fixed		Receive fixed		Pay fixed		Receive fixed	
	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %
Maturity date: Not more than three months	3,318	3.96	8,076	6.51	1,672	7.36	1,184	5.54
Over three months but not more than six months	2,644	5.79	2,825	6.55	5,634	0.96	1,323	2.98
Over six months but not more than one year	8,330	6.98	11,328	7.10	3,866	1.99	1,405	5.27
Over one year but not more than five years	18,364	6.55	22,191	6.26	4,668	3.73	2,377	5.62
Over five years	2,736	6.76	4,019	6.64	1,738	6.34	2,624	6.73
	35,392	6.37	48,439	6.55	17,578	3.06	8,913	5.49

The weighted-average receive variable and pay variable rates by reset maturity date and nominal amount at 31st December 2000 were as follows:

	Sterling denominated contracts				Non-sterling denominated contracts			
	Receive variable		Pay variable		Receive variable		Pay variable	
	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %
Reset maturity date: Not more than three months	30,331	6.07	37,830	5.87	7,314	4.91	6,939	6.04
Over three months but not more than six months	10,181	4.95	15,729	3.81	10,905	3.85	2,615	2.22
	40,512	5.79	53,559	5.26	18,219	4.27	9,554	4.99

Management of operational and other risks

In addition to credit, market and treasury risks, Barclays faces a number of other risks. These risks are controlled and managed within the overall risk management framework under the leadership of the Group Risk Director.

Operational risk management
Operational risk, which is inherent in all business activities, is the potential for financial loss, and business instability arising from failures in internal controls, operational processes or the systems that support them. It can occur in all the Group's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud.

The goal of operational risk management is to balance cost and risk within the constraints of the risk appetite of the Group and to be consistent with the prudent management required of a large financial organisation.

The Group manages this risk under an overall strategy determined by the Group Risk Management Committee supported by the Group Operational Process Risk, Group IT Security Risk, Group Business Continuity Management, Group Fraud Prevention, Group Premises Related Risk and Group People Related Risk Functions. This strategy is implemented by each business unit and monitored at Group level. Within this structure, potential risk exposures are assessed to determine the appropriate type of controls to be applied.

It is recognised that such risks can never be entirely eliminated and that the cost of controls in minimising these risks may outweigh the potential benefits. Accordingly, the Group continues to invest in risk management and mitigation such as business continuity management and incident management. Where appropriate this is supported by risk transfer mechanisms such as insurance. In reinforcement of the implementation of the Group's risk strategy by the business units, independent checks on risk issues are undertaken by the internal audit function.

Compliance risk management
The Group is subject to a comprehensive supervisory and regulatory structure in the UK, the European Union, the USA, Asia-Pacific and in the many other countries around the world in which it operates.

Compliance risk arises from a failure or inability to comply with the laws, regulations or codes applicable to the financial services industry. Non-compliance can lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Responsibility for this risk lies with the Group Chief Executive and the business heads, who are ultimately accountable to the Board. They are supported in the discharge of their responsibilities by the Group Compliance Director, the compliance directors in each of the businesses and the Group Regulatory Compliance function.

Legal risk management
Legal risk is the risk that the business activities of the Group have unintended or unexpected legal consequences. It includes risk arising from:

» Inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty about the validity or enforceability of a contract in counterparty insolvency;

» Actual or potential violations of law or regulation (including activity unauthorised for a bank and which may attract a civil or criminal fine or penalty);

» Failure to protect the Group's property (including its interest in its premises and its intellectual property such as the Barclays logo, brand names and products); and

» The possibility of civil claims (including acts or other events which may lead to litigation or other disputes).

The Group identifies and manages legal risk through effective use of its internal and external legal advisers. The Group General Counsel has ultimate responsibility for identifying, monitoring and providing support necessary to identify, manage and control legal risk across the Group.

Tax risk management
Tax risk is the risk of loss or increased charges associated with changes in, or errors in the interpretation of, taxation rates or law. Responsibility for control of this risk lies with the Group Taxation Director.