BASE LISTING DOCUMENT

Base Listing Document relating to Hong Kong Listed Structured Products to be issued by

BARCLAYS

BARCLAYS BANK PLC

(Incorporated with limited liability in England)

Sponsor

BARCLAYS CAPITAL ASIA LIMITED

This is a structured product which involves derivatives. Do not invest in it unless you fully understand and are willing to assume the risks associated with it.

Barclays Bank PLC (the **issuer**, **we** or **us**) has published this document to give particulars in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **rules**) and for the purpose of giving information about the issuer and the warrants, callable bull/bear contracts (**CBBCs**), and any other structured products (together with the warrants and CBBCs, the **structured products**) to be issued by us in series (each a **series**) from time to time and listed on The Stock Exchange of Hong Kong Limited.

We will publish a supplemental listing document for each issue of our structured products to set out the terms and particulars specific to that issue (each a **supplemental listing document**) which shall be read in conjunction with this document. We will update the information contained in this document, in the relevant supplemental listing document or in an addendum to this document.

We accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

The Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the **stock exchange**) and Hong Kong Securities Clearing Company Limited (**HKSCC**) take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Investors are warned that the price of our structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of our structured products and carefully study the risk factors set out in this document and the relevant supplemental listing document and, where necessary, seek professional advice, before they invest in any of our structured products.

Our structured products constitute general unsecured contractual obligations of the issuer and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase our structured products you are relying upon our creditworthiness and have no rights under our structured products against, as applicable, (a) the entity which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust or fund; (c) any of the entities constituting any underlying index; or (d) the index compiler or sponsor of any underlying index.

Dated 30 March 2012

IMPORTANT

If you are in any doubt as to any of the contents of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

This document may be updated and/or amended from time to time, in which case we will publish an addendum.

You should read this document, together with any addendum to it, and the relevant supplemental listing document, before deciding whether to invest in our structured products.

We cannot give you investment advice. You must decide for yourself whether our structured products meet your investment needs, and take professional advice if appropriate. This document is not intended to be, and should not be considered as, a recommendation or advice by us or any of our affiliates that you should purchase any of our structured products, and you must make your own independent investigation of our financial condition and affairs and your own appraisal of our creditworthiness.

We undertake during the period in which our structured products are listed on the stock exchange to make available to you for inspection at the office of the Sponsor, which is presently at 41/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong:

(a) a copy of this document and any addendum that we publish to this document (both the English version and the Chinese translation);

(b) a copy of the relevant supplemental listing document (both the English version and the Chinese translation) in respect of any issue of structured products;

(c) a copy of our latest publicly available annual report (including the notes thereto) and interim reports (if any); and

(d) a copy of the consent letter of our auditors referred to in this document.

本公司保證本公司結構性產品在聯交所上市期間， 閣下可於保薦人的辦事處(現時地址為香港中環皇后大道中2號長江集團中心41樓)查閱以下文件：

(a) 本文件及本公司就本文件刊發的任何增編(英文版本及中文譯本)的副本；

(b) 任何結構性產品發行的有關補充上市文件(英文版本及中文譯本)的副本；

(c) 本公司最近期公開的年報(包括相關附註)及中期報告(如有)的副本；及

(d) 本文件所述的本公司核數師同意書的副本。

Our structured products are not available to U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) and will not be offered, sold, resold or delivered, directly or indirectly to, or for the account or benefit of, any U.S. person.

All references in this document to "Hong Kong Dollars" and to "HK$" are to the lawful currency of Hong Kong. All references in this document to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China.

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SUMMARY OF OUR STRUCTURED PRODUCTS

We have set up this listed structured products programme (the **programme**) for the purpose of offering from time to time to the public in Hong Kong structured products listed on the stock exchange.

The types of structured products that we may issue include, but are not limited to: cash settled warrants on single equities, cash settled index warrants, cash settled exchange traded funds warrants, cash settled low strike index warrants, cash settled CBBCs on an index and cash settled CBBCs on a single equity. Each type of our structured products will be subject to a separate set of master terms and conditions (**Conditions**) either as set out in Annex 1 to this base listing document (for the structured products listed above) or as set out in the relevant supplemental listing document or addendum to this base listing document (for other types of structured products). For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of master terms and conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products. Please read the sections "Overview of our warrants" and "Overview of our CBBCs" for a brief description of how our warrants and CBBCs work.

General features of our structured products:

Issuer

Barclays Bank PLC

Our current long-term credit ratings

As at the date of this document, our long-term obligations are rated Aa3 by Moody's Investors Service Ltd., A+ by Standard & Poor's Credit Market Services Europe Limited and A by Fitch Ratings Limited. Rating agencies usually receive a fee from the issuers that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the structured products;
- ratings of issuers may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk.

Our current credit ratings are for reference only. Any downgrading of our ratings could result in a reduction in the value of the structured products.

Series of our structured products

Our structured products will be issued in one or more "series" and listed on the stock exchange. Structured products within a series will have the same terms, but the terms of one series of structured products may be different from another.

Status of our structured products upon liquidation	Our structured products will constitute the general, unsecured, contractual obligations of the issuer and of no other person and will rank equally among themselves and (save for certain obligations required to be preferred by law) equally with all the issuer's other unsecured obligations.
Listing of our structured products	We will apply to the stock exchange to list each series of our structured products which we issue under the programme. This document has been published for the purposes of obtaining such a listing.
Admission into CCASS	We will make arrangements to ensure that each series of structured products will be accepted by the Hong Kong Securities Clearing Company Limited (**HKSCC**) as eligible securities for deposit, clearance and settlement in the Central Clearing and Settlement System (**CCASS**). All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time (the **CCASS Rules**). If you are a CCASS investor participant you may hold your structured products in your account with CCASS. If you do not have a CCASS investor account, your broker (as a CCASS participant) will arrange to hold our structured products for you in an account at CCASS.
The listing documents for our structured products	(a) We have published this base listing document which sets out the master terms and conditions of our structured products, common features of our structured products, overviews of our structured products, the legal terms relating to the programme and information about us; and (b) we will publish a supplemental listing document in respect of each series of structured products which sets out terms and particulars specific to that issue. This document, together with any addendum to it, and the supplemental listing document in relation to each series of structured products will form part of the listing documents for that series. You should read these documents before deciding whether to invest in our structured products. They are also available in Chinese translations if you prefer.
Liquidity Provider	We will set out in each supplemental listing document the name and contact details of the liquidity provider for the series of structured products offered, and the basis on which the liquidity provider will provide liquidity in the relevant structured products.
Form of our structured products	Each series of structured products will be represented by a global certificate which will be registered in the name of HKSCC Nominees Limited (or such other nominee company as HKSCC may specify from time to time) and will be deposited with CCASS in accordance with the CCASS Rules, unless we specify otherwise in the relevant supplemental listing document. This means you will not receive any individual certificate.

The holders

The registrar of our structured products will maintain a register showing details of each person who is entitled to a particular number of structured products of a series. The person registered will be treated by us and the registrar as the absolute owner and "holder" of that number of structured products.

The register for each series of structured products will record at all times that HKSCC Nominees Limited (or such other nominee company as HKSCC may specify for that series) is the holder of 100 per cent. of our structured products of that series, unless we specify otherwise in the relevant supplemental listing document.

Accordingly you will not be recognised by us or the registrar as the holder of our structured products in which you invest, and you must refer to the records of CCASS and/or your custodian/brokers, and the statements that you receive, to determine your beneficial interest in our structured products.

Further issues

We can issue further structured products to form a single series with an existing issue of our structured products.

Transfers of structured products

You can only transfer your structured products in board lots or integral multiples thereof in CCASS in accordance with the CCASS rules. If you transfer your structured products through the stock exchange, settlement must currently be made not later than two trading days after the dealing was entered into.

Governing law

Our structured products are governed by Hong Kong law.

OVERVIEW OF OUR WARRANTS

What is a derivative warrant?

A derivative warrant linked to a share, an index, an unit or other asset (each an **underlying asset**) is generally an instrument which gives the holder a right to "buy" or "sell" the underlying asset at, or derives its value by reference to, a pre-set price or level called the exercise price or strike level on the expiry date.

A derivative warrant usually costs a fraction of the price of the underlying asset and may provide leveraged return to you (but conversely, it could also magnify your losses).

For low strike level index warrants, as the strike level is set at a very low level (close to zero), such warrants do not provide a leverage for investors on their investment as in the case of other types of derivative warrants.

When can you get back your investment and what (if any) do you get back?

Our warrants are European style and they can only be automatically exercised on the expiry date.

Our warrants may be automatically exercised on the expiry date entitling you to, cash amount called the cash settlement amount (if positive) in accordance with the Conditions applicable to the warrants.

You will receive the cash settlement amount less any exercise expenses upon expiry. If the cash settlement amount is equal to or less than the exercise expenses, no amount is payable to you upon expiry of your warrants.

How do our warrants work?

Ordinary warrants

In general, the potential payoff upon expiry of the warrants is calculated by us by reference to the difference between:

(a) for a warrant linked to a share or unit, the exercise price and the average price; and

(b) for a warrant linked to an index, the strike level and the closing level.

The relevant supplemental listing document will specify the payoff upon expiry of the relevant series of warrants.

Call warrants

A call warrant is suitable for you if you hold a bullish view of the price or level of the underlying asset during the term of the warrant.

A call warrant will be automatically exercised if the average price or closing level (as the case may be) is greater than the exercise price or strike level (as the case may be). The more the average price or closing level exceeds the exercise price or strike level (as the case may be), the higher the payoff upon expiry or exercise. If the average price or closing level (as the case may be) is at or below the exercise price or strike level (as the case may be), you will lose all your investment.

Put warrants

A put warrant is suitable for you if you hold a bearish view of the price or level of the underlying asset during the term of the warrant.

A put warrant will be automatically exercised if the average price or closing level (as the case may be) is below the exercise price or strike level (as the case may be). The more the average price or closing level is below the exercise price or strike level (as the case may be), the higher the payoff upon expiry. If the average price or closing level (as the case may be) is at or above the exercise price or strike level (as the case may be), you will lose all your investment.

Exotic warrants

Capped return warrants

A call spread warrant, a put spread warrant, an index call spread warrant and an index put spread warrant (together, "capped return" warrants) are exotic warrants with different terms and risk profiles to an ordinary warrant.

The description "capped return" means that the return on a capped return warrant is subject to a certain upper limit. The calculation of the return of a capped return warrant is similar to that of an ordinary warrant except that the closing price/closing level is:

(i) for a call capped return warrant, capped at the cap price/cap level; or

(ii) for a put capped return warrant, floored at the floor price/floor level.

Low strike index warrants

A low strike index warrant is an exotic warrant with different terms and risk profiles to an ordinary warrant. A low strike index warrant is suitable for an investor who wants to access the underlying index and holds a bullish view of the level of the underlying index during the term of the warrant.

The trading price of a low strike index warrant tends to mirror the movement in the dollar value of the underlying asset.

The calculation of the return of a low strike index warrant is similar to that of an ordinary index warrant, except that the strike level is set at a very low level (close to zero). Accordingly, a low strike index warrant does not provide a leverage for investors on their investments as in other type of derivative warrants.

A low strike warrant will be automatically exercised if the closing level is greater than the strike level. The more the closing level is above the strike level, the higher the payoff upon expiry.

Other types of warrants

The supplemental listing document applicable to other types of warrants will specify the type of such warrants and whether such warrants are exotic warrants.

Where can you find the Conditions applicable to our warrants?

You should review the Conditions applicable to each type of warrants before your investment.

The Conditions applicable to each type of our warrants are set out in Annex 1 of this document (as may be supplemented by any addendum or the relevant supplemental listing document).

What are the factors determining the price of a derivative warrant?

The price of a warrant generally depends on the prevailing price or level of the underlying asset. However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

(a) the exercise price or strike level of that warrant;

(b) the value and volatility of the price or level of the underlying asset (being a measure of the fluctuation in the price or level of the underlying asset over time);

(c) (except for low strike index warrants) the remaining time to expiry: generally, the longer the remaining life of the warrants, the greater its value;

(d) the interim interest rates and expected dividend payments or other distributions on the underlying asset;

(e) the supply and demand for the warrant; and

(f) our creditworthiness.

What is your maximum loss?

Your maximum loss in the warrants will be limited to your investment amount plus any transaction costs.

How can you get information about the warrants after issue?

You may visit the stock exchange website at *http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm* to obtain further information on derivative warrants or any notice given by us or the stock exchange in relation to the warrants.

OVERVIEW OF OUR CBBCS

What are CBBCs?

A CBBC is a structured product that tracks the performance of an underlying asset. CBBCs can be issued on different types of underlying assets, including:

(a) securities listed on the stock exchange or other exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index, Hang Seng China H-Financials Index or other indices; or

(c) other assets as prescribed by the stock exchange from time to time.

A list of the eligible underlying assets for CBBCs is available on the website of the stock exchange at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/underlying_latest.htm.*

CBBCs are issued either as callable bull contracts (**bull CBBCs**) or callable bear contracts (**bear CBBCs**).

Bull CBBCs are designed for investors who have an optimistic view on the underlying asset.

Bear CBBCs are designed for investors who have a pessimistic view on the underlying asset.

CBBCs have a mandatory call feature (the **mandatory call event**) and, subject to the limited circumstances set out in the relevant conditions in which a mandatory call event may be reversed, we must terminate the CBBCs upon the occurrence of a mandatory call event.

There are two categories of CBBCs, namely:

(a) category N CBBCs; and

(b) category R CBBCs.

Your entitlement following the occurrence of a mandatory call event will depend on the category of the CBBCs. See "What is the mandatory call feature?" below for further details.

If no mandatory call event occurs, the CBBCs will be exercised automatically on the expiry date by payment of a cash settlement amount (if positive) on the settlement date. The cash settlement amount (if any) payable at expiry represents the difference between the closing price/closing level of the underlying asset on the valuation date and the strike price/strike level.

You must read the conditions to understand the payout formula applicable to the relevant CBBCs at expiry.

The conditions applicable to CBBCs on an index or shares listed on the stock exchange are set out in Appendix 1 (as supplemented by the relevant supplemental listing document).

What is your maximum loss?

Your maximum potential loss in a CBBC is limited to the purchase price for the CBBC plus any transaction costs. In particular, if:

(a) in respect of a series of category R CBBCs, the cash settlement amount payable at expiry or upon the occurrence of a mandatory call event is equal to zero; or

(b) in respect of a series of category N CBBCs, the cash settlement amount payable at expiry is equal to zero or a mandatory call event occurs,

you will lose the entire value of your investment. See "Category R CBBCs vs. category N CBBCs?" below for further details.

What is the mandatory call feature?

Mandatory call event

Subject to the limited circumstances set out in the relevant conditions in which a mandatory call event may be reversed, we must terminate the CBBCs if a mandatory call event occurs. A mandatory call event occurs when the spot price/spot level of the underlying asset is:

(a) at or below the call price/call level (in the case of a series of bull CBBCs); or

(b) at or above the call price/call level (in the case of a series of bear CBBCs),

at any time during the observation period.

The observation period commences from the observation commencement date to the close of trading on the trading day immediately preceding the expiry date (both dates inclusive).

Cancellation of trades

Subject to the limited circumstances set out in the relevant conditions in which a mandatory call event may be reversed and such modification and amendment as may be prescribed by the stock exchange from time to time:

(a) all trades in the CBBCs concluded or recorded in the stock exchange's system after a mandatory call event occurs; and

(b) if a mandatory call event occurs during a pre-opening session or closing auction session (if applicable), all auction trades of the CBBCs concluded in such session and all manual trades of the CBBCs concluded after the end of the pre-order matching period in such session,

will be invalid and will be cancelled, and will not be recognised by us or the stock exchange.

The time at which a mandatory call event occurs will be determined by reference to:

(a) in respect of CBBCs over single equities listed on the stock exchange (the **single equity CBBCs**), the stock exchange's automatic order matching and execution system time at which the spot price is at or below the call price (for a series of bull CBBCs) or is at or above the call price (for a series of bear CBBCs); or

(b) in respect of CBBCs over index (the **index CBBCs**), the time at which the spot level published by the relevant index compiler is at or below the call level (for a series of bull CBBCs) or is at or above the call level (for a series of bear CBBCs); or

(c) in respect of CBBCs over other underlying assets, the time at which the relevant spot price/spot level of the underlying asset published by its price source specified in the relevant supplemental listing document is at or below the call price/call level (for a series of bull CBBCs) or is at or above the call price/call level (for a series of bear CBBCs),

subject to the rules and requirements as prescribed by the stock exchange from time to time.

Category R CBBCs vs. category N CBBCs?

The supplemental listing document for the relevant series will specify whether the CBBCs are category N CBBCs or category R CBBCs.

Category N CBBCs refer to CBBCs for which the call price/call level is equal to their strike price/strike level. In respect of a series of category N CBBCs, **you will not receive any cash payment following the occurrence of a mandatory call event.**

Category R CBBCs refer to CBBCs for which the call price/call level is different from their strike price/strike level. In respect of a series of category R CBBCs, you may receive a cash payment called the residual value upon the occurrence of a mandatory call event. The amount of the residual value payable (if any) is calculated by reference to:

(a) in respect of a series of bull CBBCs, the difference between the minimum trade price/minimum index level of the underlying asset during a specified period called the "MCE valuation period" and the strike price/strike level; and

(b) in respect of a series of bear CBBCs, the difference between the strike price/strike level and the maximum trade price/maximum index level of the underlying asset during the MCE valuation period.

You must read the relevant conditions and the relevant supplement listing document to obtain further information on the calculation formula of the residual value applicable to category R CBBCs. **You will lose all of your investment in a particular series of CBBCs if:**

(a) in the case of a series of bull CBBCs, the minimum trade price/minimum index level of the underlying asset is equal to or less than the strike price/strike level; or

(b) in the case of a series of bear CBBCs, the maximum trade price/maximum index level of the underlying asset is equal to or greater than the strike price/strike level.

How is the funding cost calculated?

The issue price of a CBBC represents the difference between the initial reference spot price or level of the underlying asset as at the launch date of the CBBC and the strike price/strike level, plus the applicable funding cost.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant supplemental listing document for the relevant series and will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the strike price/strike level, the call price/call level, the prevailing interest rate, the expected life of the CBBCs, expected notional dividends in respect of the underlying asset (if applicable) and the margin financing provided by us.

Further details about the funding cost applicable to each series of CBBCs will be described in the relevant supplemental listing document.

Do you own the underlying asset?

CBBCs convey no interest in the underlying asset. We may choose not to hold the underlying asset or any derivatives contracts linked to the underlying asset. There is no restriction through the issue of the CBBCs on the ability of us and/or our affiliates to sell, pledge or otherwise convey all right, title and interest in any underlying asset or any derivatives products linked to the underlying asset.

What are the factors determining the trading price of a CBBC?

The trading price of a CBBC tends to mirror the movement in the value of the underlying asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one underlying asset).

However, throughout the term of a CBBC, its trading price will be influenced by a number of factors, including:

- the strike price/strike level and the call price/call level;
- the likelihood of the occurrence of a mandatory call event;
- for category R CBBCs only, the probable range of residual value (if any) upon the occurrence of a mandatory call event;
- the time remaining to expiry;
- the interim interest rates and expected dividend payments or other distributions on any components comprising the index;
- the liquidity of the futures contracts relating to the index;
- the supply and demand for the CBBCs;
- the probable range of the cash settlement amount;
- the depth of the market or liquidity of future contracts relating to the underlying index;
- any related transaction cost; and
- our creditworthiness.

How can you get information about the CBBCs after issue?

You may visit the stock exchange website at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/Intro.htm* to obtain further information on CBBCs or any notice given by us or the stock exchange in relation to the CBBCs.

We have included references to websites in this document and the supplemental listing document to indicate how further information may be obtained. Information appearing on those websites does not form part of this document or the relevant supplemental listing document. We accept no responsibility for that information, including whether that information is accurate, complete or up-to-date.

Are the CBBCs suitable for everyone?

The CBBCs are not suitable for everyone. You should make sure you fully understand the terms of the CBBCs, how the CBBCs work and the associated risks. The risk factor sections in our base listing document and the relevant supplemental listing document highlight some of the associated risks and you should study them carefully. You should also consider your financial position and investment objectives before deciding to invest in the CBBCs. Most importantly, you should consult your financial advisers, accounting and tax professionals where necessary.

The following summary does not set out all the risks related to our structured products and you should read it together with other information contained in this document and the relevant supplemental listing document. Not all of the risk factors described below will be applicable to a particular series of structured products. If you have any concerns or doubts about our structured products, you should obtain independent professional advice.

Risks relating to our structured products

- *The price of our structured products may fluctuate to a great extent*

  The price of our structured products may fall or rise rapidly in value and our structured products may expire worthless, resulting in a total loss of your investment. Before selling or exercising any rights under our structured products, you should carefully consider, among other things, (a) the trading price of our structured products; (b) the value and volatility of the underlying as specified in the applicable supplemental listing document; (c) the time remaining to expiration; (d) any change(s) in interim interest rates and dividend yields; (e) any change(s) in currency exchange rates; (f) the depth of the market or liquidity of the underlying as specified in the applicable supplemental listing document; (g) any related transaction costs; and (h) our creditworthiness.

- *The secondary market for our structured products may be limited*

  We intend to apply to list each series of our structured products on the stock exchange. If a series of structured products is listed on the stock exchange, there can be no assurance that any such listing can be maintained. In the event that such listing cannot be maintained, we will use reasonable efforts to list such structured products on another exchange. We or the liquidity provider may be the only person quoting prices on the stock exchange for our structured products. Therefore, the secondary market may be limited.

- *The structured products constitute our unsecured contractual obligations*

  The structured products constitute our general unsecured contractual obligations and of no other person and shall rank equally (*pari passu*) with our other existing and future unsecured contractual obligations (save for certain obligations required to be preferred by law). If you purchase our structured products, you rely on our creditworthiness and you have no rights under our structured products against any company which issues the underlying or any company comprising the indices or the underlying fund, manager or trustee of the fund. We issue a large number of financial instruments on a global basis. We have substantially no obligation to you other than to pay amounts in accordance with the terms set out in the applicable supplemental listing document. We do not in any respect underwrite or guarantee the performance of any structured product. We shall have the absolute discretion to put in place any hedging transaction or arrangement appropriate in connection with any structured product or the applicable underlying. A reduction in our rating by any one of our rating agencies could result in a reduction in the trading value of our structured products.

- *Trading in our structured products may be affected by suspension of trading in the underlying*

  If trading in the underlying is suspended on the stock exchange or any other relevant stock exchange, trading in our structured products may be suspended for a similar period. The value of the structured products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of the structured products will be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the structured products. This may adversely affect your investment in the structured products.

- *Delay in payment to you*

  There may be a time lag between exercise or expiry of our structured products and payment to you. Any delay between exercise or expiry of our structured products and payment to you will be specified in the applicable supplemental listing document or in the conditions.

If a settlement disruption event or a market disruption event occurs, settlement may be delayed.

We will not compensate you for any loss you suffer as a result of any time lag or delay.

- *The value of the underlying may fluctuate*

  An investment in our structured products involves risks relating to changes in the value of the underlying. The value of the underlying will vary over time, including as a result of corporate actions (where the underlying is a share or basket of shares) or changes in computation (where the underlying is an index) or political or macro-economic changes. Certain of such events which affect the value of the underlying may require an adjustment to our structured products. However, even if such event does not require an adjustment to our structured products, the price of our structured products or the return on an investment in our structured products may be affected.

- *Investments in our structured products are not the same as investments in the underlying*

  The value of our structured products may not correlate directly with the movements of the underlying and may be affected by the time remaining to expiry. Also, where the underlying is a share or basket of shares, as holder of our structured products you will not have the same rights (including voting rights and rights to dividends) as if you were a direct holder of the underlying.

- *There could be conflicts of interests which may affect our structured products*

  Various potential and actual conflicts of interest may arise from our overall activities or activities of our subsidiaries and affiliates. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. In the ordinary course of our business, we may effect transactions on our own account or for the account of our customers and hold long or short positions in the underlying or related derivatives.

- *Our structured products may be issued in global registered form*

  Our structured products may be issued in global registered form, in which case HKSCC Nominees Limited will be the only legal owner of our structured products. You are not entitled to any definitive certificates representing your beneficial interests in our structured products. You will have to rely on CCASS and/or your custodian/brokers to (a) determine your beneficial interest in our structured products, (b) receive announcements and/or information relating to our structured products, and (c) receive payments under our structured products. Our obligation to you will be duly performed by the delivery of the cash settlement amount in accordance with the conditions to HKSCC Nominees Limited as the registered holder of our structured products. The amounts will be delivered to you or your custodian/broker through CCASS participants in accordance with the CCASS rules in effect from time to time.

- *There may be an exchange rate risk*

  You should note that there may be an exchange rate risk in the case of structured products where the cash settlement amount is converted from a foreign currency into Hong Kong dollars.

- *There may be certain events relating to an index underlying that affect index linked structured products*

  You should note that, in the case of structured products relating to an index, an investment involves valuation risks in relation to the index. The level of the index may vary over time and may increase or decrease due to various factors including changes in the formula for or the method of calculating the index. In addition, a level for the index may be published by the index sponsor at a time when one or more securities comprising the index are not trading. If this occurs on the expiry date and there is no market disruption event called under the terms of the relevant structured products, then the value of such securities used in calculating the closing level of the index will not be their up-to-date market price.

Certain (but not all) events relating to the index underlying our structured products require or, as the case may be, permit us to make certain adjustments or amendments to the conditions (including, but not limited to, determining the level of the index). However, we are not required to make an adjustment for every event that can affect the index. If an event occurs that does not require us to adjust the conditions, the market price of our structured products and the return upon mandatory call event or expiry of our structured products may be affected.

- *Two or more risk factors may simultaneously affect our structured products*

  Two or more risk factors may simultaneously have an effect on the value of a structured product such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a structured product.

- *Risks in using our structured products for hedging*

  If you intend to purchase our structured products to hedge against the market risk associated with investing in or having an exposure to any underlying, you should recognise the risks of utilising our structured products in this manner. There is no assurance that the value of our structured products will correlate with movements of the relevant underlying. You may therefore incur substantial losses in our structured products, notwithstanding any losses already incurred with respect to investments in or exposures to the relevant underlying.

- *The trading price of structured products are not the same as their cash settlement amounts*

  The cash settlement amount at any time prior to expiration is typically expected to be less than the trading price of such structured products at that time.

  In the case of capped return warrants, the trading price of our warrants may be less than the cash settlement amount, depending on the spot level or value of the underlying, typically (a) (in the case of call spread warrants and index call spread warrants) if the level or value of the underlying is close to or above the cap price or cap level, as the case may be, or (b) (in the case of put spread warrants and index put spread warrants) if the level or value of the underlying is close to or below the floor price or floor level, as the case may be.

- *Time value of structured products*

  The difference between the trading price and the cash settlement amount or the physical settlement value, as the case may be, will reflect, among other things, a "time value" for our structured products. The "time value" of our structured products will depend partly upon the length of the period remaining to expiration and expectations as to future movements in the value or level of the underlying. The value of a structured product will decrease over time. Therefore, the structured products should not be viewed as products for long term investments.

- *Subject to expiration*

  Unlike stocks, warrants have an expiry date and if the warrant is at-the-money or out-of-the-money upon expiry, the warrants become worthless and investor would have lost the full initial investment.

- *Risks relating to structured products over exchange traded funds*

  In the case of structured products linked to units of an exchange traded fund ("**ETF**"), you should note that:

  (a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

  (b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

  (c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the structured products will also be indirectly subject to these risks.

Additionally, where the underlying of structured products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of structured products linked to such ETF or Synthetic ETF.

Risks relating to CBBCs

- *You may lose all your investment in the CBBCs*

  The price of the CBBCs may fall in value as rapidly as it may rise and you may sustain a total loss of your investment. In particular, if the cash settlement amount payable at expiry or upon the occurrence of a mandatory call event is less than or equal to zero, you will lose the entire value of your investment.

- *Mandatory call event is irrevocable*

  A mandatory call event is irrevocable unless it is triggered as a result of the occurrence of any of the following events:

  (a) report of system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited (**HKEx**) (such as the setting up of wrong call level and other parameters) by the stock exchange to us; or

  (b) report of manifest errors caused by the relevant third party price source (where applicable) by us to the stock exchange,

  and we agree with the stock exchange that such mandatory call event is to be revoked provided that such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or within such other time frame as prescribed by the stock exchange from time to time on the trading day immediately following the day on which the mandatory call event occurs (**day of notification**).

  In such case, the mandatory call event so triggered will be reversed and all trades cancelled (if any) will be reinstated and the trading of the CBBCs will resume no later than the trading day immediately following the day of notification in accordance with the conditions and the rules prescribed by the stock exchange from time to time.

- *Delay in announcement of mandatory call event*

  We will notify the market as soon as practicable after the CBBCs have been called. You should be aware that there may be a delay in the announcement of a mandatory call event due to technical errors, system failures and/or other factors that are beyond our control and the control of the stock exchange.

- *Non-recognition of post MCE trades*

  You should note that subject to the limited circumstances set out in the conditions in which a mandatory call event may be reversed, after the occurrence of a mandatory call event, all post MCE trades will be invalid and will be cancelled and will not be recognised by us or the stock exchange.

- *Disclaimers relating to mandatory call event*

  The stock exchange and its recognised exchange controller, HKEx, will not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the stock exchange and/or HKEx) for, any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the mandatory call event or the suspension of trading (**trading suspension**) or the non-recognition of trades after a mandatory call event (**non-recognition of post MCE trades**), including without limitation, any delay, failure, mistake or error in the trading suspension or nonrecognition of post MCE trades.

  We and our affiliates shall not have any responsibility for any losses suffered as a result of the trading suspension and/or non-recognition of post MCE trades in connection with the occurrence of a mandatory call event, notwithstanding that such trading suspension or nonrecognition of post MCE trades may have occurred as a result of an error in the observation of the event.

- *Fluctuation in the funding cost*

  The issue price of the CBBCs is set by reference to the difference between the initial reference spot level of the index and the strike level, plus the applicable funding cost.

  The intrinsic value of each CBBC at any time prior to expiration is typically expected to be less than the trading price of the CBBCs at that time. The difference between the trading price and the intrinsic value will reflect, among other things, the funding cost in connection with the CBBCs. The funding cost of the CBBCs will depend partly upon the length of the period remaining to expiration and prevailing interest rates. The purchase price paid by you will include such funding cost. When a mandatory call event occurs, the residual value (if any) may not contain a refund of any part of such funding cost. Generally speaking, the longer the period remaining to expiration, or the higher the prevailing interest rates, the greater the funding cost element of the trading price of the CBBCs.

- *Our hedging activities*

  Our or our related parties' trading and/or hedging activities related to the CBBCs and/or other financial instruments issued by us from time to time may have an impact on the index level and may trigger a mandatory call event.

  In particular, when the index level is close to the call level, our unwinding activities in relation to the index may cause a fall or rise (as the case may be) in the index level leading to a mandatory call event as a result of such unwinding activities.

  Before the occurrence of a mandatory call event, we or our related parties can unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from the market from time to time. Upon the occurrence of a mandatory call event, we or our related parties can unwind any hedging transactions relating to the CBBCs. Such unwinding activities after the occurrence of a mandatory call event may affect the index level and consequently the residual value for the CBBCs.

- *Final settlement price for settling the relevant futures contract is not published*

  If the final settlement price for settling the relevant futures contract is not published by the relevant futures exchange, we shall determine the closing level on the basis of our good faith estimate.

- *The base listing document and the supplemental listing document are not the sole basis for making an investment decision*

  The base listing document and the supplemental listing document do not take into account your investment objectives, financial situation or particular needs. Nothing in such documents should be construed as a recommendation by us or our affiliates to invest in the CBBCs or the underlying asset of the CBBCs.

- *Publication of index level when component shares are not trading*

  The index compiler may publish the index level at a time when one or more stocks comprising the index are not trading. This may have an unforeseen adverse impact on the value of your investment.

- *Time lag between early termination/exercise of the CBBCs and payment to you*

  There is a time lag between early termination/exercise of the CBBCs and payment to the holders of the CBBCs. We will not compensate you for any loss you suffer as a result of any time lag.

  If a settlement disruption event occurs, settlement may be delayed.

- *Adjustment related risk*

  Events (including, without limitation, succession of the index or index compiler, modification and cessation of calculation of the index) may occur which may affect the index and may require an adjustment to the CBBCs. However, even if such event does not require an adjustment to the CBBCs, the price of the CBBCs may be affected.

- *Possible limited secondary market*

  We or the liquidity provider may be the only market participants for the CBBCs. The secondary market may be limited.

- *The CBBCs can be volatile*

  The value of the CBBCs may not correlate with the movements of the index level and may be affected by other factors including the time remaining to expiry. In particular, when the spot level is close to the call level, the price of the CBBCs will be more volatile. You should carefully consider, among other things, the factors set out in the section headed "Overview of the callable bull/bear contracts" of the CBBC addendum before dealing in the CBBCs.

- *Change of calculation method or failure to publish the index*

  If there is a material change in the calculation of the index level or a failure by the index compiler to calculate and publish the index level, we may determine the index level on the basis of the formula for and method of calculating the index last in effect prior to such change or failure but using only those securities that comprised the index immediately prior to that change or failure.

- *Conflicts of interest*

  Various potential and actual conflicts of interest may arise from our overall activities or activities of our affiliates. In the ordinary course of our business, we may effect transactions for our own account or for the account of our customers and hold long or short positions in the securities constituting the index and/or index related derivatives.

- *Possible early termination for hedging disruption, illegality or impracticability*

  If we determine that for reasons beyond our control the performance of our obligations under the CBBCs has become illegal or impracticable in whole or in part as a result of our compliance in good faith with any applicable law, or that a hedging disruption event (as described in condition 3(a) of the conditions) has occurred, we may at our absolute discretion terminate the CBBCs. In such events, we will, if and to the extent permitted by applicable law, pay an amount calculated by us to be the fair market value of the CBBCs prior to such termination less our cost of unwinding any related hedging arrangements.

- *Limited life*

  A CBBC has a limited life, as denoted by the fixed expiry date, with a lifespan of 3 months to 5 years. The life of a CBBC may be shorter if called before the fixed expiry date. The price of a CBBC fluctuates with the changes in the price of the underlying asset from time to time and may become worthless after expiry and in certain cases, even before the normal expiry if the CBBC has been called early.

- *The CBBCs are issued in global registered form*

  As the CBBCs are issued in global registered form, HKSCC Nominees Limited will be the only legal owner of the CBBCs. You will have to rely on CCASS and/or your broker/custodian to (a) determine your beneficial interest in the CBBCs, (b) receive announcements and/or information relating to the CBBCs and (c) receive payments from us.

Risks relating to the Issuer, the Holding Company and their subsidiary undertakings (taken together, the "Group")

- ***Business conditions and the general economy***

  We offer a very broad range of services to personal and institutional customers, including governments. The Group has significant activities in a large number of countries. Consequently, there are many ways in which changes in business conditions and the economy in a single country or region or globally can adversely impact profitability, whether at the level of the Group, the individual business units or specific countries of operation.

  During 2011, the economic environment in our main markets was marked by generally weaker than expected growth and the ongoing sovereign debt crisis in the Eurozone. In the UK, the economy recovered slightly during 2011 although GDP declined slightly in the fourth quarter leading to uncertainty in the near term. The potential for persistent unemployment, higher interest rates and rising inflation may increase the pressure on disposable incomes, affecting an individual's debt service ability with the potential to impact adversely performance in the Group's retail sector. US economic conditions were better than the UK in 2011. However, unemployment is still high, which increases uncertainty in the near term. Credit conditions in Europe remain weak and a depressed housing sector and high unemployment may, in the near term, adversely affect the Group's business operations in this region. The global wholesale environment has been affected by the sovereign debt crisis and business confidence has generally declined. Performance in the near term, therefore, remains uncertain.

  The business conditions facing the Group in 2012 globally and in many markets in which the Group operates are subject to significant uncertainties which may in some cases lead to material adverse impacts on the Group's operations, financial condition and prospects, including (for example) higher levels of impairment, lower revenues or higher costs, most notably:

  – impact of potentially deteriorating sovereign credit quality, particularly debt servicing and refinancing capability;

  – extent and sustainability of economic recovery, including impact of austerity measures on a number of the European economies;

  – increase in unemployment due to weaker economies in a number of countries in which the Group operates, fiscal tightening and other austerity measures;

  – impact of rising inflation and potential interest rate rises on consumer debt affordability and corporate profitability;

  – possibility of further falls in residential property prices in the UK, South Africa and Western Europe;

  – potential liquidity shortages increasing counterparty risks;

  – potential for large single name losses and deterioration in specific sectors and geographies;

  – possible deterioration in remaining credit market exposures;

  – potential exit of one or more countries from the Euro as a result of the sovereign debt crisis;

  – reduced client activity leading to lower revenues;

  – decreases in market liquidity due to economic uncertainty;

  – impact on income from uncertain interest and exchange rate environment;

  – asset returns underperforming pension liabilities;

  – impact of the guidelines from the Basel Committee on Banking Supervision for strengthening capital requirements ("**Basel 3**") as regulatory rules are finalised;

  – impacts on capital ratios from weak profit performance;

  – availability and volatility in cost of funding due to economic uncertainty;

  – reduction in available depositor and wholesale funding;

  – implementation of strategic change and integration programmes across the Group;

  – continued regulatory and political focus, driven by the global economic climate;

– impact of new, wide ranging, legislation in various countries coupled with changing regulatory landscape;

– increasingly litigious environment; and

– the crisis management agenda and breadth of regulatory change required in global financial institutions.

Credit risk

Credit risk is the risk of the Group suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Group. The granting of credit is one of the Group's major sources of income and, as the most significant risk, the Group dedicates considerable resources to its control. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with its clients. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans. However, credit risk may also arise where the downgrading of an entity's credit rating causes a fall in the value of the Group's investment in that entity's financial instruments. Specific issues and scenarios where credit risk could lead to higher impairment charges in 2012 and subsequent years include:

• *Sovereign risk and the Eurozone crisis*

  Credit conditions will deteriorate in a recessionary environment, such as that recently seen in the UK, US, the Eurozone and other economies. Deteriorating credit conditions will impact exposures to retail and wholesale counterparties, including a country's government or its agencies (via sovereign risk) thus impairing or reducing the value of the Group's credit assets. Fiscal deficits continue to remain high, leading to high levels of public debt in some countries at a time of modest GDP growth. This has led to a loss of market confidence in certain countries to which the Group is exposed caused by deteriorating sovereign credit quality (particularly in relation to debt servicing and refinancing) which, if it were to continue, may have a material adverse effect on the Group's results of operations, financial condition and prospects.

In particular, concerns about the Eurozone crisis remain very high. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions, insurers and other corporates (i) located in these countries; (ii) that have direct or indirect exposure to these countries (both to sovereign debt and private sector debt); and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a further decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates and the businesses and economic condition and prospects of the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict.

The impact of these conditions could adversely affect us and the solvency of our counterparties, custodians, customers and service providers; its credit rating; its share price; the value and liquidity of its assets and liabilities; our ability or the Group's ability to meet its obligations under the structured products and under its debt obligations more generally.

Prospective investors should ensure that they have sufficient knowledge and awareness of the Eurozone crisis, global financial crisis and the economic situation and outlook to enable them to make their own evaluation of the risks and merits of an investment in the securities issued by us. In particular, prospective investors should take into account the considerable uncertainty as to how the Eurozone crisis, the global financial crisis and the wider economic situation will develop over time.

- *Economic weakness*

  In a recessionary environment, such as that seen in past years in the UK, the US and other economies, credit risk increases. In particular, the implementation of austerity measures to tackle high levels of public debt has negatively impacted economic growth and led to rising unemployment in some European countries and the monetary, interest rate and other policies of central banks and regulatory authorities may also have a significant adverse effect on a number of countries in which the Group operates. The threat of weaker economies in a number of countries in which the Group operates could lead to even higher levels of unemployment, rising inflation, potentially higher interest rates and falling property prices. For example, the Spanish and Portuguese housing sector continues to be depressed, impacting the Group's wholesale and retail credit risk exposures and the Group has experienced elevated impairment across its operations in these countries. Poor economic performance in one or more of the countries in which the Group operates may have a material adverse effect on the Group's results of operations, financial condition and prospects.

  In addition, if funding capacity in either the wholesale markets or central bank operations were to change significantly, liquidity shortages could result which may lead to increased counterparty risk with other financial institutions. This could also have an impact on refinancing risks in the corporate and retail sectors. This could have a material adverse effect on the Group's results of operations, financial condition and prospects.

- *Credit market exposures*

  Barclays holds certain exposures to credit markets that became illiquid during 2007. These exposures primarily relate to commercial real estate and leveraged finance loans. Although the Group continues to actively manage down these exposures, there is no guarantee that this will be successful. Failure to manage down these exposures effectively could have a material adverse effect on the Group's results of operations, financial condition and prospects.

Market risk

Market risk is the risk of the Group suffering financial loss due to the Group being unable to hedge its balance sheet at prevailing market levels. The Group can be impacted by changes in both the level and volatility of prices (for example, interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates). Specific issues and scenarios where market risk could lead to lower revenues in 2012 and subsequent years include:

- *Reduced client activity and decreased market liquidity*

  Ongoing economic uncertainty and reduced market liquidity could lead to reduced revenues and lower client volumes. Furthermore, reduced market liquidity and volatile market conditions may affect certain levels of business activities in which the Group engages, and could result in a material adverse effect on the Group's results of operations, financial condition and prospects.

- *Non-traded interest rate risk*

  Interest rate volatility can impact our net interest margin. The potential for future volatility and margin changes remains and it is difficult to predict with any accuracy changes in absolute interest rate levels, yield curves and spreads. Such changes may have a material adverse effect on the Group's results of operations, financial condition and prospects.

- *Pension fund risk*

  Adverse movements between pension assets and liabilities for defined benefit could contribute to a pension deficit.

Funding risk

Funding risk is the risk that we are unable to achieve its business plans due to liquidity risk, capital risk or the management of structural balance sheet risks.

- *Liquidity risk*

  Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events which can result in (i) an inability to support normal business activity; or (ii) a failure to meet liquidity regulatory requirements.

  During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group.

In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

In addition, the introduction of capital controls or new currencies by countries to mitigate current stresses could have a consequential effect on performance of the balance sheets of certain Group companies based on the asset quality, types of collateral and mix of liabilities.

- *Capital risk*

  Capital risk is the risk that the Group is unable to maintain appropriate capital ratios which could lead to (i) an inability to support business activity; (ii) a failure to meet regulatory requirements; or (iii) rating agency concerns.

  Regulators assess the Group's capital position and target levels of capital resources on an ongoing basis and there have been a number of recent developments in regulatory capital requirements, including increases, which are likely to have a significant impact on the Group (such as Basel 3 and its proposed implementation in the EU under the Capital Requirements Regulation and the Fourth Capital Requirements Directive ("**CRD 4**")). Increased capital requirements and changes to what is defined to constitute capital may constrain the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. During periods of market dislocation, increasing the Group's capital resources in order to meet targets may prove more difficult or costly.

- *Structural balance sheet risk*

  Structural balance sheet risk relates to the management of non-contractual risks and primarily arises from the impact on our balance sheet of changes in primarily interest rates or foreign exchange rates on income or its capital ratios. It is difficult to predict with any accuracy changes in interest rates or foreign exchange rates and such changes may have a material adverse effect on the Group's results of operations, financial condition and prospects.

Operational risk

Operational risk is the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Group's business activities and are typical of any large enterprise. Major sources of operational risk include:

– inadequate selection and ongoing management of external suppliers;

– a reporting mis-statement or omission within external financial or regulatory reporting;

– dishonest behaviour with the intent to make a gain or cause a loss to others;

– inadequate protection of information in accordance with its value and sensitivity;

– inadequate design, assessment and testing of products and services;

– failure in operation of payments processes;

– insufficient people or capabilities and/or inappropriate behaviours and/or unsafe working environments;

– unavailability of premises to meet business requirements or inadequate protection of physical assets, employees and customers against criminal, terrorist and adverse political activities;

– failure to develop and deploy secure, stable and reliable technology solutions; and

– failure in the management of critical transaction processes.

These risks can result in financial and non-financial impacts, legal or regulatory breaches and reputational damage.

Notwithstanding anything contained in this risk factor, it should not be taken as implying that we will be unable to comply with its obligations as a company with securities admitted to the Official List of the UK Listing Authority (the "**Official List**") nor that it, or its relevant subsidiaries, will be unable to comply with its or their obligations as supervised firms regulated by the FSA.

In addition, other major areas of operational risk include (i) regulatory risk; (ii) legal and litigation risk; (iii) cybersecurity risk; and (iv) taxation risk.

- *Regulatory risk*

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

  The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the UK, EU, US and elsewhere, which are all subject to change. The regulatory response to the financial crisis has led and will continue to lead to very substantial regulatory changes in the UK, EU and US and in other countries in which the Group operates. It has also (amongst other things) led to (i) a more assertive approach being demonstrated by the authorities in many jurisdictions; and (ii) enhanced capital and liquidity requirements (for example pursuant to CRD 4). Any future regulatory changes may restrict the Group's operations, mandate certain lending activity and impose other, significant compliance costs.

  Areas where changes could have significant adverse impacts include:

  – general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;

  – general changes in regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;

  – changes in competition and pricing environments;

  – further developments in the financial reporting environment;

  – differentiation amongst financial institutions by governments with respect to the extension of guarantees to customer deposits and the terms attaching to those guarantees;

  – implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes; and

  – the US Dodd-Frank Wall Street Reform and Consumer Protection Act, which contains far reaching regulatory reform (including restrictions on proprietary trading and fund-related activities (the so-called "Volcker rule")). The full impact on the Group's businesses and markets will not be known until the principal implementing rules are adopted in final form by governmental authorities, a process which is underway and which will take effect over several years.

Three specific matters that directly impact the Group are the Banking Act 2009 and the Financial Services Compensation Scheme:

ICB

The ICB was charged by the UK Government with reviewing the UK banking system and its findings were published on 12 September 2011. The ICB recommended (amongst other things) that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity (so-called "**ring-fencing**"); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as us) should be increased to levels higher than the Basel 3 proposals. The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019. Changes to the structure of UK banks and an increase in the amount of loss-absorbing capital issued by UK banks may have a material adverse impact on us and the Group's results and financial condition. It is also not possible to predict the detail of the implementation legislation or the ultimate consequences for the Group.

Banking Act 2009

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

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

Financial Services Compensation Scheme

Banks, insurance companies and other financial institutions in the UK are subject to the Financial Services Compensation Scheme (the "**FSCS**") which operates when an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with our branches within the European Economic Area (the "**EEA**") which are denominated in Sterling or other currencies are covered by the FSCS. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state. The FSCS is funded by levies on authorised UK firms such as the issuer. As at 31 December 2011, the Group had accrued £58 million (2010: £63 million) for its share of the levies. The provision is based on estimates of the Group's market participation in the relevant charging periods and the interest the FSCS will pay on the facilities provided by HM Treasury in support of its obligations to depositors of banks declared in default (such facilities were, as at 31 December 2011, estimated by the Group to amount to £18.5 billion). While it is anticipated that the substantial majority of these facilities will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on FSCS participants. As at the date of this document, it was not possible to estimate the amount of any potential additional levies or the Group's share. Consequently, in the event that the FSCS raises funds, raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group's results and financial condition.

- *Legal and litigation risk*

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

  – business may not be conducted in accordance with applicable laws around the world;

  – contractual obligations may either not be enforceable as intended or may be enforced in an adverse way;

  – intellectual property (such as trade names of the Group) may not be adequately protected; and

  – liability for damages may be incurred to third parties harmed by the conduct of the Group's business.

  The Group also faces risk where legal proceedings are brought against it. The Group is, and may in the future be, involved in various disputes, legal proceedings and regulatory investigations in various jurisdictions, including in the US. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in significant financial loss. Furthermore, the Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects that environment to continue particularly as it relates to compliance with new and existing corporate governance, employee compensation, conduct of business, anti-money laundering and anti-terrorism laws and regulations, as well as applicable international sanctions regimes. Defending legal proceedings and regulatory investigations is often expensive and time-consuming and there is no guarantee that all costs incurred will be recovered even if the Group is successful.

Adverse regulatory action or adverse judgments in legal proceedings could result in significant financial penalties and losses, restrictions or limitations on the Group's operations or have a significant adverse effect on the Group's reputation or results of operations, financial condition or prospects or result in a loss of value in securities issued by the Group.

- *Cybersecurity risk*

  We recognise the growing threats from cyberspace to our systems, including in respect of customer and our own information held on them and transactions processed through these systems. As at the date of this document, we were not aware of any significant breaches of its systems from cyberspace. However, given the increasing sophistication and scope of potential attacks from cyberspace, it is possible that in the future such attacks may lead to significant breaches. Failure to manage cybersecurity risk adequately could impact the Group materially and adversely and could have a negative impact on the Group's performance or reputation.

- *Taxation risk*

  Taxation risk is the risk that the Group suffer losses arising from additional tax charges, financial penalties or reputational damage associated with failure to comply with procedures required by tax authorities, changes in tax law and the interpretation of tax law. The Group is subject to the tax laws in all countries in which it operates, including tax laws adopted at an EU level, and is impacted by a number of double taxation agreements between countries. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

GENERAL INFORMATION ABOUT US

We are a public limited company registered in England and Wales under number 1026167. The liability of our members is limited. We have our registered and head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). We were incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 were registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, we were re-registered as a public limited company and our name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC”.

Our Group is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services with an extensive international presence in Europe, United States, Africa and Asia. The whole of our issued ordinary share capital is beneficially owned by Barclays PLC, which is the ultimate holding company of our Group.

The short term unsecured obligations of the Issuer are rated A-1 by Standard & Poor’s Credit Market Services Europe Limited, P-1 by Moody’s Investors Service Ltd. and F1 by Fitch Ratings Limited and our long-term obligations are rated A+ by Standard & Poor’s Credit Market Services Europe Limited, Aa3 by Moody’s Investors Service Ltd. and A by Fitch Ratings Limited.

Based on our Group’s audited financial information for the year ended 31 December 2011, our Group had total assets of £1,563,402 million (2010: £1,490,038 million), total net loans and advances[1] of £478,726 million (2010: £465,741 million, total deposits[2] of £457,161 million (2010: £423,777 million), and total shareholders’ equity of £65,170 million (2010: £62,641 million) (including non-controlling interests of £3,092 million (2010: £3,467 million)). The profit before tax from continuing operations of our Group for the year ended 31 December 2011 was £5,974 million (2010: £6,079 million) after credit impairment charges and other provisions of £3,802 million (2010: £5,672 million). The financial information in this paragraph is extracted from our audited consolidated financial statements for the year ended 31 December 2011.

Acquisitions, Disposals and Recent Developments

Disposal of private equity fund interests to AXA Private Equity

On 30 June 2011, we announced that we had signed a definitive agreement to dispose of a €520 million portfolio of U.S. and European private equity interests held and managed by Barclays to AXA Private Equity. The portfolio includes investments in private equity funds as well as several direct private equity interests held by Barclays but does not include any investments managed by Barclays Private Equity. The disposal was completed on 30 September 2011.

Acquisition of Egg’s UK credit card assets

On 1 March 2011, we announced that we agreed to acquire Egg’s UK credit card assets. Under the terms of the transaction, we will purchase Egg’s UK credit card accounts, consisting of approximately 1.15 million credit card accounts with approximately £2.3 billion of gross receivables (each estimated as at 31 January 2011 with gross receivables estimated under IFRS). The acquisition was completed on 28 April 2011.

Competition and Regulatory Matters

Regulatory change

The scale of regulatory change remains challenging with a significant tightening of regulation and changes to regulatory structures globally, especially for banks that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries which, in some cases, is leading to increased or changing regulation which is likely to have a significant effect on the industry. Examples include Basel 3, the emerging proposals on bank resolution regimes and proposals relating to over-the-counter derivatives clearing and global systemically important banks.

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[1] *Total net loans and advances include balances relating to both bank and customer accounts.*
[2] *Total deposits include deposits from bank and customer accounts*

In the UK, the FSA's current responsibilities are to be reallocated between the Prudential Regulatory Authority (a subsidiary of the Bank of England) and a new Financial Conduct Authority. In addition, the ICB completed its review of the UK banking system and published its final report on 12 September 2011. The ICB recommended (amongst other things) that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity (so-called "ring-fencing"); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as us) should be increased to levels higher than the Basel 3 proposals. The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act contains far reaching regulatory reform. The full impact on our businesses and markets will not be known until the principal implementing rules are adopted in final form by governmental authorities, a process which is underway and which will take effect over several years.

Payment Protection Insurance

On 20 April 2011, the judicial review proceedings brought by the British Bankers' Association in October 2010 against the FSA and the Financial Ombudsman Service regarding the assessment and redress of Payment Protection Insurance ("**PPI**") complaints were dismissed. On 9 May 2011, we announced that we would not be participating in any application for permission to appeal against the High Court judgment and that we had agreed with the FSA that we would process all on-hold and any new complaints from customers about PPI policies that they hold. We also announced that, as a goodwill gesture, we would pay out compensation to customers who had PPI complaints put on hold during the judicial review. We took a provision of £1 billion in the second quarter of 2011 to cover the cost of future redress and administration. As at 31 December 2011, following payments made during 2011, the provision was £565 million. We have observed an increase in PPI complaint volumes in recent weeks. It is too soon to determine whether this increase may have a material impact.

Interchange

The Office of Fair Trading, as well as other competition authorities elsewhere in Europe, continues to investigate Visa and MasterCard credit and debit interchange rates. These investigations may have an impact on the consumer credit industry as well as having the potential for the imposition of fines. Timing is uncertain but outcomes may be known within the next 2-4 years.

London Interbank Offered Rate

The FSA, the U.S. Commodity Futures Trading Commission, the SEC, the U.S. Department of Justice Fraud Section of the Criminal Division and Antitrust Division and the European Commission are amongst various authorities conducting investigations into submissions made by us and other panel members to the bodies that set various interbank offered rates. We are co-operating in the relevant investigations and are keeping regulators informed. In addition, we have been named as a defendant in a number of class action lawsuits filed in US federal courts involving claims by purported classes of purchasers and sellers of London Interbank Offered Rate ("**LIBOR**")-based derivative products or Eurodollar futures or options contracts between 2006 and 2009. The complaints are substantially similar and allege, amongst other things, that we and other banks individually and collectively violated U.S. antitrust and commodities laws and state common law by suppressing LIBOR rates during the relevant period. We have been informed by certain of the authorities investigating these matters that proceedings against us may be recommended with respect to some aspects of the matters under investigation, and we are engaged in discussions with those authorities about potential resolution of those aspects. As at the date of this document, it was not possible to predict the ultimate resolution of the issues covered by the various investigations and lawsuits, including the timing and the scale of the potential impact on the Group of any resolution.

Directors

Our directors, each of whose business address is 1 Churchill Place, London E14 5HP, United Kingdom, their functions in relation to our Group and their principal outside activities (if any) of significance to our Group are as follows:

Name	Function(s) within our Group	Principal outside activities
Marcus Agius	Group Chairman	Non-Executive Director, British Broadcasting Corporation; Chairman, British Bankers' Association
Robert E Diamond Jr	Chief Executive	Chairman, Old Vic Productions PLC; Non-Executive Director, BlackRock, Inc.
Chris Lucas	Group Finance Director	–
David Booth	Non-Executive Director	–
Alison Carnwath	Non-Executive Director	Non-Executive Chairman, Land Securities Group plc; Non-Executive Director, Man Group plc; Independent Director, Paccar Inc; Non-Executive Chairman, ISIS EP LLP
Fulvio Conti	Non-Executive Director	Chief Executive Officer, Enel SpA; Director, AON Corporation
Simon Fraser	Non-Executive Director	Non-Executive Director, Fidelity Japanese Values Plc and Fidelity European Values Plc; Chairman, Foreign & Colonial Investment Trust PLC; Chairman, Merchants Trust PLC; Non-Executive Director, Ashmore Group PLC
Reuben Jeffery III	Non-Executive Director	Senior Adviser, Center for Strategic & International Studies; Chief Executive Officer, Rockefeller & Co., Inc.
Sir Andrew Likierman	Non-Executive Director	Dean of London Business School; Chairman, National Audit Office
Dambisa Moyo	Non-Executive Director	Non-Executive Director, SABMiller plc; Non-Executive Director, Lundin Petroleum AB; Non-Executive Director, Barrick Gold Corporation

Name	Function(s) within our Group	Principal outside activities
Sir Michael Rake	Senior Independent Director and Non-Executive Director	Chairman, BT Group PLC; Director, McGraw-Hill Companies; Chairman, EasyJet PLC
Sir John Sunderland	Non-Executive Director	Chairman, Merlin Entertainments Group; Non-Executive Director, AFC Energy plc

No potential conflicts of interest exist between any duties to the Issuer of the Directors listed above and their private interests or other duties.

Employees

As at 31 December 2011, the total number of persons employed by the Group (full time equivalents) was 141,100 (2010: 147,500).

Litigation

Lehman Brothers Holdings Inc.

On 15 September 2009 motions were filed in the United States Bankruptcy Court for the Southern District of New York (the "**Court**") by Lehman Brothers Holdings Inc. ("**LBHI**"), the SIPA Trustee for Lehman Brothers Inc. (the "**Trustee**") and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (the "**Committee**"). All three motions challenged certain aspects of the transaction pursuant to which Barclays Capital Inc. ("**BCI**") and other companies in our Group acquired most of the assets of Lehman Brothers Inc. ("**LBI**") in September 2008 and the court order approving such sale. The claimants seeking an order voiding the transfer of certain assets to BCI; requiring BCI to return to the LBI estate alleged excess value BCI received; and declaring that BCI is not entitled to certain assets that it claims pursuant to the sale documents and order approving the sale (the "**Rule 60 Claims**"). On 16 November 2009, LBHI, the Trustee and the Committee filed separate complaints in the Court asserting claims against BCI based on the same underlying allegations as the pending motions and seeking relief similar to that which is requested in the motions. On 29 January 2010, BCI filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI have failed to deliver as required by the sale documents and the court order approving the sale (together with the Trustee's competing claims to those assets, the "**Contract Claims**"). Approximately U.S.$4.2 billion (£2.7 billion) of the assets acquired as part of the acquisition had not been received by 31 December 2011, approximately U.S.$3.0 billion (£2.0 billion) of which were recognised as part of the accounting for the acquisition and are included in the balance sheet as at 31 December 2011. This results in an effective provision of U.S.$1.2 billion (£0.8 billion) against the uncertainty inherent in the litigation.

On 22 February 2011, the Court issued its Opinion in relation to these matters, rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee's favour and some in favour of BCI. On 15 July 2011, the Court entered final Orders implementing its Opinion. BCI and the Trustee have each filed a notice of appeal from the Court's adverse rulings on the Contract Claims. LBHI and the Committee have withdrawn their notices of appeal from the Court's ruling on the Rule 60 Claims, rendering the Court's Order on the Rule 60 Claims final.

If the final Orders relating to the Contract Claims were to be unaffected by future proceedings, we estimate that after taking into account the effective provision of U.S.$1.2 billion (£0.8 billion), our loss would be approximately U.S.$4.3 billion (£2.8 billion). Any such loss, however, was not (as at the date of this document) considered probable and we are satisfied with the current level of provision.

In addition, LBHI had been pursuing a claim for approximately U.S.$500 million relating to bonuses that BCI was allegedly obligated to pay to former Lehman employees. On 14 September 2011, the Court issued a decision dismissing that claim and entered a final Order to that effect on 21 September 2011. LBHI has stated that it will not appeal that decision, rendering the Order dismissing that claim final.

American Depositary Shares

The Issuer, the Holding Company and various current and former members of the Holding Company's Board of Directors have been named as defendants in five proposed securities class actions (which have been consolidated) pending in the United States District Court for the Southern District of New York (the "**Court**"). The consolidated amended complaint, dated 12 February 2010, alleges that the registration statements relating to American Depositary Shares representing Preferred Stock, Series 2, 3, 4 and 5 (the "**ADS**") offered by us at various times between 2006 and 2008 contained misstatements and omissions concerning (amongst other things) our portfolio of mortgage-related (including U.S. subprime-related) securities, our exposure to mortgage and credit market risk and our financial condition. The consolidated amended complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. On 5 January 2011, the Court issued an order and, on 7 January 2011, judgment was entered, granting the defendants' motion to dismiss the complaint in its entirety and closing the case. On 4 February 2011, the plaintiffs filed a motion asking the Court to reconsider in part its dismissal order. On 31 May 2011, the Court denied in full the plaintiffs' motion for reconsideration. The plaintiffs have appealed both decisions (the grant of the defendants' motion to dismiss and the denial of the plaintiffs' motion for reconsideration) to the United States Court of Appeals for the Second Circuit.

We consider that these ADS-related claims against us are without merit and are defending them vigorously. As at the date of this document, it was not practicable to estimate our possible loss in relation to these claims or any effect that they might have upon operating results in any particular financial period.

U.S. Federal Housing Finance Agency and other residential mortgage-backed securities litigation

The U.S. Federal Housing Finance Agency ("**FHFA**"), acting for two US government sponsored enterprises, Fannie Mae and Freddie Mac (collectively, the "**GSEs**"), filed lawsuits against 17 financial institutions in connection with the GSEs' purchases of residential mortgage-backed securities ("**RMBS**"). The lawsuits allege, among other things, that the RMBS offering materials contained materially false and misleading statements and/or omissions. We and/or certain of our affiliates or former employees are named in two of these lawsuits, relating to sales between 2005 and 2007 of RMBS, in which BCI was lead or co-lead underwriter.

Both complaints demand, among other things: rescission and recovery of the consideration paid for the RMBS; and recovery for the GSEs' alleged monetary losses arising out of their ownership of the RMBS. The complaints are similar to other civil actions filed against us and/or certain of our affiliates by other plaintiffs, including the Federal Home Loan Bank of Seattle, Federal Home Loan Bank of Boston, Federal Home Loan Bank of Chicago, Cambridge Place Investment Management, Inc., HSH Nordbank AG (and affiliates) and Stichting Pensioenfonds ABP, relating to their purchases of RMBS. We consider that the claims against us are without merit and intend to defend them vigorously.

The original amount of RMBS related to the claims against us in these cases totalled approximately U.S.$6.8 billion, of which approximately U.S.$2.0 billion was outstanding as at 31 December 2011. Cumulative losses reported on these RMBS as at 31 December 2011 were approximately U.S.$0.1 billion. If we were to lose these cases we could incur a loss of up to the outstanding amount of the RMBS as at the time of judgment (taking into account further principal payments after 31 December 2011), plus any cumulative losses on the RMBS at such time and any interest, fees and costs, less the market value of the RMBS at such time. We have estimated the total market value of the RMBS as at 31 December 2011 to be approximately U.S.$1.1 billion. We may be entitled to indemnification for a portion of any losses.

Devonshire Trust

On 13 January 2009, we commenced an action in the Ontario Superior Court (the "**Court**") seeking an order that our early terminations earlier that day of two credit default swaps under an ISDA Master Agreement with the Devonshire Trust ("**Devonshire**"), an asset-backed commercial paper conduit trust, were valid. On the same day, Devonshire purported to terminate the swaps on the ground that we had failed to provide liquidity support to Devonshire's commercial paper when required to do so. On 7 September 2011, the Court ruled that our early terminations were invalid, Devonshire's early terminations were valid and, consequently, Devonshire was entitled to receive back from us cash collateral of approximately C$533 million together with accrued interest thereon. We are appealing the court's decision. If the court's decision were to be unaffected by future proceedings, we estimate that our loss would be approximately C$500 million, less any impairment provisions taken by us for this matter.

Other

The Holding Company and the Group are engaged in various other legal proceedings both in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of business, including debt collection, consumer claims and contractual disputes. We do not expect the ultimate resolution of any of these proceedings to which the Group is party to have a material adverse effect on our results of operations, cash flows or the financial position of the Group and we have not disclosed the contingent liabilities associated with these claims either because they cannot reliably be estimated or because such disclosure could be prejudicial to the conduct of the claims. Provisions have been recognised for those cases where we are able reliably to estimate the probable loss where the probable loss is not de minimis.

In addition, we have been named as a defendant in a number of lawsuits, including class actions, filed in US federal courts involving claims by purported classes of purchasers and sellers of LIBOR-based derivative products or Eurodollar futures or option contracts between 2006 and 2009. Please see "Competition and Regulatory Matters — London Interbank Offered Rate" for further information.

Save as disclosed under "— Lehman Brothers Holdings Inc.", "— American Depositary Shares", "U.S. Federal Housing Finance Agency and other residential mortgage-backed securities litigation", "— Devonshire Trust" and "— Other" above, no member of our Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), which may have or have had during the 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Issuer and/or our Group.

SALES AND TRANSFER RESTRICTIONS

General

We have not or will not take any action that would permit a public offering (other than Hong Kong) of our structured products or possession or distribution of any offering material in relation to our structured products in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any structured products, or distribution of any offering material relating to our structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligations on us. You are required to inform yourself about, and to observe, all such applicable laws and regulations. In the event that the issuer contemplates a placing, placing fees may be payable in connection with any issue and the issuer may at its discretion allow discounts to placees.

United States of America

The structured products have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States. The structured products, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of the structured products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. The structured products will not be offered, sold or delivered within the United States or to U.S. persons. As used herein, "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "U.S. person" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) no offer of structured products which are the subject of the listing contemplated in this document as completed by the relevant supplemental listing document in relation thereto to the public in that Relevant Member State has been, or will be, made except that, with effect from and including the Relevant Implementation Date, an offer of structured products to the public in that Relevant Member State may be made:

(a) if the relevant supplemental listing document specifies that an offer of the relevant structured products may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such structured products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the relevant supplemental listing document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or supplemental listing document, as applicable and we have consented in writing to our use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of structured products referred to in (b) to (d) above shall require us or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of structured products to the public**" in relation to any structured products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe the structured products, as the same may be varied in that Member State by any measure implementing the "Prospectus Directive" in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) (the **FSMA**)) in connection with the issue or sale of any structured products has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA would not, if we were not an authorised person, apply to us. All applicable provisions of the FSMA have been complied with, and will be complied with, with respect to anything done by us in relation to any structured product in, from or otherwise involving the United Kingdom.

Others

The offer and sale of structured products will also be subject to such other restrictions and requirements as may be set out in the relevant supplemental listing document.

Persons interested in acquiring structured products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of structured products or their redemption; or (iii) the acquisition, holding or disposal of structured products.

TAXATION

The comments below are of a general nature and are only a summary of the stamp duty and stamp duty reserve tax laws and practice currently applicable in the United Kingdom and the tax laws and practice currently applicable under Hong Kong law. Tax charges other than stamp duty and stamp duty reserve tax that may arise in the United Kingdom as a result of acquiring, holding and disposing of our structured products are not discussed below. The comments relate only to the position of persons who are the absolute beneficial owners of our structured products and may not apply equally to all persons. To the extent that there is any change in the position set out in the comments below as applicable to a particular series of structured products to be issued, we will update the same in the relevant supplemental listing document. If you are in any doubt as to your tax position on purchase, ownership, transfer or exercise of any structured product or if you are subject to tax in a jurisdiction other than the United Kingdom or Hong Kong, you should consult your own tax advisers.

General

In addition to the issue price of each structured product, you may be required to pay stamp duties, taxes and other charges in addition to those described below, in accordance with the laws and practices of the country of purchase.

Taxation in the United Kingdom

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

Introduction

Stamp duty is payable on the transfer of stock or marketable securities at a rate of 0.5% of the amount or value of the consideration for the transfer or at 1.5% of the amount or value of the consideration for the stock or marketable securities if they are transferred into a clearing system or to an issuer of depositary receipts or a relevant nominee or agent of such a clearing system or issuer of depositary receipts. If stamp duty does have to be paid on a document, interest will also have to be paid unless the document is stamped within 30 days of execution. Penalties will also be payable on stamping a document unless, in the case of a document executed in the UK, it is stamped within 30 days of execution, or, in the case of a document executed outside the UK, it is stamped within 30 days of being brought into the UK. A document which is liable to stamp duty cannot be given in evidence for any purpose in the UK (except in criminal proceedings) unless it has been duly stamped.

SDRT is payable on an agreement to transfer chargeable securities at a rate of 0.5% of the consideration for the agreement to transfer or at 1.5% of the price, consideration for, or value of the chargeable securities if they are issued or transferred into a clearing system or an agent or nominee for such a system or if they are issued or transferred to an issuer of depositary receipts or an agent or a nominee for such an issuer.

CCASS cleared structured products registered in Hong Kong

On the basis of correspondence with HM Revenue & Customs, and on the assumption that structured products cleared through CCASS are in registered form and registered in a register located in Hong Kong in the name of a (Hong Kong) nominee for CCASS, the issuer understands that the issue into, and transfer within, CCASS of such registered structured products are not subject to any United Kingdom stamp duty or SDRT on issue or transfer.

The issuer understands that HM Revenue & Customs has confirmed that CCASS is treated as having made an election under section 97A of the Finance Act 1986 (the "section 97A election"). The effect of the section 97A election is that there is no 1.5% stamp duty or SDRT charge on the issue or transfer of the registered structured products to a (Hong Kong) nominee for CCASS and SDRT applies broadly as if CCASS were not a clearing system.

In addition, under section 133 of the Companies Act 2006, there is an exemption from United Kingdom stamp duty on the transfer of shares issued by a company incorporated in the United Kingdom but registered on a branch register in certain prescribed countries, provided that the transfer is executed outside of the United Kingdom (the "overseas branch register exemption"). The issuer understands that HM Revenue & Customs has indicated that the exemption applies to the transfer within CCASS of registered structured products and that the effect of this exemption is that there is no 0.5% stamp duty or SDRT charge on such transfer of or on an agreement to transfer registered structured products.

The issuer understands that the combined effect of the section 97A election and the overseas branch register exemption is that neither a 1.5% stamp duty or SDRT charge nor a 0.5% stamp duty or SDRT charge applies on the issue or transfer of registered structured products to a (Hong Kong) nominee for CCASS or on a subsequent transfer or agreement to transfer of the registered structured products within CCASS.

However, it should be noted that some important aspects of this United Kingdom stamp duty and SDRT treatment rely on private indications and correspondence provided by HM Revenue & Customs which have not been confirmed by published guidance or public announcement. Accordingly such indications of HM Revenue & Customs may not be legally binding, and hence could potentially be subject to change in policy by HM Revenue & Customs so should be treated with appropriate caution.

HSBC case

On 1 October 2009, the European Court of Justice ruled in the case of HSBC Holdings plc, Vidacos Nominees Ltd v The Commissioners of Her Majesty's Revenue & Customs (Case C-569/07), that the United Kingdom's rules imposing a 1.5% SDRT charge on securities entering a clearing system are prohibited by European Union law. The scope and wider effect of this judgment are not yet clear, but the current position of HM Revenue & Customs appears to be that the case affects clearing systems within the European Union only.

Taxation in Hong Kong

Profits tax

No tax is payable in Hong Kong by way of withholding or otherwise in respect of any capital gains arising on the sale or disposal of any structured products or shares, except that Hong Kong profits tax may be chargeable on any such gains where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

Stamp duty

No stamp duty liability should attach to either the entering into, transferring or the exercising of purely cash settled structured products.

GENERAL INFORMATION

Are we regulated by any bodies under the rules?

We are authorised and regulated by the United Kingdom Financial Services Authority.

Have we been rated by any credit rating agency?

As at the date of this document, our long-term obligations are rated Aa3 by Moody's Investors Service Ltd., A+ by Standard and Poor's Credit Market Services Europe Limited and A by Fitch Ratings Limited. Rating agencies usually receive a fee from the issuers that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the structured products;
- ratings of issuers may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk.

Our current credit ratings are for reference only. Any downgrading of our ratings could result in a reduction in the value of the structured products.

Are we involved in any litigation?

Except as set out on pages 28 to 30 of this document, we and our group are not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have or have had during the 12 months preceding the date of this document, a significant effect on the financial position or profitability of us and/or the group.

Has there been any material adverse change in our group's financial position?

There has been no material adverse change in our financial position, or our group's financial position taken as a whole since 31 December 2011.

If, after the date of this document, you receive this document or purchase any structured products issued pursuant to this document you should not assume that there have been no changes in our affairs or financial condition since the date of this document. You should check if we have published any addenda to this document. Any such addenda will be available for inspection in the manner described under the section headed "*Where can you find out information about us?*" below.

Who is authorised to give information or make representations?

No person has been authorised to give any information or make any representations other than those contained in this document and the applicable supplemental listing document. If any person gives any such information or makes any such representations you should not rely on them as having been authorised by us.

Who are our authorised representatives?

Our authorised representatives are Vikesh Kotecha and Christopher Chan, both c/o Barclays Capital Asia Limited, 41/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

Who has been authorised to accept service of process on us?

Mark Stafford of Barclays Bank PLC, Hong Kong Branch, 41/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong, has been authorised to accept service of process and any other notices required to be served on us.

Where can you find out information about us?

You can find out more about us on the website of the group of companies to which we belong, which is *www.barclays.com*.

You may also inspect copies of the documents set out on page 2 of this document during usual business hours on any weekday (except public holidays) at 41/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong during the period in which our structured products are listed on the stock exchange.

Are there any experts/auditors involved?

Our auditors, PricewaterhouseCoopers LLP, have given and have not withdrawn their written consent to the inclusion of their auditors' report dated 7 March 2012 on our financial statements for the year ended 31 December 2011, in this document in the form and context in which it is included. The report was not prepared for incorporation in this document. Our auditors do not have any shareholding in our company or in any member of our group, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities in any member of our group.

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS

Who is responsible for this document?

We accept full responsibility for the accuracy of the information contained in this document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our listing document. We do not accept any responsibility for information on these websites. Such information has not been prepared for the purposes of our structured products.

This document is accurate at the date stated on the cover. You must not assume, however, that information in this document is accurate at any time after the date of this document.

The sponsor and the liquidity provider are not responsible in any way for ensuring the accuracy of our listing documents.

When were our structured products authorised?

The issue of our structured products was authorised and approved by resolutions of our Fund Raising Committee on 30 June 2006 and 5 April 2011.

How do we give notices and make payments under our structured products?

We will give any necessary notice, and make all payments that are due, under our structured products, to the registered holder of our structured products. Unless we specify otherwise in the relevant supplemental listing document, the registered holder will be HKSCC Nominees Limited (or such other nominee company as HKSCC may specify for that series). In this situation, the notices will then be given to you or to your custodian to which you are entitled will be made to you or to your custodian/broker, through CCASS in accordance with the CCASS Rules.

Can we repurchase our structured products?

Yes, we or our affiliates may repurchase our structured products at any time, including in the grey market. We may offer for sale any structured products which we repurchase, and may do so at prevailing market prices or in negotiated transactions at our discretion. You should not therefore make any assumptions as to the number of our structured products of any series which may be in issue from time to time.

Delisting of the company or companies underlying our structured products

If the shares of the company, the shares of any of the companies or the units of the fund or trust (as the case may be) underlying a particular issue of our structured products are delisted from the stock exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.

Adjustments upon certain events affecting the company or companies or the index underlying our structured products

If certain corporate events occur in connection with the company, any of the companies or the fund or trust underlying our structured products, or if certain events occurred which materially modifies the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our structured products for further details.

These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.

Who makes determinations and calculations?

We will make any necessary determinations or calculations in respect of our structured products.

Do the stock exchange and the SFC charge any fees?

The stock exchange charges a trading fee of 0.005 per cent. and the SFC charges a transaction levy of 0.003 per cent. in respect of each transaction effected on the stock exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the relevant securities. The levy for the investor compensation fund is currently suspended.

How are dealings in our structured products settled?

Dealings in the securities on the stock exchange are required to be settled within two trading days from the transaction date. Such settlement can either be effected by physical delivery of the certificates and executed instruments of transfer or, if the securities are admitted for deposit, clearing and settlement in the CCASS, through CCASS. Dealings in our structured products will take place in the relevant board lots in Hong Kong dollars. You should refer to the terms and conditions of the relevant structured products for further details.

ANNEX 1

The relevant conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable supplemental listing document in relation to the issue of any series of warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant conditions, replace or modify the relevant conditions for the purpose of such series of warrants. Capitalized terms used in the relevant conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

TERMS AND CONDITIONS OF THE WARRANTS ON SINGLE EQUITIES (CASH SETTLED)

1. Form, Status, Transfer and Title

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the "**Global Certificate**") dated the Issue Date made by Barclays Bank PLC (the "**Issuer**").

The Issuer entered into (i) an amended and restated base registrar's and agency agreement dated 14 April 2011 with Computershare Hong Kong Investor Services Limited; and (ii) a base registrar's and agency agreement dated 14 April 2011 with Barclays Capital Asia Limited (each, as amended, varied or supplemented from time to time or any successor document, a "**Registrar's Agreement**"). In respect of a series of Warrants, the Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the registrar and warrant agent (the "**Registrar**" and "**Warrant Agent**", which expressions shall include any successors) for that series by sending to the Registrar a Confirmation (as defined in the relevant Registrar's Agreement) relating to that series. The Registrar and Warrant Agent for the relevant series of Warrants will be specified in the Global Certificate. References herein to the Registrar's Agreement shall mean the Registrar's Agreement entered into between the Issuer and the Registrar and Warrant Agent in respect of the relevant series of Warrants.

Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the "**Transfer Office**"). The initial Transfer Office is set out below. The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement. The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS (as defined below) in accordance with the CCASS Rules (as defined below). Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

(b) *Status.* The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

(c) *Transfer.* Transfers of beneficial interests in the Warrants may be effected only in a Board Lot or integral multiples thereof in CCASS in accordance with the CCASS Rules.

(d) *Title.* Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression "**Warrantholder**" shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Every Board Lot gives each Warrantholder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), if any.

(b) *Exercise Expenses.* On exercise of the Warrants, Warrantholders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses (as defined below) in accordance with Condition 4.

(c) *Definitions.* For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong (as defined below) and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula:

(i) in the case of a series of call Warrants:

(A) where the Warrants are expressed to be Call Spread Warrants:

(a) where the Average Price is equal to or less than the Cap Price:

$$\frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(b) where the Average Price is greater than the Cap Price:

$$\frac{\text{Entitlement x (Cap Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(B) where the Warrants are not expressed to be Call Spread Warrants:

$$\frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) in the case of a series of put Warrants:

(A) where the Warrants are expressed to be Put Spread Warrants:

(a) where the Average Price is equal to or greater than the Floor Price:

$$\frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(b) where the Average Price is less than the Floor Price:

$$\frac{\text{Entitlement x (Exercise Price - Floor Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(B) where the Warrants are not expressed to be Put Spread Warrants:

$$\frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

The Entitlement and the Exercise Price are subject to adjustment as provided in Condition 6, and

“**Average Price**” means the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

“**CCASS**” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

“**Conditions**” means the terms and conditions applicable to each series of cash settled Warrants on single equities;

“**Designated Bank Account**” means the relevant bank account designated by the relevant Warrantholder;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

“**Expiry Date**” means the date as specified in the Global Certificate;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**Market Disruption Event**” means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Settlement Disruption Event**” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means, each of the five Business Days immediately preceding the Expiry Date. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

3. Automatic Exercise and Expiry

(a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.

(b) *Automatic Exercise.* Any Warrant will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is greater than zero (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(d).

(c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(a) Warrants may only be exercised in a Board Lot or integral multiples thereof.

(b) *No requirement to deliver an exercise notice.* The Warrantholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.

(c) *Cancellation.* The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (ii) have expired worthless, and thereby cancel the relevant Warrants.

(d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of each Board Lot, to the relevant Warrantholder equal to the Cash Settlement Amount.

The Cash Settlement Amount shall be despatched not later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

The Issuer shall be discharged from its obligation to pay the Cash Settlement Amount upon making payment thereof in accordance with these Conditions.

5. Registrar and Transfer Office

(a) The initial Registrar and the Transfer Office for the Warrants are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar under the Registrar's Agreement provided that it will at all times maintain a register. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Warrantholders in accordance with Condition 9.

(b) The Registrar will be acting as agent of the Issuer in respect of any Warrants and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders.

6. Adjustments

(a) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement and the Exercise Price will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“}\mathbf{Adjustment\ Factor}\text{”} = \frac{1 + M}{1 + (R/S) \times M}$$

E : Existing Entitlement immediately prior to the Rights Offer

X : Existing Exercise Price immediately prior to the Rights Offer

S : Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R : Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M : Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

The Adjusted Exercise Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement or the Exercise Price.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement and the Exercise Price will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“}\textbf{Adjustment Factor}\text{”} = 1 + N$$

E : Existing Entitlement immediately prior to the Bonus Issue

X : Existing Exercise Price immediately prior to the Bonus Issue

N : Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

The Adjusted Exercise Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement or the Exercise Price.

(c) *Share Splits or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in the same ratio as the Subdivision or Consolidation (as the case may be) by an Adjustment Factor, in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect (such adjusted Entitlement being the "**Adjusted Entitlement**"). In addition, if adjustment is to be made to the Entitlement, the Issuer shall also adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means 1 divided by the Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(d) *Merger or Consolidation.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (d) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(e) *Issues Affecting Capital of Company.* If the Company (i) offers either (x) share capital or securities granting the rights to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of existing Shares or (y) any other type of securities, rights or warrants or other assets, in either case for payment, whether in cash or otherwise, at less than the prevailing market price as determined by the Issuer acting in its sole discretion; or (ii) declares an extraordinary dividend in respect of the Shares; or (iii) issues a call in respect of any existing Shares which are not fully paid up; or (iv) announces that it is to repurchase any existing Shares, whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise, the Issuer may, at its sole discretion and without any obligation, make such adjustments to the Entitlement and/or the Exercise Price as it reasonably believes is appropriate in the circumstances, provided that the adjustment is considered by the Issuer to be beneficial to the Warrantholders generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction).

(f) *Cash Dividends.* Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement and the Exercise price will be adjusted to take effect on the Business Day on which trading in the Shares become ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{"}\textbf{Adjustment Factor}\text{"} = \frac{S - OD}{S - OD - CD}$$

E : Existing Entitlement immediately prior to the relevant Cash Distribution

X : Existing Exercise Price immediately prior to the relevant Cash Distribution

S : Closing price of a Share on the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD : Amount of the relevant ordinary cash dividend per Share

CD : Amount of the relevant Cash Distribution per Share

The Adjusted Exercise Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that "OD" shall be deemed to be zero if no ordinary cash dividend is announced by the Company or if the ex-entitlement date of the ordinary cash dividend is different from the ex-entitlement date of the relevant Cash Distribution.

(g) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(h) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

The Issuer and/or any of its affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Registrar's Agreement contains provisions for the convening of meetings of the Warrantholders to consider any matter affecting their interests, including sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Registrar before the effective date or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Warrantholders will be validly given if published in English and in Chinese on the website of the Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Delisting

(a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 9 as soon as practicable after they are determined.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

   (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

   (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

   (each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Governing Law

The Warrants, the Global Certificate and the Registrar's Agreement will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Registrar's Agreement to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Registrar, Warrant Agent and Transfer Office*

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Barclays Capital Asia Limited
41/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

* *The Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the Registrar and Warrant Agent as specified in the Global Certificate.*

The relevant conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable supplemental listing document in relation to the issue of any series of warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant conditions, replace or modify the relevant conditions for the purpose of such series of warrants. Capitalized terms used in the relevant conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

TERMS AND CONDITIONS OF THE INDEX WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

(a) Form. The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the "**Global Certificate**") dated the Issue Date made by Barclays Bank PLC (the "**Issuer**").

The Issuer entered into (i) an amended and restated base registrar's and agency agreement dated 14 April 2011 with Computershare Hong Kong Investor Services Limited; and (ii) a base registrar's and agency agreement dated 14 April 2011 with Barclays Capital Asia Limited (each, as amended, varied or supplemented from time to time or any successor document, a "**Registrar's Agreement**"). In respect of a series of Warrants, the Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the registrar and warrant agent (the "**Registrar**" and "**Warrant Agent**", which expressions shall include any successors) for that series by sending to the Registrar a Confirmation (as defined in the relevant Registrar's Agreement) relating to that series. The Registrar and Warrant Agent for the relevant series of Warrants will be specified in the Global Certificate. References herein to the Registrar's Agreement shall mean the Registrar's Agreement entered into between the Issuer and the Registrar and Warrant Agent in respect of the relevant series of Warrants.

Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the "**Transfer Office**"). The initial Transfer Office is set out below. The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement. The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS (as defined below) in accordance with the CCASS Rules (as defined below). Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

(b) *Status*. The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

(c) *Transfer*. Transfers of beneficial interests in the Warrants may be effected only in a Board Lot or integral multiples thereof in CCASS in accordance with the CCASS Rules.

(d) *Title.* Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression "**Warrantholder**" shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Every Board Lot entitles each Warrantholder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), if any.

(b) *Exercise Expenses.* On exercise of the Warrants, Warrantholders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses (as defined below) in accordance with Condition 4.

(c) *Definitions.* For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong (as defined below) and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of call Warrants:

(A) where the Warrants are expressed to be Index Call Spread Warrants:

(a) where the Closing Level is equal to or less than the Cap Level:

$$\frac{\text{(Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(b) where the Closing Level is greater than the Cap Level:

$$\frac{\text{(Cap Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(B) where the Warrants are not expressed to be Index Call Spread Warrants:

$$\frac{\text{(Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) the case of a series of put Warrants:

(A) where the Warrants are expressed to be Index Put Spread Warrants:

(a) where the Closing Level is equal to or greater than the Floor Level:

$$\frac{\text{(Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(b) where the Closing Level is less than the Floor Level:

$$\frac{\text{(Strike Level - Floor Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(B) where the Warrants are not expressed to be Index Put Spread Warrants:

$$\frac{\text{(Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**CCASS**" means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Conditions**" means the terms and conditions applicable to each series of cash settled index Warrants;

"**Designated Bank Account**" means the relevant bank account designated by the relevant Warrantholder;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

"**Expiry Date**" means the date as specified in the Global Certificate;

"**Market Disruption Event**" means

(1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

    (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

    (ii) the suspension or material limitation of the trading of securities on the Index Exchange; or

    (iii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

    (iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

    for the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing level by having regard to the manner in which futures contracts relating to the Index are calculated.

3. Exercise of Warrants, Automatic Exercise and Expiry

(a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.

(b) *Automatic Exercise.* Any Warrant will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is greater than zero (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(d).

(c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(a) Warrants may only be exercised in a Board Lot or integral multiples thereof.

(b) *No requirement to deliver an exercise notice.* The Warrantholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.

(c) *Cancellation.* The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise whether pursuant to automatic exercise in accordance with these Conditions or (ii) have expired worthless, and thereby cancel the relevant Warrants.

(d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Warrantholder equal to the Cash Settlement Amount.

The Cash Settlement Amount shall be despatched not later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

The Issuer shall be discharged from its obligation to pay the Cash Settlement Amount upon making payment thereof in accordance with these Conditions.

5. Registrar and Transfer Office

(a) The initial Registrar and the Transfer Office for the Warrants are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar under the Registrar's Agreement provided that it will at all times maintain a register. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Warrantholders in accordance with Condition 9.

(b) The Registrar will be acting as agent of the Issuer in respect of any Warrants and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders.

6. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.* If:

(i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or

(ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure.

(c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(d) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

7. Purchases

The Issuer and/or any of its affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Registrar's Agreement contains provisions for the convening of meetings of the Warrantholders to consider any matter affecting their interests, including sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholders or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Registrar before the effective date or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Warrantholders will be validly given if published in English and in Chinese on the website of the Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

11. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

12. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

13. Governing Law

The Warrants, the Global Certificate and the Registrar's Agreement will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Registrar's Agreement to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Registrar, Warrant Agent and Transfer Office*

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Barclays Capital Asia Limited
41/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

* *The Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the Registrar and Warrant Agent as specified in the Global Certificate.*

The relevant conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable supplemental listing document in relation to the issue of any series of warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant conditions, replace or modify the relevant conditions for the purpose of such series of warrants. Capitalized terms used in the relevant conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

TERMS AND CONDITIONS OF THE EXCHANGE TRADED FUNDS WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Units of the Fund are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the "**Global Certificate**") dated the Issue Date made by Barclays Bank PLC (the "**Issuer**").

The Issuer entered into (i) an amended and restated base registrar's and agency agreement dated 14 April 2011 with Computershare Hong Kong Investor Services Limited; and (ii) a base registrar's and agency agreement dated 14 April 2011 with Barclays Capital Asia Limited (each, as amended, varied or supplemented from time to time or any successor document, a "**Registrar's Agreement**"). In respect of a series of Warrants, the Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the registrar and warrant agent (the "**Registrar**" and "**Warrant Agent**", which expressions shall include any successors) for that series by sending to the Registrar a Confirmation (as defined in the relevant Registrar's Agreement) relating to that series. The Registrar and Warrant Agent for the relevant series of Warrants will be specified in the Global Certificate. References herein to the Registrar's Agreement shall mean the Registrar's Agreement entered into between the Issuer and the Registrar and Warrant Agent in respect of the relevant series of Warrants.

Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the "**Transfer Office**"). The initial Transfer Office is set out below. The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement. The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS (as defined below) in accordance with the CCASS Rules (as defined below). Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

(b) *Status.* The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

(c) *Transfer.* Transfers of beneficial interests in the Warrants may be effected only in a Board Lot or integral multiples thereof in CCASS in accordance with the CCASS Rules.

(d) *Title.* Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression "**Warrantholder**" shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Every Board Lot gives each Warrantholder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), if any:

(b) *Exercise Expenses*. On exercise of the Warrants, Warrantholders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses (as defined below) in accordance with Condition 4.

(c) *Definitions*. For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to scheduled to open for dealings in Hong Kong (as defined below) and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula:

(i) in the case of a series of call Warrants:

(A) where the Warrants are expressed to be Call Spread Warrants:

(a) where the Average Price is equal to or less than the Cap Price:

$$\frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(b) where the Average Price is greater than the Cap Price:

$$\frac{\text{Entitlement x (Cap Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(B) where the Warrants are not expressed to be Call Spread Warrants:

$$\frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) in the case of a series of put Warrants:

(A) where the Warrants are expressed to be Put Spread Warrants:

(a) where the Average Price is equal to or greater than the Floor Price:

$$\frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(b) where the Average Price is less than the Floor Price:

$$\frac{\text{Entitlement x (Exercise Price - Floor Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(B) where the Warrants are not expressed to be Put Spread Warrants:

$$\frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

The Entitlement and the Exercise Price are subject to adjustment as provided in Condition 6; and

"**Average Price**" means the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**CCASS**" means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company from time to time;

"**Conditions**" means the terms and conditions applicable to each series of cash settled exchange traded funds Warrants;

"**Designated Bank Account**" means the relevant bank account designated by the relevant Warrantholder;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

"**Expiry Date**" means the date as specified in the Global Certificate;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Market Disruption Event**" means

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such that suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading the entire day or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means, each of the five Business Days immediately preceding the Expiry Date. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

3. Exercise of Warrants, Automatic Exercise and Expiry

(a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.

(b) *Automatic Exercise.* Any Warrant will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is greater than zero (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(d).

(c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(a) Warrants may only be exercised in a Board Lot or integral multiples thereof.

(b) *No requirement to deliver an exercise notice.* The Warrantholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.

(c) *Cancellation.* The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (ii) have expired worthless, and thereby cancel the relevant Warrants.

(d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Warrantholder equal to the Cash Settlement Amount.

The Cash Settlement Amount shall be despatched not later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

The Issuer shall be discharged from its obligation to pay the Cash Settlement Amount upon making payment thereof in accordance with these Conditions.

5. Registrar and Transfer Office

(a) The initial Registrar and the Transfer Office for the Warrants are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar under the Registrar's Agreement provided that it will at all times maintain a register. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Warrantholders in accordance with Condition 9.

(b) The Registrar will be acting as agent of the Issuer in respect of any Warrants and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders.

6. Adjustments

(a) Following the declaration by or on behalf of a Fund of a Potential Adjustment Event (as defined below) or following any adjustment to the settlement terms of listed contracts on the Units or the Fund traded on the Stock Exchange, the Issuer in its sole and absolute discretion will determine whether such a Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the Units and, if so, will:

(i) make the corresponding adjustment(s) (the "**Adjustments**"), if any, to any of the relevant terms of the Warrants (including but not limited to the Entitlement and/or the Exercise Price) as the Issuer determines, in its sole and absolute discretion, appropriate to preserve the economic equivalent of the warrants and to account for that diluting or concentrative effect; and

(ii) determine the effective date(s) of the Adjustments. In such case, the Adjustments shall be deemed to be effective from such date(s).

(b) The Issuer may (but need not) in its sole and absolute discretion determine the appropriate Adjustment by reference to (i) the formula, methodology and/or calculation used in the adjustments in respect of such Potential Adjustment Event made in respect of other similar warrants in respect of the Units that are listed on the Stock Exchange; and (ii) the adjustments in respect of such Potential Adjustment Event made by the Stock Exchange to listed contracts on the Units or the Fund traded on the relevant stock exchange.

(c) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any Adjustment and of the date from which such Adjustment is effective by publication in accordance with Condition 9.

Where:

"**Fund Documents**" means the constitutive and governing documents, subscription agreements and other agreements of the Fund specifying the terms and conditions relating to the Fund, in each case, as amended from time to time.

"**Potential Adjustment Event**" means with respect to a Fund and/or Unit, any of the following as determined by the Issuer:

(i) a subdivision, consolidation or reclassification of relevant Units or a free distribution or dividend of any such Units to existing holders by way of bonus, capitalisation or similar issue;

(ii) a distribution, issue or dividend to existing holders of relevant Units of (A) additional Units or (B) other share capital or securities granting the right to payment of dividends and/or the proceeds of dissolution of the Fund equally or proportionately with such payments to holders of such Units or (C) share capital or other securities of another Issuer acquired or owned (directly or indirectly) by the Fund as a result of a spin-off or other similar transaction, or (D) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Issuer;

(iii) an amount per Unit which the Issuer determines should be characterised as an extraordinary dividend;

(iv) a repurchase by the Fund whether the consideration for such repurchase is cash, securities or otherwise, other than in respect of a redemption of Units initiated by an investor in the Fund that is consistent with the Fund Documents;

(v) any other event that may have a diluting or concentrative effect on the theoretical value of the relevant Units.

(d) Without prejudice to the other provisions in this Condition 6, if and whenever the Fund shall subdivide its Units or any class of its outstanding fund units comprised of the Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding fund units comprised of the Units into a smaller number of units (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect in the same ratio as the Subdivision or Consolidation (as the case may be) by an Adjustment Factor, (such adjusted Entitlement being the "**Adjusted Entitlement**"). In addition, if adjustment is to be made to the Entitlement, the Issuer shall also adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means 1 divided by the Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(e) *Cash Dividends.* Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution ("**Cash Distribution**") announced by the Fund, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund.

If and whenever the Fund shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement and the Exercise Price will be adjusted to take effect on the Business Day on which trading in the Units become ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“}\textbf{Adjustment Factor}\text{”} = \frac{S - OD}{S - OD - CD}$$

E : Existing Entitlement immediately prior to the relevant Cash Distribution

X : Existing Exercise Price immediately prior to the relevant Cash Distribution

S : Closing price of an Unit on the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD : Amount of the relevant ordinary cash dividend per Unit

CD : Amount of the relevant Cash Distribution per Unit

The Adjusted Exercise Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that "OD" shall be deemed to be zero if no ordinary cash dividend is announced by the Fund or if the ex-entitlement date of the ordinary cash dividend is different from the ex-entitlement date of the relevant Cash Distribution.

(f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

7. Purchases

The Issuer and/or any of its affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Registrar's Agreement contains provisions for the convening of meetings of the Warrantholders to consider any matter affecting their interests, including sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions provisions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Registrar before the effective date or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to Warrantholders will be validly given if published in English and in Chinese on the website of the Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

10. Dissolution

In the event of (i) dissolution of the Fund or (ii) the withdrawal of the Securities and Futures Commission's authorisation of the Fund under the Securities and Futures Ordinance (Cap. 571) of Hong Kong, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of (i) dissolution, on and from the effective date of such dissolution, or (ii) withdrawal of authorisation, on the date on which such withdrawal becomes effective, but subject (in any such case) to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Delisting

(a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 12(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 9 as soon as practicable after they are determined.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

   (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

   (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

   (each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Governing Law

The Warrants, the Global Certificate and the Registrar's Agreement will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Registrar's Agreement to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Registrar, Warrant Agent and Transfer Office*

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Barclays Capital Asia Limited
41/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

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* *The Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the Registrar and Warrant Agent as specified in the Global Certificate.*

The relevant conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable supplemental listing document in relation to the issue of any series of warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant conditions, replace or modify the relevant conditions for the purpose of such series of warrants. Capitalized terms used in the relevant conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

TERMS AND CONDITIONS OF THE LOW STRIKE INDEX WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

(a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) relating to the Index as published by the Index Complier are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the "**Global Certificate**") dated the Issue Date made by Barclays Bank PLC (the "**Issuer**").

The Issuer entered into (i) an amended and restated base registrar's and agency agreement dated 14 April 2011 with Computershare Hong Kong Investor Services Limited; and (ii) a base registrar's and agency agreement dated 14 April 2011 with Barclays Capital Asia Limited (each, as amended, varied or supplemented from time to time or any successor document, a "**Registrar's Agreement**"). In respect of a series of Warrants, the Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the registrar and warrant agent (the "**Registrar**" and "**Warrant Agent**", which expressions shall include any successors) for that series by sending to the Registrar a Confirmation (as defined in the relevant Registrar's Agreement) relating to that series. The Registrar and Warrant Agent for the relevant series of Warrants will be specified in the Global Certificate. References herein to the Registrar's Agreement shall mean the Registrar's Agreement entered into between the Issuer and the Registrar and Warrant Agent in respect of the relevant series of Warrants.

Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the "**Transfer Office**"). The initial Transfer Office is set out below. The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement. The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS (as defined below) in accordance with the CCASS Rules (as defined below). Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

(b) *Status.* The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

(c) *Transfer.* Transfers of beneficial interests in the Warrants may be effected only in a Board Lot or integral multiples thereof in CCASS in accordance with the CCASS Rules.

(d) *Title.* Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression "**Warrantholder**" shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights.* Every Board Lot entitles each Warrantholder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), if any.

(b) *Exercise Expenses.* On exercise of the Warrants, Warrantholders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses (as defined below) in accordance with Condition 4.

(c) *Definitions.* For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong (as defined below) and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

$$\frac{(\text{Closing Level - Strike Level}) \times \text{Multiplier} \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

"**CCASS**" means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Conditions**" means the terms and conditions applicable to each series of cash settled index Warrants;

"**Designated Bank Account**" means the relevant bank account designated by the relevant Warrantholder;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

"**Expiry Date**" means the date as specified in the Global Certificate;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Market Disruption Event**" means

(1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

   (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

   (ii) the suspension or material limitation of the trading of securities on the Index Exchange; or

   (iii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

   (iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purposes of paragraph (1), (i) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (ii) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Multiplier**" means the number as specified in the Global Certificate;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

3. Exercise of Warrants, Automatic Exercise and Expiry

(a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.

(b) *Automatic Exercise.* Any Warrant will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is greater than zero (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(d).

(c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

(a) Warrants may only be exercised in a Board Lot or integral multiples thereof.

(b) *No requirement to deliver an exercise notice.* The Warrantholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.

(c) *Cancellation.* The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise whether pursuant to automatic exercise in accordance with these Conditions or (ii) have expired worthless, and thereby cancel the relevant Warrants.

(d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of each Board Lot, to the relevant Warrantholder equal to the Cash Settlement Amount.

The Cash Settlement Amount shall be despatched not later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

The Issuer shall be discharged from its obligation to pay the Cash Settlement Amount upon making payment thereof in accordance with these Conditions.

5. Registrar and Transfer Office

(a) The initial Registrar and the Transfer Office for the Warrants are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar under the Registrar's Agreement provided that it will at all times maintain a register. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Warrantholders in accordance with Condition 9.

(b) The Registrar will be acting as agent of the Issuer in respect of any Warrants and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders.

6. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.* If:

(i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or

(ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure.

(c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(d) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

7. Purchases

The Issuer and/or any of its affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Registrar's Agreement contains provisions for the convening of meetings of the Warrantholders to consider any matter affecting their interests, including sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholders or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Registrar before the effective date or as soon as practicable thereafter in accordance with Condition 9

9. Notices

All notices to Warrantholders will be validly given if published in English and in Chinese on the website of the Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

11. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

12. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

13. Governing Law

The Warrants, the Global Certificate and the Registrar's Agreement will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Registrar's Agreement to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Registrar, Warrant Agent and Transfer Office*

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Barclays Capital Asia Limited
41/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

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* *The Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the Registrar and Warrant Agent as specified in the Global Certificate.*

*The relevant conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable supplemental listing document in relation to the issue of any series of callable bull/bear contracts ("**CBBCs**") may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant conditions, replace or modify the relevant conditions for the purpose of such series of CBBCs. Capitalized terms used in the relevant conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.*

TERMS AND CONDITIONS OF THE CALLABLE BULL/BEAR CONTRACTS ON AN INDEX (CASH SETTLED)

1. Form, Status, Transfer and Title

(a) *Form.* The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 11) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the "**Global Certificate**") dated the Issue Date made by Barclays Bank PLC (the "**Issuer**").

The Issuer entered into (i) an amended and restated base registrar's and agency agreement dated 14 April 2011 with Computershare Hong Kong Investor Services Limited; and (ii) a base registrar's and agency agreement dated 14 April 2011 with Barclays Capital Asia Limited (each, as amended, varied or supplemented from time to time or any successor document, a "**Registrar's Agreement**"). In respect of a series of CBBCs, the Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the registrar and agent (the "**Registrar**" and "**Agent**", which expressions shall include any successors) for that series by sending to the Registrar a Confirmation (as defined in the relevant Registrar's Agreement) relating to that series. The Registrar and Agent for the relevant series of CBBCs will be specified in the Global Certificate. References herein to the Registrar's Agreement shall mean the Registrar's Agreement entered into between the Issuer and the Registrar and Agent in respect of the relevant series of CBBCs.

Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the "**Transfer Office**"). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement. The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

(b) *Status.* The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

(c) *Transfer.* Transfers of beneficial interests in the CBBCs may be effected only in a Board Lot or integral multiples thereof in CCASS in accordance with the CCASS Rules.

(d) *Title.* Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of CBBCs shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of CBBCs. The expression "**Holder**" shall be construed accordingly.

2. CBBC Rights and Exercise Expenses

(a) *CBBC Rights.* Every Board Lot entitles each Holder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount, if any.

(b) *Exercise Expenses.* On exercise of the CBBCs, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses in accordance with Condition 4.

(c) *Definitions.* For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong (as defined below) and banks are open for business in Hong Kong;

"**Call Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) following a Mandatory Call Event:

(1) in the case of a series of Category R CBBCs, the Residual Value; or

(2) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

(1) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(2) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a series of CBBCs where the Call Level is different from the Strike Level;

"**CCASS**" means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Closing Level**" means the level specified as such in the relevant Supplemental Listing Document;

"**Conditions**" means the terms and conditions applicable to each series of cash settled index CBBCs;

"**Day of Notification**" means the Trading Day immediately following the day on which the Mandatory Call Event occurs;

"**Designated Bank Account**" means the relevant bank account designated by the relevant Holder;

"**Exchange Rate**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry;

"**Expiry Date**" means the date as specified in the relevant Supplemental Listing Document;

"**First Exchange Rate**" has the meaning given to it in the relevant Supplemental Listing Document;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**Holder**" has the meaning given to it in Condition 1(d);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" means the index compiler specified as such in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Issue Date**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Level of the Index at any time on any Index Business Day during the Observation Period is:

(i) in the case of a series of bull CBBCs, at or below the Call Level; or

(ii) in the case of a series of bear CBBCs, at or above the Call Level;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

  (1) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

  (2) the suspension or material limitation of the trading of securities on the Index Exchange; or

  (3) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(4) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purposes of paragraph (i), (I) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (II) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(ii) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (1) results in the Stock Exchange being closed for trading for the entire day; or (2) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for open of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(iv) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level during the MCE Valuation Period;

"**MCE Valuation Period**" means:

(i) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the day on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

(1) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(2) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition:

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(B) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only; and

(ii) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Supplemental Listing Document;

"**Minimum Index Level**" means the lowest Spot Level during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date (Hong Kong time) and ending on and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level - Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level - Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

"**Second Exchange Rate**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day following (a) the Valuation Date or (b) the end of the MCE Valuation Period, as the case may be;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Spot Level**" means the spot level of the Index as compiled and published by the Index Compiler;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document. If the Agent determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

3. Hedging Disruption, Illegality and Impracticability

(a) Hedging Disruption

(i) *Notification.* The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(a)(iii).

(ii) *Hedging Disruption Event.* A "**Hedging Disruption Event**" occurs if the Issuer determines that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially (a) to establish, re-establish, substitute or maintain a relevant hedging transaction (including, without limitation, any hedging transaction with respect to options or futures relating to the Index, or any currency in which the components of the Index are denominated) (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs or (b) to freely realize, recover, receive, repatriate, remit or transfer the proceeds of the Relevant Hedging Transactions between accounts within the jurisdiction of the Relevant Hedging Transactions (the "**Affected Jurisdiction**") or from accounts within the Affected Jurisdiction to accounts outside of the Affected Jurisdiction. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the components of the Index;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences.* The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law (as defined in Condition 3(b)), pay to each Holder in respect of each CBBC held by such Holder an amount calculated by it as the fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(b) Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the each Holder in accordance with Condition 10.

4. Exercise of CBBCs

(a) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(b) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

(c) *Mandatory Call Event*

(i) *Exercise following a Mandatory Call Event.* Subject to Condition 4(c)(ii), following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

(ii) *Revocation.* A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of HKEx (such as the setting up of wrong Call Level and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler);

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case:

(aa) in respect of an Index Exchange located in Hong Kong, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or within such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification; or

(bb) in respect of an Index Exchange located outside Hong Kong:

(x) such event is communicated to the other party by 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or within such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification; and

(y) the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked on the Day of Notification.

In the case of paragraph (aa) or (bb) above:

(xx) the Mandatory Call Event so triggered will be reversed; and

(yy) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than on the Trading Day immediately following the Day of Notification in accordance with the rules prescribed by the Stock Exchange from time to time.

(d) *Entitlement.* Each Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(e) *Exercise Expenses.* Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(f) *Cancellation.* The Issuer will procure that the Registrar will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, remove from its register the name of the relevant Holder in respect of the CBBCs which (i) are the subject of a valid exercise in accordance with these Conditions or (ii) have expired worthless, and thereby cancel the relevant CBBCs.

(g) *Cash Settlement.* Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will make a payment, in respect of each Board Lot. to the relevant Holder (or such other person as the Holder may have directed, if applicable) equal to the Cash Settlement Amount.

The Cash Settlement Amount shall be despatched not later than the Settlement Date, by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of that Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

The Issuer shall be discharged from its obligation to pay the Cash Settlement Amount upon making payment thereof in accordance with these Conditions.

(h) *Responsibility of Issuer and Registrar.* In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Registrar or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities, contracts, commodities or currencies comprising the Index.

(i) *Liability of Issuer and Registrar.* Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Registrar shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Registrar shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(j) Subject to Condition 4(c)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier.

5. Registrar and Transfer Office

(a) The initial Registrar and the Transfer Office for the CBBCs are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar under the Registrar's Agreement provided that it will at all times maintain a register. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 10.

(b) The Registrar will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

6. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.* If:

(i) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events); or

(ii) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer may determine the Closing Level using the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustment to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(d) *Notice of Adjustment.* All determinations and adjustments made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchases

The Issuer and/or any of its affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

9. Meetings of Holders; Modification

(a) *Meetings of Holders*. The Registrar's Agreement contains provisions for the convening of meetings of the Holders to consider any matter affecting their interests, including sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Registrar before the effective date or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to Holders will be validly given if published in English and in Chinese on the website of the Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

12. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

13. Governing Law

The CBBCs, the Global Certificate and the Registrar's Agreement will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate and the Registrar's Agreement to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Registrar, Agent and Transfer Office*

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Barclays Capital Asia Limited
41/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

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* *The Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the Registrar and Agent as specified in the Global Certificate.*

*These conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable supplemental listing document in relation to the issue of any series of callable bull/bear contracts ("**CBBCs**") may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant conditions, replace or modify the relevant conditions for the purpose of such series of CBBCs. Capitalized terms used in the relevant conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.*

TERMS AND CONDITIONS OF THE CALLABLE BULL/BEAR CONTRACTS ON A SINGLE EQUITY (CASH SETTLED)

1. Form, Status, Transfer and Title

(a) *Form.* The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the "**Global Certificate**") dated the Issue Date made by Barclays Bank PLC (the "**Issuer**").

The Issuer entered into (i) an amended and restated base registrar's and agency agreement dated 14 April 2011 with Computershare Hong Kong Investor Services Limited; and (ii) a base registrar's and agency agreement dated 14 April 2011 with Barclays Capital Asia Limited (each, as amended, varied or supplemented from time to time or any successor document, a "**Registrar's Agreement**"). In respect of a series of CBBCs, the Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the registrar and agent (the "**Registrar**" and "**Agent**", which expressions shall include any successors) for that series by sending to the Registrar a Confirmation (as defined in the relevant Registrar's Agreement) relating to that series. The Registrar and Agent for the relevant series of CBBCs will be specified in the Global Certificate. References herein to the Registrar's Agreement shall mean the Registrar's Agreement entered into between the Issuer and the Registrar and Agent in respect of the relevant series of CBBCs.

Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the "**Transfer Office**"). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement. The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

(b) *Status.* The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

(c) *Transfer.* Transfers of beneficial interests in the CBBCs may be effected only in a Board Lot or integral multiples thereof in CCASS in accordance with the CCASS Rules.

(d) *Title.* Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of CBBCs shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of CBBCs. The expression "**Holder**" shall be construed accordingly.

2. CBBC Rights and Exercise Expenses

(a) *CBBC Rights.* Every Board Lot entitles each Holder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount, if any.

(b) *Exercise Expenses.* On exercise of the CBBCs, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses in accordance with Condition 4.

(c) *Definitions.* For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong (as defined below) and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula:

(i) following a Mandatory Call Event:

(1) in the case of a series of Category R CBBCs, the Residual Value; or

(2) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

(1) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**CCASS**" means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) as of the Valuation Date;

"**Company**" means the company specified as such in the relevant Supplement Listing Document, subject to any adjustment in accordance with Condition 6;

"**Conditions**" means the terms and conditions applicable to each series of cash settled CBBCs on a single equity;

"**Day of Notification**" means the Trading Day immediately following the day on which the Mandatory Call Event occurs;

"**Designated Bank Account**" means the relevant bank account designated by the relevant Holder;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the CBBCs;

"**Expiry Date**" means the date as specified in the relevant Supplemental Listing Document;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**Holder**" has the meaning given to it in Condition 1(d);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Issue Date**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price of the Shares on any Trading Day during the Observation Period is:

(i) in the case of a series of bull CBBCs, at or below the Call Price; or

(ii) in the case of a series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:

    (1) the Shares; or

    (2) any options or futures contracts relating to the Shares;

    if in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (1) results in the Stock Exchange being closed for trading for the entire day; or (2) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition:

(1) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(2) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Observation Period**” means the period commencing from and including the Observation Commencement Date (Hong Kong time) and ending on and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Residual Value**” means, in respect of each Board Lot, an amount in Hong Kong dollars calculated by the Issuer in accordance with the following formula:

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price - Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price - Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day following (a) the Valuation Date or (b) the end of the MCE Valuation Period, as the case may be;

"**Settlement Disruption Event**"' means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Shares**" means the share of the Company as specified in the relevant Supplement Listing Document;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (IEP) (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means a day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption

Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

3. Hedging Disruption, Illegality and Impracticability

(a) Hedging Disruption

(i) *Notification.* The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(a)(iii).

(ii) *Hedging Disruption Event.* A "**Hedging Disruption Event**" occurs if the Issuer determines that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially (a) to establish, re-establish, substitute or maintain a relevant hedging transaction (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs or (b) to freely realize, recover, receive, repatriate, remit or transfer the proceeds of the Relevant Hedging Transactions between accounts within the jurisdiction of the Relevant Hedging Transactions (the "**Affected Jurisdiction**") or from accounts within the Affected Jurisdiction to accounts outside of the Affected Jurisdiction. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the Shares;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences.* The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law (as defined in Condition 3(b)), pay to each Holder in respect of each CBBC held by such Holder an amount calculated by it as the fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(b) Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of or any change in the interpretation by any court, tribunal, governmental administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 10.

4. Exercise of CBBCs

(a) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(b) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

(c) *Mandatory Call Event*

(i) *Exercise following a Mandatory Call Event.* Subject to Condition 4(c)(ii), following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

(ii) *Revocation.* A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of HKEx (such as the setting up of wrong Call Price and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case:

(aa) such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or within such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification;

(bb) the Mandatory Call Event so triggered will be reversed; and

(cc) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than on the Trading Day immediately following the Day of Notification in accordance with the rules prescribed by the Stock Exchange from time to time.

(d) *Entitlement.* Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(e) *Exercise Expenses.* Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(f) *Cancellation.* The Issuer will procure that the Registrar will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, remove from its register the name of the relevant Holder in respect of the CBBCs which (i) are the subject of a valid exercise in accordance with these Conditions or (ii) have expired worthless, and thereby cancel the relevant CBBCs.

(g) *Cash Settlement.* Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will make a payment, in respect of each Board Lot, to the relevant Holder (or such other person as the Holder may have directed, if applicable) equal to the Cash Settlement Amount.

The Cash Settlement Amount shall be despatched not later than the Settlement Date, by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment of the Cash Settlement Amount electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of that Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

The Issuer shall be discharged from its obligation to pay the Cash Settlement Amount upon making payment thereof in accordance with these Conditions.

(h) *Responsibility of Issuer and Registrar.* In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Registrar or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

(i) *Liability of Issuer and Registrar.* Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Registrar shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Registrar shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(j) Subject to Condition 4(c)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier.

5. Registrar and Transfer Office

(a) The initial Registrar and the Transfer Office for the CBBCs are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar under the Registrar's Agreement provided that it will at all times maintain a register. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 10.

(b) The Registrar will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

6. Adjustments

(a) *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement, the Srike Price and the Call Price will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\textbf{"Adjustment Factor"} = \frac{1 + M}{1 + (R/S) \times M}$$

E : Existing Entitlement immediately prior to the Rights Offer

X : Existing Strike Price immediately prior to the Rights Offer

Y : Existing Call Price immediately prior to the Rights Offer

S : Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R : Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M : Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement, the Strike Price or the Call Price.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement, the Strike Price and the Call Price will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{“}\textbf{Adjustment Factor}\text{”} = 1 + N$$

E : Existing Entitlement immediately prior to the Bonus Issue

X : Existing Strike Price immediately prior to the Bonus Issue

Y : Existing Call Price immediately prior to the Bonus Issue

N : Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement, the Strike Price or the Call Price.

(c) *Share Splits or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in the same ratio as the Subdivision or Consolidation (as the case may be) by an Adjustment Factor, in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect (such adjusted Entitlement being the "**Adjusted Entitlement**"). In addition, if adjustment is to be made to the Entitlement, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means 1 divided by the Adjustment Factor. This adjustment shall take effect on the same day that the Entitlement is adjusted.

(d) *Merger or Consolidation.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Trading Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (d) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(e) *Issues Affecting Capital of Company.* If the Company (i) offers either (x) share capital or securities granting the rights to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of existing Shares or (y) any other type of securities, rights or warrants or other assets, in either case for payment, whether in cash or otherwise, at less than the prevailing market price as determined by the Issuer acting in its sole discretion; or (ii) issues a call in respect of any existing Shares which are not fully paid up; or (iii) announces that it is to repurchase any existing Shares, whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise, the Issuer may, at its sole discretion and without any obligation, make such adjustments to the Entitlement and/or the Strike Price and/or Call Price as it reasonably believes is appropriate in the circumstances, provided that the adjustment is considered by the Issuer to be beneficial to the Holders generally (without considering the individual circumstances of any Holder or the tax or other consequences of such adjustment in any particular jurisdiction).

(f) *Cash Dividends.* Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution (''Cash Distribution'') announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement, the Strike Price and the Call Price will be adjusted to take effect on the Business Day on which trading in the Shares become ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{"}\textbf{Adjustment Factor}\text{"} = \frac{S - OD}{S - OD - CD}$$

E : Existing Entitlement immediately prior to the relevant Cash Distribution

X : Existing Strike Price immediately prior to the relevant Cash Distribution

Y : Existing Call Price immediately prior to the relevant Cash Distribution

S : Closing price of a Share on the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD : Amount of the relevant ordinary cash dividend per Share

CD : Amount of the relevant Cash Distribution per Share

The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest Hong Kong dollar 0.001.

Provided that "OD" shall be deemed to be zero if no ordinary cash dividend is announced by the Company or if the ex-entitlement date of the ordinary cash dividend is different from the ex-entitlement date of the relevant Cash Distribution.

(g) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(h) *Notice of Adjustment.* All determinations and adjustments made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchases

The Issuer and/or any of its affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

9. Meetings of Holders; Modification

(a) *Meetings of Holders.* The Registrar's Agreement contains provisions for the convening of meetings of the Holders to consider any matter affecting their interests, including sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Registrar before the effective date or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to Holders will be validly given if published in English and in Chinese on the website of the Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

13. Delisting

(a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

(b) Without prejudice to the generality of Condition 13(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(c) The Issuer shall determine, in its sole and absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 10 as soon as practicable after they are determined.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Governing Law

The CBBCs, the Global Certificate and the Registrar's Agreement will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate and the Registrar's Agreement to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

Registrar, Agent and Transfer Office*

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Barclays Capital Asia Limited
41/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

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* *The Issuer will appoint either Computershare Hong Kong Investor Services Limited or Barclays Capital Asia Limited as the Registrar and Agent as specified in the Global Certificate.*

ANNEX 2

EXTRACTS FROM BARCLAYS BANK PLC ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

This Annex 2 has been extracted from the Issuer's annual report for the year ended 31 December 2011. The information set out in this Annex 2 was not produced for incorporation into this document and page references are references to pages set out in the original annual report for the Issuer for the year ended 31 December 2011.

Independent Auditors' report

Independent Auditors' Report to the members of Barclays Bank PLC

We have audited the financial statements of Barclays Bank PLC for the year ended 31 December 2011 which comprise: the Consolidated income statement and the related Consolidated statement of comprehensive income, Consolidated and Parent balance sheets, Consolidated and Parent Statements of changes in equity and Consolidated and Parent cash flow statements, the related notes and the parts of the risk management section that are referenced as audited. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Ratcliffe (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
7 March 2012

Notes

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

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

Independent Registered Public Accounting Firm's report

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of Barclays Bank PLC

In our opinion, the accompanying Consolidated income statement and the related Consolidated statement of comprehensive income, Consolidated balance sheets, Consolidated statements of changes in equity and Consolidated cash flow statements present fairly, in all material respects, the financial position of Barclays Bank PLC and its subsidiaries at 31 December 2011 and 31 December 2010, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
London, United Kingdom
7 March 2012

Consolidated financial statements
Consolidated income statement

For the year ended 31 December		The Group	
		2011	2010
	Notes	**£m**	£m
Continuing operations			
Interest income	3	**20,589**	20,035
Interest expense	3	**(8,393)**	(7,517)
Net interest income		**12,196**	12,518
Fee and commission income	4	**10,208**	10,368
Fee and commission expense	4	**(1,586)**	(1,497)
Net fee and commission income		**8,622**	8,871
Net trading income	5	**7,738**	8,080
Net investment income	6	**2,322**	1,490
Net premiums from insurance contracts		**1,076**	1,137
Gains on debt buy-backs and extinguishments		**1,130**	-
Other income		**39**	118
Total income		**33,123**	32,214
Net claims and benefits incurred on insurance contracts		**(741)**	(764)
Total income net of insurance claims		**32,382**	31,450
Credit impairment charges and other provisions	7	**(3,802)**	(5,672)
Impairment of investment in BlackRock, Inc.	7	**(1,800)**	-
Net operating income		**26,780**	25,778
Staff costs	35	**(11,407)**	(11,916)
Administration and general expenses	8	**(6,351)**	(6,581)
Depreciation of property, plant and equipment	23	**(673)**	(790)
Amortisation of intangible assets	24	**(419)**	(437)
Goodwill impairment	24	**(597)**	(243)
Provision for PPI redress	27	**(1,000)**	-
UK Bank Levy	9	**(325)**	-
Operating expenses		**(20,772)**	(19,967)
Share of post-tax results of associates and joint ventures		**60**	58
(Loss)/ Profit on disposal of subsidiaries, associates and joint ventures	10	**(94)**	81
Gain on acquisitions		**-**	129
Profit before tax from continuing operations		**5,974**	6,079
Taxation	11	**(1,928)**	(1,516)
Profit after tax from continuing operations		**4,046**	4,563
Profit attributable to equity holders of the Parent		**3,616**	4,172
Profit attributable to non controlling interests	34	**430**	391

The Board of Directors approved the financial statements set out on pages 100 to 102 on 7 March 2012.

Note
As permitted by section 408(3) of the Companies Act 2006 an income statement for the parent company has not been presented.

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December	The Group	
	2011	2010
	£m	£m
Profit after tax	**4,046**	4,563
Other comprehensive income from continuing operations:		
Currency translation reserve		
- Currency translation differences	**(1,607)**	1,177
Available for sale reserve		
- Net gains/(losses) from changes in fair value	**2,581**	(152)
- Net gains transferred to net profit on disposal	**(1,614)**	(1,020)
- Net losses transferred to net profit due to impairment	**1,860**	53
- Net gains transferred to net profit due to fair value hedging	**(1,803)**	(308)
- Changes in insurance liabilities	**18**	31
- Tax	**170**	141
Cash flow hedging reserve		
- Net gains from changes in fair value	**2,406**	601
- Net gains transferred to net profit	**(753)**	(684)
- Tax	**(390)**	39
Other	**(74)**	59
Other comprehensive income for the year, net of tax, from continuing operations	**794**	(63)
Total comprehensive income for the year	**4,840**	4,500
Attributable to:		
Equity holders of the Parent	**5,041**	3,609
Non-controlling interests	**(201)**	891
	4,840	4,500

Consolidated financial statements
Consolidated balance sheet

As at 31 December		The Group		The Bank	
		2011	2010	**2011**	2010
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks		**106,894**	97,630	**103,087**	92,686
Items in the course of collection from other banks		**1,812**	1,384	**1,634**	1,268
Trading portfolio assets	13	**152,183**	168,930	**85,048**	95,034
Financial assets designated at fair value	14	**36,949**	41,485	**44,552**	29,181
Derivative financial instruments	15	**538,964**	420,319	**546,921**	441,145
Available for sale financial investments	16	**69,023**	65,440	**47,979**	45,221
Loans and advances to banks	19	**46,792**	37,799	**52,287**	40,390
Loans and advances to customers	19	**431,934**	427,942	**517,780**	522,936
Reverse repurchase agreements and other similar secured lending	22	**153,665**	205,772	**161,436**	227,343
Prepayments, accrued income and other assets		**4,560**	5,143	**10,384**	14,486
Investments in associates and joint ventures	40	**427**	518	**174**	181
Investments in subsidiaries	38	**-**	-	**22,073**	19,033
Property, plant and equipment	23	**7,166**	6,140	**1,937**	1,878
Goodwill and intangible assets	24	**7,846**	8,697	**4,333**	4,110
Current tax assets	11	**374**	196	**166**	161
Deferred tax assets	11	**3,010**	2,517	**1,104**	1,228
Retirement benefit assets	37	**1,803**	126	**1,708**	9
Total assets		**1,563,402**	1,490,038	**1,602,603**	1,536,290
Liabilities					
Deposits from banks		**91,116**	77,975	**108,816**	97,526
Items in the course of collection due to other banks		**969**	1,321	**966**	1,270
Customer accounts		**366,045**	345,802	**454,522**	453,826
Repurchase agreements and other similar secured borrowing	22	**207,292**	225,534	**193,453**	214,207
Trading portfolio liabilities	13	**45,887**	72,693	**28,632**	44,352
Financial liabilities designated at fair value	17	**87,997**	97,729	**101,069**	97,042
Derivative financial instruments	15	**527,798**	405,516	**535,837**	426,243
Debt securities in issue		**129,736**	156,623	**83,939**	106,267
Subordinated liabilities	31	**24,870**	28,499	**26,764**	26,994
Accruals, deferred income and other liabilities	26	**12,580**	13,233	**15,471**	17,570
Provisions	27	**1,529**	947	**939**	651
Current tax liabilities	11	**1,397**	646	**979**	126
Deferred tax liabilities	11	**695**	514	**348**	3
Retirement benefit liabilities	37	**321**	365	**109**	168
Total liabilities		**1,498,232**	1,427,397	**1,551,844**	1,486,245
Shareholders' equity					
Shareholders' equity excluding non-controlling interests		**62,078**	59,174	**50,759**	50,045
Non-controlling interests	34	**3,092**	3,467	**-**	-
Total shareholders' equity		**65,170**	62,641	**50,759**	50,045
Total liabilities and shareholders' equity		**1,563,402**	1,490,038	**1,602,603**	1,536,290

Marcus Agius
Group Chairman

Bob Diamond
Group Chief Executive

Chris Lucas
Group Finance Director

Consolidated financial statements

Consolidated statement of changes in equity

The Group	Called up share capital and share premium[a]	Available for sale reserve[b]	Cash flow hedging reserve[b]	Currency translation reserve[b]	Other shareholder's equity[a]	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 January 2011	**14,494**	**(1,348)**	**152**	**2,357**	**2,069**	**41,450**	**59,174**	**3,467**	**62,641**
Profit after tax	**-**	**-**	**-**	**-**	**-**	**3,616**	**3,616**	**430**	**4,046**
Currency translation movements	**-**	**-**	**-**	**(1,009)**	**-**	**-**	**(1,009)**	**(598)**	**(1,607)**
Available for sale investments	**-**	**1,218**	**-**	**-**	**-**	**-**	**1,218**	**(6)**	**1,212**
Cash flow hedges	**-**	**-**	**1,290**	**-**	**-**	**-**	**1,290**	**(27)**	**1,263**
Other	**-**	**-**	**-**	**-**	**18**	**(92)**	**(74)**	**-**	**(74)**
Total comprehensive income for the year	**-**	**1,218**	**1,290**	**(1,009)**	**18**	**3,524**	**5,041**	**(201)**	**4,840**
Issue of shares under employee share schemes	**-**	**-**	**-**	**-**	**-**	**838**	**838**	**-**	**838**
Vesting of Barclays PLC shares under share-based payment schemes	**-**	**-**	**-**	**-**	**-**	**(499)**	**(499)**	**-**	**(499)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(643)**	**(643)**	**(188)**	**(831)**
Dividends on preference shares and other shareholders' equity	**-**	**-**	**-**	**-**	**-**	**(539)**	**(539)**	**-**	**(539)**
Redemption of Reserve Capital Instruments	**-**	**-**	**-**	**-**	**(1,415)**	**-**	**(1,415)**	**-**	**(1,415)**
Other reserve movements	**-**	**-**	**-**	**-**	**(24)**	**145**	**121**	**14**	**135**
Balance as at 31 December 2011	**14,494**	**(130)**	**1,442**	**1,348**	**648**	**44,276**	**62,078**	**3,092**	**65,170**
Balance as at 1 January 2010	14,494	(84)	252	1,615	2,559	37,089	55,925	2,774	58,699
Profit after tax	-	-	-	-	-	4,172	4,172	391	4,563
Currency translation movements	-	-	-	742	-	-	742	435	1,177
Available for sale investments	-	(1,264)	-	-	-	-	(1,264)	9	(1,255)
Cash flow hedges	-	-	(100)	-	-	-	(100)	56	(44)
Other	-	-	-	-	45	14	59	-	59
Total comprehensive income for the year	-	(1,264)	(100)	742	45	4,186	3,609	891	4,500
Issue of shares under employee share schemes	-	-	-	-	-	830	830	-	830
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	(718)	(718)	-	(718)
Dividends paid	-	-	-	-	-	(235)	(235)	(158)	(393)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	(645)	(645)	-	(645)
Capital injection from Barclays PLC	-	-	-	-	-	1,214	1,214	-	1,214
Redemption of Reserve Capital Instruments	-	-	-	-	(487)	-	(487)	-	(487)
Other reserve movements	-	-	-	-	(48)	(271)	(319)	(40)	(359)
Balance as at 31 December 2010	14,494	(1,348)	152	2,357	2,069	41,450	59,174	3,467	62,641

Notes
a For further details refer to Note 32.
b For further details refer to Note 33.

Consolidated financial statements
Statement of changes in equity

The Bank	Called up share capital and share premium £m	Available for sale reserve £m	Cash flow hedging reserve £m	Currency translation reserve £m	Other shareholders' equity[a] £m	Retained earnings £m	Total £m
Balance as at 1 January 2011	**14,494**	**(265)**	**39**	**126**	**2,133**	**33,518**	**50,045**
Profit after tax	**-**	**-**	**-**	**-**	**-**	**1,994**	**1,994**
Currency translation movements	**-**	**-**	**-**	**(284)**	**-**	**-**	**(284)**
Available for sale investments	**-**	**(199)**	**-**	**-**	**-**	**-**	**(199)**
Cash flow hedges	**-**	**-**	**1,327**	**-**	**-**	**-**	**1,327**
Other	**-**	**-**	**-**	**-**	**18**	**10**	**28**
Total comprehensive income for the year	**-**	**(199)**	**1,327**	**(284)**	**18**	**2,004**	**2,866**
Issue of shares under employee share schemes	**-**	**-**	**-**	**-**	**-**	**169**	**169**
Vesting of Barclays PLC shares under share-based payment schemes	**-**	**-**	**-**	**-**	**-**	**(56)**	**(56)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(643)**	**(643)**
Dividends on preference shares and other shareholders' equity	**-**	**-**	**-**	**-**	**-**	**(539)**	**(539)**
Redemption of Reserve Capital Instruments	**-**	**-**	**-**	**-**	**(1,415)**	**-**	**(1,415)**
Other reserve movements	**-**	**-**	**-**	**-**	**(24)**	**356**	**332**
Balance as at 31 December 2011	**14,494**	**(464)**	**1,366**	**(158)**	**712**	**34,809**	**50,759**
Balance as at 1 January 2010	14,494	(6)	209	(309)	2,623	30,820	47,831
Profit after tax	-	-	-	-	-	2,518	2,518
Currency translation movements	-	-	-	435	-	-	435
Available for sale investments	-	(259)	-	-	-	-	(259)
Cash flow hedges	-	-	(170)	-	-	-	(170)
Other	-	-	-	-	45	4	49
Total comprehensive income for the year	-	(259)	(170)	435	45	2,522	2,573
Equity settled share schemes	-	-	-	-	-	174	174
Vesting of Barclays PLC shares under share-based payment schemes	-	-	-	-	-	(99)	(99)
Capital injection from Barclays PLC	-	-	-	-	-	1,214	1,214
Dividends paid	-	-	-	-	-	(235)	(235)
Dividends on preference shares and other shareholders' equity	-	-	-	-	-	(645)	(645)
Redemption of Reserve Capital Instruments	-	-	-	-	(487)	-	(487)
Other reserve movements	-	-	-	-	(48)	(233)	(281)
Balance as at 31 December 2010	14,494	(265)	39	126	2,133	33,518	50,045

Notes
a For further details refer to Note 32.

Consolidated financial statements
Consolidated cash flow statement

For the year ended 31 December	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Continuing operations				
Reconciliation of profit before tax to net cash flows from operating activities:				
Profit before tax	**5,974**	6,079	**2,738**	2,251
Adjustment for non-cash items:				
Allowance for impairment	**5,602**	5,672	**4,397**	3,512
Depreciation, amortisation and impairment of property, plant, equipment and intangibles	**1,104**	1,346	**467**	590
Other provisions, including pensions	**1,787**	914	**1,252**	678
Net profit on disposal of investments and property, plant and equipment	**(1,645)**	(1,057)	**(1,320)**	(958)
Other non-cash movements	**432**	(6,886)	**2,838**	(6,300)
Changes in operating assets and liabilities				
Net decrease/(increase) in loans and advances to banks and customers	**38,994**	(63,212)	**61,955**	(95,403)
Net (decrease)/increase in deposits and debt securities in issue	**(11,555)**	63,699	**(31,096)**	89,718
Net decrease/(increase) in derivative financial instruments	**3,618**	(1,298)	**3,818**	(3,361)
Net decrease/(increase) in trading assets	**21,423**	(17,517)	**9,906**	(1,211)
Net (decrease)/increase in trading liabilities	**(26,899)**	21,441	**(15,720)**	10,818
Net (increase)/decrease in financial investments	**(4,255)**	11,126	**(11,344)**	11,960
Net decrease/(increase) in other assets	**122**	1,366	**3,764**	(9,193)
Net (decrease)/increase in other liabilities	**(4,148)**	(2,521)	**(5,166)**	10,064
Corporate income tax paid	**(1,686)**	(1,430)	**(239)**	(90)
Net cash from operating activities	**28,868**	**17,722**	**26,250**	**13,075**
Purchase of available for sale investments	**(67,525)**	(76,418)	**(66,546)**	(69,792)
Proceeds from sale or redemption of available for sale investments	**66,941**	71,251	**68,111**	64,587
Purchase of property, plant and equipment	**(1,454)**	(1,767)	**(519)**	(732)
Other cash flows associated with investing activities	**126**	1,307	**(1,521)**	515
Net cash from investing activities	**(1,912)**	**(5,627)**	**(475)**	**(5,422)**
Dividends paid	**(1,370)**	(1,011)	**(1,182)**	(235)
Proceeds of borrowings and issuance of subordinated debt	**880**	2,131	**880**	2,038
Repayments of borrowings and redemption of subordinated debt	**(4,003)**	(1,211)	**(2,656)**	(1,075)
Net redemption of shares and other equity instruments	**(1,257)**	-	**(1,257)**	-
Capital injection from Barclays Plc	**-**	1,214	**-**	1,214
Net cash from financing activities	**(5,750)**	**1,123**	**(4,215)**	**1,942**
Effect of exchange rates on cash and cash equivalents	**(2,933)**	3,842	**(1,997)**	3,057
Net increase in cash and cash equivalents	**18,273**	17,060	**19,563**	12,652
Cash and cash equivalents at beginning of year	**131,400**	114,340	**109,009**	96,357
Cash and cash equivalents at end of year	**149,673**	**131,400**	**128,572**	**109,009**
Cash and cash equivalents comprise:				
Cash and balances at central banks	**106,894**	97,630	**103,087**	92,686
Loans and advances to banks with original maturity less than three months	**40,481**	31,934	**24,963**	15,989
Available for sale treasury and other eligible bills with original maturity less than three months	**2,209**	1,667	**433**	165
Trading portfolio assets with original maturity less than three months	**89**	169	**89**	169
	149,673	**131,400**	**128,572**	**109,009**

Interest received by The Group in 2011 was £28,673m (2010: £28,631m) and interest paid by The Group in 2011 was £20,106m (2010: £20,759m).

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £2,500m at 31 December 2011 (2010: £2,310m). For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

Notes to the financial statements
For the year ended 31December 2011

Significant accounting policies

This section describes Barclays' significant accounting policies and critical accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or a critical accounting estimate relates to a specific note, the applicable accounting policy and/or critical accounting estimate is contained within the relevant note.

1 Significant accounting policies

1. Reporting entity
These financial statements are prepared for Barclays Bank PLC Group under Section 399 of the Companies Act 2006. The Group is a major global financial services provider engaged in retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services. In addition, individual financial statements have been presented for the holding company, Barclays Bank PLC (the Bank). Barclays Bank PLC is a public limited company, incorporated and domiciled in England and Wales having a registered office in England and is the holding company of The Group.

2. Compliance with International Financial Reporting Standards
The consolidated financial statements of the Barclays Bank PLC Group, and the individual financial statements of Barclays Bank PLC, have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union. The principal accounting policies applied in the preparation of the consolidated and individual financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied. There were no changes in accounting policy in the year.

3. Basis of preparation
The consolidated and individual financial statements have been prepared under the historical cost convention modified to include the fair valuation of investment property and particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies. They are stated in millions of pounds Sterling (£m), the functional currency of Barclays Bank PLC.

4. Accounting policies
Barclays prepares financial statements in accordance with IFRS. The Group's significant accounting policies relating to specific financial statement items, together with a description of the accounting estimates and judgements that were critical to preparing them, are set out under the relevant notes. Accounting policies that affect the financial statements as a whole are set out below.

(i) Consolidation
Barclays applies IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities (SPEs).*

The consolidated financial statements combine the financial statements of Barclays Bank PLC and all its subsidiaries. Subsidiaries are entities over which it has control of the financial and operating policies through its holdings of voting shares and SPEs, which are consolidated when the substance of the relationship between The Group and the entity indicates control. The control assessment for special purpose entities includes an assessment of The Group's exposure to the risks and benefits of the entity. The consolidation of SPEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. The initial consolidation analysis is revisited at a later date if:

- The Group acquires additional interests in the entity;
- The contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; and
- The Group acquires control over the main operating and financial decisions of the entity.

There are a number of subsidiaries in which The Group has less than half of the voting rights which are consolidated when the substance of the relationship between The Group and the entity indicates that the entity is controlled by The Group. Such entities are deemed to be controlled by The Group when relationships with such entities give rise to benefits that are in substance no different from those that would arise were the entity a subsidiary.

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout The Group for the purposes of the consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Details of the principal subsidiaries are given in Note 38.

(ii) Foreign currency translation
The Group applies IAS 21 *The Effects of Changes in Foreign Exchange Rates.* Transactions and balances in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction. Foreign currency balances are translated into Sterling at the period end exchange rates.

Exchange gains and losses on such balances are taken to the income statement.

The Group's foreign operations (including subsidiaries, joint ventures, associates and branches) based mainly outside the UK may have different functional currencies. The functional currency of an operation is the currency of the main economy to which it is exposed.

Prior to consolidation (or equity accounting) the assets and liabilities of non-Sterling operations are translated at the closing rate and items of income, expense and other comprehensive income are translated into Sterling at the rate on the date of the transactions. Exchange differences arising on the translation of foreign operations are included in currency translation reserves within equity. These are transferred to the income statement when The Group loses control, joint control or significant influence over the foreign operation or on partial disposal of the operation.

(iii) Financial assets and liabilities

The Group applies IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) for the recognition, classification and measurement and derecognition of financial assets and financial liabilities for the impairment of financial assets, and for hedge accounting.

Recognition

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

Classification and measurement

Financial assets and liabilities are initially recognised at fair value and may be held at fair value or amortised cost depending on The Group's intention toward the assets and the nature of the assets and liabilities, mainly determined by their contractual terms.

The accounting policy for each type of financial asset or liability is included within the relevant note for the item. The Group's policies for determining the fair values of the assets and liabilities are set out in Note 18.

Derecognition

The Group derecognises a financial asset, or a portion of a financial asset, from its balance sheet where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities are de-recognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms – generally a difference of 10% in the present value of the cash flows – is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Transactions in which The Group transfers assets and liabilities, portions of assets and liabilities, or financial risks associated with them can be complex and it is not obvious whether substantially all of the risks and rewards have been transferred. It is often necessary to perform a quantitative analysis. Such an analysis will compare The Group's exposure to variability in asset cash flows before the transfer with its retained exposure after the transfer.

A cash flow analysis of this nature may require judgement. In particular, it is necessary to estimate the asset's expected future cash flows as well as potential variability around this expectation. The method of estimating expected future cash flows depends on the nature of the asset, with market and market-implied data used to the greatest extent possible. The potential variability around this expectation is typically determined by stressing underlying parameters to create reasonable alternative upside and downside scenarios. Probabilities are then assigned to each scenario. Stressed parameters may include default rates, loss severity or prepayment rates.

(iv) Issued debt and equity instruments

The Group applies IAS 32, *Financial Instruments: Presentation,* to determine whether funding is either a financial liability (debt) or equity.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in The Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument, if this is not the case, the instrument is generally an equity instrument and the proceeds included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when paid or declared by the members at the annual general meeting and treated as a deduction from equity.

Where issued financial instruments contain both liability and equity components, these are accounted for separately. The fair value of the debt is estimated first and the balance of the proceeds is included within equity.

5. Future accounting developments

As at 31 December 2011 the IASB had issued the following accounting standards. These are effective on 1 January 2013, subject to EU endorsement, unless otherwise indicated:

- IFRS 10 *Consolidated Financial Statements* which replaces requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities*. This introduces new criteria to determine whether entities in which The Group has interests should be consolidated. The Group is considering the impact of the new standard and is currently unable to provide an estimate of the financial effects of its adoption;

Notes to the financial statements

For the year ended 31December 2011

- IFRS 11 *Joint Arrangements*, which replaces IAS 31 *Interests in Joint Ventures*. This specifies the accounting for joint arrangements whether these are joint operations or joint ventures. It is not expected to have a material impact on The Group;
- IFRS 12 *Disclosures of Interests in Other Entities* This specifies the required disclosures in respect of interests in, and risks arising, from subsidiaries, joint ventures, associates and structured entities whether consolidated or not. As a disclosure only standard it will have no financial impact;
- IFRS 13 *Fair Value Measurement*. This provides comprehensive guidance on how to calculate the fair value of financial and non-financial assets and liabilities. It is not expected to have a material impact on The Group financial statements;
- IAS 19 *Employee Benefits* (Revised 2011). This requires that actuarial gains and losses arising from defined benefit pension schemes are recognised in full. Previously The Group deferred these over the remaining average service lives of the employees (the 'corridor' approach). See Note 37 for more information and an estimate of the financial effects of adoption; and
- IAS 32 and IFRS 7 Amendments *Offsetting Financial Assets and Financial Liabilities*. The circumstances in which netting is permitted have been clarified and disclosures on offsetting have been considerably expanded. The amendments on offsetting are effective from 1 January 2014 and those on disclosures from 1 January 2013.

In 2009 and 2010, the IASB issued IFRS 9 *Financial Instruments* which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way that The Group accounts for financial instruments. The key changes issued and proposed relate to:

- Financial assets. Financial assets will be held at either fair value or amortised cost, except for equity investments not held for trading, which may be held at fair value through other comprehensive income;
- Financial liabilities. Gains and losses on fair value changes in own credit arising on non-derivative financial liabilities designated at fair value through profit or loss will be excluded from the Income Statement and instead taken to other comprehensive income;
- Impairment. Expected losses (rather than only incurred losses) will be reflected in impairment allowances for financial assets that are not classified as fair value through profit or loss; and
- Hedge accounting. Hedge accounting will be more closely aligned with financial risk management.

Adoption is not mandatory until periods beginning on or after 1 January 2015, subject to EU endorsement. Earlier adoption is possible, subject to endorsement and finalisation of the standards. At this stage, it is not possible to fully determine the potential financial impacts of adoption of IFRS 9 on The Group.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue new standards on insurance contracts and revenue recognition. The Group will consider the financial impacts of these new standards as they are finalised.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements are highlighted under the relevant note. Critical accounting estimates and judgements are disclosed in:

	Page		Page
Credit in charges and impairment on available for sale assets	117	Goodwill and intangible assets	157
Tax	120	Provisions	163
Available for sale assets	135	Retirement benefit obligations	183
Fair value of financial instruments	136		

6. Other disclosures

To improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication, certain disclosures required under IFRS have been included within the Risk management and Financial review section as follows:

- segmental reporting on pages 9 to 10;
- credit risk, on pages 34 to 69, including exposures to selected countries;
- market risk, on pages 70 to 76;
- funding risk-capital resources, on page 77; and
- funding risk -liquidity risk, on pages 78 to 94.

These are covered by the Audit opinion included on page 104.

Performance

The notes included in this section focus on the results and performance of Barclays. Information on the income generated, expenditure incurred, segmental performance, tax and dividends are included here.

2 Segmental reporting

Presentation of segmental reporting

The Group's segmental reporting is in accordance with IFRS 8 *Operating Segments*. Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in Head Office. Income and expenses directly associated with each segment are included in determining business segment performance.

An analysis of The Group's performance by business segment and income by geographic segment is included on pages 9 and 10

3 Net interest income

Accounting for interest income and expense

The Group applies IAS 39 *Financial Instruments: Recognition and Measurement.* Interest income on loans and advances at amortised cost, available for sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires The Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

	2011 £m	2010 £m
Cash and balances with central banks	**392**	271
Available for sale investments	**2,137**	1,483
Loans and advances to banks	**350**	440
Loans and advances to customers	**17,271**	17,677
Other	**439**	164
Interest income	**20,589**	20,035
Deposits from banks	**(366)**	(370)
Customer accounts	**(2,531)**	(1,415)
Debt securities in issue	**(3,524)**	(3,632)
Subordinated liabilities	**(1,813)**	(1,778)
Other	**(159)**	(322)
Interest expense	**(8,393)**	(7,517)
Net interest income	**12,196**	12,518

Interest income includes £243m (2010: £213m) accrued on impaired loans.

Other interest income principally includes interest income relating to reverse repurchase agreements and hedging activity. Similarly, other interest expense principally includes interest expense relating to repurchase agreements and hedging activity.

Included in net interest income is hedge ineffectiveness as detailed on page 134.

Notes to the financial statements

For the year ended 31December 2011continued

4 Net fee and commission income

Accounting for net fee and commission income

The Group applies IAS 18 *Revenue.* Fees and commissions charged for services provided or received by The Group are recognised as the services are provided, for example on completion of the underlying transaction.

	2011 £m	2010 £m
Banking, investment management and credit related fees and commissions	**9,958**	10,142
Brokerage fees	**87**	77
Foreign exchange commission	**163**	149
Fee and commission income	**10,208**	10,368
Fee and commission expense	**(1,586)**	(1,497)
Net fee and commission income	**8,622**	8,871

5 Net trading income

Accounting for net trading income

In accordance with IAS 39, trading positions are held at fair value and the resulting gains and losses are included in the income statement, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from the sale and purchase of trading positions, margins which are achieved through market-making and customer business, and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Own credit gains/(losses) arise from the fair valuation of financial liabilities designated at fair value through profit or loss. See Note 17 Financial liabilities designated at fair value.

	2011 £m	2010 £m
Trading income	**5,030**	7,689
Own credit gain	**2,708**	391
Net trading income	**7,738**	8,080

Included within net trading income were losses of £16m (2010: £32m gain) on financial assets designated at fair value and gains of £3,850m (2010: £903m loss) on financial liabilities designated at fair value.

6 Net investment income

Accounting for net investment income

Dividends are recognised when the right to receive the dividend has been established. Other accounting policies relating to net investment income are set out in Note 16, Available for sale financial investments, and Note 14, Financial assets designated at fair value.

	2011 £m	2010 £m
Net gain from disposal of available for sale assets	**1,652**	1,027
Dividend income	**139**	129
Net gain from financial instruments designated at fair value	**287**	274
Other investment income	**244**	60
Net investment income	**2,322**	1,490

7 Credit impairment charges and impairment on available for sale assets

Accounting for the impairment of financial assets

Loans and other assets held at amortised cost

In accordance with IAS 39, The Group assesses at each balance sheet date whether there is objective evidence that loan assets or available for sale financial investments (debt or equity) will not be recovered in full and, wherever necessary, recognises an impairment loss in the income statement.

An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets. These events include:

- becoming aware of significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, grants a concession that it would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data at a portfolio level indicating that there is a measurable decrease in the estimated future cash flows, although the decrease cannot yet be ascribed to individual financial assets in the portfolio – such as adverse changes in the payment status of borrowers in the portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment assessments are conducted individually for significant assets, which comprise all wholesale customer loans and larger retail business loans and collectively for smaller loans and for portfolio level risks, such as country or sectoral risks. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together – generally on the basis of their product type, industry, geographical location, collateral type, past due status and other factors relevant to the evaluation of expected future cash flows.

The impairment assessment includes estimating the expected future cash flows from the asset or The Group of assets, which are then discounted using the original effective interest rate calculated for the asset. If this is lower than the carrying value of the asset or the portfolio, an impairment allowance is raised.

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

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount.

Uncollectable loans are written off against the related allowance for loan impairment on completion of The Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

Available for sale financial assets

Impairment of available for sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have accrued, the cumulative decline in the fair value of the instrument that has previously been recognised in equity is removed from equity and recognised in the income statement. This may be reversed if there is evidence that the circumstances of the issuer have improved.

Impairment of available for sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income. Further declines in the fair value of equity instruments after impairment are recognised in the income statement.

Notes to the financial statements
For the year ended 31December 2011continued

7 Credit impairment charges and impairment on available for sale assets (continued)

	2011 £m	2010 £m
New and increased impairment allowances	**4,962**	6,939
Releases	**(931)**	(1,189)
Recoveries	**(265)**	(201)
Impairment charges on loans and advances	**3,766**	5,549
Charges in respect of provision for undrawn contractually committed facilities and guarantees provided	**24**	76
Loan impairment	**3,790**	5,625
Impairment charges on available for sale assets	**60**	51
Impairment releases on reverse repurchase agreements	**(48)**	(4)
Credit impairment charges and other provisions	**3,802**	5,672
Impairment of investment in BlackRock, Inc.	**1,800**	-

Loan impairment fell 33% to £3,790m, reflecting generally improving underlying trends across the majority of retail and wholesale businesses. Retail impairment charges reduced 27%, principally relating to Barclaycard, UKRBB and Africa RBB. Wholesale impairment charges reduced 41%, principally reflecting lower charges in Spain and in Barclays Capital, including a release of £223m relating to the loan to Protium which has now been repaid.

As at 30 September 2011, an impairment charge of £1,800m was recognised resulting from an assessment that there was objective evidence that The Group's available for sale equity investment in BlackRock, Inc. was impaired. The impairment reflects the recycling through the income statement of the cumulative reduction in market value previously recognised in the available for sale reserve, since The Group's acquisition of its holding in BlackRock, Inc. as part of the sale of Barclays Global Investors on 1 December 2009.

Critical accounting estimates and judgements

The calculation of the impairment allowance involves the use of judgement, based on The Group's experience of managing credit risk. Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, The Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

8 Administration and general expenses

	2011 £m	2010 £m
Property and equipment	**1,763**	1,813
Outsourcing and professional services	**1,864**	1,704
Operating lease rentals	**659**	637
Marketing, advertising and sponsorship	**585**	631
Communications, subscriptions, publications and stationery	**740**	750
Travel and accommodation	**328**	358
Other administration and general expenses	**400**	563
Impairment of property, equipment and intangible assets (excluding goodwill)	**12**	125
Administration and general expenses	**6,351**	6,581

8 Administration and general expenses (continued)

Auditors' remuneration

Auditors' remuneration is included within the outsourcing and professional services costs above and comprises:

	Audit	Audit related	Taxation services	Other services	Total
	£m	£m	£m	£m	£m
2011					
Audit of The Group's annual accounts	**13**	**-**	**-**	**-**	**13**
Other services:					
Fees payable for the Company's associates pursuant to legislation[a]	**26**	**-**	**-**	**-**	**26**
Other services supplied pursuant to such legislation[b]	**-**	**3**	**-**	**-**	**3**
Other services relating to taxation					
- compliance services	**-**	**-**	**5**	**-**	**5**
- advisory services[c]	**-**	**-**	**1**	**-**	**1**
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates[d]	**-**	**-**	**-**	**2**	**2**
Other	**-**	**3**	**-**	**1**	**4**
Total auditors' remuneration	**39**	**6**	**6**	**3**	**54**
2010					
Audit of The Group's annual accounts	12	-	-	-	12
Other services:					
Fees payable for the Company's associates pursuant to legislation[a]	26	-	-	-	26
Other services supplied pursuant to such legislation[b]	-	3	-	-	3
Other services relating to taxation					
- compliance services	-	-	7	-	7
- advisory services[c]	-	-	1	-	1
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates[d]	-	-	-	1	1
Other	-	4	-	2	6
Total auditors' remuneration	38	7	8	3	56

The figures shown in the above table relate to fees paid to PricewaterhouseCoopers LLP and its associates for continuing operations of business. Fees paid to other auditors not associated with PricewaterhouseCoopers LLP in respect of the audit of the Company's subsidiaries were £6m (2010: £4m).

Notes

a Comprises the fees for the statutory audit of the subsidiaries and associated pension schemes both inside and outside Great Britain and fees for the work performed by associates of PricewaterhouseCoopers LLP in respect of the consolidated financial statements of the Company. The fees relating to the audit of the associated pension schemes were £0.2m (2010: £0.4m).

b Comprises services in relation to statutory and regulatory filings. These include audit services for the review of the interim financial information under the Listing Rules of the UK listing authority.

c Includes consultation on tax matters, tax advice relating to transactions and other tax planning and advice.

d Comprises due diligence related to transactions and other work in connection with such transactions.

Notes to the financial statements

For the year ended 31December 2011continued

9 UK bank levy

UK legislation was enacted in July 2011 to introduce an annual bank levy, which applies to elements of The Group's consolidated liabilities and equity held as at the year end. The levy has resulted in an additional charge to the income statement of £325m, which was recognised as at 31 December 2011 and is presented within operating expenses. The IFRS Interpretations Committee is considering the timing of recognition of the levy going forward.

10 Loss on disposal of subsidiaries, associates and joint ventures

On 25 October 2011, Barclays completed the disposal of Barclays Bank Russia (BBR) as part of refocusing its Russian activities. A loss on disposal of £73m has been recognised in the income statement within Barclays Corporate and the accumulated foreign exchange losses of £23m, previously recognised directly in equity, have been recycled through income within Head Office Functions.

11 Tax

Accounting for income taxes

Barclays applies IAS 12 *Income Taxes* in accounting for taxes on income. Income tax payable on taxable profits ('Current Tax') is recognised as an expense in the period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the balance sheet date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

	2011 £m	2010 £m
Current tax charge		
Current year	**2,690**	1,413
Adjustment for prior years	**(61)**	(20)
	2,629	1,393
Deferred tax (credit)/charge		
Current year	**(631)**	118
Adjustment for prior years	**(70)**	5
	(701)	123
Tax charge	**1,928**	1,516

On 27 February 2012, the UK tax authority, HMRC announced its intention to implement new tax legislation, to apply retrospectively from 1 December 2011 that would result in the £1,130m gains on debt buy-backs becoming fully taxable. Barclays voluntarily disclosed the transaction to HMRC and, as at 31 December 2011, held a provision for the potential tax payable in relation to the debt buy-back. If the legislation had been enacted as at 31 December 2011 it would not have had a material impact on The Group's 2011 results.

Tax relating to each component of other comprehensive income can be found in the consolidated statement of comprehensive income, which includes within Other, a tax charge of £74m (2010: £59m credit) principally relating to share based payments.

11 Tax (continued)

The table below shows the reconciliation between the actual tax charge and the tax charge that would result from applying the standard UK corporation tax rate to The Group's profit before tax.

	2011 £m	2010 £m
Profit before tax from continuing operations	**5,974**	6,079
Tax charge based on the standard UK corporation tax rate of 26.5% (2010: 28%)	**1,583**	1,702
Effect of non-UK profits or losses at local statutory tax rates different from the UK statutory tax rate[a]	**190**	108
Non-creditable taxes[b]	**567**	454
Non-taxable gains and income	**(519)**	(576)
Impact of share price movements on share-based payments	**147**	41
Deferred tax assets (previously not recognised) / not recognised	**(816)**	(160)
Change in tax rates	**17**	34
Non-deductible impairment charges, loss on disposals and UK bank levy[c]	**770**	68
Other items including non-deductible expenses	**120**	(140)
Adjustments in respect of prior years	**(131)**	(15)
Tax charge	**1,928**	1,516
Effective tax rate	**32%**	25%

Current tax assets and liabilities

Movements on current assets and liabilities were as follows:

	2011 £m	2010 £m
The Group		
Assets	**196**	349
Liabilities	**(646)**	(964)
As at 1 January	**(450)**	(615)
Income statement	**(2,629)**	(1,393)
Equity	**104**	180
Corporate income tax paid	**1,686**	1,430
Other movements	**266**	(52)
	(1,023)	(450)
Assets	**374**	196
Liabilities	**(1,397)**	(646)
As at 31 December	**(1,023)**	(450)

Notes

a In 2010 £205m was previously included in the effect of non-UK profits or losses at local statutory rates that differ from the UK rate and related to a deferred tax benefit on the reorganisation of Spanish securitisation financing. This benefit is now included in other items including non-deductible expenses.

b This is a new item in the reconciliation to show the impact of non-creditable taxes mainly relating to the impact of withholding taxes. In 2010 £420m was previously included in non-taxable gains and income, £72m was previously included in other items including non-deductible expenses and £(38)m was previously included in the effect of non-UK profits or losses at local statutory rates that differ from the UK rate.

c This is a new item in the reconciliation to show the impact of non-deductible impairments charges, loss on disposals and the UK bank levy. In 2010 non-deductible impairment charges of £68m was previously included in other items including non-deductible expenses.

Notes to the financial statements

For the year ended 31December 2011continued

11 Tax (continued)

	2011	2010
	£m	£m
The Bank		
Assets	**161**	221
Liabilities	**(126)**	(277)
As at 1 January	**35**	(56)
Income statement	**(696)**	(161)
Equity	**120**	145
Corporate income tax paid	**(239)**	91
Other movements	**(33)**	16
	(813)	35
Assets	**166**	161
Liabilities	**(979)**	(126)
As at 31 December	**(813)**	35

Other movements include current tax amounts relating to acquisitions, disposals and exchange.

Deferred tax assets and liabilities

The deferred tax amounts on the balance sheet, after offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis, were as follows:

	The Group		The Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Barclays Group US Inc. tax group (BGUS)	**1,039**	875	**-**	-
US Branch of Barclays Bank PLC (US Branch)	**704**	197	**704**	197
Spanish tax group	**696**	496	**311**	271
Other	**571**	949	**89**	760
Deferred tax asset	**3,010**	2,517	**1,104**	1,228
Deferred tax liability	**(695)**	(514)	**(348)**	(3)
Net deferred tax	**2,315**	2,003	**756**	1,225

The deferred tax asset increased by 20% in 2011 largely due to the improved financial performance in the US Branch resulting in a deferred tax asset in 2011 not previously recognised. There is no net deferred tax asset in the UK.

US deferred tax assets in BGUS and the US Branch

The deferred tax asset in BGUS and the US Branch includes amounts relating to tax losses of £329m and £603m respectively, which first arose in 2007. In accordance with US tax rules tax losses can be carried forward and offset against profits for a period of 20 years and therefore any unused tax losses may begin to expire in 2028. The remaining balance primarily relates to temporary differences which are not time limited. The deferred tax asset for the US Branch has been measured using a marginal tax rate being the excess of the US tax rate (a combination of Federal, City and State taxes) over the UK statutory rate.

BGUS is forecast to return to profitability in 2012, primarily driven by BCI, its US Broker Dealer, with tax losses expected to be fully utilised by 2014. 2011 losses were driven in a large part by macroeconomic conditions, affected by the European sovereign debt crisis and regulatory uncertainty, as opposed to underlying business strategy. A significant proportion of prior period losses related to real estate portfolios and businesses that have now been sold or liquidated.

Profit forecasts reflect the continued focus on operating as a premier full service global investment bank. They also reflect markets re-stabilising and returning to conditions similar to those in 2010. Included in these projections are revenue assumptions based on maintaining our current share in FICC and certain growth prospects that exist in IBD and Equities. Cost projections reflect savings based on continuing initiatives in this area as well as further costs associated with increased levels of liquidity for the US business. As with any current forecast, there are significant uncertainties in relation to macroeconomic conditions and regulatory requirements. A 20% reduction in forecasted profit would not extend the recovery period. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

11 Tax (continued)

The tax losses in the US Branch primarily relate to losses on legacy credit market exposures, the majority of which the US Branch no longer holds. The tax losses are projected to be fully utilised by 2016, based on profit forecasts covering the period from 2012 to 2014, with no profit growth assumed after 2014. The underlying assumptions used in the forecast are consistent with those used for BGUS. A 20% reduction in forecasted profit would extend the recovery period by 1 year to 2017. The assumptions used in the profit forecasts do not include any incremental tax planning strategies.

Spain deferred tax asset

The deferred tax asset in Spain includes £417m relating to tax losses incurred in 2010 and 2011. In accordance with Spanish tax rules tax losses can be carried forward and offset against profits for a period of 18 years. The remaining balance primarily relates to temporary differences which are not time limited.

The 2010 losses are expected to be fully utilised by 2021 and the 2011 losses by 2024. Additional tax losses are anticipated to arise in 2012 and 2013. The recoverability of the deferred tax asset has been determined using business profit forecasts covering the period from 2012 to 2015, with a subsequent annual growth rate of 1% p.a. The forecasts are consistent with those used for the purposes of the goodwill impairment assessment. They reflect the expected benefits from changes in product mix and improved product pricing following the restructuring of the business during 2011, as well as impairment levels coming back into line with historical loan loss rates.

A 20% reduction in forecasted profits for 2015 would extend the recovery period of the 2010 and 2011 losses by 2 years to 2023 and 2026, respectively. A reduction in profits of more than this may result in a partial impairment of the deferred tax asset depending upon the timing of the reversal of deductible temporary differences. The forecast assumptions do not include any incremental tax planning strategies.

Other deferred tax assets

The deferred tax asset of £571m (2010: £949m) in other entities includes £144m (2010: £700m) relating to tax losses carried forward. Entities which have suffered a loss in either the current or prior year have a total deferred tax asset of £189m (2010: £344m) relating to tax losses carried forward and temporary differences. Recognition is based on profit forecasts which indicate that it is probable that the entities will have future taxable profits against which the losses and temporary differences can be utilised.

Notes to the financial statements

For the year ended 31December 2011continued

11 Tax (continued)

The tables below show movements on deferred tax assets and liabilities during the year for The Group and the Bank. The amounts are different from those disclosed in the balance sheet as they are presented before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

The Group	Fixed asset timing differences	Available for sale investments	Cash flow hedges	Retirement benefit obligations	Loan impairment allowance	Other provisions	Tax losses carried forward	Share based payments	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets	**134**	**76**	**-**	**118**	**345**	**162**	**1,558**	**372**	**668**	**3,433**
Liabilities	**(558)**	**(43)**	**(109)**	**-**	**-**	**-**	**-**	**-**	**(720)**	**(1,430)**
At 1 January 2011	**(424)**	**33**	**(109)**	**118**	**345**	**162**	**1,558**	**372**	**(52)**	**2,003**
Income statement	**267**	**10**	**-**	**(180)**	**91**	**110**	**(54)**	**37**	**420**	**701**
Equity	**-**	**73**	**(393)**	**-**	**-**	**-**	**-**	**(82)**	**3**	**(399)**
Other movements	**7**	**5**	**13**	**15**	**(5)**	**(11)**	**(11)**	**29**	**(32)**	**10**
	(150)	**121**	**(489)**	**(47)**	**431**	**261**	**1,493**	**356**	**339**	**2,315**
Assets	**254**	**186**	**-**	**85**	**431**	**261**	**1,493**	**356**	**1,435**	**4,501**
Liabilities	**(404)**	**(65)**	**(489)**	**(132)**	**-**	**-**	**-**	**-**	**(1,096)**	**(2,186)**
At 31 December 2011	**(150)**	**121**	**(489)**	**(47)**	**431**	**261**	**1,493**	**356**	**339**	**2,315**
Assets	117	28	139	219	379	294	1,038	336	472	3,022
Liabilities	(660)	(54)	(278)	-	-	-	-	-	(197)	(1,189)
At 1 January 2010	(543)	(26)	(139)	219	379	294	1,038	336	275	1,833
Income statement	42	12	(3)	(101)	(46)	(151)	591	25	(492)	(123)
Equity	-	53	38	-	-	-	-	12	(44)	59
Other movements	77	(6)	(5)	-	12	19	(71)	(1)	209	234
	(424)	33	(109)	118	345	162	1,558	372	(52)	2,003
Assets	134	76	-	118	345	162	1,558	372	668	3,433
Liabilities	(558)	(43)	(109)	-	-	-	-	-	(720)	(1,430)
At 31 December 2010	(424)	33	(109)	118	345	162	1,558	372	(52)	2,003

11 Tax (continued)

The Bank	Fixed asset timing differences	Available for sale investments	Cash flow hedges	Retirement benefit obligations	Loan impairment allowance	Other provisions	Tax losses carried forward	Share based payments	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets	-	1	-	54	138	-	983	24	215	1,415
Liabilities	(44)	-	(64)	-	-	(47)	-	-	(35)	(190)
At 1 January 2011	(44)	1	(64)	54	138	(47)	983	24	180	1,225
Income statement	117	-	-	(184)	147	97	(73)	3	(159)	(52)
Equity	-	(6)	(394)	-	-	-	-	(10)	8	(402)
Other movements	4	(1)	-	16	(15)	(1)	147	30	(195)	(15)
	77	(6)	(458)	(114)	270	49	1,057	47	(166)	756
Assets	77	-	-	-	270	49	1,057	47	158	1,658
Liabilities	-	(6)	(458)	(114)	-	-	-	-	(324)	(902)
At 31 December 2011	77	(6)	(458)	(114)	270	49	1,057	47	(166)	756
Assets	36	-	-	142	170	51	368	44	121	932
Liabilities	-	(19)	(140)	-	-	-	-	-	(38)	(197)
At 1 January 2010	36	(19)	(140)	142	170	51	368	44	83	735
Income statement	(45)	5	-	(88)	(43)	(100)	684	(2)	17	428
Equity	-	15	77	-	-	-	-	4	(7)	89
Other movements	(35)	-	(1)	-	11	2	(69)	(22)	87	(27)
	(44)	1	(64)	54	138	(47)	983	24	180	1,225
Assets	-	1	-	54	138	-	983	24	215	1,415
Liabilities	(44)	-	(64)	-	-	(47)	-	-	(35)	(190)
At 31December 2010	(44)	1	(64)	54	138	(47)	983	24	180	1,225

Other movements include deferred tax amounts relating to acquisitions, disposals and exchange.

The amount of deferred tax liability expected to be settled after more than 12 months for The Group is £1,044m (2010: £911m) and for the Bank is £958m (2010: £1,303m). The amount of deferred tax asset expected to be recovered after more than 12 months for The Group is £2,050m (2010: £1,645m) and for the Bank is £1,172m (2010: £165m). These amounts are before offsetting asset and liability balances where there is a legal right to set-off and an intention to settle on a net basis.

Unrecognised deferred tax

For The Group, deferred tax assets have not been recognised in respect of gross deductible temporary differences of £1,163m (2010: £506m), and gross tax losses of £2,299m (2010: £6,178m) which includes capital losses of £2,034m (2010: £1,607m). Tax losses of £97m (2010: £70m) expire within 5 years, £101m (2010: £239m) expire within 6 to10 years, £5m (2010: £4,262m) expire within 11 to 20 years and £2,096m (2010: £1,607m) can be carried forward indefinitely. Unrecognised losses that expire within 11 to 20 years have decreased because of an increased recognition of the deferred tax asset in the US Branch as a result of improved financial performance. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which The Group can utilise benefits.

For the Bank, deferred tax assets have not been recognised in respect of gross deductible temporary differences of £1,125m (2010: £436m), and gross tax losses of £260m (2010: £4,844m) which includes capital losses of £190m (2010: £513m). Tax losses of £24m (2010: £nil) expire within 5 years, £20m (2010: £70m) expire within 6 to10 years, £nil (2010: £4,262m) expire within 11 to 20 years and £216m (2010: £513m) can be carried forward indefinitely. Unrecognised losses that expire within 11 to 20 years have decreased because of an increased recognition of the deferred tax asset in the US Branch as a result of improved financial performance. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits and gains will be available against which the Bank can utilise benefits.

Deferred tax is not recognised in respect of The Group's investments in subsidiaries and branches where remittance is not contemplated and for those associates and interests in joint ventures where it has been determined that no additional tax will arise. The aggregate amount of temporary differences for which deferred tax liabilities have not been recognised is £703m (2010: £530m).

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11 Tax (continued)

Critical accounting estimates and judgements

The Group is subject to income taxes in numerous jurisdictions and the calculation of The Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. These risks are managed in accordance with The Group's Tax Risk Framework.

Deferred tax assets have been recognised based on business profit forecasts. Further detail on the recognition of deferred tax assets are provided on page 122.

12 Dividends on Ordinary Shares

	2011 £m	2010 £m
Dividends paid during the year		
Final dividend	**288**	-
Interim dividend	**355**	235
Total	**643**	235

Ordinary dividends were paid to enable Barclays PLC to fund its dividend to shareholders.

Dividends per ordinary share for 2011 were 15p (2010: 10p). Dividends paid on the 4.75% €100 preference shares amounted to £408.27 per share (2010: £433.27). Dividends paid on the 4.875% €100 preference shares amounted to £412.64 per share (2010: £408.11). Dividends paid on the 6.0% £100 preference shares amounted to £600.00 per share (2010: £600.00). Dividends paid on the 6.278% US$100 preference shares amounted to £394.48 per share (2010: £413.25). Dividends paid on the 6.625% US$0.25 preference shares amounted to £1.04 per share (2010: £1.09). Dividends paid on the 7.1% US$0.25 preference shares amounted to £1.11 per share (2010: £1.17). Dividends paid on the 7.75% US$0.25 preference shares amounted to £1.22 per share (2010: £1.28). Dividends paid on the 8.125% US$0.25 preference shares amounted to £1.28 per share (2010: £1.34).

Dividends paid on preference shares amounted to £467m (2010: £485m). Dividends paid on other equity instruments amounted to £72m (2010: £160m).

Assets and liabilities held at fair value

This section presents information regarding assets and liabilities The Group holds and recognises at fair value. Fair value refers to the price that would be received to sell an asset or the price that would be paid to transfer a liability in an arms length transaction with a willing counterparty which may be an observable market price or, where there is no quoted price for the instrument, may be estimated based on available market data. Detail regarding the Group's approach to managing market risk can be found on pages 70 to 76.

13 Trading portfolio

Accounting for trading portfolio assets and liabilities
In accordance with IAS 39, all assets and liabilities held for trading purposes are held at fair value with gains and losses in the changes in fair value taken to the income statement in net trading income (Note 5).

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Debt securities and other eligible bills	**123,364**	139,240	**77,279**	86,328
Equity securities	**24,861**	25,676	**3,944**	4,901
Traded loans	**1,374**	2,170	**1,361**	2,500
Commodities	**2,584**	1,844	**2,464**	1,305
Trading portfolio assets	**152,183**	168,930	**85,048**	95,034
Debt securities and other eligible bills	**(35,063)**	(64,607)	**(23,347)**	(40,677)
Equity Securities	**(10,741)**	(7,568)	**(5,205)**	(3,157)
Commodities	**(83)**	(518)	**(80)**	(518)
Trading portfolio liabilities	**(45,887)**	(72,693)	**(28,632)**	(44,352)

14 Financial assets designated at fair value

Accounting for financial assets designated at fair value
In accordance with IAS 39, financial assets may be designated at fair value, with gains and losses taken to the income statement in net investment income (Note 6). The Group has the ability to do this when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by The Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 15 Derivative financial instruments).

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Loans and advances	**21,960**	22,352	**21,899**	25,093
Debt securities	**2,095**	1,918	**19,198**	783
Equity securities	**4,018**	5,685	**36**	11
Reverse repurchase agreements	**5,779**	7,559	**2,492**	2,489
Customers' assets held under investment contracts	**1,302**	1,429	**-**	-
Other financial assets	**1,795**	2,542	**927**	805
Financial assets designated at fair value	**36,949**	41,485	**44,552**	29,181

The total portfolio of linked liabilities to customers under investment contracts also includes £379m (2010: £518m) of cash and bank balances included within cash and balances at central banks. The carrying value of the total portfolio assets equals the carrying value of the liabilities to customers under investment contracts as shown in Note 17. Any change in the value of the assets results in an equal but opposite change in the value of the amounts due to the policyholders. Therefore, The Group is not exposed to the financial risks inherent in the investments.

Credit risk of loans and advances held at fair value and related credit derivatives
The following table shows the maximum exposure to credit risk, the changes in fair value due to credit risk and the cumulative changes in fair value since initial recognition together with the amount by which related credit derivatives mitigate this risk:

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For the year ended 31December 2011continued

14 Financial assets designated at fair value (continued)

	The Group						The Bank					
	Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception		Maximum exposure as at 31 December		Changes in fair value during the year ended		Cumulative changes in fair value from inception	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Loans and advances designated at fair value, attributable to credit risk	**21,960**	22,352	**(75)**	326	**(5,070)**	(4,995)	**21,899**	25,093	**(94)**	298	**(3,492)**	(3,398)
Fair value of related credit derivatives	**1,198**	2,206	**138**	(481)	**401**	263	**1,198**	1,977	**138**	(481)	**384**	246

15 Derivative financial instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect The Group's net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet. The Group's objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are discussed in the Risk Management section on pages 70 to76. Trading derivatives are managed within the Group's market risk management policies, which are outlined on pages 27 to 99.

The Group's exposure to credit risk arising from derivative contracts, as well as the Group's participation in exchange traded and over the counter derivatives markets are outlined in the Credit Risk section on page 34.

Accounting for derivatives

The Group applies IAS 39. All derivative instruments are held at fair value through profit or loss, except for derivatives held for risk management purposes in an effective hedge relationship (see hedge accounting below). This includes terms included in a contract or other financial asset or liability (the host), which, had it been a standalone contract, would have had met the definition of a derivative. These are separated from the host and accounted for in the same way as a derivative.

Hedge accounting

The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its interest and currency risk management strategies. Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions. Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, The Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged.

Fair value hedge accounting

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

If hedge relationships no longer meet the criteria for hedge accounting, hedge accounting is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the income statement over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

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

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

Hedges of net investments

The Group's net investments in foreign operations, including monetary items accounted for as part of the net investment, are hedged for foreign currency risks using both derivatives and foreign currency borrowings. Hedges of net investments are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is being recognised directly in other comprehensive income and the ineffective portion being recognised immediately in the income statement. The cumulative gain or loss recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation, or other reductions in The Group's investment in the operation.

15 Derivative financial instruments (continued)

Types of derivatives held

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.

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

Interest rate derivatives

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

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

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

Credit derivatives

The Group's principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency. A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer of the protection in return receives a predetermined amount.

Equity derivatives

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

Commodity derivatives

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

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For the year ended 31December 2011continued

15 Derivative financial instruments (continued)

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

	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount	Assets	Liabilities	Notional contract amount	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2011						
Total derivative assets/(liabilities) held for trading	**43,095,991**	**535,306**	**(524,440)**	**42,835,377**	**543,434**	**(532,017)**
Total derivative assets/(liabilities) held for risk management	**243,534**	**3,658**	**(3,358)**	**237,538**	**3,487**	**(3,820)**
Derivative assets/(liabilities)	**43,339,525**	**538,964**	**(527,798)**	**43,072,915**	**546,921**	**(535,837)**
Year ended 31 December 2010						
Total derivative assets/(liabilities) held for trading	48,517,204	418,586	(403,163)	48,268,152	439,763	(423,938)
Total derivative assets/(liabilities) held for risk management	240,353	1,733	(2,353)	222,403	1,382	(2,305)
Derivative assets/(liabilities)	48,757,557	420,319	(405,516)	48,490,555	441,145	(426,243)

The fair value of gross derivative assets increased by 28% to £539bn (2010: £420bn) reflecting decreases in the major forward curves, offset by the impact of optimisation initiatives. Derivative asset exposure would be £492bn (2010: £378bn) lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which we hold collateral. Derivative liabilities would be £478bn (2010: £362bn) lower reflecting counterparty netting and collateral placed.

15 Derivative financial instruments (continued)

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

Derivatives held for trading	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Year ended 31 December 2011						
Foreign exchange derivatives						
Forward foreign exchange	2,346,638	29,165	(26,968)	2,312,524	28,685	(26,055)
Currency swaps	1,158,267	27,388	(33,641)	1,128,168	26,637	(32,877)
OTC options bought and sold	713,690	7,269	(6,669)	711,489	7,239	(6,637)
OTC derivatives	4,218,595	63,822	(67,278)	4,152,181	62,561	(65,569)
Exchange traded futures and options – bought and sold	234,279	-	(2)	253,801	-	-
Foreign exchange derivatives	4,452,874	63,822	(67,280)	4,405,982	62,561	(65,569)
Interest rate derivatives						
Interest rate swaps	8,974,201	251,629	(240,849)	8,770,089	249,513	(238,468)
Forward rate agreements	4,556,842	3,249	(3,374)	4,218,994	2,372	(2,413)
OTC options bought and sold	5,426,331	117,689	(113,214)	5,412,639	117,599	(113,071)
OTC derivatives	18,957,374	372,567	(357,437)	18,401,722	369,484	(353,952)
Exchange traded futures and options – bought and sold	1,040,636	3	(3)	971,590	-	-
Exchange traded swaps	15,543,970	-	-	15,543,970	166	(304)
Interest rate derivatives	35,541,980	372,570	(357,440)	34,917,282	369,650	(354,256)
Credit derivatives						
OTC swaps	1,666,786	60,481	(57,972)	1,649,880	60,433	(57,897)
Exchange traded credit default swaps	219,864	2,831	(3,376)	219,073	2,825	(3,390)
Credit derivatives	1,886,650	63,312	(61,348)	1,868,953	63,258	(61,287)
Equity and stock index derivatives						
OTC options bought and sold	95,233	7,393	(10,768)	88,006	7,253	(10,219)
Equity swaps and forwards	167,098	2,516	(2,696)	43,167	2,355	(1,693)
OTC derivatives	262,331	9,909	(13,464)	131,173	9,608	(11,912)
Exchange traded futures and options – bought and sold	237,779	3,293	(2,616)	82,584	-	(4)
Equity and stock index derivatives	500,110	13,202	(16,080)	213,757	9,608	(11,916)
Commodity derivatives						
OTC options bought and sold	91,573	2,810	(2,554)	84,131	2,806	(2,548)
Commodity swaps and forwards	300,100	17,778	(17,579)	299,271	17,724	(17,491)
OTC derivatives	391,673	20,588	(20,133)	383,402	20,530	(20,039)
Exchange traded futures and options – bought and sold	322,704	1,812	(2,159)	322,704	1,813	(2,158)
Commodity derivatives	714,377	22,400	(22,292)	706,106	22,343	(22,197)
Derivatives with subsidiaries				723,297	16,014	(16,792)
Derivative assets/(liabilities) held for trading	43,095,991	535,306	(524,440)	42,835,377	543,434	(532,017)

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For the year ended 31December 2011continued

15 Derivative financial instruments (continued)

Derivatives held for trading	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount £m	Assets £m	Liabilities £m	Notional contract amount £m	Assets £m	Liabilities £m
Year ended 31 December 2010						
Foreign exchange derivatives						
Forward foreign exchange	1,823,186	22,882	(22,674)	1,794,499	22,481	(22,248)
Currency swaps	935,420	29,802	(32,433)	913,494	28,040	(30,647)
OTC options bought and sold	739,949	7,736	(7,034)	738,583	7,681	(7,008)
OTC derivatives	3,498,555	60,420	(62,141)	3,446,576	58,202	(59,903)
Exchange traded futures and options – bought and sold	15,356	-	-	15,356	-	-
Foreign exchange derivatives	3,513,911	60,420	(62,141)	3,461,932	58,202	(59,903)
Interest rate derivatives						
Interest rate swaps	10,316,455	202,050	(183,665)	10,124,429	199,367	(181,432)
Forward rate agreements	4,711,960	2,625	(2,881)	4,393,227	1,596	(1,686)
OTC options bought and sold	4,551,516	66,055	(65,395)	4,535,975	66,008	(65,360)
OTC derivatives	19,579,931	270,730	(251,941)	19,053,631	266,971	(248,478)
Exchange traded futures and options– bought and sold	975,533	-	-	927,145	-	-
Exchange traded swaps	21,209,173	-	-	21,209,145	-	-
Interest rate derivatives	41,764,637	270,730	(251,941)	41,189,921	266,971	(248,478)
Credit derivatives						
OTC swaps	1,780,264	45,977	(44,068)	1,778,812	46,054	(44,078)
Exchange traded credit default swaps	172,211	1,040	(976)	172,211	1,040	(976)
Credit derivatives	1,952,475	47,017	(45,044)	1,951,023	47,094	(45,054)
Equity and stock index derivatives						
OTC options bought and sold	118,363	9,340	(13,424)	106,796	9,137	(12,959)
Equity swaps and forwards	56,478	2,226	(2,359)	45,186	1,566	(1,519)
OTC derivatives	174,841	11,566	(15,783)	151,982	10,703	(14,478)
Exchange traded futures and options– bought and sold	303,463	3,017	(2,816)	121,970	-	(4)
Equity and stock index derivatives	478,304	14,583	(18,599)	273,952	10,703	(14,482)
Commodity derivatives						
OTC options bought and sold	93,937	3,778	(3,751)	92,220	3,764	(3,746)
Commodity swaps and forwards	326,336	18,743	(19,133)	325,448	18,567	(18,989)
OTC derivatives	420,273	22,521	(22,884)	417,668	22,331	(22,735)
Exchange traded futures and options – bought and sold	387,604	3,315	(2,554)	387,144	3,315	(2,554)
Commodity derivatives	807,877	25,836	(25,438)	804,812	25,646	(25,289)
Derivatives with subsidiaries				586,512	31,147	(30,732)
Derivative assets/(liabilities) held for trading	48,517,204	418,586	(403,163)	48,268,152	439,763	(423,938)

15 Derivative financial instruments (continued)

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

Derivatives held for risk management	The Group			The Bank		
		Fair value			Fair value	
	Notional contract amount	Assets	Liabilities	Notional contract amount	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Year ended 31 December 2011						
Derivatives designated as cash flow hedges						
Interest rate swaps	**120,557**	**2,147**	**(1,725)**	**102,640**	**1,901**	**(1,113)**
Forward foreign exchange	**328**	**3**	**(1)**	**328**	**3**	**(1)**
Exchange traded interest rate swaps	**36,264**	**-**	**-**	**36,264**	**-**	**-**
Derivatives designated as cash flow hedges	**157,149**	**2,150**	**(1,726)**	**139,232**	**1,904**	**(1,114)**
Derivatives designated as fair value hedges						
Interest rate swaps	**38,574**	**1,447**	**(1,238)**	**28,092**	**1,387**	**(1,677)**
Forward foreign exchange	**-**	**-**	**-**	**22,115**	**133**	**(635)**
Exchange traded interest rate swaps	**35,801**	**-**	**-**	**35,801**	**-**	**-**
Derivatives designated as fair value hedges	**74,375**	**1,447**	**(1,238)**	**86,008**	**1,520**	**(2,312)**
Derivatives designated as hedges of net investments						
Forward foreign exchange	**11,391**	**61**	**(388)**	**12,298**	**63**	**(394)**
Currency swaps	**619**	**-**	**(6)**	**-**	**-**	**-**
Derivatives designated as hedges of net investment	**12,010**	**61**	**(394)**	**12,298**	**63**	**(394)**
Derivatives held for risk management	**243,534**	**3,658**	**(3,358)**	**237,538**	**3,487**	**(3,820)**
Year ended 31 December 2010						
Derivatives designated as cash flow hedges						
Interest rate swaps	126,904	760	(882)	102,655	393	(866)
Forward foreign exchange	581	-	(43)	581	-	(43)
Exchange traded interest rate swaps	22,278	-	-	22,278	-	-
Derivatives designated as cash flow hedges	149,763	760	(925)	125,514	393	(909)
Derivatives designated as fair value hedges						
Currency swaps	679	-	(54)	-	-	-
Interest rate swaps	42,301	905	(872)	39,324	826	(754)
Equity options	-	-	-	-	-	(1)
Forward foreign exchange	4,561	19	(86)	14,516	135	(225)
Exchange traded interest rate swaps	36,427	-	-	36,427	-	-
Derivatives designated as fair value hedges	83,968	924	(1,012)	90,267	961	(980)
Derivatives designated as hedges of net investments						
Forward foreign exchange	5,870	28	(199)	5,870	28	(199)
Currency swaps	752	21	(217)	752	-	(217)
Derivatives designated as hedges of net investment	6,622	49	(416)	6,622	28	(416)
Derivatives held for risk management	240,353	1,733	(2,353)	222,403	1,382	(2,305)

Notes to the financial statements

For the year ended 31December 2011continued

15 Derivative financial instruments (continued)

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

	Total	Up to one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	More than five years
	£m	£m	£m	£m	£m	£m	£m
2011							
The Group							
Forecast receivable cash flows	**3,818**	**700**	**582**	**597**	**612**	**596**	**731**
Forecast payable cash flows	**177**	**108**	**28**	**24**	**9**	**-**	**8**
The Bank							
Forecast receivable cash flows	**3,544**	**573**	**500**	**555**	**595**	**591**	**730**
Forecast payable cash flows	**166**	**106**	**29**	**23**	**8**	**-**	**-**
2010							
The Group							
Forecast receivable cash flows	2,861	440	570	625	526	291	409
Forecast payable cash flows	307	69	52	76	82	22	6
The Bank							
Forecast receivable cash flows	2,530	289	469	574	505	285	408
Forecast payable cash flows	293	65	51	74	81	22	-

The maximum length of time over which The Group hedges exposure to the variability in future cash flows for forecast transactions, excluding those forecast transactions related to the payment of variable interest on existing financial instruments, is 9 years (2010: 14 years), and for the Bank, 9 years (2010: 8 years).

Amounts recognised in net interest income	The Group	The Bank
	£m	£m
Year ended 31 December 2011		
Losses on the hedged items attributable to the hedged risk	**(765)**	**(754)**
Gains on the hedging instruments	**683**	**751**
Fair value ineffectiveness	**(82)**	**(3)**
Cash flow hedging ineffectiveness	**8**	**16**
Net investment hedging ineffectiveness	**(1)**	**(1)**
Year ended 31 December 2010		
Fair value hedging:		
Losses on the hedged items attributable to the hedged risk	(1,172)	(1,171)
Gains on the hedging instruments	1,286	1,310
Fair value ineffectiveness	114	139
Cash flow hedging ineffectiveness	138	136
Net investment hedging ineffectiveness	(10)	(10)

All gains or losses on hedging derivatives relating to forecast transactions, which are no longer expected to occur, have been recycled to the income statement.

Gains and losses transferred from the cash flow hedging in the current year to: interest income was a £86m gain (2010: £88m gain); interest expense a £732m gain (2010: £515m gain); net trading income a £157m loss (2010: £148m loss); administration and general expenses a £2m gain (2010: £99m gain); and for the Bank, interest income a £22m loss (2010: £nil); interest expense a £735m gain (2010: £518m gain); net trading income a £57m loss (2010: £73m loss); and administration and general expenses was £nil (2010: £99m gain).

16 Available for sale financial assets

Accounting for available for sale financial assets

Available for sale financial assets are held at fair value with gains and losses being included in other comprehensive income. The Group uses this classification for assets that are not derivatives and are not held for trading purposes or at amortised cost. Dividends and interest (calculated using the effective interest method) are recognised in the income statement in net investment income (Note 6). On disposal, the cumulative gain or loss recognised in other comprehensive income is also included in net investment income.

For impairment of available for sale debt and equity investments, see Note 7, Credit impairment charges and impairment on available for sale assets.

	The Group		The Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Debt securities and other eligible bills	**63,610**	59,629	**47,805**	45,076
Equity securities	**5,413**	5,811	**174**	145
Available for sale financial investments	**69,023**	65,440	**47,979**	45,221

Critical accounting estimates and judgements

Approximately US$4.2bn (£2.7bn) of the assets acquired as part of the 2008 acquisition of the North American business of Lehman Brothers had not been received by 31 December 2011. Approximately US$ 3.0bn (£2.0bn) of this amount was recognised as part of the acquisition accounting and is included as an available for sale asset in the balance sheet. As discussed in Note 29, Barclays entitlement to these assets was the subject of legal proceedings in the United States Bankruptcy Court for the Southern District of New York (the Court) between the SIPA Trustee for Lehman Brothers Inc. (the Trustee) and Barclays. On 22 February 2011, the Court issued its Opinion in relation to the legal proceedings deciding some of the claims in the Trustee's favour and some in favour of Barclays. On 15 July 2011, the Court entered final Orders implementing its Opinion. The final Orders provide that Barclays is not entitled to receive approximately US$2.4bn (£1.6bn), and is only conditionally entitled to receive approximately US$0.8bn (£0.5bn), of the undelivered assets. In addition, the final Orders provide that Barclays is not entitled to approximately US$2.1bn (£1.3bn) of assets it had already received.

Barclays and the Trustee have each filed a notice of appeal from the Court's adverse rulings. There continues to be significant judgement involved in the valuation of this asset and uncertainty relating to the outcome of the appeal process. The Group takes the view that the effective provision of US$1.2bn (£0.8bn) that is reflected in its estimate of fair value is appropriate. If the final Orders were to be unaffected by the appeals, Barclays estimates that after taking into account the US$1.2bn (£0.8bn) effective provision, its loss would be approximately US$4.3bn (£2.8bn). The valuation of this asset will be kept under review as legal proceedings progress.

17 Financial liabilities designated at fair value

Accounting for liabilities designated at fair value through profit and loss

In accordance with IAS 39, financial liabilities may be designated at fair value, with gains and losses taken to the income statement within net trading income (Note 5) and net investment income (Note 6). The Group has the ability to do this when holding the instruments at fair value reduces an accounting mismatch (caused by an offsetting liability or asset being held at fair value), is managed by The Group on the basis of its fair value, or includes terms that have substantive derivative characteristics (Note 15, Derivative financial instruments).

	The Group 2011		The Bank 2011		The Group 2010		The Bank 2010	
	Fair Value	Contractual amount due on maturity	Fair Value	Contractual amount due on maturity	Fair Value	Contractual amount due on maturity	Fair Value	Contractual amount due on maturity
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	**66,565**	**70,787**	**85,319**	**90,465**	76,907	81,589	80,227	83,139
Deposits	**10,755**	**11,422**	**7,898**	**8,027**	10,243	10,950	8,607	8,784
Other financial liabilities	**8,996**	**9,561**	**7,852**	**8,377**	8,632	9,533	8,208	8,897
Liabilities to customers under investment contracts	**1,681**	**-**	**-**	**-**	1,947	-	-	-
Financial liabilities designated at fair value	**87,997**	**91,770**	**101,069**	**106,869**	97,729	102,072	97,042	100,820

The cumulative own credit net gain that has been recognised is £3,600m at 31 December 2011 (2010: £892m).

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18 Fair value of financial instruments

Accounting for financial assets and liabilities – fair values

The Group applies IAS 39. All financial instruments are initially recognised at fair value on the date of initial recognition and, depending on the classification of the asset, may continue to be held at fair value either through profit or loss or other comprehensive income.

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties.

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of The Group's financial assets and liabilities, especially derivatives, quoted prices are not available, and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

For financial liabilities measured at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data, such as spreads on Barclays issued bonds or credit default swaps. Most market parameters are either directly observable or are implied from instrument prices. The model may perform numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price ('Day One profit') is recognised in profit or loss either:

– on a straight-line basis over the term of the transaction, or over the period until all model inputs will become observable where appropriate; or
– released in full when previously unobservable inputs become observable.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependant on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

The sensitivity of valuations used in the financial statements to reasonably possible changes in variables is shown on page 149.

18 Fair value of financial instruments (continued)

Comparison of carrying amounts and fair values

The following table summarises the fair value of financial assets and liabilities presented on The Group's balance sheet where the carrying amount is not a reasonable approximation of fair value.

The Group	2011 Carrying amount £m	2011 Fair value £m	2010 Carrying amount £m	2010 Fair value £m
Financial assets[a]				
Loans and advances to banks	**46,792**	**46,792**	37,799	37,768
Loans and advances to customers:				
– Home loans	**171,272**	**163,433**	168,055	161,439
– Credit cards, unsecured and other retail lending	**64,492**	**63,482**	59,269	58,944
– Wholesale	**196,170**	**191,408**	200,618	196,124
Reverse repurchase agreements and other similar secured lending	**153,665**	**153,365**	205,772	205,527
Financial liabilities[b]				
Deposits from banks	**91,116**	**91,137**	77,975	77,949
Customer accounts:				
– Current and demand accounts	**116,208**	**116,208**	110,443	110,443
– Savings accounts	**93,160**	**93,160**	91,928	91,928
– Other time deposits	**156,677**	**156,700**	143,431	143,593
Debt securities in issue	**129,736**	**128,997**	156,623	155,974
Repurchase agreements and other similar secured lending	**207,292**	**207,292**	225,534	225,511
Subordinated liabilities	**24,870**	**20,745**	28,499	27,183

The Bank	2011 Carrying amount £m	2011 Fair value £m	2010 Carrying amount £m	2010 Fair value £m
Financial assets[a]				
Loans and advances to banks	**52,287**	**52,287**	40,390	40,216
Loans and advances to customers:				
– Home loans	**133,516**	**125,665**	123,995	117,361
– Credit cards, unsecured and other personal lending	**32,821**	**32,626**	26,640	26,788
– Wholesale and corporate loans and advances	**351,443**	**347,406**	372,301	366,632
Reverse repurchase agreements and other similar secured lending	**161,436**	**161,136**	227,343	227,132
Financial liabilities[b]				
Deposits from banks	**108,816**	**108,886**	97,526	97,530
Customer accounts:				
– Current and demand accounts	**82,242**	**82,242**	73,623	73,623
– Savings accounts	**82,870**	**82,870**	80,616	80,616
– Other time deposits	**289,410**	**289,422**	299,758	299,758
Debt securities in issue	**83,939**	**83,271**	106,267	105,839
Repurchase agreements and other similar secured lending	**193,453**	**193,453**	214,207	214,207
Subordinated liabilities	**26,764**	**21,288**	26,994	25,601

Notes

a The carrying value of financial assets measured at amortised cost (including loans and advances, and other lending such as reverse repurchase agreements and cash collateral on securities borrowed) is determined in accordance with the accounting policy noted on page 113. Fair value is determined using discounted cash flows, applying market derived interest rates. Alternatively, the fair value is determined by applying an average of available regional and industry segmental credit spreads to the loan portfolio, taking the contractual maturity of the loan facilities into consideration.

b The carrying value of financial liabilities measured at amortised cost (including customer accounts and other deposits such as repurchase agreements and cash collateral on securities lent, debt securities in issue and subordinated liabilities) is determined in accordance with the accounting policy noted on page 113. Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using a valuation model. Fair values for dated and undated convertible and non convertible loan capital are based on quoted market rates for the issue concerned or similar issues with terms and conditions.

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18 Fair value of financial instruments (continued)

Valuation inputs

IFRS 7 *Financial Instruments: Disclosure* requires an entity to classify its financial instruments held at fair value according to a hierarchy that reflects the significance of observable market inputs. The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes liquid government bonds actively traded through an exchange or clearing house, actively traded listed equities and actively exchange-traded derivatives.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

This category includes most investment grade and liquid high yield bonds, certain asset backed securities, US agency securities, government bonds, less actively traded listed equities, bank, corporate and municipal obligations, certain OTC derivatives, certain convertible bonds, certificates of deposit, commercial paper, collateralised loan obligations (CLOs), most commodities based derivatives, credit derivatives, certain credit default swaps (CDSs), most fund units, certain loans, foreign exchange spot and forward transactions and certain issued notes.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes certain corporate debt securities, distressed debt, private equity investments, commercial real estate loans, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities), certain convertible bonds, certain CDS, derivative exposures to monoline insurers, certain fund units, certain asset backed securities, certain issued notes, certain CDOs (synthetic and some cash underlyings), certain CLOs and certain loans.

18 Fair value of financial instruments (continued)

The following table shows The Group's financial assets and liabilities that are measured at fair value analysed by level within the fair value hierarchy.

Financial assets and liabilities measured at fair value	Valuation technique using			
	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
The Group	£m	£m	£m	£m
As at 31 December 2011				
Trading portfolio assets	**61,530**	**81,449**	**9,204**	**152,183**
Financial assets designated at fair value	**4,179**	**24,091**	**8,679**	**36,949**
Derivative financial assets	**2,550**	**525,147**	**11,267**	**538,964**
Available for sale financial investments	**31,389**	**34,761**	**2,873**	**69,023**
Total assets	**99,648**	**665,448**	**32,023**	**797,119**
Trading portfolio liabilities	**(26,155)**	**(19,726)**	**(6)**	**(45,887)**
Financial liabilities designated at fair value	**(39)**	**(84,822)**	**(3,136)**	**(87,997)**
Derivative financial liabilities	**(2,263)**	**(516,954)**	**(8,581)**	**(527,798)**
Total liabilities	**(28,457)**	**(621,502)**	**(11,723)**	**(661,682)**
As at 31 December 2010				
Trading portfolio assets	48,466	114,723	5,741	168,930
Financial assets designated at fair value	5,406	25,175	10,904	41,485
Derivative financial assets	3,023	408,214	9,082	420,319
Available for sale financial investments	25,949	36,201	3,290	65,440
Total assets	82,844	584,313	29,017	696,174
Trading portfolio liabilities	(30,247)	(42,345)	(101)	(72,693)
Financial liabilities designated at fair value	(4)	(94,088)	(3,637)	(97,729)
Derivative financial liabilities	(2,567)	(396,695)	(6,254)	(405,516)
Total liabilities	(32,818)	(533,128)	(9,992)	(575,938)

Financial assets and liabilities measured at fair value	Valuation technique using			
	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
The Bank	£m	£m	£m	£m
As at 31 December 2011				
Trading portfolio assets	**27,998**	**48,796**	**8,254**	**85,048**
Financial assets designated at fair value	**7**	**39,936**	**4,589**	**44,532**
Derivative financial assets	**1**	**535,572**	**11,346**	**546,919**
Available for sale financial investments:	**15,738**	**30,120**	**2,119**	**47,977**
Total assets	**43,744**	**654,424**	**26,308**	**724,476**
Trading portfolio liabilities	**(13,240)**	**(15,386)**	**(6)**	**(28,632)**
Financial liabilities designated at fair value	**-**	**(98,632)**	**(2,437)**	**(101,069)**
Derivative financial liabilities	**(8)**	**(527,371)**	**(8,458)**	**(535,837)**
Total Liabilities	**(13,248)**	**(641,389)**	**(10,901)**	**(665,538)**
As at 31 December 2010				
Trading portfolio assets	19,611	69,654	5,769	95,034
Financial assets designated at fair value	8	22,486	6,687	29,181
Derivative financial assets	-	431,643	9,502	441,145
Available for sale financial investments	12,567	30,306	2,348	45,221
Total assets	32,186	554,089	24,306	610,581
Trading portfolio liabilities	(11,235)	(33,115)	(2)	(44,352)
Financial liabilities designated at fair value	(3)	(94,331)	(2,708)	(97,042)
Derivative financial liabilities	(8)	(420,014)	(6,221)	(426,243)
Total Liabilities	(11,246)	(547,460)	(8,931)	(567,637)

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For the year ended 31December 2011continued

18 Fair value of financial instruments (continued)

Transfers between Level 1 and Level 2 primarily comprised government bonds that had more observable market prices moving from Level 2 to Level 1.

The following table shows The Group's financial assets and liabilities that are measured at fair value disaggregated by valuation technique and product type.

Financial assets and liabilities measured at fair value by product type	Assets Valuation technique using			Liabilities Valuation technique using		
	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)
The Group	£m	£m	£m	£m	£m	£m
At 31 December 2011						
Commercial real estate loans	**-**	**-**	**2,452**	**-**	**-**	**-**
Asset backed products	**30**	**29,995**	**5,752**	**-**	**(5,595)**	**(1,020)**
Other Credit products	**-**	**55,347**	**4,386**	**-**	**(57,608)**	**(3,765)**
Derivative exposure to monoline insurers	**-**	**-**	**1,129**	**-**	**-**	**-**
Non-asset backed debt instruments	**66,622**	**84,296**	**4,213**	**(15,788)**	**(77,966)**	**(2,086)**
Equity products	**30,673**	**7,810**	**1,079**	**(12,589)**	**(11,612)**	**(1,531)**
Private equity	**-**	**39**	**2,827**	**-**	**-**	**-**
Funds and fund-linked products	**968**	**3,169**	**1,290**	**-**	**(1,017)**	**-**
Fx products	**-**	**34,658**	**457**	**-**	**(33,536)**	**(187)**
Interest rate products	**-**	**405,635**	**2,433**	**-**	**(399,254)**	**(2,090)**
Commodity products	**857**	**26,551**	**773**	**(4)**	**(33,120)**	**(991)**
Other	**498**	**17,948**	**5,232**	**(76)**	**(1,794)**	**(53)**
Total	**99,648**	**665,448**	**32,023**	**(28,457)**	**(621,502)**	**(11,723)**
At 31 December 2010						
Commercial real estate loans	-	-	5,424	-	-	-
Asset backed products	-	39,649	4,628	-	(6,287)	(1,912)
Other Credit products	-	50,230	1,097	-	(42,216)	(1,318)
Derivative exposure to monoline insurers	-	-	1,449	-	-	-
Non-asset backed debt instruments	47,108	99,688	2,956	(23,008)	(105,481)	(2,719)
Equity products	33,384	9,708	1,478	(9,292)	(14,342)	(1,895)
Private equity	-	27	2,844	-	-	-
Funds and fund-linked products	591	3,674	1,084	-	(1,827)	-
Fx products	-	29,883	506	-	(30,349)	(241)
Interest rate products	-	305,235	2,407	-	(291,420)	(1,079)
Commodity products	1,378	28,520	493	(518)	(36,191)	(629)
Other	383	17,699	4,651	-	(5,015)	(199)
Total	82,844	584,313	29,017	(32,818)	(533,128)	(9,992)

18 Fair value of financial instruments (continued)

Level 3 classification

The following table shows Level 3 financial assets and liabilities disaggregated by balance sheet classification and product type.

Level 3 financial assets and liabilities by balance sheet classification and product type	Non-derivative assets			Non-derivative liabilities		Derivatives
	Trading portfolio assets	Financial assets designated at fair value	Available for sale assets	Trading portfolio liabilities	Financial liabilities designated as fair value	Net derivative financial instruments[a]
The Group	£m	£m	£m	£m	£m	£m
At 31 December 2011						
Commercial real estate loans	**-**	**2,452**	**-**	**-**	**-**	**-**
Asset backed products	**3,306**	**693**	**252**	**(1)**	**(13)**	**495**
Other Credit products	**-**	**196**	**-**	**-**	**(1,007)**	**1,432**
Derivative exposure to monoline insurers	**-**	**-**	**-**	**-**	**-**	**1,129**
Non-asset backed debt instruments	**3,953**	**223**	**36**	**(5)**	**(2,081)**	**1**
Equity products	**115**	**-**	**15**	**-**	**-**	**(582)**
Private equity	**-**	**2,238**	**589**	**-**	**-**	**-**
Funds and fund-linked products	**1,258**	**32**	**-**	**-**	**-**	**-**
Fx products	**6**	**-**	**-**	**-**	**-**	**264**
Interest rate products	**-**	**3**	**-**	**-**	**-**	**340**
Commodity products	**-**	**-**	**18**	**-**	**(35)**	**(201)**
Other	**566**	**2,842**	**1,963**	**-**	**-**	**(192)**
Total	**9,204**	**8,679**	**2,873**	**(6)**	**(3,136)**	**2,686**
At 31 December 2010						
Commercial real estate loans	-	5,424	-	-	-	-
Asset backed products	1,720	364	312	(5)	(17)	342
Other Credit products	-	237	-	(4)	(716)	262
Derivative exposure to monoline insurers	-	-	-	-	-	1,449
Non-asset backed debt instruments	2,460	325	168	(1)	(2,690)	(25)
Equity products	135	-	27	-	-	(579)
Private equity	50	1,995	799	-	-	-
Funds and fund-linked products	1,084	-	-	-	-	-
Fx products	-	-	-	-	-	265
Interest rate products	-	61	-	-	(27)	1,294
Commodity products	-	14	4	-	(161)	7
Other	292	2,484	1,980	(91)	(26)	(187)
Total	5,741	10,904	3,290	(101)	(3,637)	2,828

Note

a The derivative financial instruments in the tables above are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2011 totalled £11,267m (2010: £9,082m) and derivative financial liabilities totalled £8,581m (2010: £6,254m).

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18 Fair value of financial instruments (continued)

Level 3 movement analysis

The following table summarises the movements in the Level 3 balance during the year. The table shows gains and losses and includes amounts for all financial assets and liabilities transferred to and from Level 3 during the year. Transfers have been reflected as if they had taken place at the beginning of the year.

Analysis of movements in level 3 financial assets and liabilities	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale assets £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments[a/b] £m	Total £m
The Group							
As at 1 January 2011	5,741	10,904	3,290	(101)	(3,637)	2,828	19,025
Purchases	6,863	1,659	74	2	-	420	9,018
Sales	(5,390)	(2,210)	(317)	5	223	(144)	(7,833)
Issues	-	57	-	-	(647)	(389)	(979)
Settlements	(190)	(2,157)	(39)	-	523	60	(1,803)
Total gains and losses in the period recognised in the income statement	-	-	-	-	-	-	-
-trading income	(355)	117	-	2	982	(686)	60
-other income	-	(12)	90	-	150	-	228
Total gains or losses recognised in other comprehensive income	-	-	(26)	-	-	-	(26)
Transfers in/(transfers out)	2,535	321	(199)	86	(730)	597	2,610
As at 31 December 2011	9,204	8,679	2,873	(6)	(3,136)	2,686	20,300
The Bank							
As at 1 January 2011	5,769	6,687	2,348	(2)	(2,708)	3,281	15,375
Purchases	5,297	464	2	-	-	401	6,164
Sales	(4,573)	(428)	-	2	71	(175)	(5,103)
Issues	-	-	-	-	(611)	(344)	(955)
Settlements	(104)	(1,065)	(28)	-	428	(67)	(836)
Total gains and losses in the period recognised in the income statement	-	-	-	-	-	-	-
-trading income	(349)	(152)	-	-	1,014	(522)	(9)
-other income	-	23	(3)	-	-	(29)	(9)
Total gains or losses recognised in other comprehensive income	-	-	16	-	-	-	16
Transfers in/(transfers out)	2,214	(940)	(216)	(6)	(631)	343	764
As at 31 December 2011	8,254	4,589	2,119	(6)	(2,437)	2,888	15,407

Note

a The Group's derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative financial assets as at 31 December 2011 totalled £11,267m (2010: £9,082m) and derivative financial liabilities totalled £8,581m (2010: £6,254m).

b The Bank's derivative financial instruments in the table above are represented on a net basis). On a gross basis derivative financial assets as at 31 December 2011 totalled £11,346m (2010: £9,502m) and derivative financial liabilities totalled £8,458m (2010: £6,221m).

18 Fair value of financial instruments (continued)

Analysis of movements in level 3 financial assets and liabilities	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale assets £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments £m	Total £m
The Group							
As at 1 January 2010	6,078	10,700	1,277	(78)	(3,828)	3,087	17,236
Purchases	2,830	890	234	(96)	(12)	762	4,608
Sales	(3,334)	(1,117)	(121)	-	39	147	(4,386)
Issues	-	-	-	-	(243)	(555)	(798)
Settlements	(455)	(924)	(206)	63	601	(94)	(1,015)
Total gains and losses in the period recognised in the income statement							
-trading income	683	203	-	-	(730)	(5)	151
-other income	-	173	(94)	-	-	-	79
Total gains or losses recognised in other comprehensive income	-	-	208	-	-	-	208
Transfers in/(transfers out)	(61)	979	1,992	10	536	(514)	2,942
As at 31 December 2010	**5,741**	**10,904**	**3,290**	**(101)**	**(3,637)**	**2,828**	**19,025**
The Bank							
As at 1 January 2010	4,444	5,980	867	(9)	(2,622)	4,012	12,672
Purchases	1,141	285	165	-	(12)	738	2,317
Sales	(1,856)	(157)	-	-	24	147	(1,842)
Issues	-	-	-	-	(176)	(566)	(742)
Settlements	(345)	(570)	(126)	3	293	(135)	(880)
Total gains and losses in the period recognised in the income statement							
-trading income	1,068	(23)	-	2	(465)	(421)	161
-other income	-	19	(135)	-	-	-	(116)
Total gains or losses recognised in other comprehensive income	-	-	93	-	-	-	93
Transfers in/(transfers out)	1,317	1,153	1,484	2	250	(494)	3,712
As at 31 December 2010	**5,769**	**6,687**	**2,348**	**(2)**	**(2,708)**	**3,281**	**15,375**

The significant movements in the Level 3 positions during the year ended 31 December 2011 are as follows:

- Purchases of £9.0bn, primarily comprising £5.1bn of assets acquired as part of the acquisition of Protium, £2.1bn of other non-asset backed debt instruments, £0.6bn of asset backed products and £0.4bn of derivative products;
- Sales of £7.8bn including the sale of £2.8bn Protium assets post acquisition, the sale of £1.9bn of non-asset backed debt instruments, £1.0bn of asset backed products, £1.0bn of legacy commercial real estate loans and £0.3bn of Private Equity investments;
- Settlements of £1.8bn including the £0.8bn Baubecon debt restructuring and repayments received on other legacy commercial real estate loans. For further details, on Baubecon, refer to Note 39;
- Net Transfers into Level 3 of £2.6bn primarily comprised transfers of inflation linked bond trading portfolio assets, for which fair values have become less observable in the market; and
- Issuances of £1.0bn, comprising £0.4bn of derivatives products, £0.3bn of structured notes and £0.3bn of non-asset backed products.

Movements on the fair value of Level 3 assets recognised in the income statement totalled £0.3bn (2010: £0.2bn).

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For the year ended 31December 2011continued

18 Fair value of financial instruments (continued)

Gains and losses on Level 3 financial assets and liabilities

The following table discloses the gains and losses recognised in the year arising on Level 3 financial assets and liabilities held at year end.

Gains and losses reognised during the period on level 3 financial assets and liabilities held	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale assets £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments £m	Total £m
The Group							
Total gains and losses held as at 31 December 2011							
Recognised in the income statement							
-trading income	**(44)**	**270**	**-**	**-**	**729**	**(324)**	**631**
-other income	**-**	**118**	**(54)**	**-**	**-**	**-**	**64**
Total gains or losses recognised in other comprehensive income	**-**	**-**	**135**	**-**	**-**	**-**	**135**
Total	**(44)**	**388**	**81**	**-**	**729**	**(324)**	**830**
The Bank							
Total gains and losses held as at 31 December 2011							
Recognised in the income statement							
-trading income	**(69)**	**216**	**-**	**-**	**794**	**(206)**	**735**
-other income	**-**	**20**	**(32)**	**-**	**-**	**(31)**	**(43)**
Total gains or losses recognised in other comprehensive income	**-**	**-**	**3**	**-**	**-**	**-**	**3**
Total	**(69)**	**236**	**(29)**	**-**	**794**	**(237)**	**695**

Gains and losses reognised during the period on level 3 financial assets and liabilities held	Trading portfolio assets £m	Financial assets designated at fair value £m	Available for sale assets £m	Trading portfolio liabilities £m	Financial liabilities designated at fair value £m	Net derivative financial instruments £m	Total £m
The Group							
Total gains and losses held as at 31 December 2010							
Recognised in the income statement							
-trading income	345	215	-	(1)	(528)	(66)	(35)
-other income	-	115	(166)	-	-	-	(51)
Total gains or losses recognised in other comprehensive income	-	-	133	-	-	-	133
Total	345	330	(33)	(1)	(528)	(66)	47
The Bank							
Total gains and losses held as at 31 December 2010							
Recognised in the income statement							
-trading income	339	142	-	2	(434)	(449)	(400)
-other income	-	18	(301)	-	-	-	(283)
Total gains or losses recognised in other comprehensive income	-	-	(3)	-	-	-	(3)
Total	339	160	(304)	2	(434)	(449)	(686)

18 Fair value of financial instruments (continued)

Valuation control framework

The Independent Valuation Control function is responsible for independent price verification, oversight of fair value adjustments and escalation of valuation issues. This process covers all fair value positions and is a key control in ensuring the material accuracy of valuations.

Price verification uses independently sourced data that is deemed most representative of the market. The characteristics against which the data source is assessed are independence, reliability, consistency with other sources and evidence that the data represents an executable price. The most current data available at balance sheet date is used. Where significant variances are noted in the independent price verification process, an adjustment is taken to the fair value position. Additional fair value adjustments may be taken to reflect such factors as bid-offer spreads, market data uncertainty, model limitations and counterparty risk.

Independent price verification results and fair value adjustments are reported on a monthly basis to the Valuation Committee. This committee is responsible for overseeing valuation and fair value adjustment policy within Corporate and Investment Banking and this is the forum to which valuation issues are escalated. The Valuation Committee delegates more detailed review to the following five Sub-Committees: Independent Valuations, Legacy and Other Assets, Litigation Risk, Models, and Governance.

The Independent Valuations Sub-Committee reviews the results of the independent price verification and fair value adjustments process on a monthly basis. This includes, but is not limited to, reviewing fair value adjustments and methodologies, independent price verification results, limits and valuation uncertainty. The Legacy and Other Assets Sub-Committee is responsible for overseeing the valuation and measurement issues arising in legacy assets, certain AFS positions and other assets as delegated by the Valuation Committee. The Litigation Risk Sub-Committee is responsible for overseeing the valuation and measurement issues arising from legal risks within Barclays Corporate and Investment Banking.

The Models Sub-Committee is responsible for overseeing policies and controls related to the use of valuation models. This includes but is not limited to review of global model risk reports, the trade approval process and model validation, model-related fair value adjustments, and independent price verification variances or collateral disputes relating to model usage.

The Governance Sub-Committee is responsible for overseeing the governance of valuation processes, policies and procedures. This Sub-Committee monitors the development of the Valuation control framework, completeness of balance sheet oversight and appropriate representation of Senior Management at the Valuation Committee and each of the above referenced Sub-Committees. Regulatory and accounting issues related to fair value are assessed by the Governance Sub-Committee.

Valuation techniques

Current year valuation methodologies were consistent with the prior year unless otherwise noted below. These methodologies are commonly used by market participants. The valuation techniques used for the main products that are not determined by reference to unadjusted quoted prices (Level 1), are described below.

Commercial real estate loans

This category includes lending on a range of commercial property types including retail, hotel, office, multi-family and industrial properties.

Performing loans are valued using a spread-based approach, with consideration of characteristics such as property type, geographic location, yields, credit quality and property performance reviews. Where there is significant uncertainty regarding loan performance, valuation is based on the underlying collateral, whose value is determined through property-specific information such as third party valuation reports and bids for the underlying properties.

Since each commercial real estate loan is unique in nature and the secondary commercial loan market is relatively illiquid, valuation inputs are generally considered unobservable.

Asset backed products

These are debt and derivative products that are linked to the cash flows of a pool of referenced assets via securitisation. This category includes residential mortgage backed securities, commercial mortgage backed securities, asset backed securities, CDOs (collateralised debt obligations), CLOs (collateralised loan obligations) and derivatives with cash flows linked to securitisations.

Where available, valuations are based on observable market prices which are sourced from broker quotes and inter-dealer prices. Otherwise, valuations are determined using industry standard cash flow models that calculate fair value based on loss projections, prepayment, recovery and discount rates.

These inputs are determined by reference to a number of sources including proxying to observed transactions, market indices or market research, and by assessing underlying collateral performance.

Proxying to observed transactions, indices or research requires an assessment and comparison of the relevant securities' underlying attributes including collateral, tranche, vintage, underlying asset composition (historical losses, borrower characteristics, and loan attributes such as loan-to-value ratio and geographic concentration) and credit ratings (original and current).

Notes to the financial statements
For the year ended 31December 2011continued

18 Fair value of financial instruments (continued)

Other credit products
These products are linked to the credit spread of a referenced entity, index or basket of referenced entities. This category includes synthetic CDOs, single name and index CDS and Nth to default basket swaps. Within this population, valuation inputs are unobservable for CDS with illiquid reference assets and certain synthetic CDOs.

CDS are valued using a market standard model that incorporates the credit curve as its principal input. Credit spreads are observed directly from broker data, third party vendors or priced to proxies. Where credit spreads are unobservable, they are determined with reference to recent transactions or bond spreads from observable issuances of the same issuer or other similar entities as a proxy.

Synthetic CDOs are valued using a model that calculates fair value based on observable and unobservable parameters including credit spreads, recovery rates, correlations and interest rates and is calibrated daily. For index and bespoke synthetic CDOs with unobservable inputs, correlation is set with reference to the index tranche market.

Derivative exposure to monoline insurers
These products are derivatives through which credit protection has been purchased on structured debt instruments (primarily CLOs) from monoline insurers.

The value of the CDS is derived from the value of the cash instrument that it protects. A valuation adjustment is then applied to reflect the counterparty credit risk associated with the relevant monoline. This adjustment is calculated using an assessment of the likely recovery of the protected cash security, which is derived from a scenario-based calculation of the mark-to-market of the instrument using an appropriate valuation model; and the probability of default and loss given default of the monoline counterparty, as estimated from independent fundamental credit analysis. Due to the counterparty credit risk associated with these insurers, derivative exposure to monoline counterparty insurers is generally considered unobservable.

Non-asset backed debt instruments
These are government bonds, US agency bonds, corporate bonds, commercial paper, certificates of deposit, convertible bonds, notes and other non-asset backed bonds. Within this population, valuation inputs are unobservable for certain convertible bonds and corporate bonds.

Liquid government bonds actively traded through an exchange or clearing house are marked to the closing levels observed in these markets. Less liquid government bonds, US agency bonds, corporate bonds, commercial paper and certificates of deposit are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, fair value is determined by reference to either issuances or CDS spreads of the same issuer as proxy inputs to obtain discounted cash flow amounts. In the absence of observable bond or CDS spreads for the respective issuer, similar reference assets or sector averages are applied as a proxy (the appropriateness of proxies being assessed based on issuer, coupon, maturity and industry).

Convertible bonds are valued using prices observed through broker sources, market data services and trading activity. Where reliable external sources are not available, fair value is determined using a spread to the equity conversion value or the value of the bond without the additional equity conversion. The spread level is determined with reference to similar proxy assets.

Fair valued issued notes are valued using discounted cash flow techniques and industry standard models incorporating various observable input parameters depending on the terms of the instrument. Any unobservable inputs generally have insignificant impact on the overall valuation.

Equity products
This category includes listed equities, exchange traded equity derivatives, OTC equity derivatives, preference shares and contracts for difference.

OTC equity derivatives valuations are determined using industry standard models. The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. In general, input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying instrument. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Private equity
Private equity investments are valued in accordance with the ‘International Private Equity and Venture Capital Valuation Guidelines’. This requires the use of a number of individual pricing benchmarks such as the prices of recent transactions in the same or similar entities, discounted cash flow analysis, and comparison with the earnings multiples of listed comparative companies. Unobservable inputs include earnings estimates, multiples of comparative companies, marketability discounts and discount rates. Model inputs are based on market conditions at the reporting date. The valuation of unquoted equity instruments is subjective by nature. However, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Full valuations are performed at least bi-annually, with the portfolio reviewed on a monthly basis for material events that might impact upon fair value.

Funds and fund-linked products
This category includes holdings in hedge funds, funds of funds, and fund derivatives. Fund derivatives are derivatives whose underlyings include mutual funds, hedge funds, fund indices and multi-asset portfolios. They are valued using underlying fund prices, yield curves and other available market information.

18 Fair value of financial instruments (continued)

In general, fund holdings are valued based on the latest available valuation received from the fund administrator. Funds are deemed unobservable where the fund is either suspended, in wind-down, has a redemption restriction that severely affects liquidity, or where the latest net asset value from the fund administrators is more than three months old. In the case of illiquid fund holdings the valuation will take account of all available information in relation to the underlying fund or collection of funds and maybe adjusted relative to the performance of relevant index benchmarks.

Foreign exchange products

These products are derivatives linked to the foreign exchange market. This category includes forward contracts, FX swaps and FX options. Exotic derivatives are valued using industry standard and bespoke models.

Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. Certain correlations and long dated forward and volatilities are unobservable. Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.

Interest rate products

These are products linked to interest rates or inflation indices. This category includes interest rate and inflation swaps, swaptions, caps, floors, inflation options, balance guaranteed swaps and other exotic interest rate derivatives. Interest rate products are valued using standard discounted cash flow techniques.

Interest rate derivative cash flows are valued using interest rate yield curves whereby observable market data is used to construct the term structure of forward rates. This is then used to project and discount future cash flows based on the parameters of the trade. Instruments with optionality are valued using a volatility surface constructed from market observable inputs. Exotic interest rate derivatives are valued using industry standard and bespoke models based on observable market parameters which are determined separately for each parameter and underlying instrument. Where unobservable, a parameter will be set with reference to an observable proxy. Inflation forward curves and interest rate yield curves are extrapolated beyond observable tenors.

Balance guaranteed swaps are valued using cash flow models that calculate fair value based on loss projections, prepayment, recovery and discount rates. These parameters are determined by reference to underlying asset performance, independent research, ABX indices, broker quotes, observable trades on similar securities and third party pricing sources. Prepayment is projected based on observing historic prepayment.

During 2010, in line with changes in market practice, the methodology for valuing certain collateralised interest rate products was updated to make use of more relevant interest rate yield curves to discount cash flows. For certain collateralised derivatives, Overnight Indexed Swap (OIS) rates were used rather than other market reference rates such as LIBOR. During 2011, in line with market practice, the methodology for valuing certain collateralised interest rate products was further amended to reflect the impact of “cheapest to deliver” collateral on discounting curves, where counterparty CSA (Credit Support Annex) agreements specify the right of the counterparty to choose the currency of collateral posted.

Commodity products

These products are exchange traded and OTC derivatives based on underlying commodities such as metals, crude oil and refined products, agricultural, power and natural gas.

The valuations of certain commodity swaps and options are determined using models incorporating discounting of cash flows and other industry standard modelling techniques. Valuation inputs include forward curves, volatility surfaces and tenor correlation. Within this population, certain forward curves and volatility surfaces for longer dated exposures are unobservable. These unobservable inputs are set with reference to similar observable products or by applying extrapolation techniques from the observable market.

Other

This category is largely made up of fixed rate loans, which are valued using models that discount expected future cash flows. These models calculate fair value based on observable interest rates and unobservable credit spreads. Unobservable credit spreads are determined by extrapolating observable spreads.

The receivables resulting from the acquisition of the North American businesses of Lehman Brothers is included within ‘Other’. For more details, refer to Note 29 Legal Proceedings.

Complex derivative instruments

Valuation estimates made by counterparties with respect to complex derivative instruments, for the purpose of determining the amount of collateral to be posted, often differ, sometimes significantly, from Barclays' own estimates. In almost all cases, Barclays has been able to successfully resolve such differences or otherwise reach an accommodation with respect to collateral posting levels, including in certain cases by entering into compromise collateral arrangements. Due to the ongoing nature of collateral calls, Barclays will often be engaged in discussions with one or more counterparties in respect of such differences at any given time. Valuation estimates made by counterparties for collateral purposes are, like any other third-party valuation, considered when determining Barclays' own fair value estimates.

Notes to the financial statements
For the year ended 31December 2011continued

18 Fair value of financial instruments (continued)
Fair value adjustments
The main valuation adjustments required to arrive at a fair value are described below:

Bid-Offer valuation adjustments
For assets and liabilities where the firm is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the firm is a market maker and has the ability to transact at, or better than, mid price (which is the case for certain equity, bond and vanilla derivative markets), the mid price is used, since the bid-offer spread does not represent a transaction cost.

Uncertainty adjustments
Market data input for exotic derivatives may not have a directly observable bid offer spread. In such instances, an uncertainty adjustment is applied as a proxy for the bid offer adjustment. An example of this is correlation risk where an adjustment is required to reflect the possible range of values that market participants apply. The uncertainty adjustment may be determined by calibrating to derivative prices, or by scenario analysis or historical analysis.

Model valuation adjustments
New valuation models are reviewed under the firm's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependant on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review on at least an annual basis.

Credit and debit valuation adjustments
Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and Barclays' own credit quality respectively. These adjustments are modelled for OTC derivatives across all asset classes. Calculations are derived from estimates of exposure at default, probability of default and recovery rates, on a counterparty basis. Counterparties include (but are not limited to) corporates, monolines, sovereigns and sovereign agencies, supranationals, and special-purpose vehicles.

Whereas in 2010 certain highly-rated sovereigns, supra-nationals and government agencies were excluded from the CVA calculation, following the sovereign debt crisis it has been considered appropriate to include these entities, for which the impact of doing so was a £79m increase in the CVA.

Exposure at default is generally based on expected positive exposure, estimated through the simulation of underlying risk factors. For some complex products, where this approach is not feasible, simplifying assumptions are made, either through proxying with a more vanilla structure, or using current or scenario-based mark-to-market as an estimate of future exposure. Where strong collateralisation agreement exists as a mitigant to counterparty risk, the exposure is set to zero.

Probability of default and recovery rate information is generally sourced from the CDS markets. For counterparties where this information is not available, or considered unreliable due to the nature of the exposure, alternative approaches are taken based on mapping internal counterparty ratings onto historical or market-based default and recovery information. In particular, this applies to sovereign related names where the effect of using the recovery assumptions implied in CDS levels would imply a £300m increase in CVA.

Correlation between counterparty credit and underlying derivative risk factors may lead to a systematic bias in the valuation of counterparty credit risk, termed "wrong-way" or "right-way" risk. This is not incorporated into the CVA calculation, but is monitored regularly via scenario analysis and has been found to be immaterial.

Own credit adjustments
The carrying amount of issued notes that are designated under the IAS 39 fair value option is adjusted to reflect the effect of changes in own credit spreads. The resulting gain or loss is recognised in the income statement. For funded instruments such as issued notes, mid-level credit spreads on Barclays issued bonds are the basis for this adjustment.

At 31 December 2011, the own credit adjustment arose from the fair valuation Barclays Capital's financial liabilities designated at fair value. Barclays credit spreads widened during 2011, leading to a profit of £2,708m (2010: £391m) from the fair value of changes primarily in own credit itself but also reflecting the effects of foreign exchange rates, time decay and trade activity.

18 Fair value of financial instruments (continued)

Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	The Group		The Bank	
	2011	2010	2011	2010
	£m	£m	£m	£m
Opening balance	137	99	99	70
Additions	93	56	43	41
Amortisation and releases	(113)	(18)	(63)	(12)
Closing balance	117	137	79	99

Critical accounting estimates and judgements

Quoted market prices are not available for many of the financial assets and liabilities that are held at fair value and The Group uses a variety of techniques to estimate the fair value. The above note describes the more judgemental aspects of valuation in the period, including: credit valuation adjustments on monoline exposures, commercial real estate loans, private equity investments, and fair value loans to government and business and other services. The following sensitivity analysis is performed on products with significant unobservable parameters (Level 3) to generate a range of reasonably possible alternative valuations. These numbers are calculated before taking advantage of any diversification in the portfolio.

Sensitivity analysis of valuations using unobservable inputs

	Fair value		Favourable changes		Unfavourable changes	
The Group	Total assets	Total liabilities	Profit and loss	Equity	Profit and loss	Equity
Product type	£m	£m	£m	£m	£m	£m
As at 31 December 2011						
Commercial real estate loans	2,452	-	102	-	(118)	-
Asset backed products	5,752	(1,020)	488	2	(388)	(2)
Other credit products	4,386	(3,765)	167	-	(167)	-
Derivative exposure to monoline insurers	1,129	-	-	-	(133)	-
Non-asset backed debt instruments	4,213	(2,086)	24	-	(22)	-
Equity products	1,079	(1,531)	169	11	(169)	(15)
Private equity	2,827	-	375	81	(364)	(82)
Funds and fund-linked products	1,290	-	174	-	(174)	-
FX products	457	(187)	57	-	(57)	-
Interest rate products	2,433	(2,090)	60	-	(60)	-
Commodity products	773	(991)	116	-	(123)	-
Other	5,232	(53)	196	-	(196)	-
Total	32,023	(11,723)	1,928	94	(1,971)	(99)
As at 31 December 2010						
Commercial real estate loans	5,424	-	183	-	(167)	-
Asset backed products	4,628	(1,912)	317	11	(289)	(11)
Credit products	1,097	(1,318)	38	-	(66)	-
Derivative exposure to monoline insurers	1,449	-	78	-	(230)	-
Non-asset backed debt instruments	2,956	(2,719)	56	-	(55)	-
Equity products	1,478	(1,895)	156	8	(154)	(8)
Private equity	2,844	-	279	111	(280)	(69)
Funds and fund-linked products	1,084	-	275	-	(275)	-
Fx products	506	(241)	51	-	(52)	-
Interest rate products	2,407	(1,079)	38	-	(52)	-
Commodity products	493	(629)	30	-	(55)	-
Other	4,651	(199)	51	-	(55)	-
Total	29,017	(9,992)	1,552	130	(1,730)	(88)

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For the year ended 31December 2011continued

18 Fair value of financial instruments (continued)

An analysis is performed on products with significant unobservable parameters (Level 3) to generate a range of reasonably possible alternative valuations. The methodologies applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historical data. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

The effect of stressing unobservable inputs to a range of reasonably possible alternatives would be to increase fair values by up to £2.0bn (2010: £1.7bn) or to decrease fair values by up to £2.1bn (2010: £1.8bn) with substantially all the potential effect impacting profit and loss rather than equity.

Sensitivities are dynamically calculated on a monthly basis. The calculation is based on a range, standard deviation or spread data of a reliable reference source or a scenario based on alternative market views. The level of shift or scenarios applied is considered for each product and varied according to the quality of the data and variability of underlying market. The approach adopted in determining these sensitivities has continued to evolve during the year, in the context of changing market conditions.

Commercial real estate loans

Sensitivity is determined by applying an adjusted spread of 15% for each loan (both up and down). The adjusted spread is derived from loan origination spreads provided by independent market research. For non-performing loans, a plausible worst-case valuation is determined from the history of third-party valuation reports or bids received.

Asset backed products

The sensitivity analysis for asset backed products is based on bid offer ranges defined at the asset class level which take into account security level liquidity. Half of the observed bid offer range is multiplied by the market value of the position to calculate the valuation sensitivity. Where there is no observable bid offer data, price movements on appropriate indices are used. Sensitivity is based on the average of the largest upward and downward price movement in the preceding 12 month period.

Other credit products

The sensitivity of valuations of the illiquid CDS portfolio is determined by applying a shift to each underlying reference asset. The shift is based upon the average bid offer spreads observed in the market for similar CDS.

Bespoke Collateralised Synthetic Obligation (CSO) sensitivity is calculated using correlation levels derived from the range of contributors to a consensus bespoke service.

Derivative exposure to monoline insurers

Sensitivity is measured by stressing inputs to the counterparty valuation adjustment including our expected exposures and the probability of default of the monoline derivative counterparty. The modelled expected exposures are stressed by shifting the recovery rate assumptions on the underlying protected assets. The probability of default of the monoline derivative counterparty is stressed by shifting the internal default curve, which is generated through the analysis performed by credit risk management.

Non-asset backed debt instruments

The sensitivity for convertible bonds is determined by applying a shift to each underlying position based upon the bid offer spreads observed in the market for similar bonds.

The sensitivity for corporate bonds portfolio is determined by applying a shift to each underlying position driven by average bid offer spreads observed in the market for similar bonds.

Equity products

Sensitivity is estimated based on the dispersion of consensus data services either directly or through proxies.

Private equity

The relevant valuation models are each sensitive to a number of key assumptions, such as projected future earnings, comparator multiples, marketability discounts and discount rates. Valuation sensitivity is estimated by flexing such assumptions to reasonable alternative levels and determining the impact on the resulting valuation.

Funds and fund-linked products

Sensitivity is calculated on an individual fund basis using a loss based scenario approach which factors in the underlying assets of the specific fund and assumed recovery rates.

Foreign exchange products

Sensitivity relating to unobservable valuation inputs is based on the dispersion of consensus data services.

18 Fair value of financial instruments (continued)

Interest rate products

Sensitivity relating to the valuation of the products is mainly driven from the dispersion of the consensus data.

Commodity products

Sensitivity is determined primarily by measuring historical variability over two years. The estimate is calculated using data for short dated parameter curves to generate best and worst case scenarios. Where historical data is unavailable or uncertainty is due to volumetric risk, sensitivity is measured by applying appropriate stress scenarios or using proxy bid-offer spread levels.

Other

The sensitivity for fixed rate loans is calculated by applying a 25% shift in borrower credit spreads.

No stress has been applied to the receivables relating to the Lehman acquisition (refer to Note 16). Due to the uncertainty inherent in legal proceedings, it is not possible to identify reasonable upside and downside stresses on a basis comparable with the other assets analysed.

The sensitivity for credit valuation adjustments is calculated by assessing the impact on the counterparty credit spreads of stressing their credit ratings by two ratings notches.

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For the year ended 31December 2011continued

Financial instruments held at amortised cost

This section contains information about assets that are held at amortised cost arising from The Group's retail and wholesale lending including loans and advances, finance leases, repurchase and reverse repurchase agreements and similar secured lending. For more information about The Group's funding and liquidity position, see Liquidity Risk and Capital on pages 78 and pages 79 to 94.

Accounting for financial instruments held at amortised cost
Loans and advances to customers and banks, customer accounts, debt securities and the majority of other financial liabilities, are held at amortised cost. That is, the initial fair value (which is normally the amount advanced or borrowed) is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability.

19 Loans and advances to banks and customers

	The Group		The Bank	
As at 31 December	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Gross loans and advances to banks	**46,837**	37,847	**52,332**	40,438
Less: allowance for impairment	**(45)**	(48)	**(45)**	(48)
Loans and advances to banks	**46,792**	37,799	**52,287**	40,390
Gross loans and advances to customers	**442,486**	440,326	**525,154**	531,012
Less: allowance for impairment	**(10,552)**	(12,384)	**(7,374)**	(8,076)
Loans and advances to customers	**431,934**	427,942	**517,780**	522,936

20 Finance leases

Accounting for finance leases
The Group applies IAS 17 *Leases* in accounting for finance leases, both where it is the lessor or the lessee. A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. Where The Group is the lessor, the leased asset is not held on the balance sheet; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Where The Group is the lessee, the leased asset is recognised in property, plant and equipment and a finance lease liability is recognised, representing the minimum lease payments payable under the lease, discounted at the rate of interest implicit in the lease.

Interest income or expense is recognised in interest receivable or payable, allocated to accounting periods to reflect a constant periodic rate of return.

Finance lease receivables
Finance lease receivables are included within loans and advances to customers. The Group specialises in asset-based lending and works with a broad range of international technology, industrial equipment and commercial companies to provide customised finance programmes to assist manufacturers, dealers and distributors of assets.

20 Finance leases (continued)

	2011				2010			
	Gross investment in finance lease receivables	Future finance income	Present value of minimum lease payments receivable	Un-guaranteed residual values	Gross investment in finance lease receivables	Future finance income	Present value of minimum lease payments receivable	Un-guaranteed residual values
	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Not more than one year	**2,977**	**(437)**	**2,540**	**71**	3,440	(479)	2,961	60
Over one year but not more than five years	**6,333**	**(934)**	**5,399**	**122**	7,200	(1,058)	6,142	123
Over five years	**1,379**	**(320)**	**1,059**	**395**	1,591	(340)	1,251	560
Total	**10,689**	**(1,691)**	**8,998**	**588**	12,231	(1,877)	10,354	743
The Bank								
Not more than one year	**18**	**-**	**18**	**-**	-	-	-	-
Over one year but not more than five years	**181**	**(10)**	**171**	**-**	132	-	132	-
Over five years	**310**	**(29)**	**281**	**-**	92	-	92	-
Total	**509**	**(39)**	**470**	**-**	224	-	224	-

The impairment allowance for uncollectable finance lease receivables amounted to £290m at 31 December 2011 (2010: £351m).

Finance lease liabilities

The Group leases items of property, plant and equipment on terms that meet the definition of finance leases. Finance lease liabilities are included within accruals, deferred income and other liabilities (see Note 26).

As at 31 December 2011, the total future minimum payments under finance leases were £64m (2010: £87m), of which £10m (2010: £16m) was due within one year and the total future minimum payments under finance leases for the Bank were £2m (2010: nil). As at 31 December 2011, the carrying amount of assets held under finance leases was £28m (2010: £29m).

21 Reclassification of financial assets held for trading

Accounting for the reclassification of financial assets held for trading

In accordance with IAS 39, where The Group no longer intends to trade in financial assets it may transfer them out of the held for trading classification and measure them at amortised cost if they meet the definition of a loan. The initial value used for the purposes of establishing amortised cost is fair value on the date of the transfer.

Prior to 2010, The Group reclassified certain financial assets, originally classified as held for trading that were deemed to be not held for trading purposes to loans and receivables. There were no reclassifications of financial assets during 2011 or 2010.

The carrying value of the securities previously reclassified into loans and receivables has decreased from £8,625m to £7,652m primarily as a result of sales, paydowns and maturities of the underlying securities, and increases due to the reversal of the discount on reclassification. Sales of securities from the 16 December 2008 reclassification totalled £91m (31 December 2010: £390m) and sales of securities from the 25 November 2009 reclassification totalled £482m (31 December 2010: £178m).

The following table provides a summary of the assets reclassified from held for trading to loans and receivables.

	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Trading assets reclassified to loans and receivables				
Reclassification 25 November 2009	**7,434**	**7,045**	8,081	7,842
Reclassification 16 December 2008	**218**	**217**	544	545
Total financial assets reclassified to loans and receivables	**7,652**	**7,262**	**8,625**	**8,387**

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For the year ended 31December 2011continued

21 Reclassification of financial assets held for trading (continued)
If the reclassifications had not been made, The Group's income statement for 2011 would have included a net loss on the reclassified trading assets of £152m (2010: loss of £189m). The reclassified financial assets contributed £396m (2010: £359m) to interest income.

22 Reverse repurchase and repurchase agreements including other similar lending and borrowing
Reverse repurchase agreements (and stock borrowing or similar transaction) are a form of secured lending whereby The Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where The Group obtains such loans or cash collateral, in exchange for the transfer of collateral.

Accounting for reverse repurchase and repurchase agreements including similar lending and other borrowing
The Group purchases (a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included in the balance sheet as The Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset at amortised cost.

The Group may also sell (a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the balance sheet as The Group retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at amortised cost.

	The Group		The Bank	
	2011 £m	2010 £m	2011 £m	2010 £m
Assets				
Banks	**64,470**	104,233	**43,463**	72,997
Customers	**89,195**	101,539	**117,973**	154,346
Reverse repurchase agreements and other similar secured lending	**153,665**	205,772	**161,436**	227,343
Liabilities				
Banks	**69,544**	99,997	**46,430**	61,692
Customers	**137,748**	125,537	**147,023**	152,515
Repurchase agreements and other similar secured borrowing	**207,292**	225,534	**193,453**	214,207

Fixed assets and investments

This section details The Group's tangible and intangible assets, property plant and equipment and investments, which it utilises to generate profit for the business.

23 Property, plant and equipment

Accounting for property, plant and equipment

The Group applies IAS 16 *Property Plant and Equipment* and IAS 40 *Investment Properties*.

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in the enhancement to the asset.

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. Following a review in 2011, the depreciation rates for certain categories of fixed assets were revised to reflect their currently expected useful lives. The impact of the change was not material. The Group uses the following annual rates in calculating depreciation:

Annual rates in calculating depreciation	**Depreciation rate**
Freehold land	Not depreciated
Freehold buildings and long-leasehold property (more than 50 years to run)	2-3.3%
Leasehold property over the remaining life of the lease (less than 50 years to run)	Over the remaining life of the lease
Costs of adaptation of freehold and leasehold property[a]	6-10%
Equipment installed in freehold and leasehold property[a]	6-10%
Computers and similar equipment	17-33%
Fixtures and fittings and other equipment	9-20%

Investment property

The Group initially recognises investment property at cost, and subsequently at their fair value at each balance sheet date reflecting market conditions at the reporting date. Gains and losses on remeasurement are included in the income statement.

Notes to the financial statements
For the year ended 31December 2011continued

23 Property, plant and equipment (continued)

	The Group					The Bank			
	Investment property	Property	Equipment	Leased assets	Total	Investment property	Property	Equipment	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost									
As at 1st January 2011	**1,570**	**4,229**	**4,749**	**75**	**10,623**	**4**	**2,115**	**2,064**	**4,183**
Acquisitions and disposals of subsidiaries	**1,201**	**-**	**-**	**-**	**1,201**	**-**	**-**		**-**
Additions and disposals	**277**	**(183)**	**256**	**1**	**351**	**-**	**(47)**	**129**	**82**
Change in fair value of investment properties	**(138)**	**-**	**-**	**-**	**(138)**	**-**	**-**	**-**	**-**
Exchange and other movements	**18**	**(87)**	**(250)**	**(56)**	**(375)**	**-**	**(12)**	**(24)**	**(36)**
As at 31st December 2011	**2,928**	**3,959**	**4,755**	**20**	**11,662**	**4**	**2,056**	**2,169**	**4,229**
Accumulated depreciation and impairment									
As at 1st January 2011	**-**	**(1,326)**	**(3,133)**	**(24)**	**(4,483)**	**-**	**(935)**	**(1,370)**	**(2,305)**
Depreciation charge	**-**	**(206)**	**(463)**	**(4)**	**(673)**	**-**	**(110)**	**(204)**	**(314)**
Disposals	**-**	**275**	**175**	**4**	**454**	**-**	**205**	**108**	**313**
Exchange and other movements	**-**	**12**	**177**	**17**	**206**	**-**	**1**	**13**	**14**
As at 31st December 2011	**-**	**(1,245)**	**(3,244)**	**(7)**	**(4,496)**	**-**	**(839)**	**(1,453)**	**(2,292)**
Net book value	**2,928**	**2,714**	**1,511**	**13**	**7,166**	**4**	**1,217**	**716**	**1,937**
Cost									
As at 1st January 2010	1,207	3,830	4,197	66	9,300	-	1,956	2,073	4,029
Acquisitions and disposals of subsidiaries	46	2	4	-	52	-	-	2	2
Additions and disposals	353	283	120	9	765	4	172	(22)	154
Change in fair value of investment properties	(54)	-	-	-	(54)	-	-	-	-
Exchange and other movements	18	114	428	-	560	-	(13)	11	(2)
As at 31st December 2010	1,570	4,229	4,749	75	10,623	4	2,115	2,064	4,183
Accumulated depreciation and impairment									
As at 1st January 2010	-	(1,128)	(2,529)	(17)	(3,674)	-	(881)	(1,316)	(2,197)
Depreciation charge	-	(231)	(555)	(4)	(790)	-	(129)	(256)	(385)
Disposals	-	86	341	(3)	424	-	58	221	279
Exchange and other movements	-	(53)	(390)	-	(443)	-	17	(19)	(2)
As at 31st December 2010	-	(1,326)	(3,133)	(24)	(4,483)	-	(935)	(1,370)	(2,305)
Net book value	1,570	2,903	1,616	51	6,140	4	1,180	694	1,878

Property rentals of £94m (2010: £105m) and £61m (2010: £48m) have been included in investment income and other income respectively and gains on property disposals of £13m (2010: £29m) have been included in administration and general expenses.

The fair value of investment property is determined by reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions. Discounted cash flow techniques may be employed to calculate fair value where there have been no recent transactions, using current external market inputs such as market rents and interest rates. Valuations are carried out by management with the support of appropriately qualified independent valuers.

24 Goodwill and intangible assets

Accounting for goodwill and other intangible assets

Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures, and represents the excess of the fair value of the purchase consideration over the fair value of The Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The test involves comparing the carrying value of goodwill with the present value of the pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the cash generating unit to which the goodwill relates, or the cash generating unit's fair value if this is higher.

Intangible assets

The accounting standard that The Group applies in accounting for intangible assets other than goodwill is IAS 38 *Intangible Assets.*

Intangible assets include brands, customer lists, licences and other contracts, core deposit intangibles and mortgage servicing rights. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are reviewed for impairment when there are indications that impairment may have incurred.

They are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 4-25 years.

Notes to the financial statements

For the year ended 31December 2011continued

24 Goodwill and intangible assets (continued)

	Goodwill	Internally generated software	Other software	Core deposit intangibles	Brands	Customer lists	Mortgage servicing rights	Licences and other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Group									
Cost									
As at 1 January 2011	7,259	1,091	234	347	202	1,686	-	473	11,292
Additions and disposals	(210)	375	98	(1)	-	144	-	(19)	387
Exchange and other movements	(352)	(29)	(4)	(59)	(36)	(106)	-	(10)	(596)
As at 31 December 2011	6,697	1,437	328	287	166	1,724	-	444	11,083
Accumulated amortisation and impairment									
As at 1 January 2011	(1,040)	(552)	(86)	(121)	(109)	(493)	-	(194)	(2,595)
Disposals	210	2	5	-	-	-	-	23	240
Amortisation charge	-	(157)	(35)	(13)	(18)	(158)	-	(38)	(419)
Impairment charge	(597)	(4)	-	-	-	-	-	-	(601)
Exchange and other movements	35	17	2	20	21	36	-	7	138
As at 31 December 2011	(1,392)	(694)	(114)	(114)	(106)	(615)	-	(202)	(3,237)
Net book value	5,305	743	214	173	60	1,109	-	242	7,846
The Bank									
Cost									
As at 1 January 2011	4,279	707	118	7	-	16	-	117	5,244
Additions and disposals	-	295	80	-	-	91	-	9	475
Exchange and other movements	(2)	(13)	(3)	(1)	-	-	-	(2)	(21)
As at 31 December 2011	4,277	989	195	6	-	107	-	124	5,698
Accumulated amortisation and impairment									
As at 1 January 2011	(727)	(339)	(34)	(4)	-	(8)	-	(22)	(1,134)
Disposals	-	1	-	-	-	-	-	-	1
Amortisation charge	-	(96)	(15)	-	-	(30)	-	(12)	(153)
Impairment charge	(89)	(4)	-	-	-	-	-	-	(93)
Exchange and other movements	-	12	1	-	-	-	-	1	14
As at 31 December 2011	(816)	(426)	(48)	(4)	-	(38)	-	(33)	(1,365)
Net book value	3,461	563	147	2	-	69	-	91	4,333

24 Goodwill and intangible assets (continued)

	Goodwill £m	Internally generated software £m	Other software £m	Core deposit intangibles £m	Brands £m	Customer lists £m	Mortgage servicing rights £m	Licences and other £m	Total £m
The Group									
Cost									
As at 1 January 2010	7,058	963	237	301	175	1,521	164	462	10,881
Additions and disposals	12	88	3	-	-	28	(168)	22	(15)
Exchange and other movements	189	40	(6)	46	27	137	4	(11)	426
As at 31 December 2010	7,259	1,091	234	347	202	1,686	-	473	11,292
Accumulated amortisation and impairment									
As at 1 January 2010	(826)	(465)	(58)	(82)	(84)	(318)	(117)	(136)	(2,086)
Disposals	-	100	-	-	-	2	144	11	257
Amortisation charge	-	(178)	(36)	(19)	(18)	(141)	(7)	(38)	(437)
Impairment charge	(243)	(14)	-	(7)	-	(15)	(19)	(17)	(315)
Exchange and other movements	29	5	8	(13)	(7)	(21)	(1)	(14)	(14)
As at 31 December 2010	(1,040)	(552)	(86)	(121)	(109)	(493)	-	(194)	(2,595)
Net book value	6,219	539	148	226	93	1,193	-	279	8,697
The Bank									
Cost									
As at 1 January 2010	4,281	675	136	7	4	17	164	117	5,401
Additions and disposals	-	32	(18)	-	-	28	(168)	2	(124)
Exchange and other movements	(2)	-	-	-	(4)	(29)	4	(2)	(33)
As at 31 December 2010	4,279	707	118	7	-	16	-	117	5,244
Accumulated amortisation and impairment									
As at 1 January 2010	(727)	(320)	(21)	(3)	(6)	(7)	(115)	(21)	(1,220)
Disposals	-	94	-	-	-	-	144	11	249
Amortisation charge	-	(111)	(13)	(1)	-	(5)	(7)	(11)	(148)
Impairment charge	-	(13)	-	-	-	(10)	(19)	9	(33)
Exchange and other movements	-	11	-	-	6	14	(3)	(10)	18
As at 31 December 2010	(727)	(339)	(34)	(4)	-	(8)	-	(22)	(1,134)
Net book value	3,552	368	84	3	-	8	-	95	4,110

Goodwill
Goodwill is allocated to business operations according to business segments as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
UK RBB	**3,145**	3,148	**3,130**	3,130
RBB Europe	**64**	505	**64**	108
RBB Africa	**1,078**	1,307	**-**	-
Barclaycard	**505**	585	**172**	220
Barclays Capital	**102**	133	**-**	-
Barclays Corporate	**20**	150	**-**	-
Barclays Wealth	**391**	391	**95**	94
Total net book value of goodwill	**5,305**	**6,219**	**3,461**	**3,552**

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24 Goodwill and intangible assets (continued)

Impairment testing of goodwill

Total impairment charges of £597m (2010: £243m charge relating to Barclays Bank Russia) have been recognised during the year as the recoverable amount of goodwill in FirstPlus and Spain was not supported based on the value-in-use calculations. The impairment charge of £47m (2010: nil) in respect of all of the goodwill held by Barclaycard arising from the acquisition of FirstPlus reflected the continued run-off of the loan portfolio and the impact of the payment protection insurance redress. Further details on the impairment of Spain goodwill are set out below.

Key assumptions

The key assumptions used for impairment testing are set out below for each significant goodwill balance. Other Group goodwill of £1,133m (2010: £1,253m) and Bank goodwill of £331m (2010: £375m) was allocated to multiple cash-generating units which are not considered individually significant.

UK RBB

At 31 December 2011, goodwill relating to Woolwich was £3,130m (2010: £3,130m) of the total UK RBB balance. The recoverable amount of Woolwich has been determined using cash flow predictions based on financial budgets approved by management and covering a five year period, with a terminal growth rate of 3% (2010: 2%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 13% (2010: 13%). Based on these assumptions, the recoverable amount exceeded the carrying amount including goodwill by £8.7bn (2010: £4.0bn). A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by £1.4bn (2010: £1.0bn) and £0.9bn (2010: £0.8bn) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £1.5bn (2010: £1.1bn).

Africa RBB

At 31 December 2011, goodwill relating to the Absa Group was £1,042m (2010: £1,271m) of the total Africa RBB balance. The recoverable amount of the Absa Group has been determined using cash flow predictions based on financial budgets approved by management and covering a five year period, with a terminal growth rate of 6% (2010: 6%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 14% (2010: 14%). The recoverable amount calculated based on value-in-use exceeded the carrying amount including goodwill by £4.7bn (2010: £5.0bn). A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by £0.9bn (2010: £1.0bn) and £0.7bn (2010: £0.8bn) respectively. A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £0.8bn (2010: £0.9bn).

Spain

At 31 December 2011, Barclays recognised an impairment charge of £550m (2010: nil) in respect of the whole goodwill balance held by Barclays Corporate (£123m) and Europe RBB (£427m) arising from the acquisitions of the Iberia Woolwich business in 2000 and Zaragozano in 2003. The cash flow forecasts were reassessed during the fourth quarter as a result of uncertainty in economic conditions in Spain and increased risk associated with the future cash flows. The pre-tax discount rate was increased to 16% (2010: 12%) and the long term growth rate was reduced to 1% (2010: 2%). Based on these assumptions the value-in-use was no longer able to support the recognition of the goodwill and it was fully impaired as at 31 December 2011.

Critical accounting estimates and judgements

Goodwill

Testing goodwill for impairment involves a significant amount of estimation. This includes the identification of independent cash generating units and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisation. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity and the impacts of regulatory change. Determining both the expected pre-tax cash flows and the risk adjusted interest rate appropriate to the operating unit require the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cash flows.

Other intangible assets

Determining the estimated useful lives of intangible assets (such as those arising from contractual relationships) requires an analysis of circumstances and judgement. The assessment of whether an asset is exhibiting indicators of impairment as well as the calculation of impairment, which requires the estimation of future cash flows and fair values less costs to sell, also requires the preparation of cash flow forecasts and fair values for assets that may not be regularly bought and sold. The most significant amounts of intangible assets relate to Absa and Lehman Brothers North American businesses.

25 Operating leases

Accounting for operating leases

The Group applies IAS 17 *Leases,* for operating leases. An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. Where The Group is the lessor, lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Group holds the leased assets on balance sheet within property, plant and equipment.

Where The Group is the lessee, rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Operating lease receivables

The Group acts as lessor, whereby items of plant and equipment are purchased and then leased to third parties under arrangements qualifying as operating leases. The future minimum lease payments expected to be received under non-cancellable operating leases as at 31 December 2011 was £14m (2010: £43m).

Operating lease commitments

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. With such operating lease arrangements, the asset is kept on the lessor's balance sheet and The Group reports the future minimum lease payments as an expense over the lease term. The leases have various terms, escalation and renewal rights. There are no contingent rents payable.

Operating lease rentals of £659m (2010: £637m) have been included in administration and general expenses.

The future minimum lease payments by The Group under non-cancellable operating leases are as follows:

	The Group				The Bank			
	2011		2010		**2011**		2010	
	Property	**Equipment**	Property	Equipment	**Property**	**Equipment**	Property	Equipment
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Not more than one year	**585**	**12**	628	7	**266**	**1**	245	3
Over one year but not more than five years	**1,673**	**2**	1,477	2	**857**	**1**	877	2
Over five years	**2,830**	**-**	3,146	-	**1,466**	**-**	1,505	-
Total	**5,088**	**14**	5,251	9	**2,589**	**2**	2,627	5

The total of future minimum sublease payments to be received under non-cancellable subleases at the 31 December 2011 was £121m (2010: £111m) for The Group and £114m (2010: £108m) for the Bank.

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Accruals, provisions and contingent liabilities

The section describes The Group's accruals, provisions and contingent liabilities arising from it's banking and insurance businesses. Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated. Contingent liabilities reflect potential liabilities that are not recognised on the balance sheet.

26 Accruals, deferred income and other liabilities

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Accruals and deferred income	**4,959**	5,539	**2,446**	2,353
Other creditors	**5,171**	5,198	**13,023**	15,217
Obligations under finance leases (see Note 20)	**64**	87	**2**	-
Insurance contract liabilities including unit-linked liabilities	**2,386**	2,409	**-**	-
Accruals, deferred income and other liabilities	**12,580**	13,233	**15,471**	17,570

Insurance liabilities relate principally to The Group's long-term business. Insurance contract liabilities associated with The Group's short-term non-life business are £118m (2010: £131m). The maximum amounts payable under all of The Group's insurance products, ignoring the probability of insured events occurring and the contribution from investments backing the insurance policies were £104bn (2010: £114bn)[a] or £82bn (2010: £95bn)[a] after reinsurance. Of this insured risk £89bn (2010: £99bn)[a] or £69bn (2010:£82bn) after reinsurances was concentrated in short-term insurance contracts in Africa.

The impact to the income statement and equity under any reasonably possible change in the assumptions used to calculate the insurance liabilities would be £8m (2010: £12m).

Accounting for insurance contracts
The Group applies IFRS 4 Insurance Contracts to its insurance contracts. An insurance contract is a contract that protects against a third party or a non-financial risk. Some wealth management and other products, such as life assurance contracts, combine investment and insurance features; these are treated as insurance contracts when they pay benefits that are at least 5% more than they would pay if the insured event does not occur.

Insurance liabilities include current best estimates of future contractual cash flows, claims handling, and administration costs in respect of claims. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of contract liabilities. Where a deficiency is highlighted by the tests, insurance liabilities are increased, any deficiency being recognised in the income statement.

Insurance premium revenue is recognised in the income statement in the period earned, net of reinsurance premiums payable, in net premiums from insurance contracts. Increases and decreases in insurance liabilities are recognised in the income statement in net claims and benefits on insurance contracts.

The Financial Services Compensation Scheme (FSCS)
The FSCS is the UK's compensation fund for customers of authorised financial services firms that are unable to pay claims. The FSCS raises levies on all UK deposit taking institutions. Previously compensation has been paid out by loan facilities provided by HM Treasury to FSCS in support of FSCS's obligations to the depositors of banks declared in default. The outstanding loan facilities, totalling approximately £18.5bn, are to be reviewed from 1 April 2012 and the ongoing terms are still to be agreed with HM Treasury. While it is anticipated that the substantial majority of these loans will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Barclays has included an accrual of £58m in other liabilities as at 31 December 2011 (2010: £63m) in respect of levies raised by the FSCS, based on the indicative costs published by the FSCS.

Note
a Comparatives have been restated to include Motor, Liability, and Engineering insured exposures within ABSA Group.

27 Provisions

Accounting for provisions

The Group applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in accounting for non-financial liabilities.

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic resources will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists, i.e., when The Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan. Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

	Onerous contracts	Redundancy and re-structuring	Undrawn contractually committed facilities and guarantees provided	Payment Protection Insurance redress	Litigation	Sundry provisions	Total
	£m	£m	£m	£m	£m	£m	£m
The Group							
As at 1 January 2011	**74**	**177**	**229**	**-**	**151**	**316**	**947**
Additions	**71**	**330**	**111**	**1,000**	**176**	**36**	**1,724**
Amounts utilised	**(31)**	**(257)**	**(2)**	**(435)**	**(104)**	**(64)**	**(893)**
Unused amounts reversed	**-**	**(31)**	**(109)**	**-**	**(73)**	**(13)**	**(226)**
Exchange and other movements	**2**	**(3)**	**1**	**-**	**(10)**	**(13)**	**(23)**
As at 31 December 2011	**116**	**216**	**230**	**565**	**140**	**262**	**1,529**
The Bank							
As at 1 January 2011	**68**	**166**	**184**	**-**	**116**	**117**	**651**
Additions	**71**	**199**	**83**	**580**	**135**	**94**	**1,162**
Amounts utilised	**(30)**	**(140)**	**(1)**	**(355)**	**(97)**	**(41)**	**(664)**
Unused amounts reversed	**(1)**	**(29)**	**(66)**	**-**	**(62)**	**(47)**	**(205)**
Exchange and other movements	**2**	**(1)**	**2**	**-**	**(7)**	**(1)**	**(5)**
As at 31st December 2010	**110**	**195**	**202**	**225**	**85**	**122**	**939**
The Group							
As at 1 January 2010	68	162	162	-	27	171	590
Additions	36	139	118	-	130	403	826
Amounts utilised	(28)	(68)	(8)	-	(4)	(225)	(333)
Unused amounts reversed	(4)	(56)	(50)	-	(5)	(48)	(163)
Exchange and other movements	2	-	7	-	3	15	27
As at 31 December 2010	74	177	229	-	151	316	947
The Bank							
As at 1 January 2010	58	148	196	-	-	62	464
Additions	36	132	34	-	119	272	593
Amounts utilised	(24)	(59)	(8)	-	(1)	(208)	(300)
Unused amounts reversed	(4)	(55)	(48)	-	(2)	(14)	(123)
Exchange and other movements	2	-	10	-	-	5	17
As at 31 December 2010	68	166	184	-	116	117	651

Provisions expected to be recovered or settled within no more than 12 months after 31 December 2011 for The Group were £1,260m (2010: £658m) and for the Bank were £694m (2010: £468m). Provisions relating to taxation are included in current and deferred tax disclosures on pages 120 to 126.

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For the year ended 31December 2011continued

Critical accounting estimates and judgements

On 20 April 2011, the judicial review proceedings brought by the British Bankers' Association in October 2010 against the FSA and the Financial Ombudsman Service regarding the assessment and redress of PPI complaints were dismissed. On 9 May 2011, Barclays announced that it would not be participating in any application for permission to appeal against the High Court judgment and that Barclays had agreed with the FSA that it would process all on-hold and any new complaints from customers about PPI policies that they hold. Barclays also announced that, as a goodwill gesture, it would pay out compensation to customers who had PPI complaints put on hold during the judicial review. Barclays took a provision of £1bn in the second quarter of 2011 to cover the cost of future redress and administration.

As at 31 December 2011, following payments made during the year, the provision was £565m and £225m for the Bank, and represents management's best estimate of the remaining anticipated costs of related customer redress, including administration expenses. The provision requires significant judgement by management in determining appropriate assumptions. The key assumptions include:

- Customer claims – the volume and timing of actual customer claims. The assumption is based upon recent experience of claims received and has factored in a component for the amount of duplicate or non-PPI eligible requests that have been submitted. In addition, expectations in relation to claims management companies and other such activity have been considered;

- Uphold rates – the percentage of claims that are upheld as being valid upon review. The rate considers recent experience and excludes "gestures of goodwill" paid without challenge by The Group for claims received during the Judicial Review period and not processed until the Review was completed; and

- Average payment – this is the expected average payment to customers for upheld claims. The assumption is based upon recent experience and the calculation of payment requirements as defined by the agreements and the FSA Policy Paper.

There are a large number of inter-dependent assumptions under-pinning the PPI provision. Many of those assumptions remain highly subjective, and trends have been difficult to ascertain across all portfolios. Therefore, it is possible that the eventual outcome could differ from current management estimates, resulting in a material change to the amounts provided in the 2011 financial statements.

When considering the key assumptions independently, the most significant driver of the provision is complaint flow. If the level of complaints were 10% higher (lower) than the estimated level for all policies, assuming no change in other assumptions, then the provision would have increased (decreased) by approximately £100m for The Group and £60m for the Bank.

The Group will re-evaluate the assumptions underlying its analysis at each reporting date as more information becomes available.

28 Contingent liabilities and commitments

Accounting for contingent liabilities and commitments

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

The following table summarises the nominal principal amount of contingent liabilities and commitments which are not recorded on balance sheet:

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Securities lending arrangements	**35,996**	27,672	**35,996**	27,672
Guarantees and letters of credit pledged as collateral security	**14,181**	13,783	**14,356**	11,823
Performance guarantees, acceptances and endorsements	**8,706**	9,175	**7,023**	7,301
Contignent Liabilities	**58,883**	50,630	**57,375**	46,796
Documentary Credits and other short-term trade related transactions	**1,358**	1,194	**1,106**	924
Standby facilities, credit lines and other commitments	**240,282**	222,963	**190,736**	173,795

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

Contingent liabilities

Up to the disposal of Barclays Global Investors on 1 December 2009, The Group facilitated securities lending arrangements for its managed investment funds whereby securities held by funds under management were lent to third parties. Borrowers provided cash or investment grade assets as collateral equal to 100% of the market value of the securities lent plus a margin of 2%–10%. The Group agreed with BlackRock, Inc. to continue to provide indemnities to support these arrangements for three years following the disposal. As at 31 December 2011 the fair value of collateral held was £37,072m (2010: £28,465m) compared to the fair value of stock lent of £35,996m (2010: £27,672m).

28 Contingent liabilities and commitments (continued)

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. In addition, The Group issues guarantees on its own behalf. The main types of guarantees provided are: financial guarantees given to banks and financial institutions on behalf of customers to secure loans; overdrafts; and other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty's Revenue and Customs and retention guarantees. As The Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Performance guarantees are generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness. An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of The Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Documentary credits and other short-term trade related transactions

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

Standby facilities, credit lines and other commitments

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

Barclays Capital US Mortgage Activities

Barclays activities within the US residential mortgage sector during the period of 2005 through 2008 included: sponsoring and underwriting of approximately US$39bn of private-label securitisations; underwriting of approximately US$34bn of other private-label securitisations; sales of approximately US$150m of loans to government sponsored enterprises (GSEs); and sales of approximately US$3bn of loans to others. In addition, Barclays sold approximately US$4bn of loans to Protium in 2009. As a result of Barclays acquisition of Protium in April 2011, Barclays reacquired the loans previously sold to Protium. Some of the loans sold by Barclays were originated by a Barclays subsidiary. Barclays also performed servicing activities through its US residential mortgage servicing business which Barclays acquired in Q4 2006 and subsequently sold in Q3 2010.

In connection with Barclays loan sales and some of its sponsored private-label securitisations, Barclays made certain loan level representations and warranties (R&Ws) generally relating to the underlying borrower, property and/or mortgage documentation. Under certain circumstances, Barclays may be required to repurchase the related loans or make other payments related to such loans if the R&Ws are breached. As at 31 December 2011, Barclays R&Ws in respect of approximately $1bn of loans sold to others (which excludes the reacquired loans previously sold to Protium and loans sold to GSEs) had expired. The R&Ws with respect to the balance of the loans sold to others were not subject to expiration provisions. However, such loans were generally sold at significant discounts and contained more limited R&Ws than loans sold to GSEs. Third party originators provided loan level R&Ws directly to the securitisation trusts for approximately US$34bn of the US$39bn in Barclays sponsored securitisations. Barclays or a subsidiary provided loan level R&Ws to the securitisation trusts for approximately $5bn of the Barclays sponsored securitisations. R&Ws made by Barclays in respect of such securitised loans, and the loans sold by Barclays to GSEs, are not subject to expiration provisions. Total unresolved repurchase requests associated with all loans sold to others and private-label activities were US$21m at 31 December 2011. Current provisions are adequate to cover estimated losses associated with outstanding repurchase claims. However, based upon a large number of defaults occurring in US residential mortgages, there is a potential for additional claims for repurchases.

Claims against Barclays as an underwriter of RMBS offerings have been brought in certain civil actions (see page 166). Additionally, Barclays has received inquiries from various regulatory and governmental authorities regarding its mortgage-related activities and is cooperating with such inquiries. It is not practicable to provide an estimate of the financial impact of the potential exposure in relation to Barclays Capital US Mortgage activities.

Notes to the financial statements
For the year ended 31December 2011continued

29 Legal proceedings

Lehman Brothers Holdings Inc.

On 15 September 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (the Court) by Lehman Brothers Holdings Inc. (LBHI), the SIPA Trustee for Lehman Brothers Inc. (the Trustee) and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (the Committee). All three motions challenged certain aspects of the transaction pursuant to which BCI and other companies in the Group acquired most of the assets of Lehman Brothers Inc. (LBI) in September 2008 and the court order approving such sale. The claimants were seeking an order voiding the transfer of certain assets to BCI; requiring BCI to return to the LBI estate alleged excess value BCI received; and declaring that BCI is not entitled to certain assets that it claims pursuant to the sale documents and order approving the sale (the Rule 60 Claims). On 16 November 2009, LBHI, the Trustee and the Committee filed separate complaints in the Court asserting claims against BCI based on the same underlying allegations as the pending motions and seeking relief similar to that which is requested in the motions. On 29 January 2010, BCI filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI have failed to deliver as required by the sale documents and the court order approving the sale (together with the Trustee's competing claims to those assets, the Contract Claims). Approximately US$4.2bn (£2.7bn) of the assets acquired as part of the acquisition had not been received by 31 December 2011, approximately US$3.0bn (£2.0bn) of which were recognised as part of the accounting for the acquisition and are included in the balance sheet as at 31 December 2011. This results in an effective provision of US$1.2bn (£0.8bn) against the uncertainty inherent in the litigation.

On 22 February 2011, the Court issued its Opinion in relation to these matters, rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee's favour and some in favour of BCI. On 15 July 2011, the Court entered final Orders implementing its Opinion. BCI and the Trustee have each filed a notice of appeal from the Court's adverse rulings on the Contract Claims. LBHI and the Committee have withdrawn their notices of appeal from the Court's ruling on the Rule 60 Claims, rendering the Court's Order on the Rule 60 Claims final.

If the final Orders relating to the Contract Claims were to be unaffected by future proceedings, Barclays estimates that after taking into account the effective provision of US$1.2bn (£0.8bn), its loss would be approximately US$4.3bn (£2.8bn). Any such loss, however, is not considered probable and Barclays is satisfied with the current level of provision.

In addition, LBHI had been pursuing a claim for approximately US$500m relating to bonuses that BCI was allegedly obligated to pay to former Lehman employees. On 14 September 2011, the Court issued a decision dismissing that claim and entered a final Order to that effect on 21 September 2011. LBHI has stated that it will not appeal that decision, rendering the Order dismissing that claim final.

American Depositary Shares

Barclays Bank PLC, Barclays PLC and various current and former members of Barclays PLC's Board of Directors have been named as defendants in five proposed securities class actions (which have been consolidated) pending in the United States District Court for the Southern District of New York (the Court). The consolidated amended complaint, dated 12 February 2010, alleges that the registration statements relating to American Depositary Shares representing Preferred Stock, Series 2, 3, 4 and 5 (the ADS) offered by Barclays Bank PLC at various times between 2006 and 2008 contained misstatements and omissions concerning (amongst other things) Barclays portfolio of mortgage-related (including US subprime-related) securities, Barclays exposure to mortgage and credit market risk and Barclays financial condition. The consolidated amended complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. On 5 January 2011, the Court issued an order and, on 7 January 2011, judgment was entered, granting the defendants' motion to dismiss the complaint in its entirety and closing the case. On 4 February 2011, the plaintiffs filed a motion asking the Court to reconsider in part its dismissal order. On 31 May 2011, the Court denied in full the plaintiffs' motion for reconsideration. The plaintiffs have appealed both decisions (the grant of the defendants' motion to dismiss and the denial of the plaintiffs' motion for reconsideration) to the United States Court of Appeals for the Second Circuit.

Barclays considers that these ADS-related claims against it are without merit and is defending them vigorously. It is not practicable to estimate Barclays possible loss in relation to these claims or any effect that they might have upon operating results in any particular financial period.

US Federal Housing Finance Agency and Other Residential Mortgage-Backed Securities Litigation

The United States Federal Housing Finance Agency (FHFA), acting for two US government sponsored enterprises, Fannie Mae and Freddie Mac (collectively, the GSEs), filed lawsuits against 17 financial institutions in connection with the GSEs' purchases of residential mortgage-backed securities (RMBS). The lawsuits allege, among other things, that the RMBS offering materials contained materially false and misleading statements and/or omissions. Barclays Bank PLC and/or certain of its affiliates or former employees are named in two of these lawsuits, relating to sales between 2005 and 2007 of RMBS, in which Barclays Capital Inc. was lead or co-lead underwriter.

Both complaints demand, among other things: rescission and recovery of the consideration paid for the RMBS; and recovery for the GSEs' alleged monetary losses arising out of their ownership of the RMBS. The complaints are similar to other civil actions filed against Barclays Bank PLC and/or certain of its affiliates by other plaintiffs, including the Federal Home Loan Bank of Seattle, Federal Home Loan Bank of Boston, Federal Home Loan Bank of Chicago, Cambridge Place Investment Management, Inc., HSH Nordbank AG (and affiliates) and Stichting Pensioenfonds ABP, relating to their purchases of RMBS. Barclays considers that the claims against it are without merit and intends to defend them vigorously.

The original amount of RMBS related to the claims against Barclays in these cases totalled approximately $6.8bn, of which approximately $2.0bn was outstanding as at 31 December 2011. Cumulative losses reported on these RMBS as at 31 December 2011 were approximately $0.1bn. If Barclays were to lose these cases it could incur a loss of up to the outstanding amount of the RMBS at the time of judgment (taking into account further principal payments after 31 December 2011) plus any cumulative losses on the RMBS at such time and any interest, fees and costs, less the market value of the RMBS at such time. Barclays has estimated the total market value of the RMBS as at 31 December 2011 to be approximately $1.1bn. Barclays may be entitled to indemnification for a portion of any losses.

29 Legal proceedings (continued)

Devonshire Trust

On 13 January 2009, Barclays commenced an action in the Ontario Superior Court seeking an order that its early terminations earlier that day of two credit default swaps under an ISDA Master Agreement with the Devonshire Trust (Devonshire), an asset-backed commercial paper conduit trust, were valid. On the same day, Devonshire purported to terminate the swaps on the ground that Barclays had failed to provide liquidity support to Devonshire's commercial paper when required to do so. On 7 September 2011, the court ruled that Barclays early terminations were invalid, Devonshire's early terminations were valid and, consequently, Devonshire was entitled to receive back from Barclays cash collateral of approximately C$533m together with accrued interest thereon. Barclays is appealing the court's decision. If the court's decision were to be unaffected by future proceedings, Barclays estimates that its loss would be approximately C$500m, less any impairment provisions taken by Barclays for this matter.

Other

Barclays is engaged in various other legal proceedings both in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against it which arise in the ordinary course of business, including debt collection, consumer claims and contractual disputes. Barclays does not expect the ultimate resolution of any of these proceedings to which Barclays is party to have a material adverse effect on its results of operations, cash flows or the financial position of the Group and Barclays has not disclosed the contingent liabilities associated with these claims either because they cannot reliably be estimated or because such disclosure could be prejudicial to the conduct of the claims. Provisions have been recognised for those cases where Barclays is able reliably to estimate the probable loss where the probable loss is not de minimis.

In addition, the Bank has been named as a defendant in a number of lawsuits, including class actions, filed in US federal courts involving claims by purported classes of purchasers and sellers of LIBOR-based derivative products or Eurodollar futures or option contracts between 2006 and 2009; further details are provided on the following page.

Notes to the financial statements

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30 Competition and regulatory matters

This note highlights some of the key competition and regulatory challenges facing Barclays, many of which are beyond our control. The extent of the impact of these matters on Barclays cannot always be predicted but may materially impact our businesses and earnings.

Regulatory change

The scale of regulatory change remains challenging with a significant tightening of regulation and changes to regulatory structures globally, especially for banks that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries which, in some cases, is leading to increased or changing regulation which is likely to have a significant effect on the industry. Examples include Basel 3, the emerging proposals on bank resolution regimes and proposals relating to over-the-counter derivatives clearing and global systemically important banks.

In the UK, the FSA's current responsibilities are to be reallocated between the Prudential Regulatory Authority (a subsidiary of the Bank of England) and a new Financial Conduct Authority. In addition, the Independent Commission on Banking (the ICB) completed its review of the UK banking system and published its final report on 12 September 2011. The ICB recommended (amongst other things) that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity (so-called “ring-fencing”); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as Barclays Bank PLC) should be increased to levels higher than the Basel 3 proposals. The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act contains far reaching regulatory reform. The full impact on Barclays businesses and markets will not be known until the principal implementing rules are adopted in final form by governmental authorities, a process which is underway and which will take effect over several years.

Payment Protection Insurance (PPI)

See Note 27.

Interchange

The Office of Fair Trading, as well as other competition authorities elsewhere in Europe, continues to investigate Visa and MasterCard credit and debit interchange rates. These investigations may have an impact on the consumer credit industry as well as having the potential for the imposition of fines. Timing is uncertain but outcomes may be known within the next 2-4 years.

London Interbank Offered Rate (LIBOR)

The FSA, the US Commodity Futures Trading Commission, the SEC, the US Department of Justice Fraud Section of the Criminal Division and Antitrust Division and the European Commission are amongst various authorities conducting investigations into submissions made by Barclays and other panel members to the bodies that set various interbank offered rates. Barclays is co-operating in the relevant investigations and is keeping regulators informed. In addition, Barclays has been named as a defendant in a number of class action lawsuits filed in US federal courts involving claims by purported classes of purchasers and sellers of LIBOR-based derivative products or Eurodollar futures or options contracts between 2006 and 2009. The complaints are substantially similar and allege, amongst other things, that Barclays and other banks individually and collectively violated US antitrust and commodities laws and state common law by suppressing LIBOR rates during the relevant period. Barclays has been informed by certain of the authorities investigating these matters that proceedings against Barclays ma y be recommended with respect to some aspects of the matters under investigation, and Barclays is engaged in discussions with those authorities about potential resolution of those aspects. It is not currently possible to predict the ultimate resolution of the issues covered by the various investigations and lawsuits, including the timing and the scale of the potential impact on the Group of any resolution

Capital instruments, equity and reserves

This section details information about The Group's loan capital and shareholders equity including issued share capital, retained earnings, other equity balances and interests of minority shareholders in our subsidiary entities (non-controlling interests). For more information on capital and the management of capital and how The Group maintains sufficient capital to meet our regulatory requirements see page 77.

31 Subordinated liabilities

Accounting for subordinated debt
Subordinated debt is measured at amortised cost using the effective interest method under IAS 39. See Net Interest Income (Note 3)

Subordinated liabilities include accrued interest and comprise dated and undated loan capital as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Undated loan capital	**6,741**	9,094	**9,749**	8,923
Dated loan capital	**18,129**	19,405	**17,015**	18,071
Total subordinated liabilities	**24,870**	28,499	**26,764**	26,994

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31 Subordinated liabilities (continued)

Undated loan capital		The Group		The Bank	
		2011	2010	2011	2010
	Initial call date	£m	£m	£m	£m
Non-convertible					
Barclays Bank PLC					
Tier One Notes (TONs)					
6% Callable Perpetual Core Tier One Notes	2032	**103**	453	**501**	453
6.86% Callable Perpetual Core Tier One Notes (US$1,000m)	2032	**753**	866	**1,105**	866
Reserve Capital Instruments (RCIs)					
5.926% Step-up Callable Perpetual Reserve Capital Instruments (US$1,350m)	2016	**414**	1,010	**1,048**	1,010
6.3688% Step-up Callable Perpetual Reserve Capital Instruments	2019	**122**	608	**629**	608
7.434% Step-up Callable Perpetual Reserve Capital Instruments (US$1,250m)	2017	**273**	950	**990**	950
14% Step-up Callable Perpetual Reserve Capital Instruments	2019	**3,210**	2,887	**3,210**	2,887
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	2036	**120**	599	**696**	599
Undated Notes					
6.875% Undated Subordinated Notes	2015	**158**	156	**158**	156
6.375% Undated Subordinated Notes	2017	**157**	150	**157**	150
7.7% Undated Subordinated Notes (US$99m)	2018	**75**	69	**75**	69
8.25% Undated Subordinated Notes	2018	**166**	156	**166**	156
7.125% Undated Subordinated Notes	2020	**214**	190	**214**	190
6.125% Undated Subordinated Notes	2027	**233**	234	**233**	234
Junior Undated Floating Rate Notes (US$121m)	Any interest payment date	**78**	78	**141**	139
Undated Floating Rate Primary Capital Notes Series 3	Any interest payment date	**146**	145	**146**	145
Bonds					
9.25% Perpetual Subordinated Bonds (ex-Woolwich PLC)	2021	**99**	96	**99**	96
9% Permanent Interest Bearing Capital Bonds	At any time	**46**	41	**46**	41
Loans					
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	2028	**53**	70	**53**	70
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	2028	**82**	104	**82**	104
Barclays SLCSM Funding B.V. guaranteed by the Bank					
6.140% Fixed Rate Guaranteed Perpetual Subordinated Notes	2015	**239**	232	**-**	-
Undated loan capital - non-convertible		**6,741**	9,094	**9,749**	8,923

Undated loan capital
Undated loan capital is issued by the Bank and its subsidiaries for the development and expansion of their business and to strengthen their capital bases. The principal terms of the undated loan capital are described below:

Subordination
All undated loan capital ranks behind the claims against the bank of depositors and other unsecured unsubordinated creditors and holders of dated loan capital in the following order: Junior Undated Floating Rate Notes; other issues of Undated Notes, Bonds and Loans-ranking pari passu with each other; followed by TONs and RCIs-ranking pari passu with each other.

Interest
All undated loan capital bears a fixed rate of interest until the initial call date, with the exception of the 9% Bonds which are fixed for the life of the issue, and the Junior and Series 3 Undated Notes which are floating rate.

After the initial call date, in the event that they are not redeemed, the 6.875%, 6.375%, 7.125%, 6.125% Undated Notes, the 9.25% Bonds and the 6.140% Perpetual Notes will bear interest at rates fixed periodically in advance for five year periods based on market rates. All other undated loan capital except the two floating rate Undated Notes will bear interest, and the two floating rate Undated Notes currently bear interest, at rates fixed periodically in advance based on London interbank rates.

31 Subordinated liabilities (continued)

Payment of interest

Barclays Bank PLC is not obliged to make a payment of interest on its Undated Notes, Bonds and Loans excluding the 7.7% Undated Notes, 8.25% Undated Notes, 9.25% Bonds and 6.140% Perpetual Notes if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC or, in certain cases, any class of preference shares of the Bank. The Bank is not obliged to make a payment of interest on its 9.25% Perpetual Subordinated Bonds if, in the immediately preceding 12 months' interest period, a dividend has not been paid on any class of its share capital. Interest not so paid becomes payable in each case if such a dividend is subsequently paid or in certain other circumstances. During the year, the Bank declared and paid dividends on its ordinary shares and on all classes of preference shares.

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

The Bank may elect to defer any payment of interest on the 7.7% Undated Notes and 8.25% Undated Notes. Until such time as any deferred interest has been paid in full, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares, preference shares, or other share capital or satisfy any payments of interest or coupons on certain other junior obligations.

The Issuer and the Bank may elect to defer any payment of interest on the 6.140% Perpetual Notes. However, any deferred interest will automatically become immediately due and payable on the earlier of: (i) the date on which any dividend or other distribution or interest or other payment is made in respect of any pari passu or any junior obligations or on which any pari passu or any junior obligations are purchased, (ii) the date of redemption or purchase of the 6.140% Perpetual Notes and (iii) certain other events including bankruptcy, liquidation or winding up of the Issuer or the Bank.

The Bank may elect to defer any payment of interest on the RCIs. Any such deferred payment of interest must be paid on the earlier of: (i) the date of redemption of the RCIs, (ii) the coupon payment date falling on or nearest to the tenth anniversary of the date of deferral of such payment, and (iii) in respect of the 14% RCIs only, substitution. Whilst such deferral is continuing, neither the Bank nor Barclays PLC may declare or pay a dividend, subject to certain exceptions, on any of its ordinary shares or preference shares.

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

Repayment

All undated loan capital is repayable, at the option of the Bank generally in whole at the initial call date and on any subsequent coupon or interest payment date or in the case of the 6.875%, 6.375%, 7.125%, 6.125% Undated Notes, the 9.25% Bonds and the 6.140% Perpetual Notes on any fifth anniversary after the initial call date. In addition, each issue of undated loan capital is repayable, at the option of the Bank, in whole for certain tax reasons, either at any time, or on an interest payment date. There are no events of default except non-payment of principal or mandatory interest. Any repayments require the prior notification to the FSA.

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

Notes to the financial statements
For the year ended 31December 2011continued

31 Subordinated liabilities (continued)

Dated loan capital	Initial call date	Maturity date	The Group 2011 £m	The Group 2010 £m	The Bank 2011 £m	The Bank 2010 £m
Barclays Bank PLC						
5.75% Subordinated Notes (€1,000m)		2011	**-**	836	**-**	836
5.25% Subordinated Notes(€250m) (ex-Woolwich plc)		2011	**-**	221	**-**	221
Floating Rate Subordinated Step-up Callable Notes (US$750m)	2011	2016	**-**	484	**-**	484
Callable Floating Rate Subordinated Notes (€1,250m)	2011	2016	**-**	1,082	**-**	1,082
Callable Floating Rate Subordinated Notes (US$500m)	2012	2017	**324**	323	**324**	323
10.125% Subordinated Notes (ex-Woolwich plc)	2012	2017	**102**	105	**102**	105
Floating Rate Subordinated Step-up Callable Notes (US$1,500m)	2012	2017	**972**	969	**972**	969
Floating Rate Subordinated Step-up Callable Notes (€1,500m)	2012	2017	**1,259**	1,296	**1,259**	1,296
5.015% Subordinated Notes (US$150m)		2013	**103**	104	**103**	104
4.875% Subordinated Notes (€750m)		2013	**659**	670	**659**	670
Callable Fixed/ Floating Rate Subordinated Notes (€1,000m)	2014	2019	**900**	904	**900**	904
4.38% Fixed Rate Subordinated Notes (US$75m)		2015	**55**	55	**55**	55
4.75% Fixed Rate Subordinated Notes (US$150m)		2015	**110**	111	**110**	111
5.14% Lower Tier 2 Notes (US$1,250m)	2015	2020	**900**	791	**900**	791
6.05% Fixed Rate Subordinated Notes (US$2,250m)		2017	**1,723**	1,662	**1,723**	1,662
Floating Rate Subordinated Notes(€40m)		2018	**34**	35	**34**	35
6% Fixed Rate Subordinated Notes (€1,750m)		2018	**1,556**	1,596	**1,556**	1,596
CMS-Linked Subordinated Notes (€100m)		2018	**88**	90	**88**	90
CMS-Linked Subordinated Notes (€135m)		2018	**117**	121	**117**	121
Fixed/Floating Rate Subordinated Callable Notes	2018	2023	**621**	590	**621**	590
Floating Rate Subordinated Notes (€50m)		2019	**41**	42	**41**	42
6% Fixed Rate Subordinated Notes (€1,500m)		2021	**1,333**	1,316	**1,333**	1,316
9.5% Subordinated Bonds (ex-Woolwich plc)		2021	**344**	292	**344**	292
Subordinated Floating Rate Notes (€100m)		2021	**83**	85	**83**	85
10% Fixed Rate Subordinated Notes		2021	**2,389**	2,160	**2,389**	2,160
10.179% Fixed Rate Subordinated Notes (US$1,521m)		2021	**1,174**	1,040	**1,174**	1,040
Subordinated Floating Rate Notes (€50m)		2022	**42**	43	**42**	43
6.625% Fixed Rate Subordinated Notes (€1,000m)		2022	**954**	-	**954**	-
Subordinated Floating Rate Notes (€50m)		2023	**42**	43	**42**	43
5.75% Fixed Rate Subordinated Notes		2026	**781**	675	**781**	675
5.4% Reverse Dual Currency Subordinated Loan (Yen 15,000m)		2027	**104**	132	**104**	132
6.33% Subordinated Notes		2032	**62**	53	**62**	53
Subordinated Floating Rate Notes (€100m)		2040	**84**	86	**84**	86
Other loans from subsidiaries			**-**	-	**59**	59
Absa Bank Limited						
8.75% Subordinated Callable Notes (ZAR 1,500m)	2012	2017	**124**	154	**-**	-
Subordinated Callable Notes (ZAR 1,886m)	2013	2018	**181**	210	**-**	-
8.8% Subordinated Fixed Rate Callable Notes (ZAR 1,725m)	2014	2019	**148**	178	**-**	-
Subordinated Callable Notes (ZAR 3,000m)	2014	2019	**286**	331	**-**	-
8.1% Subordinated Callable Notes (ZAR 2,000m)	2015	2020	**167**	200	**-**	-
10.28% Subordinated Callable Notes (ZAR 600m)	2017	2022	**49**	60	**-**	-
Subordinated Callable Notes (ZAR 400m)	2017	2022	**32**	41	**-**	-
Subordinated Callable Notes (ZAR 1,500m)	2023	2028	**135**	156	**-**	-
Other capital issued by Barclays Spain, Ghana, Kenya, Botswana and Zambia		2011 - 2016	**51**	63	**-**	-
Total dated loan capital			**18,129**	19,405	**17,015**	18,071

31 Subordinated liabilities (continued)

Dated loan capital

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

The principal terms of the dated loan capital are described below:

Subordination

All dated loan capital ranks behind the claims against the bank of depositors and other unsecured unsubordinated creditors but before the claims of the undated loan capital and the holders of their equity. The dated loan capital issued by subsidiaries, are similarly subordinated.

Interest

Interest on the floating rate Notes are fixed periodically in advance, based on the related interbank or local central bank rates.

All other non-convertible Notes except the 10.125% Subordinated Notes 2017 are generally fixed interest for the life of the issue, but some are reset to a floating rate after a fixed period, with varying interest rate terms. The 10.125% Subordinated Notes 2017, if not called in 2012, will bear interest at a rate fixed in advance for a further period of 5 years.

The 5.14% Lower Tier 2 Notes were registered under the US Securities Act of 1933. All other issues of dated loan capital have been made in the euro currency market, local markets and/or under Rule 144A.

Repayment

Those Notes with a call date are repayable at the option of the issuer, on conditions governing the respective debt obligations, some in whole or in part, and some only in whole. The remaining dated loan capital outstanding at 31 December 2011 is redeemable only on maturity, subject in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law or, in the case of BBB and Barclays Zambia, to certain changes in legislation or regulations.

Any repayments prior to maturity require, in the case of the Bank, the prior notification to the FSA, or in the case of the overseas issues, the approval of the local regulator for that jurisdiction.

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

The other capital issued by Barclays Spain, Ghana, Kenya, Botswana and Zambia includes amounts of £26m (2010: £26m) issued by Barclays Botswana and Zambia that are convertible. These are repayable at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, some in whole or in part and some only in whole.

32 Ordinary shares, share premium, and other equity

Ordinary Shares

The issued ordinary share capital of Barclays Bank PLC, as at 31 December 2011, comprised 2,342 million ordinary shares of £1 each (2010: 2,342 million).

Preference Shares

The issued preference share capital of Barclays Bank PLC, as at 31st December 2011, comprised 1,000 Sterling Preference Shares of £1 each (2010: 1,000); 240,000 Euro Preference Shares of €100 each (2010: 240,000); 75,000 Sterling Preference Shares of £100 each (2010: 75,000); 100,000 US Dollar Preference Shares of US$100 each (2010: 100,000); 237 million US Dollar Preference Shares of US$0.25 each (2010: 237 million).

Notes to the financial statements
For the year ended 31December 2011continued

32 Ordinary shares, share premium, and other equity (continued)

Share capital	2011 £m	2010 £m
Called up ordinary share capital, alloted and fully paid		
As at 1 January	**2,342**	2,342
As at 31 December	**2,342**	2,342
Called up preference share capital, allotted and fully paid as at 1 January and 31 December	**60**	60
Called up share capital	**2,402**	2,402

Share premium	2011 £m	2010 £m
As at 1 January	**12,092**	12,092
As at 31 December	**12,092**	12,092

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

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

Barclays Bank PLC shall be obliged to pay such dividends if: (1) it has profits available for the purpose of distribution under the Companies Act 2006 as at each dividend payment date; and (2) it is solvent on the relevant dividend payment date, provided that a capital regulations condition is satisfied on such dividend payment date. The dividends shall not be due and payable on the relevant dividend payment date except to the extent that Barclays Bank PLC could make such payment and still be solvent immediately thereafter. Barclays Bank PLC shall be considered solvent on any date if: (1) it is able to pay its debts to senior creditors as they fall due; and (2) its auditors have reported within the previous six months that its assets exceed its liabilities. If Barclays Bank PLC shall not pay, or shall pay only in part, a dividend for a period of seven days or more after the due date for payment, the holders of the £1 Preference Shares may institute proceedings for the winding-up of Barclays Bank PLC. No remedy against Barclays Bank PLC shall be available to the holder of any £1 Preference Shares for the recovery of amounts owing in respect of £1 Preference Shares other than the institution of proceedings for the winding-up of Barclays Bank PLC and/or proving in such winding-up.

On a winding-up or other return of capital (other than a redemption or purchase by Barclays Bank PLC of any of its issued shares, or a reduction of share capital, permitted by the Articles of Barclays Bank PLC and under applicable law), the assets of Barclays Bank PLC available to shareholders shall be applied in priority to any payment to the holders of ordinary shares and any other class of shares in the capital of Barclays Bank PLC then in issue ranking junior to the £1 Preference Shares on such a return of capital and pari passu on such a return of capital with the holders of any other class of shares in the capital of Barclays Bank PLC then in issue (other than any class of shares in the capital of Barclays Bank PLC then in issue ranking in priority to the £1 Preference Shares on a winding-up or other such return of capital), in payment to the holders of the £1 Preference Shares of a sum equal to the aggregate of: (1) an amount equal to the dividends accrued thereon for the then current dividend period (and any accumulated arrears thereof) to the date of the commencement of the winding-up or other such return of capital; and (2) an amount equal to £1 per £1 Preference Share. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of the £1 Preference Shares will have no right or claim to any of the remaining assets of Barclays Bank PLC and will not be entitled to any further participation in such return of capital.

The £1 Preference Shares are redeemable at the option of Barclays Bank PLC, in whole but not in part only, subject to the Companies Act 2006 and its Articles. Holders of the £1 Preference Shares are not entitled to receive notice of, or to attend, or vote at, any general meeting of Barclays Bank PLC.

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

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

32 Ordinary shares, share premium, and other equity (continued)

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

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

Sterling Preference Shares

75,000 Sterling 6.0% non-cumulative callable preference shares of £100 each (the 6.0% Preference Shares) were issued on 22 June 2005 for a consideration of £743.7m, of which the nominal value was £7.5m and the balance was share premium. The 6.0% Preference Shares entitle the holders thereof to receive Sterling non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, annually at a fixed rate of 6.0% per annum on the amount of £10,000 per preference share until 15 December 2017, and thereafter quarterly at a rate reset quarterly equal to 1.42% per annum above the London interbank offered rate for three-month Sterling deposits.

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

US Dollar Preference Shares

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

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

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

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

55 million US Dollar 7.1% non-cumulative callable preference shares of US$0.25 each (the 7.1% Preference Shares), represented by 55 million American Depositary Shares, Series 3, were issued on 13 September 2007 for a consideration of US$1,335m (£657m), of which the nominal value was US$13.75m and the balance was share premium. The 7.1% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.1% per annum on the amount of US$25 per preference share.

The 7.1% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 December 2012, and on each dividend payment date thereafter at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

46 million US Dollar 7.75% non-cumulative callable preference shares of US$0.25 each (the 7.75% Preference Shares), represented by 46 million American Depositary Shares, Series 4, were issued on 7 December 2007 for a consideration of US$1,116m (£550m), of which the nominal value was US$11.5m and the balance was share premium. The 7.75% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 7.75% per annum on the amount of US$25 per preference share.

The 7.75% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 December 2013, and on each dividend payment date thereafter at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

Notes to the financial statements

For the year ended 31December 2011continued

32 Ordinary shares, share premium, and other equity (continued)

106 million US Dollar 8.125% non-cumulative callable preference shares of US$0.25 each (the 8.125% Preference Shares), represented by 106 million American Depositary Shares, Series 5, were issued on 11 April 2008 and 25 April 2008 for a total consideration of US$2,650m (£1,345m), of which the nominal value was US$26.5m and the balance was share premium. The 8.125% Preference Shares entitle the holders thereof to receive US Dollar non-cumulative cash dividends out of distributable profits of Barclays Bank PLC, quarterly at a fixed rate of 8.125% per annum on the amount of US$25 per preference share.

The 8.125% Preference Shares are redeemable at the option of Barclays Bank PLC, in whole or in part, on 15 June 2013, and on each dividend payment date thereafter at US$25 per share plus any dividends accrued for the then current dividend period to the date fixed for redemption.

No redemption or purchase of any 4.875% Preference Shares, the 4.75% Preference Shares, the 6.0% Preference Shares, the 6.278% Preference Shares, the 6.625% Preference Shares, the 7.1% Preference Shares, the 7.75% Preference Shares and the 8.125% Preference Shares (together, the Preference Shares) may be made by Barclays Bank PLC without the prior notification to the UK FSA and any such redemption will be subject to the Companies Act 2006 and the Articles of Barclays Bank PLC.

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

The holders of the £91m 6% Callable Perpetual Core Tier One Notes and the US$681m 6.86% Callable Perpetual Core Tier One Notes of Barclays Bank PLC (together, the TONs) and the holders of the £81m 5.3304% Step-up Callable Perpetual Reserve Capital Instruments, the US$533m 5.926% Step-up Callable Perpetual Reserve Capital Instruments, the £95m 6.3688% Step-up Callable Perpetual Reserve Capital Instruments, the US$347m 7.434% Step-up Callable Perpetual Reserve Capital Instruments and the £3,000m 14% Step-up Callable Perpetual Reserve Capital Instruments of Barclays Bank PLC (together, the RCIs) would, for the purposes only of calculating the amounts payable in respect of such securities on a winding-up of Barclays Bank PLC, subject to limited exceptions and to the extent that the TONs and the RCIs are then in issue, rank pari passu with the holders of the most senior class or classes of preference shares then in issue in the capital of Barclays Bank PLC. Accordingly, the holders of the preference shares would rank equally with the holders of such TONs and RCIs on such a winding-up of Barclays Bank PLC (unless one or more classes of shares of Barclays Bank PLC ranking in priority to the preference shares are in issue at the time of such winding-up, in which event the holders of such TONs and RCIs would rank equally with the holders of such shares and in priority to the holders of the preference shares).

Subject to such ranking, in such event, holders of the preference shares will be entitled to receive out of assets of Barclays Bank PLC available for distributions to shareholders, liquidating distributions in the amount of €10,000 per 4.875% Preference Share, €10,000 per 4.75% Preference Share, £10,000 per 6.0% Preference Share, US$10,000 per 6.278% Preference Share, US$25 per 6.625% Preference Share, US$25 per 7.1% Preference Share, US$25 per 7.75% Preference Share and US$0.25 per 8.125% Preference Share, plus, in each case, an amount equal to the accrued dividend for the then current dividend period to the date of the commencement of the winding-up or other such return of capital. If a dividend is not paid in full on any preference shares on any dividend payment date, then a dividend restriction shall apply.

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

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

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

32 Ordinary shares, share premium, and other equity (continued)

Other shareholders' equity

	The Group	The Bank
	£m	£m
As at 1st January 2011	**2,069**	**2,133**
Tax Credits	**18**	**18**
Other Movements	**(24)**	**(24)**
Redemption	**(1,415)**	**(1,415)**
As at 31st December 2011	**648**	**712**
As at 1st January 2010	2,559	2,623
Tax Credits	45	45
Other Movements	(48)	(48)
Redemption	(487)	(487)
As at 31st December 2010	2,069	2,133

Included in other shareholders' equity are:

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

The remaining equity accounted reserve capital instruments were redeemed in full during 2011, resulting in a reduction in other shareholders' equity of £1,415m.

33 Reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the retranslation of The Group's net investment in foreign operations, net of the effects of hedging. Currency translation movements in 2011 of £1,607m (2010: £1,177m), including £598m (2010: £435m) associated with non-controlling interests, are largely due to the depreciation of the Rand, Euro and Indian Rupee against Sterling.

The impact of the currency translation reserve recognised in the income statement during the year was nil (2010: £279m), as the £23m loss from the disposal of Barclays Bank Russia was offset by other movements.

Available for sale reserve

The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition. The available for sale reserve increased £1,218m (2010: decreased £1,264m), largely driven by £2,581m gains from changes in fair value, offset by £1,557m of net gains transferred to the income statement after recognition of impairment on The Group's investment in BlackRock, Inc.

Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transactions affect profit or loss. Movements in the cash flow hedge reserve principally reflected increases in the fair value of interest rate swaps held for hedging purposes more than offset by related gains transferred to net profit.

Notes to the financial statements
For the year ended 31December 2011continued

34 Non-controlling interests

	Profit attributable to non-controlling interests		Equity attributable to non-controlling interests	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Absa Group	**401**	362	**2,861**	3,208
Other non-controlling interests	**29**	29	**231**	259
Total	**430**	391	**3,092**	3,467

The decrease in Absa Group equity attributable to non-controlling interest to £2,861m (2010: £3,208m) is principally due to £583m depreciation of African currencies against Sterling and £162m of dividends paid, offset by retained profits of £401m.

Employee benefits

Employee benefits outlines the costs and commitments associated with employing our staff.

35 Staff costs

Accounting for staff costs

The Group applies IAS 19 *Employee benefits* in its accounting for most of the components of staff costs.

Short-term employee benefits - salaries, accrued performance costs, social security and the Bonus Payroll Tax are recognised over the period in which the employees provide the services to which the payments relate.

Performance costs - recognised to the extent that The Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the services.

Deferred cash bonus awards and deferred share bonus awards are made to employees to incentivise performance over the vesting period. To receive payment under an award, employees must provide service over the vesting period, typically three years from the grant date. The period over which the expense for deferred cash and share bonus awards is recognised is based upon the common understanding between the employee and The Group and the terms and conditions of the award. The Group considers that it is appropriate to recognise the awards over the period from the date of grant to the date that the awards vest as this is the period over which the employees understand that they must provide service in order to receive awards. No expense has been recognised in 2011 for the deferred bonuses granted in March 2012, as they are dependent upon future performance rather than performance during 2011, instead the income statement charge is expected to be recognised in 2012 (48%), 2013 (35%), 2014 (15%) and 2015 (2%), subject to all performance conditions being met.

The accounting policies for share based payments and pensions and other post retirement benefits are under Note 36 and Note 37 respectively.

Staff costs	2011 £m	2010 £m
Performance costs	**2,527**	3,350
Salaries	**6,277**	6,151
Other share based payments	**167**	168
Social security costs	**716**	719
Post-retirement benefits	**727**	528
Total compensation costs	**10,414**	10,916
Bank payroll tax	**76**	96
Other	**917**	904
Non compensation costs	**993**	1,000
Staff costs	**11,407**	11,916

Staff costs above relate to continuing operations only. Staff costs arising on discontinued operations for 2011 and 2010 totalled nil. The average total number of persons employed by The Group including both continuing and discontinued operations was 149,700 (2010: 151,300).

The UK Government applied a bank payroll tax of 50% to all discretionary bonuses over £25,000 awarded to UK bank employees between 9 December 2009 and 5 April 2010. The total bank payroll tax paid was £437m, of which £321m was recognised between 2009 and 2010. For 2011, a charge of £76m has been recognised in relation to prior year deferrals, with the remaining £40m to be recognised over the period 2012 to 2013.

It is currently anticipated that deferred bonuses will be charged to the incomes statement in the following years:

Year in which Income Statement Charge is Expected to be Taken for Deferred Bonuses	Actual		Expected	
	2010 £m	2011 £m	2012 £m	2013 and beyond £m
Deferred bonuses from 2009 and earlier bonus pools	904	405	139	23
Deferred bonuses from 2010 bonus pool	-	590	387	205
Deferred bonuses from 2011 bonus pool	-	-	601	651
Income statement charge for deferred bonuses	**904**	**995**	**1,127**	**879**

Notes to the financial statements
For the year ended 31December 2011continued

36 Share based payments

Accounting for share based payments
The Group applies IFRS 2 *Share Based Payments* in accounting for employee remuneration in the form of shares.

Employee incentives include awards in the form of shares and share options, as well as offering employees the opportunity to purchase shares on favourable terms. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet the non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions – such as continuing to make payments into a share based savings scheme.

The charge for the year arising from share based payment schemes was as follows:

	Charge for the year	
	2011	2010
	£m	£m
Share Value Plan	**634**	361
Executive Share Award Scheme	**101**	304
Others	**137**	172
Total equity settled	**872**	837
Cash Settled	**34**	23
Total continuing operations	**906**	860
Discontinued operations	**-**	-
Total share based payments	**906**	860

The terms of the main current plans are as follows:

Share value plan (SVP)
The SVP was introduced in March 2010 and approved by shareholders (for Executive Director participation and use of new issue shares) at the AGM in April 2011. SVP awards are granted to participants in the form of a conditional right to receive Barclays shares (awards granted prior to May 2011 were granted as provisional allocations of Barclays shares) which vest over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on vesting of a SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. From 2010, the portion of a business unit LTIP award that was previously granted under ESAS is normally granted under SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

Executive Share Award Scheme (ESAS)
For certain employees of The Group an element of their annual bonus is in the form of a deferred award of a provisional allocation of Barclays PLC shares under ESAS. The total value of the bonus made to the employee, of which ESAS is an element, is dependent upon the business unit, Group and individual employee performance. The ESAS element of the annual bonus must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and vest upon achieving continued service for three and five years from the date of award. ESAS awards are also made to eligible employees for recruitment purposes under JSAP (Joiners Share Award Plan). All awards are subject to potential forfeiture if the individual resigns and commences work with a competitor business. LTIP plans are cash and equity performance plans which after 3 years (dependant on performance) pay half in cash and the remaining half in shares which are placed into ESAS for a further 1 or 2 years.

Other schemes
In addition to the above schemes, The Group operates a number of other schemes including schemes operated by and settled in the shares of subsidiary undertakings, none of which are individually or in aggregate material in relation to the charge for the year or the dilutive effect of outstanding share options. Included within other schemes are the Performance Share Plan, Incentive Share Plan, Sharesave, Sharepurchase, and the Barclays Long Term Incentive Plan which was introduced and approved at the AGM in April 2011.

36 Share based payments (continued)

Share option and award plans

The weighted average fair value per award granted and weighted average share price at the date of exercise/release of shares during the year was:

	Weighted average fair value per award granted in year		Weighted average share price at exercise/release during year	
	2011	2010	**2011**	2010
	£	£	**£**	£
SVP[a,b]	**2.80**	3.54	**3.08**	3.10
ESAS[a,c]	**2.84**	2.88	**2.87**	3.39
Others[a]	**0.65 - 2.77**	1.29 - 3.55	**2.18 - 3.03**	3.02 - 3.46

SVP and ESAS are nil cost awards and nil cost options respectively on which the performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards/options is based on the market value at that date.

As described above, the terms of the ESAS scheme require shares to be held for a set number of years from the date of vesting. The calculation of the vesting date fair value of such awards includes a reduction for this post-vesting restriction. This discount is determined by calculating how much a willing market participant would rationally pay to remove the restriction using a Black-Scholes option pricing model. The total discount required in 2011 is £nil (2010: £22m).

Movements in options and awards

The movement in the number of options and awards for the major schemes and the weighted average exercise price of options was:

	SVP[a,b]		ESAS[a,c]		Others[a,d]			
	Number (000s)		Number (000s)		Number (000s)		Weighted average ex. price (£)	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Outstanding at beginning of year/acquisition date	**226,842**	-	**383,483**	464,511	**175,253**	189,871	**2.80**	3.01
Granted in the year	**255,592**	241,931	**11,267**	85,489	**111,374**	32,763	**1.52**	2.46
Exercised/released in the year	**(77,315)**	(4,932)	**(117,126)**	(139,220)	**(18,164)**	(11,211)	**2.03**	2.67
Less: forfeited in the year	**(12,481)**	(10,157)	**(25,596)**	(27,297)	**(46,480)**	(36,170)	**2.59**	3.42
Less: expired in the year	**-**	-	**-**	-	**(7,620)**	-	**3.94**	-
Outstanding at end of year	**392,638**	226,842	**252,028**	383,483	**214,363**	175,253	**1.93**	2.80
Of which exercisable:	**-**	-	**25,025**	5,220	**20,424**	8,383	**2.78**	4.35

Certain of The Group's share option plans enable certain directors and members of staff employees the option to subscribe for new ordinary shares of Barclays PLC between 2011 and 2019.

Notes

a Options/award granted over Barclays PLC shares.
b Nil cost award and therefore the weighted average exercise price was nil.
c Nil cost options and therefore there was no weighted average exercise price.
d The number of awards within others at the end of the year principally relates to Sharesave (number of awards exercisable at end of year was 15,825,000). The weighted average exercise price relates to Sharesave. The weighted average exercise price for the other schemes was nil.

Notes to the financial statements

For the year ended 31December 2011continued

36 Share based payments (continued)

The weighted average contractual remaining life and number of options and awards outstanding (including those exercisable) at the balance sheet date are as follows:

	2011		2010	
	Weighted average remaining contractual life in years	Number of options/ awards outstanding (000s)	Weighted average remaining contractual life in years	Number of options/ awards outstanding (000s)
SVP[a,b]	2	392,638	2	226,842
ESAS[a,c]	2	252,028	3	383,483
Others[a]	0 - 4	214,362	0 - 4	175,252

There were no significant modifications to the share based payments arrangements in the years 2011 and 2010.

As at 31 December 2011, the total liability arising from cash-settled share based payments transactions was £12m (2010: £23m).

Holdings of Barclays PLC shares

The Group, through various employee benefit trusts, holds shares in Barclays PLC to meet its obligations under its share based payment schemes. The total number of Barclays shares held in Group employee benefit trusts at 31 December 2011 was 3.9 million (2010: 259.0 million). The reduction is due to a change in the funding approach by the trustee, whereby holdings of treasury shares have been replaced with instruments that hedge the economic exposure to movements in the Barclays share price. Dividend rights have been waived on nil (2010: nil) of these shares. The total market value of the shares held in trust based on the year end share price of £1.74 (2010: £2.61) was £6.8m (2010: £676m).

Notes

a Options/award granted over Barclays PLC shares.

b Nil cost award.

c Nil cost options.

37 Pensions and post retirement benefits

Accounting for pensions and post retirement benefits

The Group operates a number of pension schemes including defined contribution, defined benefit and post-employment benefit schemes.

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

Defined benefit schemes - The Group recognises its obligation to members of the scheme at the period end, less the fair value of the scheme assets and unrecognised actuarial gains or losses. Each scheme's obligations are calculated using the projected unit credit method on the assumptions set out in the note below. Scheme assets are stated at fair value as at the period end.

The Group uses the option within IAS 19 *Employee Benefits* to defer actuarial gains and losses over the remaining service lives of the employees.

Actuarial gains and losses comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. Cumulative actuarial gains and losses, to the extent that they exceed the greater of: 10% of the fair value of the scheme assets or 10% of the present value of the defined benefit obligation, are deferred and the excess amortised in the income statement over the average service lives of scheme members. Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation, the fair value of the assets and any related unrecognised actuarial gain or loss and past service costs.

Where a scheme's assets and its unrecognised actuarial losses exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

Post-employment benefits - the cost of providing health care benefits to retired employees is accrued as a liability in the financial statements over the period that the employees provide services to The Group, using a methodology similar to that for defined benefit pension schemes.

Future accounting development

From 1 January 2013, in accordance with amendments to IAS 19, The Group balance sheet will fully reflect the pension liability or asset, including any unrecognised actuarial losses or gains. As at 31 December 2011 there were unrecognised actuarial losses of £1.7bn. In addition, The Group will recognise interest charge or income on the net pension liability or asset, rather than the expected return on the schemes' assets and interest cost on the schemes' benefit obligation. The Group will no longer recognise the amortisation of unrecognised actuarial gains or losses which in 2011 gave rise to a charge of £0.1bn. Given these amendments the charge for 2011 would have been £0.1bn higher under the amended standard, and a charge of £1.7bn would have been recognised in other comprehensive income.

Pension schemes

The UK Retirement Fund (UKRF) is The Group's main scheme, representing 92% of The Group's total retirement benefit obligations. The UKRF comprises ten sections, the most significant of which are:

- Afterwork: comprising of a voluntary defined contribution element and a contributory cash balance defined benefit. The cash balance element is revalued until Normal Retirement Age in line with the increase in Retail Price Index (maximum 5%). An investment related increase of up to 2% a year may also be added at Barclays discretion. Since 1 October 2003 the majority of new employees outside of Barclays Capital have been eligible to join.

- The Pension Investment Plan (PIP): a defined contribution section providing benefits for Barclays Capital employees from 1 July 2001.

- The 1964 Pension Scheme: most employees recruited before July 1997 built up benefits in this non-contributory defined benefit scheme in respect of service up to 31 March 2010. Pensions were calculated by reference to service and pensionable salary. From 1 April 2010 members became eligible to accrue future service benefits in either Afterwork or PIP.

The costs of ill-health retirements and death in service benefits are borne by the UKRF.

Governance

The UKRF operates under trust law and is managed and administered on behalf of the members in accordance with the terms of the Trust Deed and Rules and all relevant legislation. The Corporate Trustee is Barclays Pension Funds Trustees Limited, a private limited company incorporated on 20 December 1990 and a wholly owned subsidiary of Barclays Bank PLC. The Trustee is the legal owner of the assets of the UKRF which are held separately from the assets of The Group.

The Trustee Board comprises six Management Directors selected by Barclays, of whom three are independent Directors with no relationship with Barclays or the UKRF, plus three Member Nominated Directors selected from eligible active staff and pensioner members who apply for the role.

The same principles of pension governance apply to The Group's other pension schemes, although different legislation covers overseas schemes where, in most cases, The Group has the power to determine the funding rate.

Notes to the financial statements

For the year ended 31December 2011continued

37 Pensions and post retirement benefits (continued)

Amounts recognised

The following tables include: the amounts recognised in the income statement, an analysis of benefit obligations and an analysis of scheme assets for all Group schemes. The net position is reconciled to the assets and liabilities recognised on the balance sheet. The UKRF scheme is booked into UK branches, hence throughout this note the numbers disclosed for UKRF are the same for the Bank, as the consolidated Group. The tables include funded and unfunded post-retirement benefits.

Income statement charge	2011 £m	2010 £m
Current service cost	348	349
Interest cost	1,154	1,146
Expected return on scheme assets	(1,176)	(1,122)
Recognised actuarial loss	57	75
Past service cost	23	(233)
Curtailment or settlements	3	16
Total	409	231

Balance sheet reconciliation	2011			2010		
	The Group Total	The Bank Total	Of which relates to UKRF	The Group Total	The Bank Total	Of which relates to UKRF
	£m	£m	£m	£m	£m	£m
Benefit obligation at beginning of the year	(21,801)	(20,535)	(20,173)	(20,646)	(19,524)	(19,209)
Current service cost	(348)	(309)	(300)	(349)	(304)	(293)
Interest cost	(1,154)	(1,071)	(1,053)	(1,146)	(1,068)	(1,049)
Past service cost	(23)	-	-	238	238	240
Actuarial loss	(569)	(460)	(418)	(590)	(534)	(522)
Benefits paid	802	697	684	779	688	678
Exchange and other movements	99	(1)	(3)	(87)	(31)	(18)
Benefit obligation at end of the year	(22,994)	(21,679)	(21,263)	(21,801)	(20,535)	(20,173)
Fair value of scheme assets at beginning of the year	18,905	17,783	17,621	16,700	15,810	15,675
Expected return on scheme assets	1,176	1,105	1,094	1,122	1,042	1,031
Employer contribution	2,220	2,162	2,128	728	676	666
Actuarial gain	1,419	1,476	1,470	1,012	999	995
Benefits paid	(802)	(697)	(684)	(779)	(688)	(678)
Exchange and other movements	(170)	(67)	(89)	122	(56)	(68)
Fair value of scheme assets at the end of the year	22,748	21,762	21,540	18,905	17,783	17,621
Net (deficit)/asset	(246)	83	277	(2,896)	(2,752)	(2,552)
Unrecognised actuarial losses	1,728	1,516	1,403	2,657	2,593	2,501
Net recognised asset/(liability)	1,482	1,599	1,680	(239)	(159)	(51)
Recognised assets	1,803	1,708	1,680	126	9	-
Recognised liabilities	(321)	(109)	-	(365)	(168)	(51)
Net recognised asset/(liability)	1,482	1,599	1,680	(239)	(159)	(51)

As at 31 December 2011, the UKRF's IAS 19 scheme assets exceeded obligations by £277m (2010: deficit of £2,552m). The most significant drivers for this change were favourable asset performance and deficit contributions paid over the year.

Included within The Group's benefit obligation was £1,560m (2010: £1,470m) relating to overseas pensions and £171m (2010: £158m) relating to other post-retirement benefits. Included within the Bank's benefit obligation was £345m (2010: £294m) relating to overseas pensions and £71m (2010: £68m) relating to other post-retirement benefits. Of the benefit obligations of £22,994m (2010: £21,801m), £334m (2010: £258m) were wholly unfunded. Out of the Bank's benefit obligations of £21,679m (2010: £20,535m), £150m (2010: £88m) were wholly unfunded.

37 Pensions and post retirement benefits (continued)

Critical accounting estimates and judgements

Actuarial valuation of the schemes' obligation is dependent upon a series of assumptions. Below is a summary of the main financial and demographic assumptions adopted for UKRF:

UKRF financial assumptions	2011	2010
	% p.a.	% p.a.
Discount rate	**4.74**	5.31
Rate of increase in salaries	**3.54**	4.00
Inflation rate	**3.04**	3.50
Rate of increase for pensions in payment	**2.94**	3.35
Rate of increase for pensions in deferment	**2.94**	3.50
Afterwork revaluation rate[a]	**3.47**	3.97
Expected return on scheme assets	**5.00**	6.30

The UKRF discount rate assumption is based on a liability-weighted rate derived from an AA corporate bond yield curve and the inflation assumption reflects long-term expectations of RPI.

The UKRF's post-retirement mortality assumptions are based on a best estimate assumption derived from an analysis in 2011 of Barclays own post-retirement mortality experience which was carried out at the time of the latest triennial funding valuation, and taking account of the recent evidence from published mortality surveys. An allowance has been made for future mortality improvements based on the medium cohort projections published by the Continuous Mortality Investigation Bureau subject to a floor of 1% p.a. on future improvements.

The table below shows how the assumed life expectancy at 60, for members of the UKRF, has varied over the last five years:

Assumed life expectancy	2011	2010	2009	2008	2007
Life expectancy at 60 for current pensioners (years)					
- Males	**27.7**	27.6	27.5	27.4	26.7
- Females	**28.8**	28.7	28.7	28.5	27.9
Life expectancy at 60 for future pensioners currently aged 40 (years)					
- Males	**29.1**	29.7	29.6	29.5	28.0
- Females	**30.4**	30.7	30.6	30.5	29.1

Sensitivity analysis on actuarial assumptions

The following table shows a sensitivity analysis of the most material assumptions on the UKRF benefit obligation:

Change in key assumption	Impact on UKRF benefit obligation	
	(Decrease)/ Increase	(Decrease)/ Increase
	%	£bn
0.5% increase in:		
- Discount rate	**(8.7)**	**(1.8)**
- Rate of inflation	**9.1**	**1.9**
1 year increase to life expectancy at 60	**2.5**	**0.5**

Note

a This is the assumption applied to the Afterwork cash balance element.

Notes to the financial statements

For the year ended 31December 2011continued

37 Pensions and post retirement benefits (continued)

Assets

A long term strategy has been set for the asset allocation of the UKRF which comprises a mixture of equities, bonds, property and other appropriate assets. This recognises that different asset classes are likely to produce different long-term returns and some asset classes may be more volatile than others. The long term strategy ensures that investments are adequately diversified. Asset managers are permitted some flexibility to vary the asset allocation from the long term strategy within control ranges agreed with the Trustee from time to time.

The UKRF also employs derivative instruments, where appropriate, to achieve a desired exposure or return, or to match assets more closely to liabilities. The value of assets shown reflects the actual physical assets held by the scheme, with any derivative holdings reflected on a mark to market basis.

The value of the assets of the schemes, their percentage in relation to total scheme assets, and their expected rate of return were as follows:

Analysis of scheme assets	The Group Total			The Bank Total			Of which relates to UKRF		
	Value	% of total fair value of scheme assets	Expected rate of return	Value	% of total fair value of scheme assets	Expected rate of return	Value	% of total fair value of scheme assets	Expected rate of return
	£m	%	%	£m	%	%	£m	%	%
As at 31 December 2011									
Equities	**4,979**	**21.9**	**7.8**	**4,534**	**20.8**	**7.7**	**4,452**	**20.7**	**7.7**
Bonds	**11,246**	**49.4**	**3.8**	**10,971**	**50.4**	**3.7**	**10,872**	**50.5**	**3.7**
Property	**1,389**	**6.1**	**6.2**	**1,357**	**6.2**	**6.1**	**1,356**	**6.3**	**6.1**
Derivatives	**1,296**	**5.7**	**-**	**1,296**	**6.0**	**-**	**1,296**	**6.0**	**-**
Cash	**3,253**	**14.3**	**0.6**	**3,173**	**14.6**	**0.5**	**3,167**	**14.7**	**0.5**
Other	**585**	**2.6**	**4.4**	**431**	**2.0**	**3.1**	**397**	**1.8**	**2.5**
Fair value of scheme assets	**22,748**	**100**	**5.1**	**21,762**	**100**	**4.9**	**21,540**	**100**	**5.0**
As at 31 December 2010									
Equities	5,865	31.0	8.3	5,409	30.4	8.4	5,349	30.4	8.4
Bonds	9,641	51.0	4.7	9,237	51.9	4.6	9,164	52.0	4.6
Property	1,297	6.9	6.9	1,277	7.2	6.8	1,277	7.2	6.8
Derivatives	410	2.2	-	410	2.3	-	410	2.3	-
Cash	1,215	6.4	1.2	1,060	6.0	0.5	1,057	6.0	0.5
Other	477	2.5	5.6	390	2.2	4.7	364	2.1	4.3
Fair value of scheme assets	18,905	100	6.3	17,783	100	6.3	17,621	100	6.3

Included within fair value of scheme assets were: £15m (2010: £14m) relating to shares in Barclays Group, £12m (2010: £13m) relating to bonds issued by the Barclays Group, and £12m (2010: £10m) relating to property occupied by Group companies. The UKRF also invests in pooled investment vehicles which may hold shares or debt issued by the Barclays Group. Amounts included in the Bank fair value of plan assets include £1m (2010: £nil) relating to property occupied by Bank companies. The UKRF scheme assets also includes £50m (2010: £58m) relating to UK private equity investments and £1,342m (2010: £1,128m) relating to overseas private equity investments. These are disclosed above within Equities.

The expected return on assets is determined by calculating a total return estimate based on weighted average estimated returns for each asset class. Asset class returns are estimated using current and projected economic and market factors such as inflation, credit spreads and equity risk premiums. The Group actual return on scheme assets was an increase of £2,595m (2010: £2,134m increase). The Bank actual return on plan assets was an increase of £2,581m (2010: £2,041m increase).

The overall expected return on assets assumption has recognised that some of the cash holding at 31 December 2011 was due to be reinvested shortly after year end in line with the long term strategy. The overall expected return on asset assumption has also been based on the portfolio of assets created after allowing for the net impact of the derivatives on the risk and return profile of the holdings.

37 Pensions and post retirement benefits (continued)

Actuarial gains and losses

The actuarial gains and losses arising on scheme obligations and scheme assets are as follows:

Total actuarial gains and losses (The Group)	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of obligations	**(22,994)**	(21,801)	(20,646)	(15,783)	(17,634)
Fair value of scheme assets	**22,748**	18,905	16,700	14,496	18,027
Net (deficit)/surplus in the schemes	**(246)**	(2,896)	(3,946)	(1,287)	393
Experience (losses) and gains on scheme liabilities					
– amount	**(57)**	(216)	62	(177)	(376)
– as percentage of scheme liabilities	**-**	(1%)	-	(1%)	(2%)
Difference between actual and expected return on scheme assets					
– amount	**1,419**	1,012	1,416	(4,655)	(343)
– as percentage of scheme assets	**6%**	5%	8%	(32%)	(2%)

Total actuarial gains and losses (The Bank)	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of obligations	**(21,679)**	(20,535)	(19,524)	(14,735)	(16,851)
Fair value of scheme assets	**21,762**	17,783	15,810	13,697	17,372
Net surplus/(deficit) in the scheme	**83**	(2,752)	(3,714)	(1,038)	521
Experience (losses) and gains on scheme liabilities					
– amount	**(33)**	(209)	102	(177)	(308)
– as percentage of scheme liabilities	**-**	(1%)	1%	(1%)	(2%)
Difference between actual and expected return on scheme assets					
– amount	**1,476**	999	1,411	(4,599)	(334)
– as percentage of scheme assets	**7%**	6%	9%	(34%)	(2%)

Actuarial gains and losses relating to UKRF	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of obligations	**(21,263)**	(20,173)	(19,209)	(14,395)	(16,563)
Fair value of scheme assets	**21,540**	17,621	15,675	13,537	17,231
Net surplus/(deficit) in the scheme	**277**	(2,552)	(3,534)	(858)	668
Experience (losses) and gains on scheme liabilities					
– amount	**(34)**	(207)	106	88	-
– as percentage of scheme liabilities	**-**	(1%)	1%	1%	-
Difference between actual and expected return on scheme assets					
– amount	**1,470**	995	1,424	(4,534)	332
– as percentage of scheme assets	**7%**	6%	9%	(33%)	2%

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For the year ended 31December 2011continued

37 Pensions and post retirement benefits (continued)

Funding

The latest triennial funding valuation of the UKRF was carried out with an effective date of 30 September 2010, and showed a deficit of £5.0bn. In compliance with the Pensions Act 2004, the Bank and Trustee agreed a scheme-specific funding target, statement of funding principles, a schedule of contributions and a recovery plan to eliminate the deficit in the Fund.

The recovery plan to eliminate the deficit will result in the Bank paying deficit contributions to the Fund until 2021. Deficit contributions of £1.8bn were paid to the fund in December 2011 and a further £0.5bn will be paid in 2012. Further deficit contributions are payable from 2017 to 2021 starting at £0.65bn in 2017 and increasing by approximately 3.5% per annum until 2021. These deficit contributions are in addition to the regular contributions to meet The Group's share of the cost of benefits accruing over each year. Including deficit contributions, The Group's estimated contribution to the UKRF in 2012 will be £877m. Excluding the UKRF, The Group is expected to pay contributions of approximately £1m to UK schemes and £94m to overseas schemes in 2012. The Bank is expected to pay contributions of approximately £1m to UK schemes and £22m to overseas schemes in 2012.

The Scheme Actuary prepares an annual update of the funding position as at 30 September. The latest annual update was carried out as at 30 September 2011 and showed a deficit of £6.4bn. This was prior to the payment of £1.8bn in December 2011.

Contributions paid with respect to the UKRF were as follows:

Contributions paid	£m
2011	**2,128**
2010	666
2009	525

Scope of consolidation

This section presents information on The Group's investments in subsidiaries, joint ventures and associates. Detail is also given on securitisation transactions The Group has entered into and arrangements that are held off-balance sheet.

38 Investment in subsidiaries

Investments in subsidiaries, the principal of which are engaged in banking related activities, are recorded on the balance sheet at historical cost less any impairment. At 31 December 2011 the historical cost of investments in subsidiaries was £24,383m (2010: £20,858m), and allowances recognised against these investments was £2,310m (2010: £1,825m) of impairment.

Principal subsidiaries for The Group are set out below. This list has been revised to include those subsidiaries that are significant in the context of The Group's business, results or financial position.

Country of registration or incorporation	Company name	Nature of business	Percentage of equity capital held (%)
England	Barclays Bank Trust Company Limited	Banking, securities industries and trust services	100
England	Barclays Stockbrokers Limited	Stockbroking	100
England	Barclays Capital Securities Limited	Securities dealing	100
England	FIRSTPLUS Financial Group PLC	Secured loan provider	100*
Isle of Man	Barclays Private Clients International Limited	Banking	100*
Japan	Barclays Capital Japan Limited	Securities dealing	100
Kenya	Barclays Bank of Kenya Limited	Banking	68.5*
South Africa	Absa Group Limited	Banking	55.5*
Spain	Barclays Bank SA	Banking	100*
USA	Barclays Capital Inc.	Securities dealing	100
USA	Barclays Bank Delaware	US credit card issuer	100
USA	Barclays Group US Inc.	Holding company	100*

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. Investments in subsidiaries held directly by Barclays Bank PLC are marked *. Full information of all subsidiaries will be included in the Annual Return to be filed at UK Companies House.

Although The Group's interest in the equity voting rights in certain entities listed below may exceed 50%, or it may have the power to appoint a majority of their Boards of Directors, they are excluded from consolidation because The Group either does not direct the financial and operating policies of these entities, or another entity has a controlling interest in them. Consequently, these entities are not controlled by Barclays:

Country of registration or incorporation	Company name	Percentage of ordinary share capital held %	Equity shareholders' funds £m	Retained profit for the year £m
UK	Fitzroy Finance Limited	100	-	-
Cayman Islands	Palomino Limited	100	1	-

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For the year ended 31December 2011continued

39 Acquisition of subsidiaries (continued)

In April 2011, Barclays acquired the third party investments in Protium for their carrying value of £163m and restructured the related management arrangements. This resulted in the general partner interest being acquired by Barclays for a nominal consideration and the remaining interest in Protium held by Protium's investment manager, redeemed for consideration of £50m (in accordance with the performance fees that would have been due under the original agreement, based on investment performance to date). Barclays is now the sole owner and controlling party of Protium, which is consolidated by The Group. The investment manager continues to provide management services to Barclays in relation to the acquired assets. There was no gain or loss and no goodwill arising as the impairment on the loan was already calculated by reference to Protium's net asset value of £5,856m.

As part of this transaction, $750m of proceeds from a partial redemption of the loan to Protium was invested into Helix, an existing fund managed by Protium's investment manager. This represents a majority interest in the fund, which has also been consolidated by The Group.

The pre-acquisition carrying amount of the acquired assets and liabilities, stated in accordance with The Group's accounting policies, was equal to their fair value on acquisition. There was no gain or loss and no arising on the transaction.

	Fair Values £m
Assets	
Trading portfolio assets	**4,731**
Financial assets designated at fair value	**1,004**
Derivative financial instruments	**5**
Loans and receivables	**472**
Reverse repurchase agreements	**29**
Other assets	**46**
Total assets	**6,287**
Liabilities	
Deposits from banks	**1**
Trading portfolio liabilities	**93**
Financial liabilities designated at fair values	**76**
Derivative financial instruments	**23**
Repurchase agreements	**24**
Other liabilities	**51**
Total liabilities	**268**
Net assets acquired (group share 100%)	**6,019**
Considerations - cash	**163**
- loan	**5,856**
Total consideration	**6,019**

The Group's exposure to Protium prior to acquisition represented a loan. Subsequent to acquisition the underlying assets held by Protium were consolidated by The Group and have been integrated into the corresponding business lines.

The contribution of Protium and related underlying assets on The Group's profit before tax for the year of £55m reflected a £223m impairment release and £36m interest income on the loan prior to acquisition, offset by £204m post acquisition fair value reductions in the underlying assets offsets by gains arising on the unwind of structured assets. Post acquisition losses comprised £27m gain on US sub prime and Alt-A, £249m losses on commercial mortgage backed securities, £92m gains on CDO and other assets, £56m of net interest and other income, £74m of funding charges and£56m of fees to Protium's investment manager.

The £50m consideration paid by Protium to redeem the remaining interest held by its investment manager represents the settlement of an existing liability. As pre-acquisition impairment was calculated by reference to Protium's net asset value, this amount was reflected in the impairment charge and did not give rise to a loss on acquisition.

At the acquisition date, the contractual amounts due to maturity on the acquired assets were £28bn. These assets are pre dominantly held for trading purposes so are not expected to be held to maturity.

Acquisition related costs of £nil have been included in operating expenses. The aggregate net outflow from acquisition during the year was £163m.

39 Acquisition of subsidiaries (continued)

During the year, Barclays acquired £2.1bn consumer credit card assets from Egg UK, a £130m corporate card portfolio from MBNA Europe Bank Limited and $1.4bn Upromise by Sallie Mae credit card portfolio from FIA Card Services, N.A. (part of Bank of America). These acquisitions were asset purchases and therefore, have not been included in the table above. In addition Barclays acquired the Baubecon portfolio of German residential properties following a debt restructuring transaction for £0.8bn. The properties have a current fair value of £1bn and are accounted for as investment properties.

40 Investments in associates and joint ventures

Accounting for associates and joint ventures

Barclays applies IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. Associates are entities in which The Group has significant influence, but not control, over its operating and financial policies. Generally The Group holds more than 20%, but less than 50%, of their voting shares. Joint Ventures are entities whose activities are governed by a contractual arrangement between The Group and one or more parties to share equally in decisions regarding operating and financial policies.

The Group's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each year by The Group's share of the post acquisition profit (or loss). In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.

	2011 £m	2010 £m
Investment in associates	**169**	261
Investment in joint ventures	**258**	257
Total	**427**	518

Summarised financial information for The Group's associates and joint ventures is set out below. The amounts shown are assets, liabilities and net income of the investees, not just The Group's share, as at and for the year ended 31 December 2011 with the exception of certain undertakings for which the amounts are based on accounts made up to dates not earlier than three months before the balance sheet date.

	2011		2010	
	Associates £m	Joint ventures £m	Associates £m	Joint ventures £m
Total assets	**4,001**	**3,447**	4,819	3,452
Total liabilities	**3,603**	**2,938**	4,089	3,024
Profit/(loss) after tax	**45**	**88**	(167)	93

The Group's share of commitments and contingencies of its associates and joint ventures was comprised of insurance guarantees of £nil (2010: £nil) unutilised credit facilities provided to customers of £1,265m (2010: £1,237m).

41 Securitisations

Accounting for securitisations

The Group uses securitisations as a source of finance and a means of risk transfer. Such transactions generally result in the transfer of contractual cash flows from portfolios of financial assets to holders of issued debt securities.

Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; lead to partial continued recognition of the assets to the extent of The Group's continuing involvement in those assets or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when The Group transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

The Group is party to securitisation transactions for funding purposes, involving its residential mortgage loans, business loans and credit card balances. In addition, The Group acts as a conduit for commercial paper, whereby it acquires static pools of residential mortgage loans from other lending institutions for securitisation transactions. In these transactions, the assets, or interests in the assets, or beneficial interests in the cash flows arising from the assets, are transferred to a special purpose entity, or to a trust which then transfers its beneficial interests to a special purpose entity, which then issues floating rate debt securities to third-party investors.

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For the year ended 31December 2011continued

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

	2011		2010	
	Carrying amount of assets	Associated liabilities	Carrying amount of assets	Associated liabilities
	£m	£m	£m	£m
The Group				
Loans and advances to customers				
Residential mortgage loans	**7,946**	**(8,085)**	9,709	(10,674)
Credit card receivables	**4,059**	**(3,477)**	801	(723)
Wholesale and corporate loans and advances	**1,391**	**(1,428)**	2,560	(2,878)
Total	**13,396**	**(12,990)**	13,070	(14,275)
Assets designated at fair value through profit or loss				
Retained interest in residential mortgage loans	**1**		5	
The Bank				
Loans and advances to customers				
Residential mortgage loans	**6,230**	**(6,477)**	6,700	(7,789)
Credit card receivables	**3,913**	**(3,325)**	362	(315)
Wholesale and corporate loans and advances	**1,787**	**(1,843)**	2,974	(3,355)
Total	**11,930**	**(11,645)**	10,036	(11,459)
Assets designated at fair value through profit or loss				
Retained interest in residential mortgage loans	**1**		5	

Balances included within loans and advances to customers represent securitisations where substantially all the risks and rewards of the asset have been retained by The Group. As a result these securitisations represent secured financing, although for regulatory capital purposes they may give risk to a regulatory capital benefit due to risk sharing with investors.

The excess of total associated liabilities over the carrying amount of assets primarily reflects timing differences in the receipt and payment of cash flows, and foreign exchange movements where the assets and associated liabilities are denominated in different currencies. Foreign exchange movements and associated risks are hedged economically through the use of cross currency swap derivative contracts.

Retained interests in residential mortgage loans are securities which represent a continuing exposure to the prepayment and credit risk in the underlying securitised assets. The total amount of the loans was £2,299m (2010: £15,458m). The retained interest is initially recorded as an allocation of the original carrying amount based on the relative fair values of the portion derecognised and the portion retained.

42 Off-balance sheet arrangements
In the ordinary course of business and primarily to facilitate client transactions, The Group enters into transactions which may involve the use of off-balance sheet arrangements and special purpose entities (SPEs). These arrangements include the provision of guarantees, loan commitments, retained interests in assets which have been transferred to an unconsolidated SPE or obligations arising from The Group's involvements with such SPEs.

Guarantees
The Group issues guarantees on behalf of its customers. In the majority of cases, The Group will hold collateral against the exposure, have a right of recourse to the customer or both. In addition, The Group issues guarantees on its own behalf. The main types of guarantees provided are: financial guarantees given to banks and financial institutions on behalf of customers to secure loans; overdrafts; and other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of contingent liabilities with off-balance sheet risk is set out in Note 28.

Loan commitments
The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period or are cancellable by The Group subject to notice conditions. Information on loan commitments and similar facilities is set out in Note 28.

42 Off-balance sheet arrangements (continued)

Leasing

The Group leases various offices, branches, other premises and equipment under non-cancellable operating lease arrangements. With such operating lease arrangements, the asset is kept on the lessor's balance sheet and The Group reports the future minimum lease payments as an expense over the lease term. Information on leasing can be found in Note 25.

SPEs

SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. The Group's transactions with SPEs take a number of forms, including:

- the provision of financing to fund asset purchases, or commitments to provide finance for future purchases;
- derivative transactions to provide investors in the SPE with a specified exposure;
- the provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties; and
- direct investment in the notes issued by SPEs.

A number of The Group's transactions have recourse only to the assets of unconsolidated SPEs. Typically, the majority of the exposure to these assets is borne by third parties and The Group's risk is mitigated through over-collateralisation, unwind features and other protective measures.

The business activities within The Group where SPEs are used include multi-seller conduit programmes, asset securitisations, client intermediation, credit structuring, asset realisations and fund management. These activities are described below. In addition, later sections provide quantitative information on The Group's involvements with CDOs, SIVs SIV-Lites and conduits.

Multi-seller conduit programmes

Barclays creates, administers and provides liquidity and credit enhancements to several commercial paper conduit programmes, primarily in the United States. These conduits provide clients access to liquidity in the commercial paper markets by allowing them to sell consumer or trade receivables to the conduit, which then issues commercial paper to investors to fund the purchase. The conduits have sufficient collateral, credit enhancements and liquidity support to maintain an investment grade rating for the commercial paper.

Asset securitisations

The Group has assisted its customers with the formation of asset securitisations, some of which are effected through the use of SPEs. These entities have minimal equity and rely on funding in the form of notes to purchase the assets for securitisation. As these SPEs are created for other companies, The Group does not usually control these entities and therefore does not consolidate them. The Group may provide financing in the form of senior notes or junior notes and may also provide derivatives to the SPE. These transactions are included on the balance sheet.

The Group has also used SPEs to securitise part of its originated and purchased retail and commercial lending portfolios and credit card receivables. These SPEs are usually consolidated and derecognition only occurs when The Group transfers its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. The carrying amount of securitised assets together with the associated liabilities are set out in Note 41.

Client intermediation

The Group has structured transactions as a financial intermediary to meet investor and client needs. These transactions involve entities structured by either The Group or the client and are used to modify cash flows of third party assets to create investments with specific risk or return profiles or to assist clients in the efficient management of other risks. Such transactions will typically result in a derivative being shown on the balance sheet, representing The Group's exposure to the relevant asset. The Group also invests in lessor entities specifically to acquire assets for leasing. Client intermediation also includes arrangements to fund the purchase or construction of specific assets (most common in the property industry).

Credit structuring

The Group structures investments to provide specific risk profiles to investors. This may involve the sale of credit exposures, often by way of derivatives, to an entity which subsequently funds those exposures by issuing securities. These securities may initially be held by Barclays prior to sale outside of The Group.

Asset realisations

The Group establishes SPEs to facilitate the recovery of loans in circumstances where the borrower has suffered financial loss.

To the extent that there are guarantees and commitments in relation to SPEs the details are included in Note 28.

Collateralised debt obligations (CDOs)

The Group has structured and underwritten CDOs. At inception, The Group's exposure principally takes the form of a liquidity facility provided to support future funding difficulties or cash shortfalls in the vehicles. If required by the vehicle, the facility is drawn with the amount advanced included within loans and advances on the balance sheet. Upon an event of default or other triggering event, The Group may acquire control of a CDO and, therefore, be required to fully consolidate the vehicle for accounting purposes. The potential for transactions to hit default triggers before the end of 2011 has been assessed and is included in the determination of a £6m credit impairment charge and other provisions (2010: £137m release) in relation to ABS CDO Super Senior and other credit market exposures for the year ended 31 December 2011.

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42 Off-balance sheet arrangements (continued)

The Group's exposure to ABS CDO Super Senior positions before hedging was £1,842m as at 31 December 2011 (2010: £1,992m), equivalent to an aggregate 51.68% (2010: 50.97%) decline in value on average for all investors. This represents The Group's exposure to High Grade CDOs, stated net of write downs and charges. These facilities are fully drawn and included within loans and advances on the balance sheet.

Collateral

The collateral underlying unconsolidated CDOs comprised 78% (2010: 78%) residential mortgage-backed securities, 2% (2010:3%) non-residential asset-backed securities and 20% (2010: 19%) in other categories (a proportion of which will be backed by residential mortgage collateral). The remaining Weighted Average Life (WAL) of all collateral is 7.41 years (2010: 6.25 years). The combined Net Asset Value (NAV) for all of the CDOs was £1bn (2010: £1bn).

Funding

The CDOs were funded with senior unrated notes and rated notes up to AAA. The capital structure senior to the AAA notes on cash CDOs was supported by a liquidity facility provided by The Group. The senior portion covered by liquidity facilities is on average 82% of the capital structure. The initial WAL of the notes in issue averaged 6.7 years (2010: 6.7 years). The full contractual maturity is 38.2 years (2010: 38.2 years)

Interests in third party CDOs

The Group has purchased securities in and entered into derivative instruments with third party CDOs. These interests are held as trading assets or liabilities on The Group's balance sheet and measured at fair value. The Group has not provided liquidity facilities or similar agreements to third party CDOs.

Structured investment vehicles (SIVs)

The Group does not structure or manage SIVs. Group exposure to third party SIVs comprised: £nil (2010: £nil) of senior liquidity facilities and derivative exposures included on the balance sheet at their net fair value of £6m (2010: £46m).

SIV-Lites

The Group has no exposure to a SIV-Lite transaction. The Group is not involved in its ongoing management. Exposures have decreased to £nil (2010: £345m) representing assets designated at fair value.

Commercial paper (CP) and medium-term note conduits

The Group provided £14bn (2010: £17bn) in undrawn backstop liquidity facilities to its own sponsored CP conduits. The Group fully consolidates these entities such that the underlying assets are reflected on The Group balance sheet. These consolidated entities in turn provide facilities of £717m (2010: £740m) to third party conduits containing prime UK buy-to-let Residential Mortgage Backed Securities (RMBS) assets. As at 31 December 2011, the entire facility had been drawn and is included in available for sale financial investments.

The Group provided backstop facilities to support the paper issued by one third party conduit. This facility totalled £259m (2010: £129m), with underlying collateral comprising 100% auto loans. There were no drawings on this facility as at 31 December 2011.

The Group provided backstop facilities to five third party SPEs that fund themselves with medium term notes. These notes are sold to investors as a series of 12 month securities and remarketed to investors annually. If investors decline to renew their holdings at a price below a pre-agreed spread, the backstop facility requires The Group to purchase the outstanding notes at scheduled maturity. The Group has provided facilities of £0.9bn (2010: £1.2bn) to SPEs holding prime UK and Australian owner-occupied RMBS assets. As at the balance sheet date these facilities had been drawn and were included in loans and advances.

43 Assets pledged

Assets are pledged as collateral to secure liabilities under repurchase agreements, securitisations and stock lending agreements or as security deposits relating to derivatives. The following table summarises the nature and carrying amount of the assets pledged as security against these liabilities:

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Trading portfolio assets	**86,677**	111,703	**50,354**	54,716
Loans and advances	**40,613**	30,584	**38,729**	27,550
Available for sale investments	**19,974**	22,941	**17,203**	18,907
Other	**2**	45	**-**	-
Assets Pledged	**147,266**	165,273	**106,286**	101,173

As at 31 December 2011, Barclays has an additional £16bn loans and advances within its asset backed funding programs that can readily be used to raise additional secured funding and available to support future issuance.

Collateral held as security for assets

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

	The Group		The Bank	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Fair value of securities accepted as collateral	**391,287**	422,890	**419,462**	394,851
Of which fair value of securities repledged/transferred to others	**341,060**	347,557	**334,527**	358,593

The full disclosure as per IFRS7 has been included in collateral and other credit enhancements (page 35 to 38).

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Other disclosure matters

This section details other disclosure matters, comprising: related party transactions, directors remuneration, reference to detailed risk disclosures and events after the balance sheet date. Related party transactions include any subsidiaries, associates, joint ventures, entities under common directorships and key management personnel. Events after the balance sheet date represent noteworthy matters up to the date of approval of the annual report. These events are those that may be considered significant to shareholders and the reported financial position of The Group.

44 Related party transactions and Directors' remuneration

a) Related party transactions

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

(i) The Group

Parent company

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

Subsidiaries

Transactions between Barclays Bank PLC and subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in The Group financial statements. A list of The Group's principal subsidiaries is shown in Note 38.

Associates, joint ventures and other entities

The Group provides banking services to its associates, joint ventures, The Group pension funds (principally the UK Retirement Fund) and to entities under common directorships, providing loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services. Group companies also provide investment management and custodian services to The Group pension schemes. The Group also provides banking services for unit trusts and investment funds managed by Group companies and are not individually material. All of these transactions are conducted on the same terms as third-party transactions.

Entities under common directorships

The Group enters into normal commercial relationships with entities for which members of The Group's Board also serve as Directors. The amounts included in The Group's financial statements relating to such entities that are not publicly listed are shown in the table opposite under Entities under common directorships.

Amounts included in the accounts, in aggregate, by category of related party entity are as follows:

	Associates	Joint ventures	Entities under common directorships	Pension funds, unit trusts and investment funds[a]
	£m	£m	£m	£m
For the year ended and as at 31 December 2011				
Income	**(40)**	**20**	**1**	**17**
Impairment	**(2)**	**(6)**	**-**	**-**
Total Assets	**176**	**1,529**	**364**	**-**
Total Liabilities	**36**	**454**	**112**	**182**
For the year ended and as at 31 December 2010				
Income	19	(15)	10	-
Impairment	(5)	(9)	-	-
Total Assets	135	2,113	45	-
Total Liabilities	28	477	110	142

No guarantees, pledges or commitments have been given or received in respect of these transactions in 2011 or 2010. Derivatives transacted on behalf of the Pensions Funds Unit, Trusts and Investment Funds were £568.9m (2010: £206.8m)[a].

a 2010 balances have been revised to include cash collateral, deposit balances and derivatives transacted on behalf of Pension Funds, Unit Trusts and Investment Funds.

44 Related party transactions and Directors' remuneration (continued)

(ii) The Bank

Subsidiaries

Details of principal subsidiaries are shown in Note 38.

The Bank provides certain banking and financial services to subsidiaries as well as a number of normal current and interest bearing cash accounts to The Group pension funds (principally the UK Retirement Fund) in order to facilitate the day to day financial administration of the funds.

Group companies also provide investment management and custodian services. The Bank also provides normal banking services for unit trusts and investment funds managed by Group companies. These transactions are conducted on similar terms to third-party transactions and are not individually material.

In aggregate, amounts included in the accounts are as follows:

	Subsidiaries	Associates	Joint ventures	Entities under common directorships	Pension funds, unit trusts and investment funds[a]
	£m	£m	£m	£m	£m
For the year ended and as at 31 December 2011					
Total assets	**327,898**	**176**	**1,529**	**364**	**-**
Total liabilities	**349,205**	**36**	**454**	**112**	**182**
For the year ended and as at 31 December 2010					
Total assets	377,797	135	2,113	45	-
Total liabilities	392,770	28	477	110	142

It is the normal practice of the Bank to provide its subsidiaries with support and assistance by way of guarantees, indemnities, letters of comfort and commitments, as may be appropriate, with a view to enabling them to meet their obligations and to maintain their good standing, including commitment of capital and facilities.

For dividends paid to Barclays PLC see Note 12.

Key Management Personnel

The Group's Key Management Personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank PLC (directly or indirectly) and comprise the Directors of Barclays Bank PLC and the Officers of The Group, certain direct reports of the Group Chief Executive and the heads of major business units.

There were no material related party transactions with Entities under common directorship where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays.

The Group provides banking services to Directors and other Key Management Personnel and persons connected to them. Transactions during the year and the balances outstanding at 31 December 2011 were as follows:

Notes

a 2010 balances have been revised to include cash collateral, deposit balances and derivatives transacted on behalf of Pension Funds, Unit Trusts and Investment Funds.

Notes to the financial statements

For the year ended 31December 2011continued

44 Related party transactions and Directors' remuneration (continued)

Directors, other Key Management Personnel and connected persons

	2011 £m	2010 £m
Loans outstanding at 1 January	**4.8**	7.0
Loans issued during the year	**0.7**	0.5
Loan repayments during the year	**(0.7)**	(2.2)
Loans outstanding at 31 December	**4.8**	5.3

No allowances for impairment were recognised in respect of loans to Directors or other members of Key Management Personnel (or any connected person) in 2011 or 2010.

	2011 £m	2010 £m
Deposits outstanding at 1 January	**35.0**	30.3
Deposits received during the year	**244.2**	104.9
Deposits repaid during the year	**(240.4)**	(99.3)
Deposits outstanding at 31 December	**38.8**	35.9
Interest expense on deposits	**0.1**	-

Of the loans outstanding above, £0m (2010: £0.5m) relates to Directors and other Key Management Personnel (and persons connected to them) who left during the year. Of the deposits outstanding above, £1.1m (2010: £0.2m) relates to Directors and other Key Management Personnel (and persons connected to them) who left The Group during the year. The amounts disclosed as at 1 January includes deposits outstanding for those who became Directors or Key Management Personnel during the year.

All loans to Directors and other Key Management Personnel (and persons connected to them) (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and (c) did not involve more than a normal risk of collectability or present other unfavourable features; with the exception of £3,465 (2010: £2,120) provided on an interest free basis.

The loan of £3,465 (2010: £2,120) provided on an interest free basis was granted to a non-Director member of Barclays key management to purchase commuter rail tickets. The maximum loan outstanding during the year was £4,620 (2010: £4,240). Commuter rail ticket loans are provided to all Barclays staff members upon request on the same terms.

Remuneration of Directors and other Key Management Personnel

Total remuneration awarded to Directors and other Key Management Personnel below represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest payround decisions. Costs recognised in the income statement reflect the accounting charge for the year included within operating expenses. The difference between the values awarded and the recognised income statement charge principally relates to the recognition of deferred costs for prior year awards. Figures are provided for the period that individuals met the definition of Directors and other Key Management Personnel.

44 Related party transactions and Directors' remuneration (continued)

Directors, other Key Management Personnel and connected persons	2011 £m	2010 £m
Salaries	**21.1**	28.3
Employer social security costs	**9.1**	12.5
Post retirement benefits	**0.4**	1.0
Share-based payment awards	**33.7**	39.3
Other long-term benefit awards	**39.1**	41.9
Costs recognised for accounting purposes	**103.4**	123.0
Employer social security costs	**(9.1)**	(12.5)
Share-based payment awards - difference between awards granted and costs recognised	**(17.7)**	(20.9)
Other long term benefit - difference between awards granted and costs recognised	**(14.2)**	(9.2)
Total remuneration awarded	**62.4**	80.4

b) Disclosure required by the Companies Act 2006
The following information is presented in accordance with the Companies Act 2006:

	2011 £m	2010 £m
Aggregate emoluments	**15.9**	15.8
Amounts paid under long-term incentive schemes	**5.8**	7.0
	21.7	22.8

There were no pension contributions paid to defined contribution schemes on behalf of Directors (2010: £13,588, one Director). There were no notional pension contributions to defined contribution schemes.

As at 31 December 2011, there were no Directors accruing benefits under a defined benefit scheme (2010: one Director).
Of the figures in the table above, the amounts attributable to the highest paid Director are as follows:

	2011 £m	2010 £m
Aggregate emoluments	**10.9**	7.0
Amounts paid under long-term incentive schemes	**5.5**	5.6
Accrued pension	**-**	0.1

There were no actual pension contributions paid to defined contribution schemes (2010: £13,588). There were no notional pension contributions to defined contribution schemes in 2011 or 2010.

Advances and credit to Directors and guarantees on behalf of Directors
In accordance with Section 413 of the Companies Act 2006 and in relation to those who served as Directors of the Company at any time in the financial year, the total amount of advances and credits at 31 December 2011 was £nil (2010: £nil).

ANNEX 3

RISK MANAGEMENT

This Annex 3 has been extracted from the Issuer's annual report for the year ended 31 December 2011. The information set out in this Annex 3 was not produced for incorporation into this document and page references are references to pages set out in the original annual report for the Issuer for the year ended 31 December 2011.

Risk management

Overview

There are no differences in the manner in which risks are managed and measured between the Barclays Bank PLC Group and the Barclays PLC Group. Therefore, the explanations of the management, the control responsibilities and the measurement described in this section and the following sections on credit risk, market risk, capital and liquidity risk management are those for the Barclays PLC Group, which includes the Barclays Bank PLC Group. The amounts included in these notes are those for Barclays Bank PLC.

The Group is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Financial instruments are fundamental to the Group's business and managing financial risks, especially credit risk, is a fundamental part of its business activity.

The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits, and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date data. Risk management policies, models and systems are regularly reviewed to reflect changes to markets, products and best market practice.

Risk responsibilities

The *Board* is responsible for approving risk appetite, which is the level of risk the Group chooses to take in pursuit of its business objectives. The Chief Risk Officer regularly presents a report to the Board summarising developments in the risk environment and performance trends in the key portfolios. The Board is also responsible for the Internal Control and Assurance Framework (Group Control Framework). It oversees the management of the most significant risks through the regular review of risk exposures and related key controls. Executive management responsibilities relating to this are set via the Group's Principal Risks Policy.

The *Board Risk Committee* (BRC) monitors the Group's risk profile against the agreed appetite. Where actual performance differs from expectations, the actions being taken by management are reviewed to ensure that the BRC is comfortable with them. After each meeting, the Chair of the BRC prepares a report for the next meeting of the Board. Barclays first established a separate Board Risk Committee in 1999 and all members are non-executive directors. The Finance Director and the Chief Risk Officer attend each meeting as a matter of course .The BRC receives regular and comprehensive reports on risk methodologies and the Group's risk profile including the key issues affecting each business portfolio and forward risk trends. The Committee also commissions in-depth analyses of significant risk topics, which are presented by the Chief Risk Officer or senior risk managers in the businesses. The Chair of the Committee prepares a statement each year on its activities.

The *Board Audit Committee* receives quarterly reports on control issues of significance and a half-yearly review of the adequacy of impairment allowances, which it reviews relative to the risk inherent in the portfolios, the business environment, the Group's policies and methodologies and the performance trends of peer banks. The Chair of the Board Audit Committee also sits on the Board Risk Committee.

The *Board Citizenship Committee* provides oversight of reputational risk management and reviews emerging issues with potentially significant reputational impact. The Committee also reviews performance against Citizenship priorities, looking at the way we do business, how we are contributing to growth in the real economy, and supporting communities through investment programmes and efforts of employees.

The *Board Remuneration Committee* receives a detailed report on risk management performance from the Board Risk Committee which is considered in the setting of performance objectives in the context of incentive packages.

The *Board Corporate Governance and Nominations Committee* has a key role in reviewing new appointments and succession plans to ensure that we have a Board and an executive management team with the appropriate skills, knowledge and experience to operate effectively in an ever challenging environment.

Internal Audit is responsible for the independent review of risk management and the control environment. Its objective is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls, mitigating current and evolving high risks and in so doing enhancing the controls culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

The Chief Risk Officer is a member of the Executive Committee and has overall day-to-day accountability for risk management under delegated authority from the Chief Executive. The Chief Executive must consult the Chairman of the Board Risk Committee in respect of the Chief Risk Officer's performance appraisal and compensation as well as all appointments to or departures from the role.

The Chief Risk Officer manages the independent Group Risk function and chairs the Financial Risk Committee and the Operational Risk Committee, which monitor the Group's financial and non-financial risk profile relative to established risk appetite. Reporting to the Chief Risk Officer, and working in the Group Risk function, are risk-type heads for retail credit risk, wholesale credit risk, market risk, operational risk and fraud risk. Along with their teams, the risk-type heads are responsible for establishing a Group-wide framework for oversight of the risks and controls of their risk type. These risk-type teams liaise with each business as part of the monitoring and management processes.

In addition, each business unit has an embedded risk management function, headed by a Business Chief Risk Officer (BCRO). BCROs and their teams are responsible for assisting business heads in the identification and management of their business risk profiles and for implementing appropriate controls. These teams also assist Group Risk in the formulation of Group policies and their implementation across the businesses. The business risk directors report jointly to their respective business heads and to the Chief Risk Officer.

The risk type heads within the central Group Risk function and the BCROs within the business units report to the Chief Risk Officer and are members of the Financial Risk Committee or Operational Risk Committee as appropriate.

Risk management
Risk factors

Risk factors

During 2011, the Principal Risks Policy was updated, resulting in risks being grouped into four categories with no significant change to the underlying risk types. Definitions of the four Principal Risks are provided on pages 29 to 33. This summary also includes discussions of the impact of business conditions and the general economy and regulatory changes which can impact risk factors and so influence the Group's results. The Principal Risks described below can also potentially impact the Group's reputation and brand.

The following information describes the risk factors which the Group believes could cause its future results to differ materially from expectations. However, other factors could also adversely affect the Group's results and so the factors discussed in this report should not be considered to be a complete set of all potential risks and uncertainties.

Business conditions and the general economy

The Group has significant activities in a large number of countries. Consequently there are many ways in which changes in business conditions and the general economy can adversely impact profitability, whether at Group level, the individual business units or specific countries of operation.

During 2011, the economic environment in Barclays main markets was marked by generally weaker than expected growth and the ongoing sovereign debt crisis in the Eurozone. In the UK, the economy recovered slightly during 2011 although GDP declined slightly in the fourth quarter leading to uncertainty in the near term. The potential for persistent unemployment, higher interest rates and rising inflation may increase the pressure on disposable incomes, affecting an individual's debt service ability with the potential to adversely impact performance in the Group's retail sector. US economic conditions were better than the UK in 2011. However, unemployment is still high, which increases uncertainty in the near term. Credit conditions in Europe remain weak and a depressed housing sector and high unemployment may, in the near term, adversely affect Barclays business operations in this region. The global wholesale environment has been affected by the sovereign debt crisis and the business confidence has generally declined. Performance in the near term, therefore, remains uncertain.

The business conditions facing the Group in 2012 globally and in many markets in which the Group operates are subject to significant uncertainties which may in some cases lead to material adverse impacts on the Group's operations, financial conditions and prospects including, for example, changes in credit ratings, share price and solvency of counterparties as well as higher levels of impairment, lower revenues or higher costs.

Significant uncertainties by Principal Risk include:

Credit Risk

- Impact of potentially deteriorating sovereign credit quality, particularly debt servicing and refinancing capability;
- Extent and sustainability of economic recovery, including impact of austerity measures on the European economies;
- Increase in unemployment due to weaker economies in a number of countries in which the Group operates, fiscal tightening and other measures;
- Impact of rising inflation and potential interest rate rises on consumer debt affordability and corporate profitability;
- Possibility of further falls in residential property prices in the UK, South Africa and Western Europe;
- Potential liquidity shortages increasing counterparty risks;
- Potential for large single name losses and deterioration in specific sectors and geographies;
- Possible deterioration in remaining credit market exposures; and
- Potential exit of one or more countries from the Euro as a result of the European debt crisis.

Market Risk

- Reduced client activity leading to lower revenues;
- Decreases in market liquidity due to economic uncertainty;
- Impact on banking book income from uncertain interest and exchange rate environment; and
- Asset returns underperforming pension liabilities.

Funding Risk

- Impact of Basel 3 as regulatory rules are finalised;
- Impacts on capital ratios from weak profit performance;
- Availability and volatility in cost of funding due to economic uncertainty; and
- Reduction in available depositor and wholesale funding.

Operational Risk

- Implementation of strategic change and integration programmes across the Group;
- Continued regulatory and political focus, driven by the global economic climate;
- Impact of new, wide ranging, legislation in various countries coupled with changing regulatory landscape;
- Increasingly litigious environment; and
- The crisis management agenda and breadth of regulatory change required in global financial institutions.

1. Credit risk

Credit Risk is the risk of the Group suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Group.

The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with its clients. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans. It can also arise when an entity's credit rating is downgraded, leading to a fall in the value of Barclays investment in its issued financial instruments.

Risk Management
The Board and management have established a number of key committees to review credit risk management, approve overall Group credit policy and resolve all significant credit policy issues. These comprise: the Board Risk Committee (BRC), the Financial Risk Committee, the Wholesale Credit Risk Management Committee and the Retail Credit Risk Committee.

Barclays constantly reviews its concentration in a number of areas including, for example, portfolio segments, geography, maturity, industry and credit rating.

Diversification is achieved through setting maximum exposure mandates to portfolio segments, individual counterparties, sectors and countries, with excesses reported to the Financial Risk Committee and the BRC.

For further information see Credit Risk Management (pages 34 to 69).

Key Specific Risks and Mitigation
Specific areas and scenarios where credit risk could lead to higher impairment charges in future years include:

Sovereign Risk
Fiscal deficits continue to remain high, leading to high levels of public debt in some countries at a time of modest GDP growth. This has led to a loss of market confidence in certain countries to which the Group is exposed causing deteriorating sovereign credit quality, particularly in relation to debt servicing and refinancing. The Group has put certain countries on watch list status with detailed monthly reporting to the Wholesale Credit Risk Management Committee.

For further information see Group exposures to selected Eurozone countries (pages 61 to 69).

Economic Weakness
The implementation of austerity measures to tackle high levels of public debt has negatively impacted economic growth and led to rising unemployment in some European countries and the monetary, interest rate and other policies of central banks and regulatory authorities may also have a significant adverse effect on a number of countries in which the Group operates.

The threat of weaker economies in a number of countries in which the Group operates could lead to even higher increasing levels of unemployment, rising inflation, potentially higher interest rates and falling property prices. For example, the Spanish and Portuguese housing sectors continue to be depressed, impacting the Group's wholesale and retail credit risk exposures.

The Group has experienced elevated impairment across its operations in these two regions, although impairment in Spain decreased in 2011, following a marked reduction in construction activity and shrinking consumer spending. The Group has reduced its credit risk appetite to the most severely affected segments of the economy. In Spain, new lending to the property and construction sector ceased and workout team resources have been increased significantly.

In addition, if funding capacity in either the wholesale markets or central bank operations were to change significantly, liquidity shortages could result which may lead to increased counterparty risk with other financial institutions. This could also have an impact on refinancing risks in the corporate and retail sectors. The Group continues to actively manage this risk including through its extensive system of Mandate and Scale limits.

For further information see Wholesale Credit Risk and Retail Credit Risk (pages 48 to 55).

Eurozone Crisis
Concerns about credit risk (including that of sovereigns) and the Eurozone crisis remain very high. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions, insurers and other corporates (i) located in these countries; (ii) that have direct or indirect exposure to these countries (both to sovereign debt and private sector debt); and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a further decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates and the businesses, economic condition and prospects of the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict.

Risk management
Risk factors

For further information see Group exposures to selected Eurozone countries (pages 61 to 69).

Credit Market Exposures
Barclays Capital holds certain exposures to credit markets that became illiquid during 2007. These exposures primarily relate to commercial real estate and leveraged finance loans. The Group continues to actively manage down these exposures.

For further information see Barclays Capital Credit Market Exposures (page 59).

2. Market risk

Market Risk is the risk of the Group suffering financial loss due to the Group being unable to hedge its balance sheet at prevailing market levels.

The Group can be impacted by changes in both the level and volatility of prices e.g. interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

This risk is reported as Traded Risk where Barclays supports customer activity primarily via Barclays Capital; Non-Traded Risk to support customer products primarily in the retail bank; and Pension Risk where the investment profile is reviewed versus the defined benefit scheme.

Risk Management
The Board approves Market Risk appetite for trading and non-trading activities, with limits set within this context by the Group Market Risk Director.

Group Risk is responsible for the overall Barclays Market Risk Control Framework which implements the five step risk management process. Business specific Market Risk teams are responsible for implementing the Control Framework. Oversight and challenge is provided by business committees, group committees and the central Group Market Risk team.

For further information see Market Risk Management pages 70 to 76.

Key Specific Risks and Mitigation
Specific areas and scenarios where market risk could lead to lower revenues in future years include:

Reduced Client Activity and Decreased Market Liquidity
While the Group is exposed to continued market volatility, Barclays Capital's trading activities are principally a consequence of supporting customer activity.

The impact of ongoing economic uncertainty on client volumes, reduced market liquidity and higher volatility could lead to lower revenues. The cost base and risk positions are constantly reviewed to ensure that they are calibrated appropriately. The portfolios are constantly reviewed to ensure that inventories are sized appropriately to support customer activity taking into account market volatility.

For further information see Market Risk Management pages 70 to 76.

Non-Traded Interest Rate Risk
Interest volatility can impact the firm's net interest margin. The potential for future volatility and margin changes remain and it is difficult to predict with any accuracy, changes in absolute interest rate levels, yield curves and spread.

For further information see Market Risk Management pages 70 to 76.

Pension Fund Risk
Adverse movements between pension assets and liabilities for defined benefit could contribute to a pension deficit. Barclays and the Pension Trustees dedicated Investment Management team constantly review the asset liability mismatch to ensure appropriate investment strategy.

For further information see Market Risk Management pages 70 to 76 and Note 37.

3. Funding risk

Funding Risk is the risk that the Group is unable to achieve its business plans due to funding, capital or the management of structural balance sheet risks.

Liquidity Risk is the risk that the Group is unable to meet its obligations as they fall due resulting in: an inability to support normal business activity; failing to meet liquidity regulatory requirements; or changes to credit ratings.

Capital Risk is the risk that the Group is unable to maintain appropriate capital ratios which could lead to an inability to support business activity; failing to meet regulatory requirements; or changes to credit ratings.

Structural Risk relates to the management of non-contractual risks and predominantly arises from the impact on the Group's balance sheet of changes in predominantly interest rates on income or foreign exchange rates on capital ratios.

Risk Management
The Board approves the Group's Liquidity Risk Appetite, Capital Plan and approach for Structural Hedging.

Group Risk provides oversight review and challenge to the Liquidity, Capital and Structural Risk Control Frameworks. The Risk function also provides direct input into as well as approval of various aspects of the calibration, calculation and reporting for these key risks.

Group Treasury has responsibility for implementing the Key Risk control frameworks for Liquidity, Capital and Structural Risks at both the Group and Legal Entity level and for ensuring that the firm maintains compliance with all local regulatory minimum limit requirements relating to these key risks.

Oversight and challenge is provided by local and Group Asset Liability Committees all reporting up to Group Treasury Committee which meets at least monthly.

For further information see pages 77 and 78 to 94.

Key Specific Risks and Mitigation
Specific areas and scenarios where funding risk could lead to higher costs or limit Barclays ability to execute its business plans include:

Increasing capital requirements
There are a number of regulatory developments that impact capital requirements. Most significantly Basel 3 as adopted into EU law through the fourth Capital Requirements Directive (CRD4) and Capital Requirements Regulation which are still going through the EU legislative process. Additional capital requirements may arise from other proposals including the recommendations of the Independent Commission on Banking.

Barclays continues to prepare for the implementation of CRD4 and includes the estimated impact of future regulatory changes in its capital planning framework. Current forecasts already include the impact of Basel 3 as currently understood, and forecasts will be continually updated as CRD4 and other proposals for regulatory developments are finalised.

Maintaining Capital Strength
A material adverse deterioration in the Group's financial performance can affect the capacity to support further capital deployment. The Capital Plan is continually monitored against the internal target capital ratios with Risk, the business and legal entities through a proactive and forward looking approach to capital risk management which ensures that the Plan remains appropriate. The capital management process also includes an internal and regulatory stress testing process which informs the Group capital plan. Further detail on the Group's regulatory capital resources is included on page 77.

Changes in Funding Availability and Costs
Market liquidity, the level of customer deposits and the Group's ability to raise wholesale funding impacts both the Group's net interest margin, which is sensitive to volatility in cost of funding, and its ability to both fulfil its obligations and support client lending, trading activities and investments. Large unexpected outflows, for example from customer withdrawals, ratings downgrades or loan drawdowns, could also result in forced reduction in the balance sheet, inability to fulfil lending obligations and regulatory breaches. The Liquidity Profile is monitored constantly and is supported by a range of early warning indicators to ensure the profile remains appropriate and sufficient liquid resources are held to protect against unexpected outflows. Further details are provided in the Funding Risk – Liquidity section on pages 78 to 94.

Local Balance Sheet Management and Redenomination Risk
The introduction of capital controls or new currencies by countries (for example in the Eurozone) to mitigate current stresses could have an ongoing or point-in-time impact on the performance of local balance sheets of certain Group companies based on the asset quality, types of collateral and mix of liabilities. Local assets and liability positions are carefully monitored by local Asset Liability Committees with oversight by Group Treasury. Further detail on the Group's exposures to Selected Eurozone countries is included on pages 61 to 69.

4. Operational risk

Operational Risk is the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Group's business activities.

The Key Risks that this Principal Risk includes are External Suppliers, Financial Reporting, Fraud, Information, Legal, Product, Payments process, People, Premises & Security, Regulatory, Taxation, Technology and Transaction operations. For definitions of these Key Risks see pages 31 to 32.

Risk Management
The Operational risk framework enables Barclays to manage and measure its Operational risk profile and to calculate the amount of Operational risk capital that it needs to hold. The minimum, mandatory requirements applicable to all Business Units are set out in the Group Operational risk policies.

Risk management
Risk factors

Group Key Risk Owners are required to monitor information relevant to their Key Risk from each Operational risk framework element. In addition, each Key Risk Owner mandates control requirements specific to their Key Risk through a Key Risk Control Framework.

Key Specific Risks and Mitigation

Specific areas and scenarios where operational risk could lead to financial and/or non-financial impacts including legal or regulatory breaches or reputational damage include:

Regulatory Risk

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

The regulatory response to the financial crisis has led and will continue to lead to very substantial regulatory changes in the countries in which the Group operates. It has also led to (i) a more assertive approach being demonstrated by the authorities in many jurisdictions; and (ii) enhanced capital and liquidity requirements (for example pursuant to CRD4). Current examples of specific areas of concern include:

The Independent Commission on Banking (ICB)

The ICB was charged by the UK Government with reviewing the UK banking system and its findings were published on 12 September 2011. The ICB recommended (amongst other things) that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity (so-called “ring-fencing”); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as Barclays Bank PLC) should be increased to levels higher than the Basel 3 proposals.

The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019. Changes to the structure of UK banks and an increase in the amount of loss-absorbing capital issued by UK banks may have a material adverse impact on the Bank’s and the Group’s results and financial condition. It is also not possible to predict the detail of the implementation legislation or the ultimate consequences to the Group.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA)

DFA will have an impact on the Group and its business. A significant number of rules and draft rules have been issued through 2011. While the impact of this rule-making will be substantial, the full scale of this impact remains unclear as many of the provisions of the Act require rules to be made to give them effect and this process is still underway. Barclays has taken a centralised approach to monitoring this process and to ensuring compliance with the rules that are developed as a result.

Recovery and Resolution Plans

The strong regulatory focus on resolvability has continued in 2011, both from UK and international regulators. The Group has been engaged, and continues to be engaged, with the authorities on taking forward recovery planning and identifying information that would be required in the event of a resolution. The Group will be required to prepare an initial plan for the UK and US regulators in the first half of 2012.

Any future regulatory changes may restrict the Group’s operations, mandate certain lending activity and impose other, significant compliance costs. For further information see Supervision and Regulation pages 95 to 99.

Legal Risk

The Group is subject to a comprehensive range of legal obligations in all countries in which it operates and so is exposed to many forms of legal risk, which may arise in a number of ways: (i) business may not be conducted in accordance with applicable laws around the world; (ii) contractual obligations may either not be enforceable as intended or may be enforced in an adverse way; (iii) intellectual property may not be adequately protected; and (iv) liability for damages may be incurred to third parties harmed by the conduct of the Group’s business. The Group also faces risk where legal proceedings are brought against it. The Group is, and may in the future be, involved in various disputes, legal proceedings and regulatory investigations in various jurisdictions, including in the US. Furthermore, the Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects that environment to continue particularly as it relates to compliance with new and existing corporate governance, employee compensation, conduct of business, anti-money laundering and anti-terrorism laws and regulations, as well as applicable international sanctions regimes.

Key legal risks to which the Group was exposed during 2011 have included litigation in relation to:

- Lehman Brothers Holdings Inc;
- American Depository Shares;
- US Federal Housing Finance Agency and Other Residential Mortgage-Backed Securities; and
- Devonshire Trust.

For further information see Legal Proceedings (page 166).

Payment Protection Insurance
During 2011 Barclays agreed with the FSA that it would process all on-hold and any new complaints from customers about PPI policies that they hold. Barclays also announced that, as a goodwill gesture, it would pay out compensation to customers who had PPI complaints put on hold during the judicial review. Barclays took a provision of £1bn in the second quarter of 2011 to cover the cost of future redress and administration. For further information see Provisions (page 163).

CyberSecurity Risk
Barclays recognises the growing threats from cyberspace to its systems, including in respect of customer and its own information held on them and transactions processed through these systems. The implementation of measures to manage the risk is involving increasing investment and use of internal resources. However, given the increasing sophistication and scope of potential attacks from cyberspace, it is possible that in the future such attacks may lead to significant breaches leading to associated costs and reputational damage.

The Group has invested for many years in building defences to counter these threats and continues to do so, recognising that this is an area of risk that changes rapidly and requires continued focus.

To date the Group is not aware of any significant breaches of its systems from cyberspace.

Taxation Risk
Taxation risk is the risk that the Group suffers losses arising from additional tax charges, financial penalties or reputational damage associated with failure to comply with procedures required by tax authorities, changes in tax law and the interpretation of tax law. The Group is subject to the tax laws in all countries in which it operates, including tax laws adopted at an EU level, and is impacted by a number of double taxation agreements between countries.

HMRC, being the Group's primary taxation authority, recently took the unusual step of issuing a public statement that the Government was drafting retrospective tax legislation. Such steps add to the need to closely monitor changes in the way in which HMRC approaches the application of its Code of Practice for Taxation of Banks. In addition, and for all tax authorities within which the Group operates, we continue to monitor the potential impact of proposed and recently enacted taxes aimed at banks.

In 2011 the Group continued to settle open tax issues in a number of jurisdictions and in meeting its tax obligations made global tax payments totalling £6.4bn. The profit forecasts that support the Group's deferred tax assets, principally in the US and Spain, have been subject to close scrutiny by management. For further information see Note 11.

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Overview of Barclays Group Credit Risk Exposures

Credit risk is the risk of suffering financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with clients. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase agreements.

Losses arising from assets held for trading (derivatives, debt securities) are accounted for as trading losses, rather than impairment charges, even though the fall in value causing the loss may be attributable to credit deterioration.

Analysis of the Group's maximum exposure to credit risk and collateral and other credit enhancements held
The following table presents the Group's maximum exposure to credit risk as at 31 December and the financial effects of collateral, credit enhancements and other actions taken to mitigate the Group's exposure. For financial assets recognised on the balance sheet, maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment. For off-balance sheet guarantees, the maximum exposure is the maximum amount that Barclays would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

This and subsequent analyses of credit risk include only financial assets subject to credit risk. They exclude other financial assets not subject to credit risk, mainly equity securities held in the trading portfolio, as available for sale or designated at fair value, and commodities. Financial Assets designated at fair value in respect of linked liabilities to customers under investment contracts have not been included as the Group is not exposed to credit risk on these assets. Credit losses in these portfolios, if any, would lead to a reduction in the linked liabilities and not result in a loss to the Group. This analysis and subsequent analyses of credit risk include only financial assets subject to credit risk. They exclude other financial assets, mainly equity securities held in the trading portfolio, as available for sale or designated at fair value, and commodities, which are not subject to credit risk. Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have also not been included as the Group is not exposed to credit risk on these assets. Credit losses in these portfolios, if any, would lead to a reduction in the linked liabilities and not result in a loss to the Group.

Maximum exposure and effects of collateral and other credit enhancements (audited)					
The Group	Maximum Exposure	Netting and set-off	Collateral	Risk transfer	Net Exposure
As at 31 December 2011	£m	£m	£m	£m	£m
On-balance sheet:					
Cash and balances at central banks	106,894	-	-	-	106,894
Items in the course of collection from other banks	1,812	-	-	-	1,812
Trading portfolio assets:		-	-	-	
Debt securities	123,364	-	-	-	123,364
Traded loans	1,374	-	-	-	1,374
Total trading portfolio assets	124,738	-	-	-	124,738
Financial assets designated at fair value:					
Loans and advances	21,960	-	(7,887)	(76)	13,997
Debt securities	2,095	-	(22)	-	2,073
Other financial assets	7,574	-	(5,541)	-	2,033
Total financial assets designated at fair value	31,629	-	(13,450)	(76)	18,103
Derivative financial instruments	538,964	(440,592)	(57,294)	(7,544)	33,534
Loans and advances to banks	46,792	(1,886)	(7,999)	(171)	36,736
Loans and advances to customers:					
Home loans	171,272	-	(167,581)	(1,130)	2,561
Credit cards, unsecured and other retail lending	64,492	(11)	(16,159)	(2,564)	45,758
Wholesale	196,170	(8,873)	(53,616)	(9,550)	124,131
Total loans and advances to customers	431,934	(8,884)	(237,356)	(13,244)	172,450
Reverse repurchase agreements and other similar secured lending	153,665	-	(150,337)	-	3,328
Available for sale debt securities	63,608	-	(219)	(3,532)	59,857
Other assets	2,620	-	-	-	2,620
Total on-balance sheet	1,502,656	(451,362)	(466,655)	(24,567)	560,072
Off-balance sheet:					
Securities lending arrangements	35,996	-	(35,996)	-	-
Guarantees and letters of credit pledged as collateral security	14,181	-	(1,699)	(523)	11,959
Acceptances and endorsements	475	-	(9)	-	466
Documentary credits and other short-term trade related transactions	1,358	-	(39)	(49)	1,270
Standby facilities, credit lines and other commitments	240,282	-	(15,522)	(3,829)	220,931
Total off-balance sheet	292,292	-	(53,265)	(4,401)	234,626
Total	1,794,948	(451,362)	(519,920)	(28,968)	794,698

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All disclosures in this section are unaudited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements (audited)

The Bank As at 31 December 2011	Maximum Exposure £m	Netting and set-off £m	Collateral £m	Risk transfer £m	Net Exposure £m
On-balance sheet:					
Cash and balances at central banks	103,087	-	-	-	103,087
Items in the course of collection from other banks	1,634	-	-	-	1,634
Trading portfolio assets:					
Debt securities	77,279	-	-	-	77,279
Traded loans	1,361	-	-	-	1,361
Total trading portfolio assets	78,640	-	-	-	78,640
Financial assets designated at fair value:					
Loans and advances	21,899	-	(7,254)	(1)	14,644
Debt securities	19,198	(14,823)	-	-	4,375
Other financial assets	3,419	-	(2,269)	-	1,150
Total financial assets designated at fair value	44,516	(14,823)	(9,523)	(1)	20,169
Derivative financial instruments	546,921	(437,635)	(52,291)	(7,383)	49,612
Loans and advances to banks	52,287	(14,404)	-	(33)	37,850
Loans and advances to customers:					
Home loans	133,516	-	(131,841)	(1,088)	587
Credit cards, unsecured and other retail lending	32,821	-	(8,499)	(2,191)	22,131
Wholesale	351,443	(7,867)	(84,018)	(8,215)	251,343
Total loans and advances to customers	517,780	(7,867)	(224,358)	(11,494)	274,061
Reverse repurchase agreements and other similar secured lending	161,436	-	(151,961)	-	9,475
Available for sale debt securities	47,805	-	-	(3,533)	44,272
Other assets	1,170	-	(16)	-	1,154
Total on-balance sheet	1,555,276	(474,729)	(438,149)	(22,444)	619,954
Off-balance sheet:					
Securities lending arrangements	35,996	-	(35,996)	-	-
Guarantees and letters of credit pledged as collateral security	14,356	-	(1,406)	(304)	12,646
Acceptances and endorsements	449	-	-	-	449
Documentary credits and other short-term trade related transactions	1,106	-	(12)	-	1,094
Standby facilities, credit lines and other commitments	190,736	-	(15,020)	(3,901)	171,815
Total off-balance sheet	242,643	-	(52,434)	(4,205)	186,004
Total	1,797,919	(474,729)	(490,583)	(26,649)	805,958

Maximum exposure and effects of collateral and other credit enhancements (audited)					
The Group As at 31 December 2010	Maximum Exposure £m	Netting and set-off £m	Collateral £m	Risk transfer £m	Net Exposure £m
On-balance sheet:					
Cash and balances at central banks	97,630	-	-	-	97,630
Items in the course of collection from other banks	1,384	-	-	-	1,384
Trading portfolio assets:					
Debt securities	139,240	-	-	-	139,240
Traded loans	2,170	-	-	-	2,170
Total trading portfolio assets	141,410	-	-	-	141,410
Financial assets designated at fair value:					
Loans and advances	22,352	-	(9,997)	(8)	12,347
Debt securities	1,918	-	(150)	-	1,768
Other financial assets	10,101	-	(7,368)	-	2,733
Total financial assets designated at fair value	34,371	-	(17,515)	(8)	16,848
Derivative financial instruments	420,319	(340,467)	(42,795)	(3,202)	33,855
Loans and advances to banks	37,799	(1,699)	(8,915)	(442)	26,743
Loans and advances to customers:					
Home loans	168,055	-	(163,602)	(1,053)	3,400
Credit cards, unsecured and other retail lending	59,269	(8)	(13,670)	(2,263)	43,328
Wholesale	200,618	(9,477)	(60,099)	(12,443)	118,599
Total loans and advances to customers	427,942	(9,485)	(237,371)	(15,759)	165,327
Reverse repurchase agreements and other similar secured lending	205,772	-	(200,665)	-	5,107
Available for sale debt securities	59,629	-	(218)	(4,532)	54,879
Other assets	2,824	-	-	-	2,824
Total on-balance sheet	1,429,080	(351,651)	(507,479)	(23,943)	546,007
Off-balance sheet:					
Securities lending arrangements	27,672	-	(27,672)	-	-
Guarantees and letters of credit pledged as collateral security	13,783	-	(1,282)	(396)	12,105
Acceptances and endorsements	331	-	(8)	-	323
Documentary credits and other short-term trade related transactions	1,194	-	(23)	(85)	1,086
Standby facilities, credit lines and other commitments	222,963	-	(12,461)	(3,990)	206,512
Total off-balance sheet	265,943	-	(41,446)	(4,471)	220,026
Total	1,695,023	(351,651)	(548,925)	(28,414)	766,033

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Maximum exposure and effects of collateral and other credit enhancements (audited)					
The Bank	Maximum Exposure	Netting and set-off	Collateral	Risk transfer	Net Exposure
As at 31 December 2010	£m	£m	£m	£m	£m
On-balance sheet:					
Cash and balances at central banks	92,686	-	-	-	92,686
Items in the course of collection from other banks	1,268	-	-	-	1,268
Trading portfolio assets:					
Debt securities	86,328	-	-	-	86,328
Traded loans	2,500	-	-	-	2,500
Total trading portfolio assets	88,828	-	-	-	88,828
Financial assets designated at fair value:					
Loans and advances	25,093	-	(8,359)	-	16,734
Debt securities	783	-	-	-	783
Other financial assets	3,294	-	(1,612)	-	1,682
Total financial assets designated at fair value	29,170	-	(9,971)	-	19,199
Derivative financial instruments	441,145	(336,482)	(39,379)	(3,075)	62,209
Loans and advances to banks	40,390	(11,183)	-	(430)	28,777
Loans and advances to customers:					
Home loans	123,995	-	(122,153)	(1,039)	803
Credit cards, unsecured and other retail lending	26,640		(4,958)	(1,995)	19,687
Wholesale	372,301	(7,537)	(78,831)	(11,720)	274,213
Total loans and advances to customers	522,936	(7,537)	(205,942)	(14,754)	294,703
Reverse repurchase agreements and other similar secured lending	227,343	-	(213,576)	-	13,767
Available for sale debt securities	45,076	-	-	(4,532)	40,544
Other assets	1,054	-	-	-	1,054
Total on-balance sheet	1,489,896	(355,202)	(468,868)	(22,791)	643,035
Off-balance sheet:					
Securities lending arrangements	27,672	-	(27,672)	-	-
Guarantees and letters of credit pledged as collateral security	11,823	-	(1,063)	(307)	10,453
Acceptances and endorsements	302	-	-	-	302
Documentary credits and other short-term trade related transactions	924	-	(7)	(61)	856
Standby facilities, credit lines and other commitments	173,795	-	(12,372)	(3,997)	157,426
Total off-balance sheet	214,516	-	(41,114)	(4,365)	169,037
Total	1,704,412	(355,202)	(509,982)	(27,156)	812,072

Overview

As at 31 December 2011, The Group's net exposure to credit risk after taking into account netting and set-off, collateral and risk transfer remained broadly flat at £794,698m (2010: £766,033m). The extent to which The Group holds mitigation on its assets rose marginally from 55% to 56%.

The Bank's net exposure to credit risk also remained flat at £805,958m (2010: £812,072m), the extent to which The Group holds mitigation on its assets rising from 52% to 55%.

Of the remaining exposure left unmitigated, a significant portion relates to cash held at central bank, available for sale debt securities issued by governments, cash collateral and settlement balances, all of which are considered lower risk. Trading portfolio liability positions, which to a significant extent economically hedge trading portfolio assets but which aren't held specifically for risk management purposes, are excluded from the analysis above. The credit quality of counterparties to derivative, available for sale and wholesale loan assets are predominantly investment grade. Further analysis on the credit quality of assets is presented on pages 48 to 58.

Netting and set-off

The Group has the ability to offset asset and liability positions on default or bankruptcy of the borrower. This includes master netting agreements for loans and advances (whether held at amortised cost or fair value).

Derivatives may also be settled net where there is a master agreement in place providing for this in the event of default, reducing The Group's exposure to counterparties on derivative asset positions. The reduction in risk is the amount of the liability held. The Group offsets asset and liability amounts on the balance sheet when it has both the ability and the intention to settle net. The amounts above represent available netting in the event of default of the asset.

Collateral

The Group has the ability to call on collateral in the event of default of the borrower or other counterparty, comprising:

- Home loans: a fixed charge over residential property in the form of houses, flats and other dwellings;
- Wholesale lending: a fixed charge over commercial property and other physical assets, in various forms;
- Credit cards, unsecured and other retail lending: includes charges over motor vehicle and other physical assets; second lien charge over residential property, which is subordinate to first charge held either by The Group or by another party; and finance lease receivables, for which typically The Group retains legal title to the leased asset and has the right to repossess the asset on the default of the borrower;
- Derivatives: cash and non-cash collateral may be held against derivative trades with certain counterparties;
- Reverse repurchase agreements: collateral typically comprises highly liquid securities which have been legally transferred to Barclays subject to an agreement to return them for a fixed price; and
- Financial guarantees and similar off-balance sheet commitments: cash collateral may be held against these arrangements.

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies from period to period depending on the level of receivables and inventory. It is impracticable to provide an estimate of the amount (fair value or nominal value) of this collateral. The Group may in some cases obtain collateral and other credit enhancements at a counterparty level, which are not specific to a particular class of financial instrument. The fair value of the credit enhancement gained has been apportioned across the relevant asset classes.

The carrying value of non-cash collateral reflects the fair value of the physical assets limited to the carrying value of the asset where the exposure is over-collateralised. In certain cases where active markets or recent valuations of the assets are not available, estimates will be used. For assets collateralised by residential or commercial property (and certain other physical assets), where it is not practicable to assess current market valuations of each underlying property, values reflect historical fair values amended for movements in appropriate external indices.

For assets collateralised by traded financial instruments, values reflect mark to market or mark to model values of those assets, applying a haircut where appropriate.

The net realisable value from a distressed sale of collateral obtained by The Group upon default or insolvency of a counterparty will in some cases be lower than the carrying value recognised above. Assets obtained are normally sold, generally at auction, or realised in an orderly manner for the maximum benefit of The Group, the borrower and the borrower's other creditors in accordance with the relevant insolvency regulations. For business customers, in some circumstances, where excess funds are available after repayment in full of the outstanding loan, they are offered to any other, lower ranked, secured lenders. Any additional funds are returned to the customer. Barclays does not, as a rule, occupy repossessed properties for its business use or use assets obtained in its operations.

Risk transfer

The Group in some cases holds guarantees, letters of credit and similar instruments from third parties which enable it to claim settlement from them in the event of default on the part of the counterparty. The balances shown represent the notional value of the guarantees held by The Group issued by corporate and financial institutional counterparties. In addition, The Group obtains guarantees from customers in respect of personal loans and smaller business loans. These are not quantified in the above table.

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Collateral and other credit enhancements obtained

The carrying value of assets held by The Group as at 31 December 2011 as a result of the enforcement of collateral was as follows:

Assets received (audited)	The Group		The Bank	
	2011	2010	2011	2010
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
As at 31 December	£m	£m	£m	£m
Residential property	173	71	97	19
Commercial and industrial property	267	14	2	-
Other credit enhancements	30	210	18	177
Total	470	295	117	196

Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are located in a geographical region, or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analyses of credit risk concentrations presented below are based on the location of the counterparty or customer or the industry in which they are engaged.

Credit risk concentrations by geographical sector (audited)	United Kingdom	Europe	Americas	Africa and Middle East	Asia	Total
As at 31 December 2011	£m	£m	£m	£m	£m	£m
The Group						
On-balance sheet:						
Cash and balances at central banks	14,631	53,779	27,065	2,418	9,001	106,894
Items in the course of collection from other banks	1,557	88	1	166	-	1,812
Trading portfolio assets	15,162	23,381	68,835	3,498	13,862	124,738
Financial assets designated at fair value	19,405	3,287	6,724	1,958	255	31,629
Derivative financial instruments	173,792	173,863	153,629	4,857	32,823	538,964
Loans and advances to banks	8,967	14,704	13,637	3,234	6,250	46,792
Loans and advances to customers	220,815	90,444	63,457	49,309	7,909	431,934
Reverse repurchase agreements and other similar secured lending	22,701	32,926	80,124	1,795	16,119	153,665
Available for sale financial investments	23,055	17,371	9,889	6,922	6,371	63,608
Other assets	1,510	407	256	365	82	2,620
Total on-balance sheet	501,595	410,250	423,617	74,522	92,672	1,502,656
Off-balance sheet:						
Securities lending arrangements	-	-	35,996	-	-	35,996
Guarantees and letters of credit pledged as collateral security	3,885	2,416	5,457	2,100	323	14,181
Acceptances and endorsements	301	8	-	91	75	475
Documentary credits and other short-term trade related transactions	655	235	143	201	124	1,358
Standby facilities, credit lines and other commitments	99,735	33,004	85,381	20,478	1,684	240,282
Total off-balance sheet	104,576	35,663	126,977	22,870	2,206	292,292
Total	606,171	445,913	550,594	97,392	94,878	1,794,948

Credit risk concentrations by geographical sector (audited) As at 31 December 2011	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
The Bank						
On-balance sheet:						
Cash and balances at central banks	14,550	52,896	26,711	170	8,760	103,087
Items in the course of collection from other banks	1,555	71	-	8	-	1,634
Trading portfolio assets	15,018	22,336	32,613	772	7,901	78,640
Financial assets designated at fair value	39,853	2,991	1,159	187	326	44,516
Derivative financial instruments	186,706	174,177	150,672	2,399	32,967	546,921
Loans and advances to banks	7,721	16,780	20,311	1,456	6,019	52,287
Loans and advances to customers	378,845	75,338	47,918	7,857	7,822	517,780
Reverse repurchase agreements and other similar secured lending	27,635	38,152	75,146	1,778	18,725	161,436
Available for sale financial investments	17,706	14,368	8,981	380	6,370	47,805
Other assets	868	188	62	17	35	1,170
Total on-balance sheet	690,457	397,297	363,573	15,024	88,925	1,555,276
Off-balance sheet:						
Securities lending arrangements	-	-	35,996	-	-	35,996
Guarantees and letters of credit pledged as collateral security	5,846	2,550	5,388	263	309	14,356
Acceptances and endorsements	300	8	-	66	75	449
Documentary credits and other short-term trade related transactions	655	38	143	146	124	1,106
Standby facilities, credit lines and other commitments	92,512	29,033	65,049	1,764	2,378	190,736
Total off-balance sheet	99,313	31,629	106,576	2,239	2,886	242,643
Total	789,770	428,926	470,149	17,263	91,811	1,797,919

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Credit risk concentrations by geographical sector (audited) As at 31 December 2010	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
The Group						
On-balance sheet:						
Cash and balances at central banks	18,535	14,306	41,288	2,296	21,205	97,630
Items in the course of collection from other banks	1,169	114	-	100	1	1,384
Trading portfolio assets	16,170	35,449	71,291	2,568	15,932	141,410
Financial assets designated at fair value	15,136	5,054	10,608	2,991	582	34,371
Derivative financial instruments	129,603	135,730	117,769	5,251	31,966	420,319
Loans and advances to banks	5,199	9,211	17,305	2,056	4,028	37,799
Loans and advances to customers	211,853	90,644	58,518	57,848	9,079	427,942
Reverse repurchase agreements and other similar secured lending	50,046	47,470	88,675	2,104	17,477	205,772
Available for sale financial investments	25,466	14,904	6,423	7,281	5,555	59,629
Other assets	1,612	235	314	537	126	2,824
Total on-balance sheet	474,789	353,117	412,191	83,032	105,951	1,429,080
Off-balance sheet:						
Securities lending arrangements	-	-	27,672	-	-	27,672
Guarantees and letters of credit pledged as collateral security	3,865	2,413	4,772	2,185	548	13,783
Acceptances and endorsements	125	4	6	88	108	331
Documentary credits and other short-term trade related transactions	476	156	143	287	132	1,194
Standby facilities, credit lines and other commitments	94,676	29,985	64,812	24,522	8,968	222,963
Total off-balance sheet	99,142	32,558	97,405	27,082	9,756	265,943
Total	573,931	385,675	509,596	110,114	115,707	1,695,023

Credit risk concentrations by geographical sector (audited)	United Kingdom	Europe	Americas	Africa and Middle East	Asia	Total
As at 31 December 2010	£m	£m	£m	£m	£m	£m
The Bank						
On-balance sheet:						
Cash and balances at central banks	18,425	13,485	40,160	86	20,530	92,686
Items in the course of collection from other banks	1,169	93	-	5	1	1,268
Trading portfolio assets	15,357	33,723	29,330	1,208	9,210	88,828
Financial assets designated at fair value	20,861	4,859	2,665	281	504	29,170
Derivative financial instruments	158,526	134,983	115,170	1,964	30,502	441,145
Loans and advances to banks	4,498	12,212	17,461	1,138	5,081	40,390
Loans and advances to customers	391,743	67,241	51,226	7,866	4,860	522,936
Reverse repurchase agreements and other similar secured lending	53,665	52,197	105,591	2,085	13,805	227,343
Available for sale financial investments	24,716	9,418	5,208	202	5,532	45,076
Other assets	919	66	20	1	48	1,054
Total on-balance sheet	689,879	328,277	366,831	14,836	90,073	1,489,896
Off-balance sheet:						
Securities lending arrangements	-	-	27,672	-	-	27,672
Guarantees and letters of credit pledges as collateral security	3,806	2,056	5,261	153	547	11,823
Acceptances and endorsements	125	3	6	60	108	302
Documentary credits and other short-term trade related transactions	476	43	143	131	131	924
Standby facilities, credit lines and other commitments	87,208	25,599	51,390	397	9,201	173,795
Total off-balance sheet	91,615	27,701	84,472	741	9,987	214,516
Total	781,494	355,978	451,303	15,577	100,060	1,704,412

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Credit risk concentrations by industrial sector (audited) As at 31 December 2011	Financial institutions £m	Manufacturing £m	Construction and property £m	Government and central bank £m	Energy and water £m	Wholesale and retail distribution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
The Group											
On-balance sheet:											
Cash and balances at central banks	-	-	-	106,894	-	-	-	-	-	-	106,894
Items in the course of collection from other banks	1,810	-	-	2	-	-	-	-	-	-	1,812
Trading portfolio assets	32,849	1,585	480	83,631	3,191	448	1,773	-	-	781	124,738
Financial assets designated at fair value	9,370	75	10,447	6,354	1,053	332	3,547	-	1	450	31,629
Derivative financial instruments	498,246	4,044	4,853	8,321	12,960	3,309	3,928	-	19	3,284	538,964
Loans and advances to banks	44,053	-	-	2,739	-	-	-	-	-	-	46,792
Loans and advances to customers	89,650	12,904	28,711	6,129	7,414	16,206	26,300	171,272	50,062	23,286	431,934
Reverse repurchase agreements and other similar secured lending	148,474	195	201	3,842	127	63	235	-	-	528	153,665
Available for sale financial investments	23,101	213	137	38,511	126	90	820	370	-	240	63,608
Other assets	880	-	54	492	-	7	310	2	818	57	2,620
Total on-balance sheet	848,433	19,016	44,883	256,915	24,871	20,455	36,913	171,644	50,900	28,626	1,502,656
Off-balance sheet:											
Securities lending arrangements	35,996	-	-	-	-	-	-	-	-	-	35,996
Guarantees and letters of credit pledged as collateral security	4,937	1,534	757	630	1,615	913	2,213	-	310	1,272	14,181
Acceptances and endorsements	145	108	52	-	2	115	53	-	-	-	475
Documentary credits and other short-term trade related transactions	556	40	1	-	-	215	480	-	65	1	1,358
Standby facilities, credit lines and other commitments	33,296	23,429	9,114	3,573	20,764	12,052	17,012	15,663	90,062	15,317	240,282
Total off-balance sheet	74,930	25,111	9,924	4,203	22,381	13,295	19,758	15,663	90,437	16,590	292,292
Total	923,363	44,127	54,807	261,118	47,252	33,750	56,671	187,307	141,337	45,216	1,794,948

Credit risk concentrations by industrial sector (audited)

As at 31 December 2011	Financial institutions £m	Manufacturing £m	Construction and property £m	Government and central bank £m	Energy and water £m	Wholesale and retail distribution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
The Bank											
On-balance sheet:											
Cash and balances at central banks	-	-	-	103,087	-	-	-	-	-	-	103,087
Items in the course of collection from other banks	1,634	-	-	-	-	-	-	-	-	-	1,634
Trading portfolio assets	17,151	935	381	55,324	2,629	346	1,312	-	-	562	78,640
Financial assets designated at fair value	25,167	62	9,831	5,609	220	154	3,349	-	-	124	44,516
Derivative financial instruments	506,129	4,251	4,851	8,321	12,857	3,367	3,908	-	11	3,226	546,921
Loans and advances to banks	50,007	-	-	2,280	-	-	-	-	-	-	52,287
Loans and advances to customers	259,041	10,772	23,219	5,474	6,496	14,311	24,468	133,516	29,348	11,135	517,780
Reverse repurchase agreements and other similar secured lending	156,450	195	3	3,842	127	63	229	-	-	527	161,436
Available for sale financial investments	16,538	213	133	30,443	126	69	57	-	-	226	47,805
Other assets	228	-	22	6	-	4	221	2	687	-	1,170
Total on-balance sheet	1,032,345	16,428	38,440	214,386	22,455	18,314	33,544	133,518	30,046	15,800	1,555,276
Off-balance sheet:											
Securities lending arrangements	35,996	-	-	-	-	-	-	-	-	-	35,996
Guarantees and letters of credit pledged as collateral security	6,821	1,274	544	596	1,591	710	1,591	-	226	1,003	14,356
Acceptances and endorsements	144	108	52	-	2	116	27	-	-	-	449
Documentary credits and other short-term trade related transactions	533	40	1	-	-	215	251	-	65	1	1,106
Standby facilities, credit lines and other commitments	35,932	21,628	8,506	3,391	19,545	10,609	14,881	15,656	50,644	9,944	190,736
Total off-balance sheet	79,426	23,050	9,103	3,987	21,138	11,650	16,750	15,656	50,935	10,948	242,643
Total	1,111,771	39,478	47,543	218,373	43,593	29,964	50,294	149,174	80,981	26,748	1,797,919

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Credit risk concentrations by industrial sector (audited)											
As at 31 December 2010	Financial insti-tutions £m	Manu-facturing £m	Const-ruction and property £m	Govern-ment and central bank £m	Energy and water £m	Wholesale and retail distribution and leisure £m	Business and other services £m	Home loans £m	Cards, unsecured loans and other personal lending £m	Other £m	Total £m
The Group											
On-balance sheet:											
Cash and balances at central banks	-	-	-	97,630	-	-	-	-	-	-	97,630
Items in the course of collection from other banks	1,378	-	-	6	-	-	-	-	-	-	1,384
Trading portfolio assets	51,337	2,222	986	79,055	3,408	873	2,209	-	17	1,303	141,410
Financial assets designated at fair value	11,507	71	11,746	5,328	1,389	683	2,944	-	109	594	34,371
Derivative financial instruments	382,038	4,810	2,953	7,637	11,265	3,193	2,622	-	61	5,740	420,319
Loans and advances to banks	36,606	-	-	1,193	-	-	-	-	-	-	37,799
Loans and advances to customers	87,405	14,766	28,670	5,108	9,231	17,357	26,228	168,055	46,668	24,454	427,942
Reverse repurchase agreements and other similar secured lending	197,808	50	7	7,247	-	279	339	-	-	42	205,772
Available for sale financial investments	23,585	154	336	33,402	37	117	1,359	410	72	157	59,629
Other assets	1,267	4	47	436	9	9	383	4	615	50	2,824
Total on-balance sheet	792,931	22,077	44,745	237,042	25,339	22,511	36,084	168,469	47,542	32,340	1,429,080
Off-balance sheet:											
Securities lending arrangements	27,672	-	-	-	-	-	-	-	-	-	27,672
Guarantees and letters of credit pledged as collateral security	5,213	1,445	752	358	1,256	686	2,196	439	477	961	13,783
Acceptances and endorsements	28	111	38	-	4	48	92	-	8	2	331
Documentary credits and other short-term trade related activities	396	35	103	-	3	124	477	-	56	-	1,194
Standby facilities, credit lines and other commitments	47,784	20,999	9,860	2,307	15,671	9,220	10,664	16,789	79,341	10,328	222,963
Total off-balance sheet	81,093	22,590	10,753	2,665	16,934	10,078	13,429	17,228	79,882	11,291	265,943
Total	874,024	44,667	55,498	239,707	42,273	32,589	49,513	185,697	127,424	43,631	1,695,023

Credit risk concentrations by industrial sector (audited)											
	Financial institutions	Manufacturing	Construction and property	Government and central bank	Energy and water	Wholesale and retail distribution and leisure	Business and other services	Home loans	Cards, unsecured loans and other personal lending	Other	Total
As at 31 December 2010	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
The Bank											
On-balance sheet:											
Cash and balances at central banks	-	-	-	92,686	-	-	-	-	-	-	92,686
Items in the course of collection from other banks	1,263	-	-	5	-	-	-	-	-	-	1,268
Trading portfolio assets	22,985	1,040	669	58,317	2,740	656	1,714	-	-	707	88,828
Financial assets designated at fair value	9,861	51	10,654	4,816	398	447	2,791	-	-	152	29,170
Derivative financial instruments	402,702	4,824	2,950	7,637	10,994	3,415	2,936	-	36	5,651	441,145
Loans and advances to banks	39,486	-	-	904	-	-	-	-	-	-	40,390
Loans and advances to customers	273,376	12,785	20,413	3,969	8,378	15,424	26,556	123,995	27,383	10,657	522,936
Reverse repurchase agreements and other similar secured lending	219,560	50	7	7,066	-	279	339	-	-	42	227,343
Available for sale financial investments	20,466	154	337	23,498	3	52	387	-	23	156	45,076
Other assets	296	4	15	40	-	2	238	1	457	1	1,054
Total on-balance sheet	989,995	18,908	35,045	198,938	22,513	20,275	34,961	123,996	27,899	17,366	1,489,896
Off-balance sheet:											
Securities lending arrangements	27,672	-	-	-	-	-	-	-	-	-	27,672
Guarantees and letters of credit pledged as collateral security	4,878	1,321	619	358	1,196	591	1,822	-	196	842	11,823
Acceptances and endorsements	27	111	38	-	4	48	64	-	8	2	302
Documentary credits and other short-term trade related transactions	395	35	-	-	3	124	311	-	56	-	924
Standby facilities, credit lines and other commitments	36,982	20,509	8,825	2,307	15,246	9,024	12,956	14,570	43,219	10,157	173,795
Total off-balance sheet	69,954	21,976	9,482	2,665	16,449	9,787	15,153	14,570	43,479	11,001	214,516
Total	1,059,949	40,884	44,527	201,603	38,962	30,062	50,114	138,566	71,378	28,367	1,704,412

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Credit Risk Management Overview

Credit risk is the risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The granting of credit is one of the Group's major sources of income and, as the most significant risk, the Group dedicates considerable resources to its control. Mitigation techniques and measurement and internal ratings are discussed in more detail in the Pillar 3 Disclosures 2011.

Overview

The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with our clients. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans.

Credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- monitor credit risk and adherence to agreed controls; and
- ensure that risk-reward objectives are met.

Organisation and structure

Barclays has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust review and challenge of performance, risk infrastructure and strategic plans. The credit risk management teams in each business are accountable to the business risk directors in those businesses who, in turn, report to the heads of their businesses and also to the Chief Risk Officer.

The role of the Group Risk function is to provide Group wide direction, oversight and challenge of credit risk-taking. Group Risk sets the Credit Risk Control Framework, which provides a structure within which credit risk is managed together with supporting Group Credit Risk Policies. Group Risk also provides technical support, review and validation of credit risk measurement models across the Group.

Reporting

The Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that its balance sheet correctly reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in five broad stages:

- measuring exposures and concentrations;
- monitoring weaknesses in portfolios;
- identifying potential problem loans and credit risk loans (collectively known as potential credit risk loans or PCRLs);
- raising allowances for impaired loans; and
- writing off assets when the whole or part of a debt is considered irrecoverable.

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk to the Group although Barclays can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. Barclays risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data. One area of particular review is concentration risk. A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. As a result, Barclays constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry.

Diversification is achieved through setting maximum exposure guidelines to individual counterparties. Excesses are reported to the Financial Risk Committee and the BRC. Mandate & Scale limits are used to limit the stock of current exposures in a loan portfolio and the flow of new exposures into a loan portfolio. Limits are typically based on the nature of the lending and the amount of the portfolio meeting certain standards of underwriting criteria.

Monitoring weaknesses in portfolios

Whilst the basic principles for monitoring weaknesses in wholesale and retail exposures are broadly similar, they will reflect the differing nature of the assets. As a matter of policy all facilities granted to corporate or wholesale customers are subject to a review on, at least, an annual basis, even when they are performing satisfactorily.

Corporate accounts that are deemed to contain heightened levels of risk are recorded on graded early warning lists (EWL) or watchlists (WL) comprising three categories graded in line with the perceived severity of the risk attached to the lending, and its probability of default. These are updated monthly and circulated to the relevant risk control points. Once an account has been placed on WL or EWL, the exposure is carefully monitored and, where appropriate, exposure reductions are effected. Should an account become impaired, it will normally, but not necessarily, have passed through each of the three categories, which reflect the need for increasing caution and control. Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. While all obligors, regardless of financial health, are subject to a full review of all facilities on, at least, an annual basis, more frequent interim reviews may be undertaken should circumstances dictate. Specialist recovery functions deal with clients in default, collection or insolvency. Their mandate is to maximise shareholder value via the orderly and timely recovery of impaired debts. Accounts can stay in Recoveries for up to two years unless a longer-term strategy has been agreed.

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow potential weaknesses to be monitored on a portfolio basis. The approach is consistent with the Group's policy of raising a collective impairment allowance as soon as objective evidence of impairment is identified. Retail accounts can be classified according to specified categories of arrears status (or cycle), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement.

Once a loan has passed through all six cycles it will charge-off and enter recovery status. In most cases, charge-off will result in the account moving to a legal recovery function or debt sale. This will typically occur after an account has been treated by a collections function. However, in certain cases, an account may be charged off directly from a performing (up to date) status, such as in the case of insolvency or death.

As a general principle, charge-off marks the point at which it becomes more economically efficient to treat an account through a recovery function or debt sale rather than a collections function. Economic efficiency includes the (discounted) expected amount recovered and operational and legal costs. Whilst charge-off is considered an irreversible state, in certain cases, it may be acceptable for mortgage and vehicle finance accounts to move back from charge-off to performing or delinquent states. This is only considered acceptable where local legislation requirements are in place, or where it is deemed that the customer has a renewed willingness to pay and there is a strong chance that they will be able to meet their contractual obligations in the foreseeable future.

For the majority of products, the standard period for charging off accounts is 180 days past due of contractual obligation. However, in the case of customer bankruptcy or insolvency, the associated accounts will be charged off within 60 days. Within UK RBB Local Business, accounts that are deemed to have a heightened level of risk, or that exhibit some unsatisfactory features which could affect viability in the short to medium-term, are transferred to a separate 'caution' stream. Accounts on the caution stream are reviewed on at least a quarterly basis, at which time consideration is given to continuing with the agreed strategy, returning the customer to a lower risk refer stream, or instigating recovery/exit action.

Credit quality of loans and advances (audited)

All loans and advances are categorised as neither past due nor impaired; past due but not impaired; or impaired. Impaired loans include restructured loans. For the purposes of the disclosures:

- A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract;
- The impairment allowance includes allowances both against financial assets that have been individually impaired and those subject to collective impairment;
- Loans neither past due nor impaired consist predominantly of wholesale and retail loans that are performing. These loans, although unimpaired, may carry an unidentified impairment allowance;
- Loans that are past due but not impaired consist predominantly of wholesale loans that are past due but individually assessed as not being impaired. These loans, although individually assessed as unimpaired, may carry an unidentified impairment allowance;
- Impaired loans that are individually assessed for impairment consist predominantly of wholesale loans that are past due and for which an individual allowance has been raised; and
- Impaired loans that are collectively assessed for impairment consist predominantly of retail loans that are 1 day or more past due for which a collective allowance is raised. Wholesale loans that are past due, individually assessed as unimpaired, but which carry an unidentified impairment allowance, are excluded from this category.

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Loans and advances (audited) As at 31 December 2011	Neither past due nor impaired[a] £m	Past due but not impaired[c] £m	Impaired Loans Collectively £m	Impaired Loans Individually £m	Total £m	Impairment allowance £m
The Group						
Trading portfolio loans	**1,374**	**-**	**-**	**-**	**1,374**	**-**
Loans and advances designated at fair value	**21,528**	**432**	**-**	**-**	**21,960**	**-**
Home loans	**160,932**	**114**	**10,678**	**382**	**172,106**	**(834)**
Credit cards, unsecured and other retail lending	**60,648**	**348**	**7,334**	**702**	**69,032**	**(4,540)**
Wholesale	**228,255**	**9,507**	**816**	**9,607**	**248,185**	**(5,223)**
Total	**472,737**	**10,401**	**18,828**	**10,691**	**512,657**	**(10,597)**
The Bank						
Trading portfolio loans	**1,361**	**-**	**-**	**-**	**1,361**	**-**
Loans and advances designated at fair value	**21,772**	**127**	**-**	**-**	**21,899**	**-**
Home loans	**126,532**	**68**	**6,859**	**343**	**133,802**	**(286)**
Credit cards, unsecured and other retail lending	**30,704**	**246**	**4,749**	**96**	**35,795**	**(2,974)**
Wholesale	**392,694**	**7,349**	**730**	**7,116**	**407,889**	**(4,159)**
Total	**573,063**	**7,790**	**12,338**	**7,555**	**600,746**	**(7,419)**

Loans and advances **(audited)** As at 31 December 2010	Neither past due nor impaired[b] £m	Past due but not impaired[c] £m	Impaired Loans Collectively £m	Impaired Loans Individually £m	Total £m	Impairment allowance £m
The Group						
Trading portfolio loans	2,170	-	-	-	2,170	-
Loans and advances designated at fair value	22,273	79	-	-	22,352	-
Home loans	156,908	467	11,238	296	168,909	(854)
Credit cards, unsecured and other retail lending	54,435	626	9,459	668	65,188	(5,919)
Wholesale	218,622	7,070	779	17,605	244,076	(5,659)
Total	454,408	8,242	21,476	18,569	502,695	(12,432)
The Bank						
Trading portfolio loans	2,500	-	-	-	2,500	-
Loans and advances designated at fair value	25,022	71	-	-	25,093	-
Home loans	116,983	91	6,912	224	124,210	(215)
Credit cards, unsecured and other retail lending	24,335	178	5,496	81	30,090	(3,450)
Wholesale	398,554	2,619	681	15,296	417,150	(4,459)
Total	567,394	2,959	13,089	15,601	599,043	(8,124)

Notes
a For 2010, as a result of improvements in data quality, home loans to the value of £40.0bn that were classified as Satisfactory in 2010 have been identified as being Strong.
b For 2010, as a result of improvements in data quality, home loans to the value of £30.1bn that were classified as Satisfactory in 2010 have been identified as being Strong.
c For 2011 reporting, loans that were previously classified as past due but not individually impaired have been disaggregated between loans past due but not impaired and collectively assessed impaired loans.

Loans and advances neither past due nor impaired (audited)								
	2011				2010			
	Strong	Satisfactory	Higher risk	Total	Strong	Satisfactory	Higher risk	Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Trading portfolio loans	**74**	**821**	**479**	**1,374**	352	1,203	615	2,170
Loans and advances designated at fair value	**19,484**	**1,487**	**557**	**21,528**	17,496	2,100	2,677	22,273
Home loans	**134,009**	**25,847**	**1,076**	**160,932**	125,311	29,785	1,812	156,908
Credit cards, unsecured and other retail lending	**14,226**	**45,388**	**1,034**	**60,648**	9,239	41,896	3,300	54,435
Wholesale	**161,480**	**61,964**	**4,811**	**228,255**	151,449	61,281	5,892	218,622
Total	**329,273**	**135,507**	**7,957**	**472,737**	303,847	136,265	14,296	454,408
% of total	**69.6%**	**28.7%**	**1.7%**	**100.0%**	66.9%	30.0%	3.1%	100.0%
The Bank								
Trading portfolio loans	**61**	**821**	**479**	**1,361**	337	1,203	960	2,500
Loans and advances designated at fair value	**20,430**	**1,241**	**101**	**21,772**	21,808	1,342	1,872	25,022
Home loans	**116,339**	**9,903**	**290**	**126,532**	105,755	10,995	233	116,983
Credit cards, unsecured and other retail lending	**9,654**	**20,614**	**436**	**30,704**	5,088	17,103	2,144	24,335
Wholesale	**335,311**	**50,697**	**6,686**	**392,694**	345,140	48,549	4,865	398,554
Total	**481,795**	**83,276**	**7,992**	**573,063**	478,128	79,192	10,074	567,394
% of total	**84.1%**	**14.5%**	**1.4%**	**100.0%**	84.2%	14.0%	1.8%	100.0%

For the purposes of the analysis of credit quality, the following internal measures of credit quality have been used:

	Retail lending	Wholesale lending	
Financial Statements description	Probability of default	Probability of default	Default Grade
Strong	0.0-0.60%	0.0-0.05%	1-3
		0.05-0.15%	4-5
		0.15-0.30%	6-8
		0.30-0.60%	9-11
Satisfactory	0.60-10.00%	0.60-2.15%	12-14
		2.15-11.35%	15-19
Higher risk	10.00% +	11.35% +	20-21

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Financial statement descriptions can be summarised as follows:

Strong – there is a very high likelihood that the asset being recovered in full.

Satisfactory – whilst there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Group, the asset may not be collateralised, or may relate to retail facilities, such as credit card balances and unsecured loans, which have been classified as satisfactory, regardless of the fact that the output of internal grading models may have indicated a higher classification. At the lower end of this grade there are customers that are being more carefully monitored, for example corporate customers, which are indicating some evidence of some deterioration, mortgages with a high loan to value ratio, and unsecured retail loans operating outside normal product guidelines.

Higher risk – there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

An age analysis of loans and advances that are past due but not impaired is set out below.

Loans and advances past due but not impaired (audited)						
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total
As at 31 December 2011	£m	£m	£m	£m	£m	£m
The Group						
Loans and advances designated at fair value	56	46	-	3	327	432
Home loans	35	5	22	31	21	114
Credit cards, unsecured and other retail lending	117	29	27	48	127	348
Wholesale	8,343	315	298	315	236	9,507
Total	8,551	395	347	397	711	10,401
The Bank						
Loans and advances designated at fair value	36	4	-	-	87	127
Home loans	17	5	13	20	13	68
Credit cards, unsecured and other retail lending	88	9	15	19	115	246
Wholesale	6,514	326	174	163	172	7,349
Total	6,655	344	202	202	387	7,790

Loans and advances past due but not impaired (audited)						
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total
As at 31 December 2010	£m	£m	£m	£m	£m	£m
The Group						
Loans and advances designated at fair value	-	-	70	1	8	79
Home loans	164	22	28	29	224	467
Credit cards, unsecured and other retail lending	268	86	96	81	95	626
Wholesale	4,653	730	482	504	701	7,070
Total	5,085	838	676	615	1,028	8,242
The Bank						
Loans and advances designated at fair value	-	-	70	1	-	71
Home loans	52	14	5	7	13	91
Credit cards, unsecured and other retail lending	76	15	-	6	81	178
Wholesale	1,729	212	219	164	295	2,619
Total	1,857	241	294	178	389	2,959

Loans and advances assessed as impaired (audited)	Collectively assessed						Individually assessed	Total
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total		
As at 31 December 2011	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Home loans	**4,034**	**2,636**	**550**	**1,345**	**2,113**	**10,678**	**382**	**11,060**
Credit cards, unsecured and other retail lending	**1,390**	**1,117**	**357**	**885**	**3,585**	**7,334**	**702**	**8,036**
Wholesale	**138**	**71**	**71**	**81**	**455**	**816**	**9,607**	**10,423**
Total	**5,562**	**3,824**	**978**	**2,311**	**6,153**	**18,828**	**10,691**	**29,519**
The Bank								
Home loans	**3,601**	**1,536**	**453**	**575**	**694**	**6,859**	**343**	**7,202**
Credit cards, unsecured and other retail lending	**895**	**652**	**200**	**354**	**2,648**	**4,749**	**96**	**4,845**
Wholesale	**128**	**69**	**68**	**75**	**390**	**730**	**7,116**	**7,846**
Total	**4,624**	**2,257**	**721**	**1,004**	**3,732**	**12,338**	**7,555**	**19,893**

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Loans and advances assessed as impaired **(audited)**	Collectively assessed						Individually assessed	Total
	Past due up to 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3-6 months	Past due 6 months and over	Total		
As at 31 December 2010	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Home loans	4,751	1,853	889	1,352	2,393	11,238	296	11,534
Credit cards, unsecured and other retail lending	1,380	1,105	502	1,133	5,339	9,459	668	10,127
Wholesale	114	58	51	116	440	779	17,605	18,384
Total	6,245	3,016	1,442	2,601	8,172	21,476	18,569	40,045
The Bank								
Home loans	3,447	1,570	764	340	791	6,912	224	7,136
Credit cards, unsecured and other retail lending	868	719	299	392	3,218	5,496	81	5,577
Wholesale	100	57	48	96	380	681	15,296	15,977
Total	4,415	2,346	1,111	828	4,389	13,089	15,601	28,690

Impairment allowances

The movements on the impairment allowance during the year were as follows:

Movements in allowance for impairment by asset class (audited)	At beginning of year	Acquisitions and disposals	Unwind of discount	Exchange and other adjustments	Amounts written off	Recoveries	Amounts charged to income statement	Balance at 31 December
2011	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
The Group								
Home loans	**854**	**(2)**	**(80)**	**(101)**	**(184)**	**14**	**333**	**834**
Credit cards, unsecured and other retail lending	**5,919**	**(4)**	**(154)**	**(145)**	**(3,292)**	**139**	**2,077**	**4,540**
Wholesale	**5,659**	**(12)**	**(9)**	**(194)**	**(1,689)**	**112**	**1,356**	**5,223**
Total impairment allowance	**12,432**	**(18)**	**(243)**	**(440)**	**(5,165)**	**265**	**3,766**	**10,597**
The Bank								
Home loans	**215**	**-**	**(5)**	**(3)**	**(41)**	**13**	**107**	**286**
Credit cards, unsecured and other retail lending	**3,450**	**-**	**(110)**	**4**	**(1,610)**	**127**	**1,113**	**2,974**
Wholesale	**4,459**	**-**	**-**	**(117)**	**(1,353)**	**43**	**1,127**	**4,159**
Total impairment allowance	**8,124**	**-**	**(115)**	**(116)**	**(3,004)**	**183**	**2,347**	**7,419**

Movements in allowance for impairment by asset class (audited)								
2010	At beginning of year £m	Acquisitions and disposals £m	Unwind of discount £m	Exchange and other adjustments £m	Amounts written off £m	Recoveries £m	Amounts charged to income statement £m	Balance at 31 December £m
The Group								
Home loans	639	18	(54)	63	(134)	6	316	854
Credit cards, unsecured and other retail lending	5,538	74	(153)	121	(2,618)	138	2,819	5,919
Wholesale	4,619	(14)	(6)	147	(1,558)	57	2,414	5,659
Total impairment allowance	**10,796**	**78**	**(213)**	**331**	**(4,310)**	**201**	**5,549**	**12,432**
The Bank								
Home loans	148	18	(3)	(1)	(22)	1	74	215
Credit cards, unsecured and other retail lending	3,249	63	(112)	(9)	(1,526)	92	1,693	3,450
Wholesale	4,005	-	-	123	(1,428)	44	1,715	4,459
Total impairment allowance	**7,402**	**81**	**(115)**	**113**	**(2,976)**	**137**	**3,482**	**8,124**

Loan loss rates As at 31 December	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Loan impairment charge £m	Loan loss rate bps
The Group					
2011	**489,323**	**10,597**	**478,726**	**3,790**	**77**
2010	478,173	12,432	465,741	5,625	118
The Bank					
2011	**577,486**	**7,419**	**570,067**	**2,387**	**41**
2010	571,450	8,124	563,326	3,476	61

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Debt Securities

Credit Quality of Debt Securities (audited)

Trading portfolio assets, financial assets designated at fair value and available for sale assets are measured on a fair value basis. The fair value will reflect, among other things, the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Group mainly uses external credit ratings provided by Standard & Poor's or Moody's. Where such ratings are not available or are not current, The Group will use its own internal ratings for the securities.

An analysis of the credit quality of The Group's debt securities is set out below:

Debt securities (audited)	2011				2010			
	AAA to BBB- (investment grade)	BB+ to B	B- and below	Total	AAA to BBB- (investment grade)	BB+ to B	B- and below	Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Trading portfolio	**116,743**	**4,922**	**1,699**	**123,364**	130,744	6,663	1,833	139,240
Financial assets designated at fair value	**1,163**	**184**	**748**	**2,095**	942	644	332	1,918
Available for sale financial investments	**57,793**	**3,253**	**2,564**	**63,610**	55,107	2,022	2,500	59,629
Total debt securities	**175,699**	**8,359**	**5,011**	**189,069**	186,793	9,329	4,665	200,787
% of total	**92.9%**	**4.4%**	**2.7%**	**100.0%**	93.0%	4.7%	2.3%	100.0%

Included in the above, there are impaired available for sale debt securities with a carrying value at 31st December 2011 of £61m (2010: £358m), after a write-down of £145m (2010: £583m).

Debt securities (audited)	2011				2010			
	AAA to BBB- (investment grade)	BB+ to B	B- and below	Total	AAA to BBB- (investment grade)	BB+ to B	B- and below	Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m
The Bank								
Trading portfolio	**73,467**	**2,587**	**1,225**	**77,279**	80,732	3,774	1,822	86,328
Financial assets designated at fair value	**18,974**	**2**	**222**	**19,198**	244	252	287	783
Available for sale financial investments	**44,129**	**1,304**	**2,372**	**47,805**	42,656	287	2,133	45,076
Total debt securities	**136,570**	**3,893**	**3,819**	**144,282**	123,632	4,313	4,242	132,187
% of total	**94.7%**	**2.7%**	**2.6%**	**100.0%**	93.5%	3.3%	3.2%	100.0%

Derivatives (audited)

The credit quality derivative assets according to the credit quality of the counterparty was as follows:

Credit quality	2011				2010			
(audited)	AAA to BBB- (investment grade)	BB+ to B	B- and below	Total	AAA to BBB- (investment grade)	BB+ to B	B- and below	Total
	£m	£m	£m	£m	£m	£m	£m	£m
The Group								
Derivatives	**515,109**	**19,875**	**3,980**	**538,964**	401,242	15,598	3,479	420,319
% of total	**95.6%**	**3.7%**	**0.7%**	**100.0%**	95.5%	3.7%	0.8%	100.0%
The Bank								
Derivatives	**523,323**	**19,618**	**3,980**	**546,921**	423,625	14,046	3,474	441,145
% of total	**95.7%**	**3.6%**	**0.7%**	**100.0%**	96.0%	3.2%	0.8%	100.0%

Netting and collateral arrangements

Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Group policy requires all netting arrangements to be legally documented. The ISDA Master Agreement is The Group's preferred agreement for documenting OTC derivatives. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or nature of the transaction. Any collateral taken in respect of OTC trading exposures will be subject to a 'haircut' which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security. The collateral obtained for derivatives is either cash, direct debt obligation government (G14+) bonds denominated in the domestic currency of the issuing country, debt issued by supranationals or letters of credit issued by an institution with a long-term unsecured debt rating of A+/A3 or better. Where The Group has ISDA master agreements, the collateral document will be the ISDA Credit Support Annex (CSA). The collateral document must give Barclays the power to realise any collateral placed with it in the event of the failure of the counterparty, and to place further collateral when requested or in the event of insolvency, administration or similar processes, as well as in the case of early termination.

Under IFRS, netting is permitted only if both of the following criteria are satisfied:

- the entity has a legally enforceable right to set off the recognised amounts; and
- the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Reverse repurchase agreements and Other Financial Assets
Reverse repurchase agreements and securities borrowing arrangements are collateralised loans typically of short maturities.

The loans are fully collateralised with highly liquid securities legally transferred to The Group. The level of collateral is monitored daily and further collateral called when required.

Credit quality (audited)	2011				2010			
As at 31 December	AAA to BBB- (investment grade) £m	BB+ to B £m	B- and below £m	Total £m	AAA to BBB- (investment grade) £m	BB+ to B £m	B- and below £m	Total £m
The Group								
Reverse repurchase agreements	**117,719**	**34,653**	**1,293**	**153,665**	179,625	24,801	1,346	205,772
Financial assets designated at fair value:								
Reverse repurchase agreements	**4,018**	**1,554**	**207**	**5,779**	7,285	271	3	7,559
Other financial assets	**655**	**1,079**	**61**	**1,795**	1,115	1,312	115	2,542
Total reverse repurchase agreements and other financial assets	**122,392**	**37,286**	**1,561**	**161,239**	188,025	26,384	1,464	215,873
% of total	**75.9%**	**23.1%**	**1.0%**	**100.0%**	87.1%	12.2%	0.7%	100.0%
The Bank								
Reverse repurchase agreements	**134,371**	**25,773**	**1,292**	**161,436**	208,120	17,920	1,303	227,343
Financial assets designated at fair value:								
Reverse repurchase agreements	**2,183**	**291**	**18**	**2,492**	2,324	165	-	2,489
Other financial assets	**608**	**260**	**59**	**927**	638	-	-	638
Total reverse repurchase agreements and other financial assets	**137,162**	**26,324**	**1,369**	**164,855**	211,082	18,085	1,303	230,470
% of total	**83.2%**	**16.0%**	**0.8%**	**100.0%**	91.6%	7.9%	0.6%	100.0%

No reverse repurchase agreements held by The Group at 31 December 2011 or 2010 were individually impaired, however during the year, The Group wrote back £48m of impairment on reverse repurchase agreements (2010: £4m write back).

Other Credit Risk Assets

Other Group assets subject to credit risk included:

– cash and balances at central banks of £106,894m (2010: £97,630m) on which there is a reduced level of credit risk;
– items in the course of collection from other banks were £1,812m (2010: £1,384m), on which there is a reduced credit risk in light of the banking industry clearing system; and
– other financial assets of £2,620m (2010: £2,824m).

Off-balance sheet
The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Barclays Capital credit market exposures (audited)

Barclays Capital credit market exposures[a]					2011		
As at 31 December	2011	2010	2011	2010	Fair value (losses)/ gains and net funding	Impairment release/ (charge)	Total (losses)/ gains
	$m	$m	£m	£m	£m	£m	£m
Protium assets[b]	**3,508**	10,884	**2,272**	7,028	**(555)**	**223**	**(332)**
US Residential Mortgages							
ABS CDO Super Senior	**2,844**	3,085	**1,842**	1,992	**(29)**	**(6)**	**(35)**
US sub-prime and Alt-A	**644**	1,025	**416**	662	**(4)**	**35**	**31**
Commercial Mortgages							
Commercial real estate loans and properties	**8,228**	11,006	**5,329**	7,106	**486**	**-**	**486**
Commercial Mortgaged-Backed Securities	**156**	184	**101**	119	**-**	**-**	**-**
Monoline protection on CMBS	**14**	18	**9**	12	**32**	**-**	**32**
Other Credit Market							
Leveraged Finance[c]	**6,278**	7,636	**4,066**	4,930	**43**	**(203)**	**(160)**
SIVs, SIV-Lites and CDPCs	**9**	618	**6**	399	**(32)**	**-**	**(32)**
Monoline protection on CLO and other	**1,729**	2,541	**1,120**	1,641	**(13)**	**-**	**(13)**
Total	**23,410**	**36,997**	**15,161**	**23,889**	**(72)**	**49**	**(23)**

Barclays Capital's credit market exposures primarily relate to commercial real estate, leveraged finance, and collateral previously securing the loan to Protium. These exposures arose before the market dislocation in mid-2007.

During 2011, credit market exposures decreased by £8,728m to £15,161m, reflecting net sales and paydowns and other movements of £8,442m, foreign exchange rate movements of £263m and fair value losses and impairment of £23m. The net sales, paydowns and other movements of £8,442m included:

- £4,218m relating to assets formerly held as collateral for the loan to Protium Finance LP, comprising £2,697m net sales, £959m loan and interest repayments and £562m paydowns and other movements;
- £2,141m of commercial real estate loans and properties sales and paydowns; and
- £820m reduction in leveraged loans primarily relating to five counterparties.

In January 2012, Barclays completed the sale of £405m ($628m) of a commercial real estate equity security at fair value representing 50% of its stake in Archstone.

Notes

a As the majority of exposure is held in US Dollars, the exposures above are shown in both US Dollars and Sterling.

b Prior to 27 April 2011 when Protium was acquired by The Group the exposure was a loan. This was carried at the amount equivalent to the fair value of the underlying collateral from 31 December 2010.

c Includes undrawn commitments of £180m (31 December 2010: £264m).

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Protium Assets

		Acquisition date			Acquisition date	
Protium assets	**As at 31.12.11**	As at 27.04.11	As at 31.12.10	**As at 31.12.11**	As at 27.04.11	As at 31.12.10
	$m	$m	$m	**£m**	£m	£m
US sub-prime and Alt-A	**1,490**	4,406	4,402	**965**	2,665	2,710
Commercial Mortgage-Backed Securities	**1,422**	3,092	3,257	**921**	1,870	2,103
Monoline protection	**-**	-	225	**-**	-	145
CLO and other assets	**596**	1,952	1,636	**386**	1,181	1,189
Total collateral	**3,508**	**9,450**	**9,520**	**2,272**	**5,716**	**6,147**
Cash and cash equivalents	**n/a**	231	1,364	**n/a**	140	881
Total assets	**3,508**	**9,681**	**10,884**	**2,272**	**5,856**	**7,028**
Loan to Protium	**-**	**-**	**10,884**	**-**	**-**	**7,028**

On 16 September 2009, Barclays Capital sold assets of $12,285m, including $8,384m in credit market assets, to Protium Finance LP (Protium). As part of the transaction, Barclays extended a $12,641m 10 year loan to Protium.

In April 2011, Barclays entered into several agreements to acquire all third party interests in Protium in order to help facilitate The Group's early exit from the underlying exposures. As a result, Protium was then consolidated by The Group. Subsequently, Protium sold its assets to Barclays entities and the loan has been repaid.

As part of this transaction, £459m ($750m) was invested in Helix, an existing fund managed by Protium's investment manager. The original investment represented 86% of the Helix fund, which has been consolidated by The Group. The fund's investments primarily comprise government and agency securities. As at 31 December 2011, the fair value of Barclays investment in the fund was $729m.

Group exposures to selected Eurozone countries (audited)

Overview

Credit conditions will deteriorate in a recessionary environment, such as that recently seen in the UK, US, the Eurozone and other economies. Deteriorating credit conditions will impact exposures to retail and wholesale counterparties, including a country's government or its agencies (via sovereign risk) thus impairing or reducing the value of Barclays credit assets.

The impact of these conditions could adversely affect Barclays and the solvency of its counterparties, custodians, customers and service providers; its credit rating; its share price; the value and liquidity of its assets and liabilities; and the ability of the Group to meet its debt obligations more generally.

The following disclosures present The Group's exposures to selected Eurozone countries, representing Eurozone countries that have a credit rating of AA or below from Standard and Poor's and where The Group has an exposure of over £0.5bn. The Group's exposure to Greece, though under £0.5bn, is also presented due to continuing market focus.

The Group continues to closely monitor its exposure to Eurozone countries:

– Spanish sovereign exposure reduced 45% to £2.5bn due to the disposal of available for sale government bonds, held for the purpose of interest rate hedging and liquidity, that have been replaced by interest rate swaps with alternative counterparties;
– Italian sovereign exposure increased 57% to £3.5bn principally due to the acquisition of government issued bonds reflecting improved yields and holdings as part of the Treasury liquidity management portfolio;
– Italian non-sovereign exposures increased £0.8bn to £21.9bn, principally due to a £2.2bn increase in new mortgage lending (with an average LTV of 59.6%), offset by £1.1bn reduction in exposures to financial institutions;
– Portuguese sovereign exposure reduced 21% to £0.8bn, principally due to a reduction in government bonds held as available for sale;
– Ireland exposures increased 5% to £5.7bn, principally reflecting increased lending to financial institutions of £4.3bn (31 December 2010: £3.8bn), including £0.9bn of trading assets and £1.3bn of loans to entities domiciled in Ireland whose principal business and exposures are outside of Ireland. Exposure to domestic Irish banks remains minimal;
– Exposure to Greece remains minimal and the sovereign exposure is predominantly marked to market on a daily basis through income; and
– Belgium is included in the following disclosures because its credit rating was downgraded to AA in November 2011. Exposure increased marginally to £2.4bn (2010: £2.2bn) principally relating to available for sale holdings of sovereign debt.

Exposure by country and counterparty (audited)	Spain £m	Italy £m	Portugal £m	Ireland £m	Greece £m	Belgium £m
As at 31 December 2011						
Sovereign	**2,530**	**3,493**	**810**	**244**	**14**	**2,033**
Financial institutions	**987**	**669**	**51**	**4,311**	**2**	**42**
Residential mortgages	**14,654**	**15,934**	**3,651**	**94**	**5**	**10**
Corporate	**5,345**	**2,918**	**3,295**	**977**	**67**	**282**
Other retail lending	**3,031**	**2,335**	**2,053**	**86**	**18**	**-**
Total on-balance sheet exposure	**26,547**	**25,349**	**9,860**	**5,712**	**106**	**2,367**
Total off-balance sheet contingent liabilities and commitments	**3,842**	**3,140**	**2,536**	**1,807**	**26**	**881**
Total exposure	**30,389**	**28,489**	**12,396**	**7,519**	**132**	**3,248**
As at 31 December 2010						
Sovereign	4,641	2,224	1,023	296	31	1,780
Financial institutions	1,586	1,756	165	3,769	21	98
Residential mortgages	15,977	13,741	3,476	109	4	10
Corporate	6,473	2,938	3,728	1,123	103	304
Other retail lending	3,081	2,599	2,074	125	19	1
Total on-balance sheet exposure	31,758	23,258	10,466	5,422	178	2,193
Total off-balance sheet contingent liabilities and commitments	3,716	3,588	3,010	1,786	34	897
Total exposure	35,474	26,846	13,476	7,208	212	3,090

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Management and monitoring of country exposures
The management of country risk forms an integral part of the Group's broader credit risk framework focusing on concentration risk. For further information on the Group's management of concentration risk, and the credit risk management framework more generally, refer to pages 48 to 49.

Stress testing
Barclays has a detailed and comprehensive stress testing framework applicable to both the Barclays Group as well as on individual portfolios and asset classes. The Group's macroeconomic stress test scenarios are designed to be both severe and plausible. Specific scenarios are also considered as part of reverse stress testing for example, a Euro break-up scenario. Data gained from the tests is used to initiate management actions to mitigate the risks to the Group of a deterioration in economic and trading conditions within the Eurozone.

In July 2011 the European Banking Authority (EBA) published the results of their macroeconomic stress scenario for the 90 selected banks who participated in the European stress test which included a Eurozone sovereign specific component. In December 2011, the EBA published the results of the bank recapitalisation plan which included a capital buffer against sovereign debt exposures. Barclays uses stress tests and Mandate and Scale to ensure its risk profile remains appropriate and this was confirmed by passing both EBA tests.

Basis of preparation
The following analysis presents the maximum direct balance sheet exposure to credit risk by selected Eurozone country, with the totals reflecting allowance for impairment, netting and cash collateral held where appropriate, including:

- Trading and derivatives balances relate to investment banking activities, principally as market-maker for government bond positions. Positions are held at fair value, with daily movements taken through profit and loss;
- Available for sale assets are principally investments in government bonds and other debt securities held for the purposes of interest rate hedging and liquidity for local banking activities. Balances are reported on a fair value basis, with movements in fair value going through equity;
- Loans and advances held at amortised cost comprise: (i) retail lending portfolios, predominantly mortgages secured on residential property; and (ii) corporate lending portfolios, largely reflecting established corporate banking businesses in Spain, Italy and Portugal and investment banking services provided to multinational and large national corporate clients. Settlement balances and cash collateral are excluded from this analysis;
- Sovereign exposures reflect direct exposures to central and local governments[a], the majority of which are used for hedging interest rate risk relating to local activities. These positions are being actively replaced by non-government instruments such as interest rate swaps. The remaining portion is actively managed reflecting our role as leading primary dealer, market maker and liquidity provider to our clients;
- Financial institution and corporate exposures reflect the country of operations of the counterparty (including foreign subsidiaries and without reference to cross-border guarantees);
- Retail exposures reflect the country of residence of retail customers; and
- Off-balance sheet exposure consists primarily of undrawn commitments and guarantees issued to third parties on behalf of corporate clients. Information on the terms and potential limitations of such facilities is presented on pages 192 to 194.

The Group enters into credit mitigation arrangements for which the reference asset is government debt. The selected countries include only credit mitigation arrangements with counterparties in the relevant country. The analysis of credit derivatives referencing sovereign debt reflects derivative counterparty netting and includes all credit derivatives, regardless of counterparty location.

Note
a In addition, The Group held cash with the central banks of these countries totalling £0.8bn as at 31 December 2011. Other immaterial balances with central banks are classified within loans to financial institutions.

Spain (audited)

Fair value through profit and loss	Trading portfolio			Derivatives						
	Trading portfolio assets	Trading portfolio liabilities	Net trading portfolio	Gross assets	Gross liabilities	Cash collateral	Net derivatives	Designated at FV through P&L	2011 Total	2010 Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	684	(684)	-	64	(64)	-	-	-	-	-
Financial institutions	367	(247)	120	7,359	(7,023)	(336)	-	101	221	422
Corporate	167	(155)	12	656	(251)	-	405	212	629	431

Available for sale assets	2011			2010
Fair value through equity	Cost[a]	AFS reserve	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	2,519	(51)	2,468	4,491
Financial institutions	507	(17)	490	669
Corporate	2	-	2	36

Loans and advances	2011			2010
Held at amortised cost	Gross	Impairment allowances	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	62	-	62	150
Financial institutions	282	(6)	276	495
Residential mortgages	14,729	(75)	14,654	15,977
Corporate	5,901	(1,187)	4,714	6,006
Other retail lending	3,144	(113)	3,031	3,081

Contingent liabilities and commitments	2011	2010
As at 31 December	£m	£m
Sovereign	188	179
Financial institutions	22	179
Residential mortgages	20	26
Corporate	2,510	2,116
Other retail lending	1,102	1,216

Note

a ‘Cost’ refers to the fair value of the asset at recognition, less any impairment booked. ‘AFS reserve’ is the cumulative fair value gain or loss on the assets that is held in equity. ‘Total’ is the fair value of the assets at the balance sheet date.

Risk management

Credit risk

All disclosures in this section are unaudited unless otherwise stated

Italy (audited)

Fair value through profit and loss	Trading portfolio			Derivatives				Designated at FV through P&L	2011 Total	2010 Total
	Trading portfolio assets	Trading portfolio liabilities	Net trading portfolio	Gross assets	Gross liabilities	Cash collateral	Net derivatives			
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	2,097	(1,531)	566	1,083	(506)	-	577	1	1,144	1,004
Financial institutions	429	(142)	287	6,224	(4,791)	(1,319)	114	55	456	978
Corporate	134	(134)	-	502	(325)	(92)	85	86	171	203

Available for sale assets	2011			2010
Fair value through equity	Cost[a]	AFS reserve	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	2,457	(123)	2,334	1,220
Financial institutions	141	(3)	138	226
Corporate	28	(1)	27	19

Loans and advances	2011			2010
Held at amortised cost	Gross	Impairment allowances	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	15	-	15	-
Financial institutions	83	(8)	75	552
Residential mortgages	16,023	(89)	15,934	13,741
Corporate	2,850	(130)	2,720	2,716
Other retail lending	2,515	(180)	2,335	2,599

Contingent liabilities and commitments	2011	2010
As at 31 December	£m	£m
Financial institutions	17	35
Residential mortgages	101	92
Corporate	2,034	2,549
Other retail lending	988	912

Note

a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Portugal (audited)

Fair value through profit and loss	Trading portfolio			Derivatives						
	Trading portfolio assets	Trading portfolio liabilities	Net trading portfolio	Gross assets	Gross liabilities	Cash collateral	Net derivatives	Designated at FV through P&L	2011 Total	2010 Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	**143**	**(76)**	**67**	**216**	**(216)**	**-**	**-**	**2**	**69**	121
Financial institutions	**24**	**(13)**	**11**	**336**	**(336)**	**-**	**-**	**-**	**11**	106
Corporate	**129**	**(21)**	**108**	**445**	**(223)**	**(2)**	**220**	**-**	**328**	193

Available for sale assets	2011			2010
Fair value through equity	Cost[a]	AFS reserve	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	**875**	**(159)**	**716**	886
Financial institutions	**2**	**-**	**2**	9
Corporate	**675**	**2**	**677**	896

Loans and advances	2011			2010
Held at amortised cost	Gross	Impairment allowances	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	**25**	**-**	**25**	16
Financial institutions	**38**	**-**	**38**	50
Residential mortgages	**3,665**	**(14)**	**3,651**	3,476
Corporate	**2,484**	**(194)**	**2,290**	2,639
Other retail lending	**2,252**	**(199)**	**2,053**	2,074

Contingent liabilities and commitments	2011	2010
As at 31 December	£m	£m
Sovereign	**3**	-
Financial institutions	**3**	6
Residential mortgages	**52**	15
Corporate	**1,101**	1,622
Other retail lending	**1,377**	1,367

Note

a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Ireland (audited)

Fair value through profit and loss	Trading portfolio			Derivatives						
	Trading portfolio assets	Trading portfolio liabilities	Net trading portfolio	Gross assets	Gross liabilities	Cash collateral	Net derivatives	Designated at FV through P&L	2011 Total	2010 Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	98	(64)	34	45	(4)	(36)	5	-	39	59
Financial institutions	1,416	(39)	1,377	5,889	(3,909)	(1,846)	134	50	1,561	1,149
Corporate	73	(30)	43	658	(658)	-	-	9	52	164

Available for sale assets	2011			2010
Fair value through equity	Cost[a]	AFS reserve	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	215	(10)	205	237
Financial institutions	274	(25)	249	584

Loans and advances	2011			2010
Held at amortised cost	Gross	Impairment allowances	Total	Total
As at 31 December	£m	£m	£m	£m
Financial institutions	2,651	(150)	2,501	2,036
Residential mortgages	104	(10)	94	109
Corporate	946	(21)	925	959
Other retail lending	86	-	86	125

Contingent liabilities and commitments	2011	2010
As at 31 December	£m	£m
Financial institutions	927	871
Corporate	872	906
Other retail lending	8	9

Note
a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Greece (audited)

Fair value through profit and loss	Trading portfolio			Derivatives						
	Trading portfolio assets	Trading portfolio liabilities	Net trading portfolio	Gross assets	Gross liabilities	Cash collateral	Net derivatives	Designated at FV through P&L	2011 Total	2010 Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	7	-	7	1	-	-	1	-	8	15
Financial institutions	2	-	2	1,109	(253)	(856)	-	-	2	21
Corporate	3	-	3	-	-	-	-	-	3	7

Available for sale assets	2011			2010
Fair value through equity	Cost[a]	AFS reserve	Total	Total
As at 31 December	£m	£m	£m	£m
Sovereign	6	-	6	16

Loans and advances	2011			2010
Held at amortised cost	Gross	Impairment allowances	Total	Total
As at 31 December	£m	£m	£m	£m
Residential mortgages	5	-	5	4
Corporate	64	-	64	96
Other retail lending	27	(9)	18	19

Contingent liabilities and commitments	2011	2010
As at 31 December	£m	£m
Financial institutions	1	1
Corporate	3	15
Other retail lending	22	18

Note

a ‘Cost’ refers to the fair value of the asset at recognition, less any impairment booked. ‘AFS reserve’ is the cumulative fair value gain or loss on the assets that is held in equity. ‘Total’ is the fair value of the assets at the balance sheet date.

Risk management
Credit risk
All disclosures in this section are unaudited unless otherwise stated

Belgium (audited)

Fair value through profit and loss	Trading portfolio			Derivatives						
	Trading portfolio assets	Trading portfolio liabilities	Net trading portfolio	Gross assets	Gross liabilities	Cash collateral	Net derivatives	Designated at FV through P&L	2011 Total	2010 Total
As at 31 December	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign	735	(414)	321	442	(442)	-	-	-	321	431
Financial institutions	46	(5)	41	9,713	(6,362)	(3,351)	-	-	41	86
Corporate	59	(42)	17	362	(329)	-	33	47	97	67

Available for sale assets	2011			
Fair value through equity	Cost[a]	AFS reserve	Total	2010 Total
As at 31 December	£m	£m	£m	£m
Sovereign	1,738	(26)	1,712	1,349
Corporate	15	1	16	-

Loans and advances	2011			
Held at amortised cost	Gross	Impairment allowances	Total	2010 Total
As at 31 December	£m	£m	£m	£m
Financial institutions	1	-	1	12
Residential mortgages	10	-	10	10
Corporate	204	(35)	169	237
Other retail lending	-	-	-	1

Contingent liabilities and commitments	2011	2010
As at 31 December	£m	£m
Financial institutions	-	8
Corporate	879	888
Other retail lending	2	1

Analysis of indirect exposures
Indirect exposure to sovereigns can arise through a number of different sources, including credit derivatives referencing sovereign debt; guarantees to savings and investment funds which hold sovereign risk; lending to financial institutions who themselves hold exposure to sovereigns and guarantees, implicit or explicit, by the sovereign to The Group's counterparties.

Note
a 'Cost' refers to the fair value of the asset at recognition, less any impairment booked. 'AFS reserve' is the cumulative fair value gain or loss on the assets that is held in equity. 'Total' is the fair value of the assets at the balance sheet date.

Credit derivatives referencing sovereign debt

The Group enters into credit mitigation primarily for risk management purposes for which the reference asset is government debt. These have the net effect of reducing The Group's exposure in the event of sovereign default. An analysis of The Group's credit derivatives referencing sovereign debt is presented below.

As at 31 December 2011	Spain £m	Italy £m	Portugal £m	Ireland £m	Greece £m	Belgium £m
Fair value						
- Bought	919	1,934	1,047	538	2,197	223
- Sold	(917)	(1,836)	(1,023)	(538)	(2,257)	(227)
Net derivative fair value	2	98	24	-	(60)	(4)
Contract notional amount						
- Bought	(9,429)	(14,056)	(3,659)	(2,782)	(3,300)	(2,755)
- Sold	9,270	13,584	3,609	2,733	3,379	2,755
Net derivative notional amount	(159)	(472)	(50)	(49)	79	-
Impact of credit derivatives in the event of sovereign default (notional less fair value of protection)	(157)	(374)	(26)	(49)	19	(4)

The fair values and notional amounts of credit derivative assets and liabilities would be lower than reported under IFRS if netting was permitted for assets and liabilities with the same counterparty or for which we hold cash collateral. An analysis of the effects of such netting is presented below.

As at 31 December 2011	Spain £m	Italy £m	Portugal £m	Ireland £m	Greece £m	Belgium £m
Fair value						
- Bought	326	681	346	170	669	69
- Sold	(324)	(583)	(322)	(170)	(729)	(73)
Net derivative fair value	2	98	24	-	(60)	(4)
Contract notional amount						
- Bought	(2,924)	(4,742)	(1,027)	(854)	(1,019)	(859)
- Sold	2,765	4,270	977	805	1,098	859
Net derivative notional amount	(159)	(472)	(50)	(49)	79	-
Impact of credit derivatives in the event of sovereign default (notional less fair value of protection)	(157)	(374)	(26)	(49)	19	(4)

Credit derivatives (principally credit default swaps (CDS) and total return swaps) are arrangements whereby the default risk of an asset (reference asset) is transferred from the buyer to the seller of protection. The majority of credit derivatives referencing sovereign assets are bought and sold to support customer transactions and for risk management purposes. Wherever possible, The Group matches the maturity of derivative protection bought with the maturity of the underlying reference assets to help maximise the effectiveness of the mitigation against the exposure.

The contract notional amount represents the value of the reference asset being insured, while the fair value represents the change in value of the reference asset, adjusted for the creditworthiness of the counterparty providing the protection. The net derivative notional amount, representing a reduction in exposures, is not included in the country tables but should be considered alongside the direct exposures disclosed in those pages.

Sovereign CDS would trigger on the occurrence of a credit event as determined by ISDA's Determination Committee. CDS positions are monitored considering counterparty, country of counterparty and concentration level with respect to counterparties and sovereigns. Further information on the credit quality of The Group's derivative assets is presented on page 57.

Group guarantees relating to savings and investment funds

The Group has indirect sovereign exposure through the guarantee of certain savings and investment funds, which hold a proportion of their assets in sovereign debt. As at 31 December 2011, the recognised liability in respect of these guarantees was £41m, with a £1.5bn gross notional exposure.

In addition, a Group associate, Vida Y Pensiones Compania De Seguros, holds investments with a total fair value of £1.2bn relating to certain customer investment products, of which a proportion are guaranteed and the majority comprise sovereign, financial institution and corporate debt in Eurozone countries.

Risk management
Market risk
All disclosures in this section are unaudited unless otherwise stated

Market risk is the risk of the Group suffering financial loss due to the Group being unable to hedge its balance sheet at prevailing market levels. The Group can be impacted by changes in both the level and volatility of prices e.g. interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

Overview (audited)

The main sources of risk are traded market risk, non-traded risk and pension risk. Traded risk in the businesses resides primarily in Barclays Capital while non-traded market risk resides mainly in Retail and Business Banking, Barclays Corporate, Barclays Wealth and Group Treasury. Pensions risk is monitored centrally with the cost borne across businesses.

Barclays market risk objectives are to:
- Understand and control market risk by robust measurement, limit setting, reporting and oversight;
- Facilitate business growth within a controlled and transparent risk management framework;
- Ensure that traded market risk in the businesses resides primarily in Barclays Capital; and
- Minimise non-traded market risk.

Organisation and structure (audited)

The BRC reviews and approves market risk appetite for the group. The Group Market Risk Director is responsible for the Barclays Market Risk Control Framework and, under delegated authority from the Chief Risk Officer, sets a limit framework within the context of the approved market risk appetite. Daily market risk reports summarise Barclays market risk exposures against agreed limits and are distributed to the principal risk owners.

The Market Risk Committee approves, and makes recommendations concerning the market risk profile across Barclays. This includes approving Barclays Market Risk Control Framework and Group Policies; reviewing current and forward issues, limits and utilisation; and proposing risk appetite levels for the Board. The Committee is chaired by the Group Market Risk Director and attendees include the Chief Risk Officer, respective business risk managers, group treasury and senior managers from Group Market Risk as well as Internal Audit.

The head of each business, assisted by market risk management, is accountable for all market risks associated with its activities. The head of each business market risk team is responsible for implementing the risk control framework for non-traded market risk, while Barclays Capital Market Risk implements the risk control framework for traded market risk. The control frameworks for traded, non-traded and pensions risk are all governed by the Barclays Market Risk Control Framework, which sets out how market risk should be identified, measured, controlled, reported and reviewed. The Framework also outlines and references Group Market Risk policies.

Market risk oversight and challenge is provided by business committees, Group committees including the Market Risk Committee and Group Market Risk.

Traded market risk (audited)

Traded market risk arises primarily as a result of client facilitation in wholesale markets. This involves market making, risk management solutions and execution of syndications. Mismatches between client transactions and hedges result in market risk. In Barclays Capital, trading risk is measured for the trading book, as defined for regulatory purposes, and certain banking books.

Risk measurement
Barclays uses a range of complementary technical approaches to measure and control traded market risk including: Daily Value at Risk (DVaR), Expected Shortfall, 3W, primary and secondary stress testing and combined scenario stress testing.

DVaR is an estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for one business day. For management purposes Barclays Capital uses a historical simulation methodology with a two-year equally weighted historical period, at the 95% confidence level for all trading portfolios and certain banking books.

Market volatility in 2011 was heightened, particularly in the second half, by uncertainty on the future economic growth and the sovereign debt crisis. The high volatility observations of early 2009 rolled-out of the two year DVaR historical data set, however new tail points were added in the second half of 2011.

As defined by the FSA, a green model is consistent with a good working DVaR model and is achieved for models that have four or fewer back-testing exceptions in a 12-month period. Back-testing counts the number of days when a loss (as defined by the FSA) exceeds the corresponding DVaR estimate, measured at the 99% confidence level. For Barclays Capital’s DVaR model, green model status was maintained for 2011.

The DVaR model is regularly assessed and reviewed internally by Group Executive Models Committee and within Barclays Capital.

When reviewing DVaR estimates the following considerations should be taken into account:

- Historical simulation uses the most recent two years of past data to generate possible future market moves, but the past may not be a good indicator of the future;
- The one-day time horizon does not fully capture the market risk of positions that cannot be closed out or hedged within one-day;
- DVaR is based on positions as at close of business and consequently intra-day risk, the risk from a position bought and sold on the same day, is not captured; and
- DVaR does not indicate the potential loss beyond the 95th percentile.

In part to mitigate these issues, Barclays also use Expected Shortfall and 3W metrics which use the same two year historical simulation data set as used to calculate DVaR. Expected Shortfall is the average of all one-day hypothetical losses beyond the 95% confidence level DVaR while 3W is the average of the three largest one-day estimated losses.

Stress testing provides an estimate of potential significant future losses that might arise from extreme market moves or scenarios. Primary stress tests apply stress moves to key liquid risk factors for each of the major trading asset classes including interest rate, credit, commodity, equity foreign exchange and securitised products. Secondary stress tests apply stress moves to less liquid risks. Combined scenarios apply simultaneous shocks to several risk factors, reflecting defined extraordinary, but plausible macro scenarios. This is assessed by applying respective changes on foreign exchange rates, interest rates, credit spreads, commodities and equities to the portfolio.

In 2011, Barclays Capital implemented new regulatory risk models to comply with the CRD3 revisions to the market risk capital requirement. These were Stressed VaR (SVaR), Incremental Risk Charge (IRC) and the All Price Risk (APR). All three models were approved by the FSA for calculation of regulatory capital for designated trading book portfolios. The SVaR approval matches the scope of the DVaR model as used for regulatory capital calculations.

SVaR is an estimate of the potential loss arising from a 12 month period of significant financial stress. SVaR uses DVaR methodology based on inputs calibrated to historical data from a continuous 12 month period that maximises the DVaR based capital at a 99% one-tailed confidence limit.

IRC is computed on all fixed income positions subject to specific market risk. It calculates the incremental risk arising from rating migrations and defaults, beyond what is already captured in specific market risk, to a 99.9% confidence level over a one year holding period.

APR replaces specific risk for the correlation trading portfolio and is intended to capture all risk factors relevant to corporate nth-to-default and tranched credit derivatives. As for IRC, the capital requirement is based on a 99.9% confidence interval over a one year holding period.

When reviewing estimates produced by the CRD3 models the following considerations should be taken into account:

- SVaR uses the same methodology as the DVaR model and hence is subject to the same considerations as this model. In addition, SVaR is calibrated to a specific 12 month historical stress period which may not reflect a stress period that could arise in the future;
- In common with DVaR, neither IRC nor APR indicate the potential loss beyond the 99th percentile, and they do not measure risk from trades which are bought and sold in between weekly runs; and
- Both IRC and APR are computed to a 1-in-1,000 year confidence level which cannot be meaningfully backtested. This is in contrast to DVaR, which can be meaningfully backtested.

Risk control

Market Risk is controlled through the use of an appropriate limit framework. Limits are set at the total Barclays Capital level, risk factor level (e.g. interest rate risk) and business line level (e.g. Emerging Markets). Stress limits and many book limits, such as foreign exchange and interest rate sensitivity limits, are also used to control risk appetite.

The total DVaR limit, risk factor DVaR limits, and 3W limit are approved by BRC. Primary stress limits are approved by the Chief Risk Officer and are tabled for noting by BRC. Compliance with limits is monitored by Barclays Capital Market Risk with oversight provided by Group Market Risk.

In 2011 Group Market Risk continued its ongoing programme of conformance visits to Barclays Capital business areas. These visits review both the current market risk profile and potential market risk developments, as well as verifying conformance with Barclays Market Risk Control Framework.

Risk reporting

Barclays Capital Market Risk produce a number of detailed and summary market risk reports daily, weekly, fortnightly and monthly for business and risk managers. These are also sent to Group Market Risk for review and inclusion in the Group Daily Market Risk Report. A risk summary is presented at the Market Risk Committee and Barclays Capital Traded Positions Risk Review.

Risk management

Market risk

All disclosures in this section are unaudited unless otherwise stated

Analysis of traded market risk exposures

The trading environment in 2011 was characterised by weak underlying economic growth as well as uncertain market direction resulting in lower client activity particularly in the second half of 2011. In this environment, Barclays Capital's market risk exposure, as measured by average total DVaR, increased 8% to £57m (2010: £53m).

The three main risk factors affecting DVaR were spread, interest rate and equity risk. From 2010 levels, average DVaR for spread risk fell by £3m (6%) and interest rate DVaR fell by £16m (48%) reflecting cautious positioning. Equity DVaR increased by £4m (29%) on continued growth of the global equities business and product offerings.

The diversification effect fell 38% to an average of £40m in 2011 due to increasing cross asset correlation as the European crisis worsened. However, the tail risk indicated by the expected shortfall and 3W measures fell 9% to £71m and 16% to £121m respectively from 2010 levels.

The daily average, maximum and minimum values of DVaR, Expected Shortfall and 3W were calculated as below:

The daily average, maximum and minimum values of DVaR, Expected Shortfall and 3W:	**Year ended 31 December 2011**			Year ended 31 December 2010		
(audited)	**Average**	**High[a]**	**Low[a]**	Average	High[a]	Low[a]
DVaR (95%)	**£m**	**£m**	**£m**	£m	£m	£m
Interest rate risk	**17**	**47**	**7**	33	50	21
Spread risk	**45**	**69**	**25**	48	62	30
Commodity risk	**12**	**18**	**7**	16	25	9
Equity risk	**18**	**34**	**9**	14	29	6
Foreign exchange risk	**5**	**8**	**2**	6	15	2
Diversification effect	**(40)**	**na**	**na**	(64)	na	na
Total DVaR	**57**	**88**	**33**	53	75	36
Expected Shortfall	**71**	**113**	**43**	78	147	47
3W	**121**	**202**	**67**	144	311	72

The Bank

Barclays Capital's market risk exposure, as measured by average total DVaR of 95%, increased by 8% to £56m (2010: £52m). The high for the year was £86m (2010: £74m) and the low for the year was £34m (2010: £35m).

Non-traded interest rate risk (audited)

Non-traded interest rate risk arises from the provision of retail and wholesale (non-traded) banking products and services, when the interest rate repricing date for loans (assets) is different to the repricing date for deposits (liabilities). This includes current accounts and equity balances which do not have a defined maturity date and an interest rate that does not change in line with Base rate changes. The risk resides mainly in Retail and Business Banking, Barclays Corporate, and Group Treasury. Barclays objective is to minimise non-traded interest rate risk and this is achieved by transferring interest rate risk from the business to a local or Group Treasury, which in turn hedges the net exposure via Barclays Capital with the external market. Limits exist to ensure no material risk is retained within any business or product area. Trading activity is not permitted outside Barclays Capital.

Risk measurement

The risk in each business is measured and controlled using both an income metric (Annual Earnings at Risk) and value metrics (Economic Value of Equity, Economic Capital, DVaR, risk factor stress testing, scenario stress testing).

Annual Earnings at Risk (AEaR) measures the sensitivity of net interest income over the next 12 month period. It is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following a 100 basis point increase or decrease in interest rates, subject to a minimum interest rate of 0%.

The main model assumptions are:

- The balance sheet is kept at the current level i.e. no growth is assumed; and
- Balances are adjusted for an assumed behavioural profile. This includes the treatment of fixed rate loans including mortgages.

Note

a The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) DVaR reported as a whole. Consequently a diversification effect number for the high (and low) DVaR figures would not be meaningful and it is therefore omitted from the above table.

Economic Value of Equity (EVE) calculates the change in the present value of the banking book for a 100 basis point upward and downward rate shock. This calculation is equivalent to that of AEaR except EVE is a present value sensitivity while AEaR is an income sensitivity.

Economic Capital (EC) consistent models are used to measure: recruitment risk, the risk from customers not taking up their fixed rate loan offer; and prepayment risk, the risk of a customer deciding not to carry on with their fixed rate loan. Behavioural profiles are also used when modelling the balance sheet.

A combination of DVaR, stress limits, net open position and specific currency or tenor limits are in place for all local Treasury activities.

Risk Control

Market risk is controlled through the use of limits on the above risk measures. Limits are set at the total business level and then cascaded down. The total business level limits for AEaR, EVE, EC, DVaR and stress are agreed by the Market Risk Committee. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Market risk is also controlled through an ongoing programme of conformance reviews by both the business market risk departments and Group Market Risk. These reviews examine both the current market risk profile and potential market risk developments, as well as verifying adherence with Barclays policies and standards as detailed in the Barclays Market Risk Control Framework.

The interest rate risk for balances with no defined maturity date and an interest rate that is not linked to the base rate is managed by Group Treasury. A series of continuous rolling hedges is used to mitigate the interest rate risk in the banking book. In 2011, the maturity of the rolling hedge programme was extended following a review by the Group Treasury Committee of the most appropriate maturity. This revision was agreed by the Group Executive Committee.

Risk Reporting

Each business area is responsible for their respective market risk reports. A combination of daily and monthly risk reports are produced and used by the business. These are also sent to Group Market Risk for review and inclusion in the daily market risk report. A risk summary is also presented at the Market Risk Committee and respective Asset and Liability Committees.

Analysis of net interest income sensitivity

The table below shows sensitivity analysis on the pre-tax net interest income for the non-trading financial assets and financial liabilities held at 31 December 2011 and 31 December 2010. The sensitivity has been measured using AEaR methodology as described above. The benchmark interest rate for each currency is set as at 31 December 2011. The figures include the effect of hedging instruments but exclude banking book exposures held or issued by Barclays Capital as these are measured and managed using DVaR.

Net Interest Income Sensitivity (AEaR) by currency (audited)	**31 December 2011**		31 December 2010	
The Group	**+100 basis points £m**	**-100 basis points £m**	+100 basis points £m	-100 basis points £m
GBP	**68**	**(321)**	297	(377)
USD	**(9)**	**(11)**	(12)	(8)
EUR	**(41)**	**(5)**	(16)	12
ZAR	**31**	**(29)**	13	(10)
Others	**14**	**(5)**	-	-
Total	**63**	**(371)**	282	(383)
As percentage of net interest income	**0.52%**	**(3.04%)**	2.25%	(3.06%)

Non-traded interest rate risk, as measured by AEaR, was £371m as at 31 December 2011, a decrease of £12m compared to 31 December 2010. The decrease in risk reflects a reduction between Group Equity Balances and associated hedges, partly offset by margin compression in the retail bank. If the interest rate hedges had not been in place the AEaR for 2011 would have been £553m (2010: £601m). AEaR is measured for a reduction in rates for the purposes of this analysis.

Risk management

Market risk

All disclosures in this section are unaudited unless otherwise stated

Net Interest Income Sensitivity (AEaR) by currency (audited) The Bank	31 December 2011 +100 basis points £m	31 December 2011 -100 basis points £m	31 December 2010 +100 basis points £m	31 December 2010 -100 basis points £m
GBP	**41**	**(194)**	172	(219)
USD	**(5)**	**(7)**	(7)	(5)
EUR	**(25)**	**(3)**	(9)	7
ZAR	**19**	**(18)**	8	(6)
Others	**8**	**(3)**	-	-
Total	**38**	**(225)**	164	(223)
As percentage of net interest income	**0.52%**	**(3.05%)**	2.25%	(3.06%)

Note: This table excludes exposure held or issued by Barclays Capital as these are measured and managed using DVaR.

Analysis of Equity sensitivity

Analysis of equity sensitivity (audited) The Group	31 December 2011 +100 basis points £m	31 December 2011 -100 basis points £m	31 December 2010 +100 basis points £m	31 December 2010 -100 basis points £m
Net Interest Income	**63**	**(371)**	282	(383)
Taxation effects on the above	**(20)**	**120**	(70)	96
Effect on profit for the year	**43**	**(251)**	212	(287)
As percentage of net profit after tax	**1.06%**	**(6.20%)**	4.65%	(6.29%)
Effect on profit for the year (per above)	**43**	**(251)**	212	(287)
Available for sale reserve	**(1,108)**	**1,102**	(2,051)	2,051
Cash flow hedge reserve	**(2,248)**	**2,280**	(1,298)	1,288
Taxation effects on the above	**1,083**	**(1,091)**	835	(833)
Effect on equity	**(2,230)**	**2,040**	(2,302)	2,219
As percentage of equity	**3.42%**	**3.13%**	(3.67%)	3.54%

Analysis of equity sensitivity (audited) The Bank	31 December 2011 +100 basis points £m	31 December 2011 -100 basis points £m	31 December 2010 +100 basis points £m	31 December 2010 -100 basis points £m
Net Interest Income	**38**	**(225)**	164	(223)
Taxation effects on the above	**(10)**	**61**	19	(26)
Effect on profit for the year	**28**	**(164)**	183	(249)
As percentage of net profit after tax	**1.40%**	**(8.22%)**	7.27%	(9.89%)
Effect on profit for the year (per above)	**28**	**(164)**	183	(249)
Available for sale reserve	**(983)**	**977**	(1,865)	1,865
Cash flow hedge reserve	**(2,119)**	**2,151**	(1,136)	1,126
Taxation effects on the above	**843**	**(850)**	(356)	355
Effect on equity	**(2,231)**	**2,114**	(3,174)	3,097
As percentage of equity	**(4.40%)**	**4.16%**	(6.34%)	6.19%

Foreign exchange risk (audited)

The Group is exposed to two sources of foreign exchange risk.

a) Transactional foreign currency exposure

Transactional foreign exchange exposures represent exposure on banking assets and liabilities, denominated in currencies other than the functional currency of the transacting entity. The Group's risk management policies prevent the holding of significant open positions in foreign currencies outside the trading portfolio managed by Barclays Capital which is monitored through DVaR.

There were no material net transactional foreign currency exposures outside the trading portfolio at either 31 December 2011 or 2010. Due to the low level of non-trading exposures no reasonably possible change in foreign exchange rates would have a material effect on either The Group's profit or movements in equity for the year ended 31 December 2011 or 2010.

b) Translational foreign exchange exposure

The Group's investments in overseas subsidiaries and branches create capital resources denominated in foreign currencies principally US$, Euro and South African Rand. Changes in the Sterling value of the investments due to foreign currency movements are captured in the currency translation reserve, resulting in a movement in Core Tier 1 capital.

During 2011, total structural currency exposures net of hedging instruments increased from £15.3bn to £16.7bn, driven by redemption of $2bn Reserve Capital Instruments that formed part of the economic hedges. Structural currency exposures pre economic hedges remained broadly flat. US$ exposures increased by $8bn due to the restructuring of our holding in BlackRock from a GBP entity to a US$ entity, offset by the increase in USD derivatives which hedge net investments. South African Rand exposures increased £1.1bn as a result of a reduction in the hedge of the investment in Absa Group. Euro exposures reduced by £0.8bn driven by the Spain goodwill write off, which had no impact on Euro denominated Core Tier 1 capital as goodwill is deducted for regulatory capital purposes.

Functional currency of operations (audited)	Foreign currency net investments £m	Borrowings which hedge the net investments £m	Derivatives which hedge the net investments £m	Structural currency exposures pre economic hedges £m	Economic hedges £m	Remaining structural currency exposures £m
As at 31 December 2011						
US Dollar	**30,335**	**7,217**	**8,094**	**15,024**	**5,072**	**9,952**
Euro	**6,568**	**4,096**	**280**	**2,192**	**2,017**	**175**
Rand	**4,258**	**-**	**-**	**4,258**	**-**	**4,258**
Japanese Yen	**681**	**293**	**336**	**52**	**-**	**52**
Other	**3,144**	**-**	**930**	**2,214**	**-**	**2,214**
Total	**44,986**	**11,606**	**9,640**	**23,740**	**7,089**	**16,651**
As at 31 December 2010						
US Dollar	22,646	7,406	-	15,240	6,330	8,910
Euro	7,327	3,072	1,294	2,961	2,069	892
Rand	4,826	-	1,626	3,200	-	3,200
Japanese Yen	5,304	3,603	1,683	18	-	18
Swiss Franc	152	-	157	(5)	-	(5)
Other	3,139	-	824	2,315	-	2,315
Total	43,394	14,081	5,584	23,729	8,399	15,330

Risk management
Market risk
All disclosures in this section are unaudited unless otherwise stated

The economic hedges primarily represent the US Dollar and Euro Preference Shares and Reserve Capital Instruments in issue that are treated as equity under IFRS, and do not qualify as hedges for accounting purposes. During the year $2bn Reserve Capital Instruments were redeemed.

The impact of a change in the exchange rate between Sterling and any of the major currencies would be:

- A higher or lower Sterling equivalent value of non-Sterling denominated capital resources and risk weighted assets. This includes a higher or lower currency translation reserve within equity, representing the retranslation of non-Sterling subsidiaries, branches and associated undertakings net of the impact of foreign exchange rate changes on derivatives and borrowings designated as hedges of net investments;
- A higher or lower profit after tax, arising from changes in the exchange rates used to translate items in the consolidated income statement; and
- A higher or lower value of available for sale investments denominated in foreign currencies, impacting the available for sale reserve.

Risk management

Funding risk – Capital

All disclosures in this section are unaudited unless otherwise stated

Overview

Barclays operates a centralised capital management model, considering both regulatory and economic capital. The capital management strategy is to continue to maximise shareholder value through optimising both the level and mix of capital resources. Decisions on the allocation of capital resources are conducted as part of the strategic planning review. The Group's capital management objectives are to:

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

External Regulatory Capital Requirements

The Group is subject to minimum capital requirements imposed by the Financial Services Authority (FSA), following guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented in the UK via European Union Directives.

Under Basel 2, effective from 1 January 2008, the Group has approval by the FSA to use the advanced approaches to credit and operational risk management. Pillar 1 capital requirements are generated using the Group's risk models.

Under Pillar 2 of Basel 2, the Group is subject to an overall regulatory capital requirement based on individual capital guidance ('ICG') received from the FSA. The ICG imposes additional capital requirements in excess of Pillar 1 minimum capital requirements.

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

Local entity regulatory capital adequacy

The Group manages its capital resources to ensure that those Group entities that are subject to local capital adequacy regulation in individual countries meet their minimum capital requirements. The current policy of the Group is that the local capital requirements are met, to the greatest possible extent, through the retention of profit. Certain countries also operate exchange control regulations which limit the amount of dividends that can be remitted to non-resident shareholders. Local management manages compliance with subsidiary entity minimum regulatory capital requirements with reporting to local Asset and Liability Committees and to Treasury Committee, as required.

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

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

Regulatory Capital

The table below provides details of the regulatory capital resources managed by The Group.

Regulatory Capital	2011 £m	2010 £m
Core Tier 1 Capital	43,040	43,240
Tier 1 Capital	50,447	53,729
Tier 2 Capital	16,063	15,823
Deductions from total Capital	(2,588)	(2,250)
Total Capital resources	**63,922**	67,302

Risk management

Funding risk – Liquidity

All disclosures in this section are unaudited unless otherwise stated

Liquidity Risk

The definition of liquidity risk is the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events which can result in:

- an inability to support normal business activity; and
- a failure to meet liquidity regulatory requirements

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group.

In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

In addition, the introduction of capital controls or new currencies by countries to mitigate current stresses could have a consequential effect on performance of the balance sheets of certain Group companies based on the asset quality, types of collateral and mix of liabilities.

The efficient management of liquidity is essential to the Group in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Framework, which is designed to meet the following objectives:

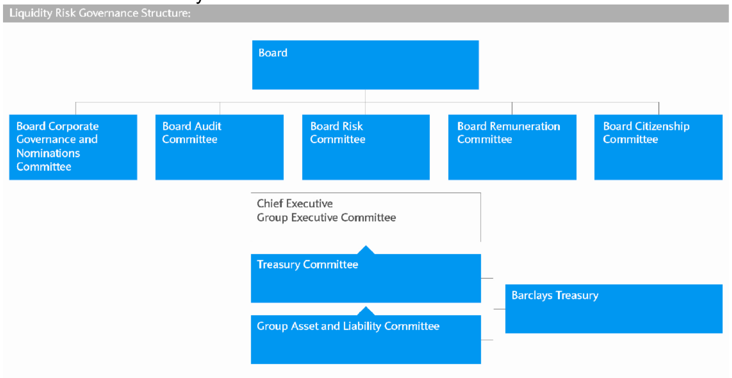
- To maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk framework as expressed by the Board;
- To maintain market confidence in the Group's name;
- To set limits to control liquidity risk within and across lines of business and legal entities;
- To accurately price liquidity costs, benefits and risks and incorporate those into product pricing and performance measurement;
- To set early warning indicators to identify immediately the emergence of increased liquidity risk or vulnerabilities including events that would impair access to liquidity resources;
- To project fully over an appropriate set of time horizons cash flows arising from assets, liabilities and off-balance sheet items; and
- To maintain a contingency funding plan that is comprehensive and proportionate to the nature, scale and complexity of the business and that is regularly tested to ensure that it is operationally robust.

Governance and organisation

Barclays Treasury operates a centralised governance control process that covers all of the Group's liquidity risk management activities. The Barclays Treasurer is responsible for designing the Group Liquidity Risk Management framework (the Liquidity Framework) which is sanctioned by the Board Risk Committee. The Liquidity Framework incorporates liquidity policies, systems and controls that the Group has implemented to manage liquidity risk within tolerances approved by the Board and regulatory agencies. The Board sets the Group's Liquidity Risk Appetite (LRA), being the level of risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. The Treasury Committee is responsible for the management and governance of the mandate defined by the Board. The Group Asset and Liability Committees is a sub-committee of the Treasury Committee with responsibility for review, challenge and approval of the Liquidity Framework. The Liquidity Framework is reviewed regularly at Treasury Committee and Board Risk Committee. In general, liquidity and funding are managed at a group level.

Liquidity is recognised as a key risk and the Barclays Treasurer is the Group Key Risk owner, supported by Key Risk Owners at regional and country levels. Execution of the Group's liquidity risk management strategy is carried out at country level, with the country Key Risk Owners providing reports to Barclays Treasury to evidence conformance with the agreed risk profile. Further oversight is provided by country, regional and business level Asset and Liability Committees.

Liquidity Risk Governance Structure:

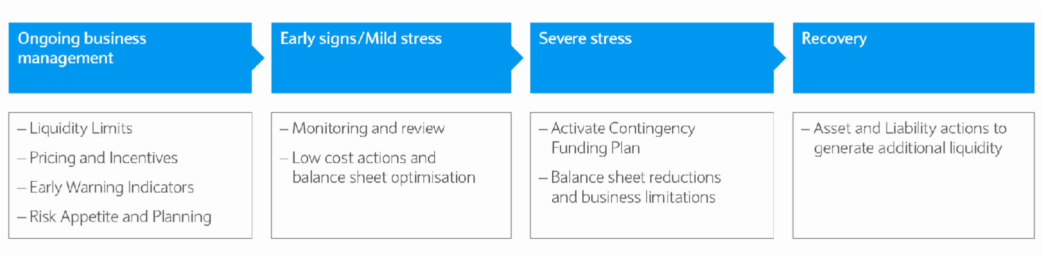


Liquidity risk framework

Barclays has a comprehensive Liquidity Framework for managing the Group's liquidity risk. The Liquidity Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite set by the Board.

The Liquidity Framework incorporates a range of ongoing business management tools to monitor, limit and stress test the Group's balance sheet and contingent liabilities. Limit setting and transfer pricing are tools that are designed to control the level of liquidity risk taken and drive the appropriate mix of funds, which together reduce the likelihood that a liquidity stress event could lead to an inability to meet the Group's obligations as they fall due. The stress tests assess potential contractual and contingent stress outflows under a range of scenarios, which are then used to determine the size of the liquidity buffer that is immediately available to meet anticipated outflows if a stress occurred.

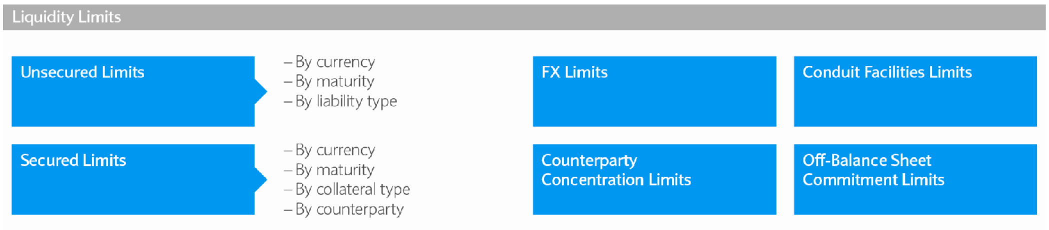
In addition the Group maintains a Contingency Funding Plan which details how liquidity stress events of varying severity would be managed. Since the precise nature of any stress event cannot be known in advance, the plans are designed to be flexible to the nature and severity of the stress event and provide a menu of options that could be used as appropriate at the time. Barclays also maintains Recovery Plans which consider actions to generate additional liquidity in order to facilitate recovery in a severe stress and is developing documentation to meet Resolution Planning in line with regulatory requirements. The overall framework therefore provides the necessary tools to manage the continuum of liquidity risk, as summarised below:



Ongoing business management

Liquidity Limits

Barclays manages to limits on a variety of on and off-balance sheet exposures a sample of which are shown in the table below. These limits serve to control the overall extent and composition of liquidity risk taken by managing exposure to particular sources of liabilities, asset liability mismatches and counterparty concentrations. Barclays also limits activities permitted at a country level. Businesses are only allowed to have funding exposure to wholesale markets where they can demonstrate that their market is sufficiently deep and liquid and then only relative to the size and complexity of their business.



Internal Pricing and Incentives

Barclays actively manages the composition of the balance sheet and contingent liabilities through the appropriate transfer pricing of liquidity costs and induce the correct behaviour and decision making. These take the form of funds transfer pricing and economic funds allocation of behaviouralised assets and liabilities and contingent liquidity risk charging to the businesses. These transfer pricing mechanisms are designed to ensure that liquidity risk is reflected in product pricing and performance measurement, thereby ensuring that the Liquidity Framework is integrated into business level decision making to drive the appropriate mix of sources and uses of funds.

Risk management

Funding risk - Liquidity

All disclosures in this section are unaudited unless otherwise stated

Early warning indicators

Barclays monitors a range of market indicators for early signs of liquidity risk either in the market or specific to Barclays, a sample of which are shown in the table below. Additionally country and business level Asset and Liability Committees monitor early warning indicators appropriate to their businesses. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions. A deterioration in Early Warning Indicators can lead to invocation of the Group's Contingency Funding Plan, which provides a framework for how the liquidity stress would be managed.

Early Warning Indicators		
Change in composition of deposits	Level of debt buybacks	Rising funding costs
Widening CDS spreads	Change in maturity profile	Repo haircut widening

Liquidity Risk Appetite

Regulatory requirements are complied with at the Group and entity level, with the Liquidity Risk Appetite (LRA) providing a consistent Group wide perspective that supplements these requirements. Under the Liquidity Framework, the Group has established the LRA, which is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. It is measured with reference to the liquidity pool as a percentage of anticipated stressed net contractual and contingent outflows for each of three stress scenarios.

The stress outflows are used to determine the size of the Group Liquidity Pool, which represents those resources immediately available to meet outflows in a stress. In addition to the Liquidity Pool, the Liquidity Framework provides for other management actions, including generating liquidity from other liquid assets on the Group's balance sheet in order to meet additional stress outflows, or to preserve or restore the Liquidity Pool in the event of a liquidity stress.

Liquidity Pool (audited)

The Group liquidity pool is held unencumbered against contractual and contingent stress outflows in the LRA stress tests. The liquidity pool is not used to support payment or clearing requirements. As of 31 December the Group liquidity pool was £152bn (2010: £154bn) and moved within a month-end range of £140bn to £167bn during the year.

Barclays does not include any own-name securities in its liquidity pool.

Barclays manages the liquidity pool on a centralised basis. As at 31 December 2011, 94% of the liquidity pool was located in Barclays Bank PLC. The residual liquidity pool is held predominantly within Barclays Capital Inc. (BCI) against contractual and contingent stress outflows in the LRA stress test at the legal entity level. The Group does not rely on any excess of liquid assets over outflows in BCI.

Additionally the Absa Group holds a liquidity pool of £2bn, which is managed independently due to local currency and funding requirements

Composition of The Group liquidity pool	Cash and deposits with central banks[a]	Government bonds[b]	Other available liquidity	Total[c]
The Group (audited)	£bn	£bn	£bn	£bn
As at 31 December 2011	**105**	**36**	**11**	**152**
As at 31 December 2010	96	40	18	154

Liquidity risk stress testing

Under the Liquidity Framework, the Group runs three liquidity stress scenarios, aligned to the FSA's prescribed stresses: a market-wide stress event, a Barclays specific stress event and a combination of the two. Under normal market conditions, the liquidity pool must be in excess of 100% of three months' anticipated outflows for a market-wide stress and one month's anticipated outflows for each of the Barclays specific and combined stresses.

Barclays is primarily focused upon the Barclays specific stress scenario, which also results in the greatest net outflows of each of the liquidity stress tests.

Notes
a Of which over 95% is placed with the Bank of England, US Federal Reserve, European Central Bank, Bank of Japan and Swiss National Bank.
b Of which over 80% are comprised of UK, US, Japanese, French, German and Dutch securities.
c £140bn of which is FSA eligible.

Key Liquidity Risk Appetite assumptions include:

Liquidity Risk Driver	Barclays Specific Stress
Net wholesale funding outflow	- Outflows at contractual maturity of wholesale funding and conduit commercial paper, with no rollover / new issuance
	- Prime Brokerage: 100% loss of excess client derivative margin and 100% loss of excess client cash
Loss of secured financing & increased haircuts	- Loss of repo capacity at contractual maturity date and incremental haircut widening, depending upon collateral type
Retail & commercial bank deposit outflows	- Substantial outflows as Barclays is seen as greater credit risk than competitors
Intra-day risk	- Liquid collateral held against intra-day requirement at clearing and payment systems is regarded as encumbered with no liquidity value assumed
	- Liquid collateral is held against withdrawal of unsecured intra-day lines provided by third parties
Intra-group risk	- Risk of cash within subsidiaries becoming unavailable to the wider Group
Funding Concentration risk	- Additional outflows recognised against concentration of providers of wholesale secured financing
Off-balance sheet risk	- Collateral outflows due to market movements, taking account of disputes and mismatches between collateralised and uncollateralised OTC and exchange-traded positions
	- Outflow of all collateral owed by Barclays to counterparties but not yet called
	- Anticipated increase in firm's derivative initial margin requirement in a stressed environment
	- Collateral outflows contingent upon a multi-notch credit rating downgrade of Barclays Bank PLC
	- Significant drawdown on committed facilities provided to corporates, based on counterparty type, creditworthiness and facility type
	- Drawdown on retail commitments
Franchise Viability	- Barclays liquidity stress testing recognises that it will be necessary to hold additional liquidity in order to meet outflows that are non-contractual in nature, but are necessary in order to support the ongoing franchise (for example, market-making activities)
Mitigating actions	- Unencumbered marketable assets that are held outside of the liquidity pool, and that are of known liquidity value to the firm, are assumed to be monetised (subject to haircut / valuation adjustment)

The market-wide stress scenario allows for a partial roll-over of wholesale funds, maintains repo market capacity (albeit at wider haircuts depending upon collateral type) and includes lower outflows on retail and commercial bank deposits given that Barclays would not be seen as a greater credit risk relative to competitors.

The combined scenario is a combination of the market wide and Barclays specific stress assumptions.

As at 31 December 2011, the Liquidity Pool exceeded net stress outflows under all three stress scenarios. The results of the stress scenarios expressed as the liquidity pool as a percentage of net anticipated stress outflows was:

The Group	Market wide 3 month	Barclays-specific 1 month	Combined 1 month
Liquidity pool as a percentage of anticipated net outflows	**127%**	**107%**	**118%**

Barclays monitors the money markets closely, in particular for early indications of the tightening of available funding. In these conditions, the nature and severity of the stress scenarios are reassessed and appropriate action taken with respect to the liquidity pool. This may include further increasing the size of pool or using the pool to meet stress outflows.

Contingency Funding Plan and Recovery and Resolution Plan

Barclays maintains a Contingency Funding Plan (CFP), which is designed to provide a framework under which a liquidity stress could be effectively managed. The CFP is proportionate to the nature, scale and complexity of the business and is tested to ensure that it is operationally robust. The CFP details the circumstances in which the plan could be invoked, including; as a result of adverse movements in Early Warning Indicators. As part of the plan the Barclays Treasurer has established a Liquidity Management Committee (LMC.) On invocation of the CFP, the LMC would meet to identify the likely impact of the event on the Group and determine the response, which would be proportionate to the nature and severity of the stress.

Barclays also maintains Recovery Plans which consider actions to generate additional liquidity in order to facilitate recovery in a stress.

Risk management
Funding risk - Liquidity
All disclosures in this section are unaudited unless otherwise stated

Liquidity regulation
Since June 2010, the Group has reported its liquidity position against backstop Individual Liquidity Guidance (ILG) provided by the FSA. The FSA defines both eligible liquidity pool assets and stress outflows against reported balances.

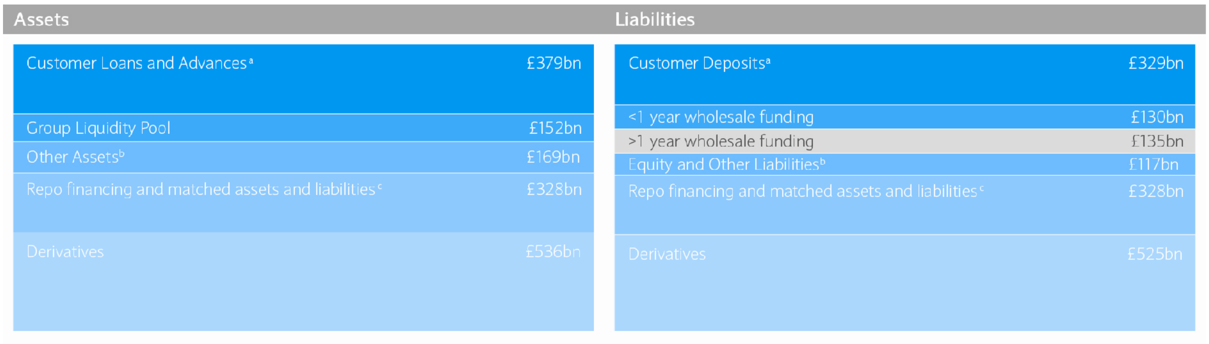
Barclays also monitors compliance with BCBS LCR and NSFR. As at 31 December 2011, the Group met 82% of the LCR (2010: 80%) and 97% of the NSFR (2010: 94%) requirements and is on track to meet the 100% compliance under Basel 3 required by 2015 and 2018 respectively.

The LRA stress scenarios, the FSA ILG and BCBS LCR are all broadly comparable short-term stress scenarios in which the adequacy of defined liquidity resources is assessed against contractual and contingent stress outflows. The ILG and LCR stress tests provide an independent assessment of the Group's liquidity risk profile. The BCBS NSFR is a longer-term metric designed to establish a minimum acceptable amount of stable funding based on liquidity characteristics of an institution's assets and activities over a one year time horizon.

Stress Test	Barclays Liquidity Risk Appetite (LRA)	FSA Individual Liquidity Guidance (ILG)	Basel3 Liquidity Coverage Ratio (LCR)	Basel3 Net Stable Funding Ratio (NSFR)
Time Horizon	1 – 3 months	3 months	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

Funding Structure
The basis for sound liquidity risk management is a solid funding structure that reduces the probability of a liquidity stress leading to an inability to meet funding obligations as they fall due.

- The Group's overall funding strategy is to develop a diversified funding base (both geographically and by depositor type) and maintain access to a variety of alternative funding sources, to minimise the cost of funding while providing protection against unexpected fluctuations.
- Within this, the Group aims to align the sources and uses of funding. As such, retail and commercial customer loans and advances are largely funded by customer deposits. Other assets together with other loans and advances and unencumbered assets, are funded by long term wholesale debt and equity.
- Trading portfolio assets and reverse repurchase agreements are largely funded in the wholesale markets by repurchase agreements and trading portfolio liabilities, whilst derivative assets are largely matched by derivatives liabilities.
- The liquidity pool is predominantly funded through wholesale markets.
- These funding relationships are summarised below as of 31 December 2011:



Note
a Excluding cash collateral and settlement balances
b Absa Group balances other than customer loans and advances of £38.0bn and customer deposits of £33.0bn are included in other assets and other liabilities
c Comprised of reverse repos that provide financing to customers collateralised by highly liquid securities on a short term basis or are used to settle short inventory positions; repo financing of trading portfolio assets and matched cash collateral and settlement balances.

Deposit funding (audited)

Composition of Loan to Deposit Ratios by Business[a] (audited) The Group As at 31 December 2011	Loans and Advances to Customers £bn	Customer Deposits £bn	Loan to Deposit Ratio %
RBB	231.6	158.7	146
Barclays Corporate[a]	64.6	77.7	83
Barclays Wealth	18.8	46.5	40
Total funding excluding secured	**315.0**	**282.9**	**111**
Secured funding	-	28.7	-
Sub-total including secured funding	**315.0**	**311.6**	**101**
RBB, Corporate and Wealth	315.0	282.9	111
Barclays Capital	63.4	46.0	138
Group Centre	0.9	-	-
Trading settlement balances and cash collateral	52.6	37.1	142
Total	**431.9**	**366.0**	**118**

The Group loan to deposit ratio as at 31 December 2011 was 118% (2010: 124%) and the loan to deposit and long-term funding ratio was 75% (2010: 77%).

RBB, Barclays Corporate and Barclays Wealth activities are largely funded with customer deposits. As at 31 December 2011, the loan to deposit ratio for these businesses was 111% (2010: 114%) and the loan to deposit and secured funding ratio was 101% (2010: 105%). The funding gap for these businesses is met using asset backed securities and covered bonds secured primarily over customer loans and advances such as residential mortgages and credit card receivables.

The excess of Barclays Capital loans and advances over customer deposits is funded with long-term debt and equity.

Included within RBB and Barclays Capital are Absa Group related balances totalling £38.0bn of loans and advances to customers funded by £33.0bn of customer deposits and the gap of £5.0bn is funded with wholesale borrowings. This is managed separately by the Absa Group due to local currency and funding requirements. During 2011, the Absa Group has issued additional senior unsecured debt to further extend its funding term and diversify its funding base, reducing its reliance on wholesale money market funding.

Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Group's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Group's operations and liquidity needs. Barclays models the behaviour of both assets and liabilities on a net cash flow basis using our experience of customer behaviour to assess balance sheet behaviouralised funding gaps under business as usual conditions. These behavioural maturities are used to determine funds transfer pricing interest rates at which businesses are rewarded and charged for sources and uses of funds.

Note
a In addition Barclays Corporate holds £17.2bn (2010: £14.4bn) loans and advances as financial assets held at fair value.

Risk management

Funding risk - Liquidity

All disclosures in this section are unaudited unless otherwise stated

Behavioural Maturity Profile				Behavioural Maturity Profile Cash Inflow (Outflow)	
The Group	Loans and Advances to Customers	Customer Deposits	Customer Funding Surplus/ (Deficit)	Less than One Year	Greater than One Year
As at 31 December 2011	£bn	£bn	£bn	£bn	£bn
RBB	231.6	158.7	(72.9)	13.8	59.1
Barclays Corporate	64.6	77.7	13.1	(1.1)	(12.0)
Barclays Wealth	18.8	46.5	27.7	(4.0)	(23.7)
Total funding excluding secured	**315.0**	**282.9**	**(32.1)**	**8.7**	**23.4**
Secured funding	-	28.7	28.7	(10.1)	(18.6)
Total RBB, Corporate and Wealth funding	315.0	311.6	(3.4)	(1.4)	4.8

The relatively low cash outflow within one year demonstrates that customer funding remains broadly matched from a behavioural perspective.

Wholesale funding

Funding of Other Assets[a] as at 31 December 2011:

Assets	£bn	Liabilities	£bn
Trading portfolio assets	**104**	Repurchase agreements	**207**
Reverse repurchase agreements	**103**		
Reverse repurchase agreements	**45**	Trading portfolio liabilities	**45**
Derivative financial instruments	**536**	Derivative financial instruments	**525**
Liquidity pool	**152**	Less than 1 year wholesale debt	**130**
Other unencumbered assets[b]	**175**	Greater than 1 year wholesale debt and equity	**196**

Trading portfolio assets are largely funded by repurchase agreements. The majority of reverse repurchase agreements (i.e. secured lending) are matched by repurchase agreements. The remainder of reverse repurchase agreements are used to settle trading portfolio liabilities.

Derivative assets and liabilities are largely matched. A substantial proportion of balance sheet derivative positions qualify for counterparty netting and the remaining portions are largely offset once netted against cash collateral received and paid.

The liquidity pool is largely funded by wholesale debt maturing in less than one year, with a significant portion maturing in more than one year.

Other unencumbered assets (mainly being available for sale investments, trading portfolio assets and loans and advances to banks) are largely matched by wholesale debt maturing over an average of 5 years and equity.

Repurchase agreements and other secured funding are largely collateralised by government issued bonds and other highly liquid securities. The percentage of secured funding using each asset class as collateral is set out below:

Secured Funding by Asset Class	Govt	Agency	MBS	ABS	Corporate	Equity	Other
The Group	%	%	%	%	%	%	%
As at 31 December 2011	**66**	**6**	**9**	**3**	**7**	**7**	**2**
As at 31 December 2010	64	7	9	3	7	7	3

Notes
a Excludes balances relating to the Absa Group, which are managed separately due to local currency and funding requirements.
b Predominantly unencumbered available for sale investments, trading portfolio assets, financial assets designated at fair value and loans and advances to banks funded by greater than one year wholesale debt and equity.

Due to the high quality of collateral provided against secured sources of funds, the liquidity risk associated with these liabilities is significantly lower than unsecured wholesale funds. Nonetheless, Barclays manages a range of secured mismatch limits to limit refinancing risk under a severe stress scenario and a portion of the Group's liquidity pool is held against stress outflows on these positions.

Composition of Wholesale Funding[a] (audited)

The Group maintains access to a variety of sources of wholesale funds in USD, EUR and GDP, including those available from money markets, repo markets and from term investors, across a variety of distribution channels and geographies. Barclays are an active participant in money markets, have direct access to US, European and Asian capital markets through our global investment banking operations and long-term investors through our global client base. As a result, wholesale funding is well diversified by product, maturity, geography and major currency.

Maturity of Wholesale Funding The Group (audited)	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than three years	Over three years	Total
As at 31 December 2011	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Deposits from Banks	34.1	0.9	0.9	35.9	0.3	1.7	37.9
CDs and CP	35.0	7.5	4.0	46.5	1.9	1.0	49.4
ABCP	8.9	0.2	-	9.1	-	-	9.1
Senior unsecured MTNs (Public benchmark)	4.7	0.1	2.5	7.3	11.1	14.6	33.0
Senior unsecured MTNs (Privately placed)	3.1	1.6	3.4	8.1	6.5	11.7	26.3
Senior unsecured structured notes	3.2	2.1	3.9	9.2	12.4	28.0	49.6
Covered bonds/ABS	0.3	2.5	0.8	3.6	6.3	14.2	24.1
Subordinated liabilities	-	-	-	-	0.8	23.0	23.8
Other[b]	7.7	1.5	1.4	10.6	1.4	-	12.0
Total	**97.0**	**16.4**	**16.9**	**130.3**	**40.7**	**94.2**	**265.2**
of which secured	**10.9**	**3.9**	**2.1**	**16.9**	**6.9**	**14.9**	**38.7**
of which unsecured	**86.1**	**12.5**	**14.8**	**113.4**	**33.8**	**79.3**	**226.5**

The maturity of wholesale funding table includes £27bn of term financing maturing in 2012[c].

The liquidity risk is carefully managed primarily through the LRA stress tests, against which the liquidity pool is held. Although not a requirement, as at 31 December 2011, the liquidity pool was equivalent to more than one year of wholesale debt maturities.

Excluding wholesale funding of the liquidity pool, the average maturity of wholesale funding was at least 58 months.

Term financing (audited)

As outlined above, The Group has £27bn of term debt maturing in 2012 and a further £16bn maturing in 2013.

The Group continues to attract deposits in unsecured money markets and to raise additional secured and unsecured term funding in a variety of markets. During 2011, The Group issued approximately £30bn of term funding, comprising:

- £3.8bn equivalent of public benchmark senior unsecured medium term notes;
- £5.0bn equivalent of privately placed senior unsecured medium term notes;
- £10.1bn equivalent of senior unsecured structured notes;
- £10.3bn equivalent of public covered bonds/ABS; and
- £1.0bn equivalent of public subordinated debt.

This term funding raised during 2011 re-financed all wholesale term debt maturing in 2011, funded strategic balance sheet growth and further strengthened The Group's term liquidity position. In January 2012 £5bn of funding was raised.

Notes

a The composition of wholesale funds is reconciled to the balance sheet reported Deposits from Banks (excluding cash collateral and settlement balances), Financial liabilities at Fair Value and Debt Securities in Issue split by product and Subordinated Liabilities, in all cases excluding Absa Group balances.

b Primarily comprised of Fair Value Deposits and secured financing of physical gold.

c Term funding maturities are maturities of senior unsecured MTNs, structured notes, covered bonds/ABS and subordinated debt where the original maturity of the instrument was more than 1 year. In addition, as at 31 December 2011, £1.2bn of these instruments were not term financing as they had an original maturity of less than 1 year.

Risk management

Funding risk - Liquidity

All disclosures in this section are unaudited unless otherwise stated

Currency composition of wholesale debt:

The Group As at 31 December 2011	USD %	EUR %	GBP %	Other %
Deposits from Banks	**36**	**27**	**27**	**10**
CDs and CP	**59**	**25**	**15**	**1**
ABCP	**85**	**8**	**7**	**-**
Senior unsecured MTNs	**26**	**40**	**13**	**21**
Structured Notes	**35**	**21**	**22**	**22**
Covered bonds/ABS	**31**	**29**	**39**	**1**
Subordinated Debt	**16**	**52**	**32**	**-**
Wholesale debt	**37**	**30**	**22**	**11**
Currency composition of Liquidity Pool	**27**	**42**	**17**	**14**

To manage cross-currency refinancing risk Barclays manages to FX cash-flow limits, which limit risk at specific maturities. The Group's liquidity pool is also well diversified by major currency and the Group monitors the three LRA stress scenarios for major currencies

Secured funding against Customer Loans and advances

Barclays issues asset backed securities (ABS) and covered bonds that are secured primarily over customer loans and advances. As of 31 December 2011 10% of customer loans and advances were used to secure external sources of funds. This was comprised of external issuances of ABS and covered bonds and repo financing.

The Group currently manages three primary on balance sheet asset backed funding programmes to obtain term financing. The UK regulated covered bond and the residential mortgage master trust securitisation programmes both utilise assets originated by the Group's UK residential mortgage business. The third programme is a credit card master trust securitisation and uses receivables from the Group's UK credit card business. The programmes utilise true sale mechanics to transfer the title of the mortgage loan assets or, as applicable, current and future credit card receivables from Barclays Bank (BBPLC) to insolvency remote special purpose vehicles.

All programmes initially transfer the respective assets by way of a beneficial transfer of the assets. However, should there be a 'perfection' event (including, amongst other things, the insolvency of BBPLC or BBPLC not maintaining the appropriate credit rating required by the relevant rating agency), then legal transfer of the assets would occur.

External Funding Secured against Customer Loans and Advances The Group As at 31 December 2011	£bn
Externally issued ABS	**17,090**
Externally issued covered bonds	**13,791**
Repo financing	**12,563**
Total	**43,444**
Balance sheet loans and advances to customers	**431,934**
Group loans and advances used to secure external funding	**10%**

As at 31 December 2011, Barclays has an additional £16bn loans and advances within its asset funding programmes vehicles that can readily be used to raise additional secured funding and available to support future issuance.

Credit Ratings

In addition to monitoring and managing key metrics related to the financial strength of Barclays, we also subscribe to independent credit rating agency reviews by Standard & Poor's, Moody's and Fitch. These ratings assess the credit worthiness of Barclays and are based on reviews of a broad range of business and financial attributes including risk management processes and procedures, capital strength, earnings, funding, liquidity, accounting and governance.

A credit rating downgrade could result in contractual outflows to meet collateral requirements on existing contracts. Outflows related to a multiple-notch credit rating downgrade are included in the LRA stress scenarios and a portion of the Liquidity Pool is held against this risk. Credit ratings downgrades could also result in increased costs or reduced capacity to raise funding.

Credit Ratings	Standard & Poor's	Moody's	Fitch
Barclays PLC			
Long Term	A(Stable)	A1	A(Stable)
Short Term	A-1	P-1	F1
Bank Financial Strength Rating	N/A	N/A	N/A
Barclays Bank PLC			
Long Term	A+(Stable)	Aa3	A(Stable)
Short Term	A-1	P-1	F1
Bank Financial Strength Rating	N/A	C(Stable)	N/A

Contractual maturity of financial assets and liabilities (audited)

Details of contractual maturities for assets and liabilities form an important source of information for the management of liquidity risk. Such information is used (amongst other things) as the basis for modelling a behavioural balance sheet, for input into the liquidity framework, as discussed above.

The table below provides detail on the contractual maturity of all financial instruments and other assets and liabilities. Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included in the on demand column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity since they are not held for settlement according to such maturity and will frequently be settled before contractual maturity at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have been included in other assets and other liabilities as the Group is not exposed to liquidity risk arising from them; any request for funds from creditors would be met by simultaneously liquidating or transferring the related investment.

Risk management

Funding risk - Liquidity

All disclosures in this section are unaudited unless otherwise stated

Contractual maturity of financial assets and liabilities (audited)

As at 31 December 2011 The Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets									
Cash and balances at central banks	58,317	48,577	-	-	-	-	-	-	106,894
Items in the course of collection from other banks	1,188	624	-	-	-	-	-	-	1,812
Trading portfolio assets	152,183	-	-	-	-	-	-	-	152,183
Financial assets designated at fair value	802	4,257	1,046	1,725	4,252	1,915	2,532	19,118	35,647
Derivative financial instruments	535,306	122	109	188	417	1,036	904	882	538,964
Loans and advances to banks	6,048	35,238	2,022	817	1,559	373	322	413	46,792
Loans and advances to customers	37,747	79,949	8,107	16,561	52,827	52,414	61,754	122,575	431,934
Reverse repurchase agreements and other similar secured lending	24	141,751	7,674	3,423	401	101	133	158	153,665
Available for sale financial investments	363	10,504	4,833	4,079	14,516	10,212	12,489	12,027	69,023
Other financial assets	-	1,978	-	-	640	-	-	-	2,618
Total financial assets	**791,978**	**323,000**	**23,791**	**26,793**	**74,612**	**66,051**	**78,134**	**155,173**	**1,539,532**
Other assets									**23,870**
Total assets									**1,563,402**
Liabilities									
Deposits from banks	7,866	79,507	880	896	416	1,218	333	-	91,116
Items in the course of collection due to other banks	965	4	-	-	-	-	-	-	969
Customer accounts	213,935	119,016	8,838	11,568	7,343	1,839	2,206	1,300	366,045
Repurchase agreements and other similar secured borrowing	23	196,066	9,356	1,554	125	130	36	2	207,292
Trading portfolio liabilities	45,887	-	-	-	-	-	-	-	45,887
Financial liabilities designated at fair value	1,525	11,743	4,033	11,077	19,826	16,283	11,511	10,318	86,316
Derivative financial instruments	524,439	345	146	44	577	564	592	1,091	527,798
Debt securities in issue	75	52,189	13,084	7,803	22,442	15,133	13,235	5,775	129,736
Subordinated liabilities	-	78	-	115	1,231	365	13,403	9,678	24,870
Other financial liabilities	-	3,641	-	-	1,594	-	-	-	5,235
Total financial liabilities	**794,715**	**462,589**	**36,337**	**33,057**	**53,554**	**35,532**	**41,316**	**28,164**	**1,485,264**
Other liabilities									**12,968**
Total liabilities									**1,498,232**
Cumulative liquidity gap	**(2,737)**	**(142,326)**	**(154,872)**	**(161,136)**	**(140,078)**	**(109,559)**	**(72,741)**	**54,268**	**65,170**

Contractual maturity of financial assets and liabilities (audited) At 31 December 2011 The Bank	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets									
Cash and balances at central banks	**54,551**	**48,536**	-	-	-	-	-	-	**103,087**
Items in the course of collection from other banks	**1,184**	**450**	-	-	-	-	-	-	**1,634**
Trading portfolio assets	**85,048**	-	-	-	-	-	-	-	**85,048**
Financial assets designated at fair value	**105**	**5,288**	**2,517**	**3,001**	**7,202**	**5,211**	**2,724**	**18,504**	**44,552**
Derivative financial instruments	**543,570**	**67**	**23**	**23**	**417**	**1,036**	**904**	**881**	**546,921**
Loans and advances to banks	**5,223**	**28,347**	**2,675**	**5,262**	**4,213**	**3,847**	**2,033**	**687**	**52,287**
Loans and advances to customers	**43,576**	**221,733**	**6,120**	**16,001**	**43,281**	**43,463**	**48,191**	**95,415**	**517,780**
Reverse repurchase agreements and other similar secured lending	**277**	**150,572**	**6,479**	**3,315**	**401**	**101**	**133**	**158**	**161,436**
Available for sale financial investments	**1**	**2,371**	**2,443**	**2,957**	**10,890**	**8,826**	**11,273**	**9,218**	**47,979**
Other financial assets	-	**1,020**	-	-	**150**	-	-	-	**1,170**
Total financial assets	**733,535**	**458,384**	**20,257**	**30,559**	**66,554**	**62,484**	**65,258**	**124,863**	**1,561,894**
Other assets									**40,709**
Total assets									**1,602,603**
Liabilities									
Deposits from banks	**27,316**	**76,243**	**1,153**	**1,351**	**1,232**	**1,015**	**493**	**13**	**108,816**
Items in the course of collection due to other banks	**962**	**4**	-	-	-	-	-	-	**966**
Customer accounts	**194,869**	**211,769**	**6,537**	**15,259**	**13,020**	**5,537**	**3,871**	**3,660**	**454,522**
Repurchase agreements and other similar secured borrowing	**3**	**186,395**	**5,210**	**1,554**	**125**	**130**	**36**	-	**193,453**
Trading portfolio liabilities	**28,632**	-	-	-	-	-	-	-	**28,632**
Financial liabilities designated at fair value	**1,104**	**12,782**	**5,848**	**12,902**	**25,808**	**19,711**	**12,581**	**10,333**	**101,069**
Derivative financial instruments	**532,648**	**334**	**38**	**44**	**559**	**549**	**570**	**1,095**	**535,837**
Debt securities in issue	**18**	**32,157**	**8,590**	**3,671**	**14,362**	**10,847**	**11,691**	**2,603**	**83,939**
Subordinated liabilities	-	-	-	-	**764**	**166**	**13,386**	**12,448**	**26,764**
Other financial liabilities	-	**12,973**	-	-	**232**	-	-	-	**13,205**
Total financial liabilities	**785,552**	**532,657**	**27,376**	**34,781**	**56,102**	**37,955**	**42,628**	**30,152**	**1,547,203**
Other liabilities									**4,641**
Total liabilities									**1,551,844**
Cumulative liquidity gap	**(52,017)**	**(126,290)**	**(133,409)**	**(137,631)**	**(127,179)**	**(102,650)**	**(80,020)**	**14,691**	**50,759**

Risk management

Funding risk - Liquidity

All disclosures in this section are unaudited unless otherwise stated

Contractual maturity of financial assets and liabilities (audited)

As at 31 December 2010 The Group	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets									
Cash and balances at central banks	96,842	788	-	-	-	-	-	-	97,630
Items in the course of collection from other banks	1,168	216	-	-	-	-	-	-	1,384
Trading portfolio assets	168,930	-	-	-	-	-	-	-	168,930
Financial assets designated at fair value	789	5,678	1,110	2,773	7,411	3,745	2,461	16,089	40,056
Derivative financial instruments	418,587	114	20	96	488	444	396	174	420,319
Loans and advances to banks	5,698	26,462	1,858	946	2,260	5	111	459	37,799
Loans and advances to customers	48,222	60,908	9,553	16,079	53,374	44,324	65,809	129,673	427,942
Reverse repurchase agreements and other similar secured lending	114	192,423	7,366	5,089	390	124	238	28	205,772
Available for sale financial investments	297	7,589	2,979	5,851	15,053	10,007	12,127	11,537	65,440
Other financial assets	-	2,040	-	-	784	-	-	-	2,824
Total financial assets	740,647	296,218	22,886	30,834	79,760	58,649	81,142	157,960	1,468,096
Other assets									21,942
Total assets									1,490,038
Liabilities									
Deposits from banks	5,754	65,755	2,161	2,247	739	790	249	280	77,975
Items in the course of collection due to other banks	1,312	9	-	-	-	-	-	-	1,321
Customer accounts	230,895	77,607	13,958	11,423	5,211	3,539	2,263	906	345,802
Repurchase agreements and other similar secured borrowing	907	216,454	4,358	2,755	739	256	59	6	225,534
Trading portfolio liabilities	72,693	-	-	-	-	-	-	-	72,693
Financial liabilities designated at fair value	1,237	17,866	6,191	6,963	21,453	18,446	13,553	10,073	95,782
Derivative financial instruments	403,163	303	72	101	390	927	286	274	405,516
Debt securities in issue	17	50,735	17,982	33,172	23,130	13,032	12,028	6,527	156,623
Subordinated liabilities	-	835	-	218	2,094	475	9,499	15,378	28,499
Other financial liabilities	-	4,295	-	-	990	-	-	-	5,285
Total financial liabilities	715,978	433,859	44,722	56,879	54,746	37,465	37,937	33,444	1,415,030
Other liabilities									12,367
Total liabilities									1,427,397
Cumulative liquidity gap	24,669	(112,972)	(134,808)	(160,853)	(135,839)	(114,655)	(71,450)	53,066	62,641

Contractual maturity of financial assets and liabilities (audited)

As at 31 December 2010 The Bank	On demand £m	Not more than three months £m	Over three months but not more than six months £m	Over six months but not more than one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years £m	Total £m
Assets									
Cash and balances at central banks	92,041	645	-	-	-	-	-	-	92,686
Items in the course of collection from other banks	1,165	103	-	-	-	-	-	-	1,268
Trading portfolio assets	95,034	-	-	-	-	-	-	-	95,034
Financial assets designated at fair value	77	3,496	346	1,824	4,202	1,991	2,295	14,950	29,181
Derivative financial instruments	439,278	108	12	61	286	293	344	763	441,145
Loans and advances to banks	5,303	20,929	1,900	3,978	5,274	134	1,933	939	40,390
Loans and advances to customers	51,708	230,225	5,774	12,711	39,694	35,288	53,752	93,784	522,936
Reverse repurchase agreements and other similar secured lending	531	210,915	6,671	4,085	390	401	238	4,112	227,343
Available for sale financial investments	7	3,750	1,289	2,003	10,338	7,616	12,141	8,077	45,221
Other financial assets	-	1,263	-	-	241	-	-	-	1,504
Total financial assets	685,144	471,434	15,992	24,662	60,425	45,723	70,703	122,625	1,496,708
Other assets									39,582
Total assets									1,536,290
Liabilities									
Deposits from banks	23,008	67,112	2,311	2,418	1,348	637	250	442	97,526
Items in the course of collection due to other banks	1,261	9	-	-	-	-	-	-	1,270
Customer accounts	182,057	223,697	19,040	8,741	9,374	5,313	4,346	1,258	453,826
Repurchase agreements and other similar secured borrowing	884	205,814	5,326	1,123	739	256	59	6	214,207
Trading portfolio liabilities	44,352	-	-	-	-	-	-	-	44,352
Financial liabilities designated at fair value	1,225	17,463	6,771	7,124	22,293	18,920	13,705	9,541	97,042
Derivative financial instruments	423,980	303	72	82	345	903	286	272	426,243
Debt securities in issue	-	29,045	13,097	27,541	12,971	10,073	10,782	2,758	106,267
Subordinated liabilities	-	833	-	218	760	155	9,499	15,529	26,994
Other financial liabilities	-	14,926	-	-	291	-	-	-	15,217
Total financial liabilities	676,767	559,202	46,617	47,247	48,121	36,257	38,927	29,806	1,482,944
Other liabilities									3,301
Total liabilities									1,486,245
Cumulative liquidity gap	8,377	(79,391)	(110,016)	(132,601)	(120,297)	(110,831)	(79,055)	13,764	50,045

Risk management

Funding risk - Liquidity

All disclosures in this section are unaudited unless otherwise stated

Expected maturity dates do not differ significantly from the contract dates, except for:

- Trading portfolio assets and liabilities and derivative financial instruments, which may not be held to maturity as part of the Group's trading strategies. For these instruments, which are mostly held by Barclays Capital, liquidity and repricing risk is managed through the Daily Value at Risk (DVaR) methodology;
- Retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the Group's operations and liquidity needs because of the broad base of customers – both numerically and by depositor type; and
- Financial assets designated at fair value held in respect of linked liabilities, which are managed with the associated liabilities.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by The Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values); whereas The Group manages the inherent liquidity risk based on discounted expected cash inflows.

The balances in the above table do not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

Derivative financial instruments held for trading and trading portfolio liabilities are included in the on demand column at their fair value.

Financial liabilities designated at fair value in respect of linked liabilities under investment contracts have been excluded from this analysis as The Group is not exposed to liquidity risk arising from them.

Contractual maturity of financial liabilities - undiscounted (audited)	On demand	Within one year	Over one year but not more than five years	Over five years	Total
At 31 December 2011	£m	£m	£m	£m	£m
The Group					
Deposits from banks	7,866	81,308	1,651	409	91,234
Items in the course of collection due to other banks	965	4	-	-	969
Customer accounts	213,935	139,620	9,417	5,659	368,631
Reverse repurchase agreements and other similar secured lending	23	207,000	257	41	207,321
Trading portfolio liabilities	45,887	-	-	-	45,887
Financial liabilities designated at fair value	1,525	28,147	39,458	30,744	99,874
Derivative financial instruments	524,439	828	1,512	2,333	529,112
Debt securities in issue	75	74,952	40,983	21,754	137,764
Subordinated liabilities	-	1,003	4,456	27,583	33,042
Other financial liabilities	-	3,641	1,594	-	5,235
Total financial liabilities	794,715	536,503	99,328	88,523	1,519,069
Off-balance sheet items					
Loan commitments	223,622	12,071	3,549	1,126	240,368
Other commitments	364	793	198	6	1,361
Total off-balance sheet items	223,986	12,864	3,747	1,132	241,729
Total financial liabilities and off-balance sheet items	1,018,701	549,367	103,075	89,655	1,760,798
The Bank					
Deposits from banks	27,316	78,777	2,269	583	108,945
Items in the course of collection due to other banks	962	4	-	-	966
Customer accounts	194,869	234,091	19,311	8,479	456,750
Reverse repurchase agreements and other similar secured lending	3	193,182	257	38	193,480
Trading portfolio liabilities	28,632	-	-	-	28,632
Financial liabilities designated at fair value	1,104	32,849	49,182	32,453	115,588
Derivative financial instruments	532,648	705	1,462	2,325	537,140
Debt securities in issue	18	45,697	28,034	15,559	89,308
Subordinated liabilities	-	875	4,163	29,464	34,502
Other financial liabilities	-	12,973	232	-	13,205
Total financial liabilities	785,552	599,153	104,910	88,901	1,578,516
Off-balance sheet items					
Loan commitments	179,028	10,955	2,867	388	193,238
Other commitments	219	720	167	–	1,106
Total off-balance sheet items	179,247	11,675	3,034	388	194,344
Total financial liabilities and off-balance sheet items	964,799	610,828	107,944	89,289	1,772,860

Risk management
Funding risk - Liquidity
All disclosures in this section are unaudited unless otherwise stated

Contractual maturity of financial liabilities - undiscounted (audited)					
	On demand	Within one year	Over one year but not more than five years	Over five years	Total
As at 31 December 2010	£m	£m	£m	£m	£m
The Group					
Deposits from banks	5,754	70,197	1,636	613	78,200
Items in the course of collection due to other banks	1,312	9	-	-	1,321
Customer accounts	230,895	103,119	9,169	3,446	346,629
Repurchase agreements and other similar secured borrowing	907	223,589	1,099	71	225,666
Trading portfolio liabilities	72,693	-	-	-	72,693
Financial liabilities designated at fair value	1,237	32,408	45,573	34,745	113,963
Derivative financial instruments	403,163	509	1,478	1,131	406,281
Debt securities in issue	17	103,437	39,519	26,304	169,277
Subordinated liabilities	-	1,934	5,645	26,785	34,364
Other financial liabilities	-	4,295	990	-	5,285
Total financial liabilities	715,978	539,497	105,109	93,095	1,453,679
Off-balance sheet items					
Loan commitments	188,958	17,755	5,912	10,416	223,041
Other commitments	227	806	183	-	1,216
Total off-balance sheet items	189,185	18,561	6,095	10,416	224,257
Total financial liabilities and off-balance sheet items	905,163	558,058	111,204	103,511	1,677,936
The Bank					
Deposits from banks	23,008	71,893	2,114	766	97,781
Items in the course of collection due to other banks	1,261	9	-	-	1,270
Customer accounts	182,057	251,514	15,060	6,064	454,695
Repurchase agreements and other similar secured borrowing	884	212,285	1,099	71	214,339
Trading portfolio liabilities	44,352	-	-	-	44,352
Financial liabilities designated at fair value	1,225	32,831	46,971	34,504	115,531
Derivative financial instruments	423,980	488	1,437	1,117	427,022
Debt securities in issue	-	71,119	26,429	19,364	116,912
Subordinated liabilities	-	1,932	4,008	26,918	32,858
Other financial liabilities	-	14,926	291	-	15,217
Total financial liabilities	676,767	656,997	97,409	88,804	1,519,977
Off-balance sheet items					
Loan commitments	160,266	11,650	2,129	227	174,272
Other commitments	156	599	169	-	924
Total off-balance sheet items	160,422	12,249	2,298	227	175,196
Total financial liabilities and off-balance sheet items	837,189	669,246	99,707	89,031	1,695,173

Risk management

Supervision and regulation

All disclosures in this section are unaudited unless otherwise stated

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

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

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

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

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

The Financial Services Act 2010, among other things, requires the FSA to make rules about remuneration and to require regulated firms to have a remuneration policy that is consistent with both effective risk management and the standards issued by the Financial Stability Board. The FSA is mandated to make rules that require authorised firms (or a subset of authorised firms) to draw up recovery and resolution plans and to consult with the Treasury and the Bank of England on the adequacy of firms' plans. This Act also allows the FSA to make rules requiring firms to operate a collective consumer redress scheme to deal with cases of widespread failure by regulated firms to meet regulatory requirements that may have created consumer detriment.

Banks, insurance companies and other financial institutions in the UK are subject to a single financial services compensation scheme (the Financial Services Compensation Scheme – FSCS) which operates when an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of Barclays Bank PLC within the European Economic Area (EEA) which are denominated in Sterling or other currencies are covered by the FSCS. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state. The FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group's results. Further details can be found in Note 26 on page 162.

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

Regulation in the UK is considerably shaped and influenced by EU directives and regulations. These provide the structure of the European Single Market, an important feature of which is the framework for the regulation of authorised firms. This framework is designed to enable a credit institution or investment firm authorised in one EU member state to conduct banking or investment business through the establishment of

Risk management

Supervision and regulation

All disclosures in this section are unaudited unless otherwise stated

branches or by the provision of services on a cross-border basis in other member states without the need for local authorisation. Barclays operations in Europe are authorised and regulated by a combination of both home (the FSA) and host regulators.

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

In the United States, Barclays PLC, Barclays Bank PLC and Barclays US banking subsidiaries are subject to a comprehensive regulatory structure involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended (BHC Act), the Foreign Bank Supervision Enhancement Act of 1991, the Financial Services Modernization Act of 1999, the USA PATRIOT Act of 2001 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Such laws cover the activities of Barclays, including its US banking subsidiaries and the Bank's US branches, as well as prudential restrictions, such as limits on extensions of credit by the Bank's US branches and the US banking subsidiaries to affiliates. The New York and Florida branches of Barclays Bank PLC are subject to extensive federal and state supervision and regulation by the FRB and the New York and Florida banking supervisors. Barclays Bank Delaware, a Delaware chartered commercial bank, is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC), the Delaware State Bank Commissioner and the Bureau of Consumer Financial Protection. Only the deposits of Barclays Bank Delaware are insured by the FDIC. Barclays Wealth Trustees (US) NA is an uninsured non-depository trust company chartered and supervised by the OCC.

Barclays PLC and Barclays Bank PLC are bank holding companies registered with the FRB, which exercises umbrella authority over Barclays US operations. Barclays PLC and Barclays Bank PLC have each elected to be treated as a financial holding company under the BHC Act. Financial holding companies may engage in a broader range of financial and related activities than are permitted to registered bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. Financial holding companies such as Barclays PLC and Barclays Bank PLC are required to meet or exceed certain capital ratios and be deemed to be 'well managed,' and Barclays Bank Delaware and Barclays Wealth Trustees (US) NA are each required to meet certain capital requirements, be deemed to be 'well managed' and must have at least a 'satisfactory' rating under the Community Reinvestment Act of 1977 (CRA). Entities ceasing to meet any of these requirements, are allotted a period of time in which to restore capital levels or the management or CRA rating. If the capital level or rating is not restored, the Group may be required by the FRB to cease certain activities in the United States.

Barclays US securities broker/dealer, investment advisory and Investment banking operations are subject to ongoing supervision and regulation by the SEC, the Financial Industry Regulatory Authority (FINRA), the CFTC and other government agencies and self-regulatory organisations (SROs) as part of a comprehensive scheme of regulation of all aspects of the securities and commodities business under the US federal and state securities laws. Similarly, Barclays US commodity futures and options-related operations are subject to ongoing supervision and regulation by the CTFC, the National Futures Association and other SROs.

The credit card-related activities of the Group in the US are subject to the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (Credit CARD Act) which was enacted by Congress in May 2009 to prohibit certain credit card pricing and marketing practices for consumer credit card accounts. Among the numerous provisions, which came into effect at various times through October 2011, are those that prohibit increasing rates on existing balances and over limit fees in most instances, restrict increasing fees and rates prospectively, restrict what penalty fees can be assessed, regulate how payments are to be allocated to different balances and how the billing process is to work, and revises all communications to cardholders.

Regulatory Developments

The financial crisis has generated regulatory change that, is having and will continue to have a substantial impact on all financial institutions, including the Group. While some of the broad lines of change and some of the impacts of these changes are becoming clearer, a significant amount remains to be determined. Regulatory change is being pursued at a number of levels, globally notably through the G20, Financial Stability Board (FSB) and BCBS, regionally through the European Union and nationally, especially in the UK and US. It is of importance to the Group and to the banking industry generally that the various bodies work harmoniously and that a globally consistent approach is taken to banking regulation. Increased prudential requirements and changes to what is defined to constitute capital may affect the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. Similarly, increased requirements in relation to capital markets activities and to market conduct requirements may affect the Group's planned activities and could increase costs and thereby contribute to adverse impacts on the Group's earnings.

Global

The programme of reform of the global regulatory framework that was agreed by G20 Heads of Government in April 2009 has continued to advance substantially during 2011.

The FSB has been designated by the G20 as the body responsible for co-ordinating the delivery of the global reform programme. It has focused particularly on the risks posed by systemically important financial institutions (SIFI). At the Cannes summit in November 2011, G20 Heads of Government adopted FSB proposals for a programme to reform the regulation of globally systematically important financial institutions (G-SIFIs). A key element of this programme is that systemic institutions, including G-SIFIs should be capable of being resolved without recourse to taxpayer support. Barclays has been designated a G-SIFI by the FSB. G-SIFIs will be subject to:

– A new international standard for national resolution regimes. Among other things, this seeks to give resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator-determined point of non-viability that may precede insolvency;

- Requirements for resolvability assessments and for recovery and resolution planning;
- Requirements for banks determined to be globally systemically important to have additional loss absorption capacity above that required by Basel 3 standards (see below). These surcharges have been tailored to the impact of the default of the G-SIFI using a methodology developed in 2011 by the BCBS. The surcharges rise in increments from 1% to 2.5% of risk-weighted assets (with an empty bucket of 3.5% to discourage institutions from developing their business in a way that heightens their systemic nature). This additional buffer must be met with common equity; and
- More intensive supervision, including through stronger supervisory mandates, resources and powers, and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls.

G-SIFIs will be subject to enhanced supervision and a comprehensive crisis management framework within supervisory colleges. The concept of bail-in may affect the rights of senior unsecured creditors subject to any bail-in in the event of a resolution of a failing bank.

G-SIFIs will need to meet the resolution planning requirements by the end of 2012. The additional loss absorbency requirements will initially apply to those banks identified in November 2014 as globally systemically important. The loss absorbency requirements will be phased in starting in January 2016 with full implementation by January 2019. G-SIFIs must also meet the higher supervisory expectations for data aggregation capabilities by January 2016.

The BCBS issued the final guidelines on Basel 3 capital and liquidity standards in December 2010. It has continued to refine elements of this package, notably in relation to counterparty credit risk where revisions were made in July and November 2011. The requirements of Basel 3 will be applicable from 1 January 2013 with a number of transitional provisions that run to the end of 2018.

The BCBS also maintains a number of active work streams that will affect the Group. These include a fundamental review of the trading book whose results are expected to be published in 2012. The BCBS is also understood to be examining a regime for large exposures. These developments may further increase the capital required by the Group to transact affected business and/or affect the ability of the Group to undertake certain transactions.

European Union

The EU has amended its regulatory structure as part of its response to the financial crisis. On 1 January 2011, a number of new bodies came into being, including a European Systemic Risk Board to monitor the financial system and advise on macro-prudential actions and a European Banking Authority charged with the development of a single rulebook for banks in the EU and with enhancing co-operation between national supervisory authorities, especially in the context of the supervision of banks that operate across borders within the EU. A European Securities Markets Authority has a similar role in relation to the capital markets and to banks and other firms doing investment and capital markets business. The European Banking Authority and the European Securities Markets Authority each have the power to mediate between and override national authorities under certain circumstances. National authorities, however, remain responsible for the day-to-day supervision of financial institutions.

Basel 3 will be implemented in the EU by amendment to the Capital Requirements Directive (CRD). Formal proposals to amend the CRD were adopted by the European Commission in July 2011. These take the form of a regulation and a directive which are currently going through the EU legislative process. Much of the detailed implementation is expected to be done through binding technical standards to be adopted by the European Banking Authority, that are intended to ensure a harmonised application of rules through the EU but which have yet to be developed. While there may be some differences of detail between CRD 4 and Basel 3, the current expectation is that the overall impact will be similar.

In addition, other amendments are being made to the EU framework of directives, including to the Directive on Deposit Guarantee Schemes. This may affect the amounts to which the Group may be liable to fund the compensation of depositors of failed banks. The proposal also envisages that national schemes should be pre-funded, with a fund to be raised over a number of years. This would be a significant change for UK banks where levies are currently raised as needed after failure. The proposals remain under debate and the financial impact on the Group is not yet clear.

As anticipated, the European Commission has adopted proposals to amend the Markets in Financial Instruments Directive. This will affect many of the investment markets in which the Group operates and the instruments in which it trades, and how it transacts with market counterparties and other customers. These proposals are at a very early stage of their consideration by the EU institutions and the overall impact of them on the Group is not yet clear.

Other EU developments of note include consideration of European arrangements in respect of crisis management and the resolution of financial institutions. The European Commission issued a discussion paper in January 2011 and proposals for legislation which were expected in 2011 are now expected later in 2012. These are likely to include provisions on bail-in within resolution and other matters that may have an impact on the rights of shareholders and creditors of failing institutions. The Commission has also announced in November 2011 the creation of an expert group on the structural aspects of the EU banking sector. The group was due to start work in February 2012 and finish during the course of summer. Its mandate will be to determine whether, in addition to ongoing regulatory reforms, structural reforms of EU banks would strengthen financial stability and improve efficiency and consumer protection, and if that is the case make any relevant proposals as appropriate.

Risk management

Supervision and regulation

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United Kingdom

The Government is reforming the structure of regulation to replace the FSA and the tripartite system that also involved the Bank of England and HM Treasury. This is intended to promote financial stability and to increase the intensity of supervisory scrutiny of the financial sector, including the Group. The Government has tabled a Bill that proposes that a Financial Policy Committee should be established in the Bank of England with responsibility for the monitoring and control of systemic risk, including the deployment of macro-prudential tools of supervision, which, while still to be determined, may include the imposition of additional capital and liquidity buffers and interventions in the terms of transactions in particular markets. Responsibility for prudential regulation will pass to a Prudential Regulation Authority to be established as a subsidiary of the Bank of England, while a Financial Conduct Authority (FCA), as a successor body to the FSA, will be responsible for issues of business and market conduct and market regulation. The FCA will also be the UK listing authority. This process is not expected to be complete before early 2013. In anticipation of the new regulatory structure, an interim Financial Policy Committee has been created and the FSA reorganised itself into separate Prudential and Consumer and Markets business units on 4 April 2011. In April 2012, the two business units will begin to shadow the forthcoming regime and operate as if they were the PRA and FCA to the extent permitted by existing law.

The ICB issued its final report in September 2011. Among other things, the recommendations included that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity ("ring-fencing"); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as Barclays Bank PLC) should be increased to levels higher than the Basel 3 proposals. The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019. The Government will publish a White Paper in late spring 2012 with further details on how the recommendations will be implemented.

The FSA continues to develop and apply its more intrusive and assertive approach to supervision and its policy of credible deterrence in relation to enforcement that has continued to see significant growth in the size of regulatory fines. In anticipation of international agreement, the FSA has established and implemented capital and liquidity requirements that are substantially increased from pre-crisis levels, and has, together with the Bank of England, proceeded to establish Recovery and Resolution Planning requirements. In keeping with the requirements of the FSB, the Group is required to submit a Recovery and Resolution Plan by 30 June 2012. The Retail Distribution Review and the Mortgage Market Review will affect the economics of investment advice and home finance provision respectively. The FSA, following consultation, has also made clear its intention to take a more interventionist approach to the design of financial products and to the governance processes around product design. This approach will be carried through into the FCA when it is established.

United States

The Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) became law in July 2010. The full scale of the DFA's impact on the Group remains unclear because the rules required to implement many of the provisions of DFA have not been implemented and, in some areas, have yet to be proposed by the responsible agencies. In addition, market practices and structures may change in response to the requirements of the DFA in ways that are difficult to predict but that could impact Barclays business. Nonetheless, certain provisions of the DFA are particularly likely to have an effect on the Group, including in the following:

– *Systemic Risk.* The DFA created the Financial Stability Oversight Council (FSOC) and empowered it to make recommendations to the FRB to apply heightened supervisory requirements and prudential standards applicable to "systematically important" entities and activities and to work with all primary financial regulatory agencies to establish regulations, as necessary, to address financial stability concerns. In December 2011, the FRB issued proposed rules that bank holding companies with total consolidated assets of over $50 billion, and other financial companies designated by the FSOC as systemically important, be subject to enhanced prudential standards, including (i) capital requirements and leverage limits, (ii) mandatory stress testing of capital levels, (iii) liquidity requirements, (iv) overall risk management requirements, and (v) concentration and credit exposure limits. However, as drafted, these would not currently affect the Group. Although the relevant sections of DFA apply both to domestic US bank holding companies with total consolidated assets of over $50 billion and non-US banking organisations with US operations that have total consolidated assets of over $50 billion, such as the Group, the FRB has deferred proposing rules to cover such non-US organisations. Instead, the proposed rules would apply only to a subsidiary of a foreign-owned US bank holding company if the subsidiary itself has $50 billion or more in total consolidated assets. The Group's only US-domiciled subsidiary bank holding company, Barclays Delaware Holdings, LLC, has total assets under this threshold. Nonetheless, it is possible that the FRB could propose additional rules that would apply similar enhanced prudential requirements to all non-US banking organisations with US operations that have total consolidated assets of over $50 billion, or to any other non-US banking organisation that the FSOC designates as systemically important. In this regard, it is potentially relevant that in November 2011 Barclays was listed by the FSB as a global systemically important bank. It is not yet clear what regard the FSOC or the other agencies will have to the home country prudential regulators of non-US organisations when considering the imposition of heightened prudential requirements on such organisations pursuant to the DFA.

– *Other Enhanced Prudential Requirements:* In addition to the ability of the FSOC to recommend heightened prudential standards for specific institutions, the DFA, separate and apart from Basel 3, also imposes higher capital, liquidity and leverage requirements on US banks and bank holding companies generally.

– *Restrictions on Proprietary Trading and Fund-Related Activities:* The so-called "Volcker Rule," which will, once effective, significantly restrict the ability of US bank holding companies and their affiliates, and the US branches of foreign banks, to conduct proprietary trading in securities and derivatives as well as certain activities related to hedge funds and private equity funds. In October 2011, US regulators consulted on rules to implement the Volcker Rule. The proposed rules are highly complex and many aspects remain unclear, including the exemption from the proprietary trading and fund-related activity prohibitions for activities conducted by non-US organisations "solely outside the United States." The agencies appeared to construe this exemption very narrowly in the proposed rules. Analysis continues of the proposals, but it is clear that compliance with them would entail significant effort by the Group. Although the Volcker Rule is likely to impose significant additional compliance and operational costs on the Group, the full impact will not be known with certainty until the rules have been finalised. Whilst the Group has identified that its private equity fund, hedge fund and trading operations may be affected by the Volcker Rule, until the final regulations are adopted, the impact on the Group's ability to engage in these activities will be affected continues to remain uncertain. As such, it cannot currently be determined whether the restrictions will have a material effect on the Group. The statutory Volcker Rule provisions are scheduled to take effect in July 2012, regardless of whether the implementing rules have been finalised, and companies will have two years from that time to come into full compliance with them, subject to possible extensions.

– *Resolution Plans:* The DFA requires bank holding companies with total consolidated assets of US$50 billion or more to submit to the FRB and the FDIC, and regularly update, a plan for "rapid and orderly" resolution to be used if the company experiences material financial distress or failure. Non-US banking organisations that are treated as bank holding companies under US law, such as Barclays, are required to submit such plans with respect to their US operations if they have more than US$50 billion in US assets. Barclays US assets exceed US$250 billion, and as a result Barclays is required to submit a resolution plan by 1 July 2012.

– *Regulation of Derivatives Markets:* Among the changes mandated by the DFA are that many types of derivatives now traded in the over-the-counter markets be traded on an exchange or swap execution facility and centrally cleared through a regulated clearing house. In addition, many participants in these markets will be required to register with the CFTC as "swap dealers" or "major swap participants" and/or with the US SEC as "securities swap dealers" or "major securities swap dealers" and be subject to CFTC and SEC regulation and oversight. Barclays Bank PLC and, potentially, one or more of its US subsidiaries may be subjected to these requirements. Entities required to register will also be subject to business conduct, capital, margin, recordkeeping and reporting requirements. In addition, the CFTC, pursuant to the DFA, has adopted rules on position limits on derivatives on physical commodities. It is possible that additional regulation, and the related expenses and requirements, will restrict participation in the derivative markets, thereby increasing the costs of engaging in hedging or other transactions and reducing liquidity and the use of the derivative markets. Barclays Bank PLC and its subsidiaries and affiliates may be exposed to these effects whether or not they are required to register in the capacities described. The new regulation of the derivative markets could adversely affect the business of Barclays Bank PLC and its affiliates in these markets and could make it more difficult and expensive to conduct hedging and trading activities. The DFA also contains a "derivatives push-out" requirement that, as early as 2013, could prevent the Group from conducting certain swaps-related activities in the US branches of Barclays Bank PLC.

– *Risk Retention Requirements for Securitisations:* The US federal banking agencies are required by the DFA to develop rules whereby anyone who organises or initiates an asset-backed security transaction must retain a portion (generally, at least five percent) of any credit risk that the person conveys to a third party. This may impact the participation by the Group's US operations in such transactions.

– *Creation of the Bureau of Consumer Financial Protection (CFPB):* The CFPB is empowered to regulate the credit card industry, including the terms of credit card agreements with consumers, disclosures, and fees. Actions by the CFPB in this area are likely to impact the Group's US credit card business. The CFPB became operational in July 2011, and is soliciting public comment on a model credit card disclosure form and accepting consumer credit card complaints. More broadly, the CFPB has the authority to examine and take enforcement action against any US bank with over US$10 billion in total assets, such as Barclays Bank Delaware, with respect to its compliance with Federal laws regulating the provision of consumer financial services.

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