Siekel, Peter [CMB-GBKG]

From: Clemente, Michele J [CMB-RISK]

Sent: 31 March 2008 17:18

To: Louie, Stanley [CMB-GFICC]; Harjani, Chandru [CMB-GBKG]; Dickey, John W [CMB-GFICC]; White, Christopher K [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Rose-Smith, Alastair [CMB-GBKG]; Reid, James [CMB-GBKG]; Walker, David [CMB-GBKG]; Keat, Deborah [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Siekel, Peter [CMB-GBKG]; Aherne, Peter O [CMB-GFICC]; Ciobanu, Bogdan [CMB-GBKG]; Deese, Derrick [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mcspadden, Jack D [CMB-GBKG]; Drumm, Laura [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]

Cc: Gaboff, Krystyna [CMB-RISK]; Clemente, Michele J [CMB-RISK]; Muir-Leray, Dawn [CMB-RISK]

Subject: ComCom Full Screening scheduled 02-Apr-2008 for BARCLAYS PLC-HEAD OFFICE/PROJECT RIMU

The transaction detailed below has been tentatively scheduled for a Full Screening review by the Global FI Euro Commitment Committee on Wednesday 2 April, 2008 . Please upload a Transaction Summary via CitiVision Workflow as soon as possible, but in all cases at least two days before the meeting. You are also responsible to forward the first section of your presentation directly to Committee Members via EMAIL Public Distribution List (*IB Commitment FI-Global EU) and deliver hard copies of documentation in a sealed envelope to the recipients listed below at least two days before the meeting.

***Hand Deliver To*:** **Committee: Global FI Euro**

Richard TB Trask	*388-37th*		
Rashmini Yogaratnam	*388-37th*	*Raheel Malik*	*London*
Michele Clemente	*388-37th*	*Bruce Duncan*	*London*
Adam Meshel	*388-36th*	*Sree Gopalakrishnan*	*London*
Karen Kirchen	*388-21st*	*Ray Knowles*	*London*
Richard Janiak	*485 Lexington Ave 12th Fl*	**UKCO AML Group*	

NOTE the Members listed below have requested to receive a soft copy of the full presentation.

Alan Patterson	*London*
Eirik Winter	*London*
Francesca Curtin	*London*
Phil Bennett	*London*
Charles Berman	*London*
Carole Bottrell	*London*
Mark Watson	*London*
Kevin John Barry	*London*

Deliver by Interoffice Mail:

Audit Risk & Credit Review - CF *ATTN: Leslyn Rose* *Citigroup* *111 Wall Street/Floor 7* *New York, NY 10016* ***Audit Risk & Credit Review - CF*** *ATTN: James Smith* *Audit and Risk Review* *Maildrop: CGC 28-55,* *Floor 28, Citgroup Centre II* *Canada Square* *Canary Wharf E14 5LB*	***Legal Research*** *ATTN: Larry Irom* *388 Greenwich St. – 29th Floor* *New York, NY 10043*

Dial in #s, conference room, and timing information will be sent to you separately one day prior to

your scheduled presentation.

Issuer name: BARCLAYS PLC-HEAD OFFICE
Project name: PROJECT RIMU
Deal number: 44AA6023

Transaction type: Tier I / Tier II - Perpetual Preferred Stock
Offering Size: 1000.00 (USD million)

Expected launch date: 07-Apr-2008
Submitted by: Peter Siekel

Please log on to Citivision for more details using weblink below.
https://citivision.ny.ssmb.com

Debt Commitment Committee - Transaction Summary - Financial Institutions

Presentation Date:	03-Apr-2008 — Conflict Clearance Date: 17-Mar-2008
Deal Team:	**Fixed Income:** Anastasia Letina, Christopher Kingsley White, Deborah Anne Keat, Derrick Deese, John W Dickey, Laura Drumm, Laura Stephenson, Leo-hendrik Greve, Peter James Mason, Peter O Aherne, Simon Graham Mcgeary, Stanley Louie **TEG:** Alastair Rose Smith, Bogdan Ciobanu, Chandru Harjani, Jack D. Mcspadden, Peter Siekel **GCB:** David Michael Walker, James Reid **Legend:** * = Attended
Approval Type:	Full Screening — Last Screening: N/A — Total Fees (this deal): USD 6-8 million / 3.15%
Issuer:	*Name:* BARCLAYS PLC-HEAD OFFICE *Industry:* Financial Institutions Bank — *Country:* United Kingdom *Description:* Barclays is a UK-based financial services group with a significant international presence, particularly in Europe, the USA and Africa. It is engaged in retail and commercial banking, investment banking and investment management. In addition to servicing retail customers, high net worth individuals and businesses from SME to multinationals, three businesses operate globally providing credit cards, investment banking and risk management and asset management. *AML Rating:* Low *ESRM Category:* N/A
Issuer Rating:	S&P: AA — Moodys: Aa1 — Fitch: AA+

Issue Rating:

Currency:	Size:	Tenor:	S&P:	Moodys:	Fitch:
USD	1,000	Perpetual	A+	Aa3	AA
		OutLook:	TBD	TBD	TBD

Citi Research:

Equity: — *At Meeting?(Y/N):* N — *OTW:* NA

Name: Tom Rayner

Issuer Rating: Sell

Target Stock Price: 4.00 — *Current Stock Price:* 4.53

Recent changes ? N/A

Debt: — *At Meeting(Y/N)?:* N — *OTW:* NA

	Name:	N/A
	Issuer Rating:	N/A
	Recent changes ?	N/A
Transaction:	*Project name (Deal number):*	PROJECT RIMU (44AA6023)
	Transaction type:	Tier I / Tier II - Perpetual Preferred Stock *Size (mm):* 1,000 USD
	Form of underwriting:	Bought deal
	Citi role:	Joint Bookrunner *Non-Citi Bookrunner(s):* Barclays Capital, Merrill Lynch, UBS, Wachovia
	Description:	Retail-Targeted Exchangeable Capital Securities; Subordinated issue ~15% underwriting liability to C and $6-8m fees for $1bn benchmark
	Use of proceeds:	General Corporate Purposes
Key Issues:	Expansion outside of the UK (recent acquisition of the bank in Russia). Barclays currently has one of the European bank sector's lowest "tangible equity / assets" ratios. Whilst regulatory ratio (tier 1 ratio is 7.8%) is at target levels, the capital markets are also looking at a broader range of ratios including leverage based ratios. Barclays has RWA's of £353bn (c.$700bn) and thus may be vulnerable to any sharp increases in impairments and delinquencies if economic conditions worsen (large loan book exposures are to consumer, property and construction).	
Deal Execution:	Marketed to broad retail and to institutional investors globally. Distribution breakdown is expected to be about 85-90% retail (with limited Asian distribution under 5%), 10-15% institutional.	

Key Indicators in US$-millions (proforma):

	Net Income	Assets	Equity	Equity/Assets	Tier-I	NPL
Book:	10,176	2,451,420	64,865	2.65%	7.80%	3.28%
Mkt:	10,176	2,451,420	59,532	2.43%	7.80%	3.28%

Team Comments:	None.
Attendees:	**Legend:** Chair Person in RED, * = Attended
Committee Decision:	
Committee Notes:	

Commitment Committee Final Approval Memorandum

Project name:	Rimu (44AA6023)	**Date of screening:**	3 April 2008
Issuer:	Barclays Bank PLC	**New client:**	N
CIB client classification:	GRB		
Industry:	Financial Institutions	**Country:**	United Kingdom
AML rating:	Low	**Date Compliance gave AML clearance:**	N/A
Transaction:	**Size/Currency:** USD 1 bn	**Type:**	Tier 1 Retail offering
Client Issuing Entity: *(FI and EQ-linked ONLY)*	Barclays PLC		
Commitment Committee:	Global FI Euro		
MD sponsor:	David Walker		

Transaction Team:

Banking:	**Capital Markets:**	**TEG:**	**New Products Group:**	**GCC:**
David Walker	Peter Aherne	Alastair Rose-Smith	John Dickey	Phil Copus
James Reid	Laura Drumm	Peter Siekel	Stanley Louie	
	Derrick Deese	Jack McSpadden	Anastasia Letina	
	Leo-Hendrik Greve	Chandru Harjani	Laura Stephenson	
	Chris White	Bogdan Ciobanu	Deborah Keat	

Transaction Overview

Transaction description:	USD 1 billion Retail-Targeted Exchangeable Capital Securities; Subordinated issue		
Citigroup underwriting entity: *(FI ONLY)*	CGMI		
Citigroup role:	Joint bookrunner		
Form of underwriting:	Bought		
Distribution format:	NYSE listed, SEC Registered		
Non-Citigroup bookrunners:	Barclays Capital, Merrill Lynch, UBS Securities, Wachovia Securities		
Conflict clearance date:**	17 March 2008		
Control Group notification date*:	17/03/2008	**Has transaction been watch listed?**	N
		Date expected to be watch listed?	N/A
Greenshoe:	N/A		
Selling shareholders:	N/A		
Use of proceeds:	General Corporate Purposes		

Research:	*Analyst name:*	Tom Rayner			
	OTW:	N			
	Rating:	3M (Sell/Medium risk)			
	Target stock price:	£4.00 (price as of 27 Mar 2008 was £4.53)			
Issuer Rating:	**S&P**	**Moody's**	**Fitch**	**Local**	
	AA (Negative)	Aa1 (Stable)	AA+ (Negative)	N.R.	
Issue Rating:	**S&P**	**Moody's**	**Fitch**	**Local**	
	A+ (TBD)	Aa3 (TBD)	AA (TBD)	N.R.	
Market Capitalization:		£29,766 million			
Current float:		99%			
Anticipated Announcement / Filing date:		7-April-2008			
Anticipated Offering Date:		7-April-2008			
Anticipate Closing Date:		11-April-2008			
Exchange / Ticker:		LSE / BARC.L			
Latest Un-audited Financials:		N/A			
Latest Audited Financials:		31/12/2007 (Full year 2007)			
Issuer's Counsel:		Clifford Chance LLP (UK); Sullivan & Cromwell LLP (US)			
Underwriter's Counsel:		Linklaters			
Issuer's Auditors:		PriceWaterhouseCoopers			
Settlement basis (DVP / T+?)		DVP/T+3/5			
Deal Economics		*Citigroup share*	*Fees*		
		Depending on distribution	$6-8m fees for $1bn benchmark		
Key covenants:		None.			

Citigroup Equity Research

Company description

Barclays is a UK-based financial services group with a significant international presence, particularly in Europe, the USA and Africa. It is engaged in retail and commercial banking, investment banking and investment management. In addition to servicing retail customers, high net worth individuals and businesses from SMEs to multinationals, three businesses operate globally providing credit cards, investment banking and risk management and asset management.

Investment strategy

We have a Sell/ Medium Risk (3M) rating on Barclays' shares. Barclays full year 2007 results provided more detailed disclosure on a range of financial exposures without suffering further material write-downs. We estimate additional losses of £1.5bn to be taken through the course of 2008. A more pressing issue appears to be the lack of revenue momentum across the group. With Barclays Capital's revenue boosted by a number of 'one-off' items in 2H07, we would expect any further write-downs to represent a big drag on growth. It would also appear unlikely that the same degree of cost control can be maintained with the prospect of further headcount expansion into 2008. With BarCap needing to overcome weaker operating conditions and headwinds apparent in other business lines, we believe Barclays group will struggle to deliver meaningful earnings growth in 2008.

Valuation

With market volatility and liquidity constraints leading to considerable uncertainty on the earnings outlook, we prefer to use a price to book approach rather than earnings-based valuation tools. Based on our revised model we forecast this tangible net asset value at 259p per share in 2008E. We set our target price of 400p in line with the 1.5x book multiple suggested by our assumptions on the return on equity (17.0%), cost of equity (12.0%) and growth rate (2.0%) that the market is likely to discount.

Risks

We rate Barclays as Medium Risk because its exposure to higher risk banking activities, such as derivatives, is offset by its lower risk banking activities such as the UK mortgage market. There are a number of risks which could cause the share to deviate significantly from our target price, including a stronger-than expected performance in fixed income and related capital market activities. A slowdown in the wider UK housing market could reduce demand for mortgages and result in borrowers getting into negative equity. Rising UK interest rates and a deterioration in economic conditions could increase arrears levels in the consumer and corporate businesses. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Citigroup EPS Estimate for Current Year:	64.5p
Citigroup EPS Estimate for Next Year:	65.3p
Date of Last Full Research Report:	20 February 2008
Date of Last Call Note:	N/A
Price at Last Report/Note:	£4.77

Citi is publishing ordinary course research.

Citigroup FI Research

Value Opinion:	N/A
Outlook:	N/A
EBITDA run rate:	N/A
EBITDA/Interest L12 Mos.:	N/A
EBITDA/Interest Curr. Fiscal	N/A
Year:	N/A
Debt/EBITDA L12 Mos.:	N/A
Debt/EBITDA Curr. Fiscal Year:	N/A

Rating Agency Review

Moody's Rating:	Aa1 (Stable)
Standard and Poor's:	AA (Negative)
Fitch:	AA+ (Negative)
Internal: ORR	2 / Current (Stable)

Moody's (23 October 2007)

Summary Rating Rationale

Moody's assigns a bank financial strength rating (BFSR) of B+ to Barclays, which translates into a baseline risk assessment of Aa2. The rating derives from the bank's broad spread of earnings, which are based on its very strong franchise in the UK, diversified business lines and income streams, and its very healthy and sustainable financial fundamentals. While UK retail and business banking accounted for approximately 36% of profits in 2006, other operations including Barclays Capital (BarCap), Barclays Global Investors (BGI), and international businesses now represent a growing proportion of consolidated group revenues.

Moody's continues to believe that the probability of systemic support for Barclays plc is very high, which would -- were the outlook of Barclays BFSR to be stable -- result in a two-notch uplift in the deposit ratings to Aaa from the Aa2 baseline risk assessment. However with the BFSR on negative outlook the rating is at Aa1. Thus, the deposit and debt ratings of Barclays incorporate three main elements: (1) the bank's BFSR of B+; (2) Moody's assessment of a very high probability of support from the UK authorities (a component of joint default analysis, referred to as JDA) and (3) the seniority of its deposits and debt.

Credit Strengths

- Strong positions in all key areas of UK financial markets
- Consistent profitability, driven by intense management focus on value creation
- Growth of international operations adds diversification to UK operations, while execution risk has been well managed
- Solid funding profile and strong liquidity

Credit Challenges

- Profitability of UK retail bank is improving but margin pressures persist
- Vulnerability of credit cards and unsecured lending to a downturn in UK consumer lending market
- Barclays Capital's current focus and risk appetite will be a key to managing the inherent volatility of earnings that these businesses entail
- Managing the cost structure of the bank as a whole

Rating Outlook

The outlook on the long term debt and deposit rating and the short term debt and deposit rating is stable. The negative outlook on the BFSR was initially assigned in April 2007 following the announcement of the proposed merger with ABN AMRO. The negative outlook was maintained after the offer lapsed in October 2007 as the dislocation in the financial markets since July continues to create uncertainty for the performance of all banks which are involved in structured securities and related capital market activities.

Recent Results

Barclays reported a 12% increase in pre-tax profits to GBP4.1 billion for H107 (H106: GBP3.7 billion). UK Banking produced a pre-tax profit of GBP1.4 billion (an increase of 9% on H106), while BarCap delivered record results, with a 33% rise in pre-tax profit to GBP1.7 billion (H106: GBP1.2 billion). Between them, UK Banking and BarCap produced 74% of overall group pre-tax profit. Profit from Barclaycard declined 17% to GBP 272m (H106: GBP 326m) - although excluding a loss on a disposal in H107 and a property gain in H106 Barclaycard pre-tax profits were up 4% - while profit from International Retail and Commercial Banking declined by 12% to GBP452 million (H106: GBP512 million). Elsewhere, profit growth remained strong. BGI reported a 7% rise in pre-tax profit to GBP388 million (H106: GBP364 million), with both income and profit up substantially more in USD terms. Barclays Wealth reported a 34% rise in pre-tax profit to GBP173 million (H106: GBP129 million), reflecting strong income growth from increased client funds and transaction volumes. Loan impairment charges for the Group overall reduced by 9% to GBP959 million for H107 (H106: GBP1.1 billion), despite evidence of increased financial market volatility (notably in the UK and US). Barclays' Tier 1 capital ratio at H107 was unchanged from year-end 2006 at 7.7%.

For detailed rating considerations please refer to the appendix.

S&P (30 January 2008)

Rationale

The ratings on U.K.-based Barclays Bank PLC (Barclays) reflect its strong earnings and returns, good market positions, increased diversification, solid funding base, and highly developed risk-management framework. The ratings also reflect increased earnings volatility and potential for further markdowns in its investment bank; its relatively weak, although improving, capitalization; its significant exposure to U.K. unsecured personal debt; and its large defined-benefit pension scheme.

Barclays has a range of strongly profitable businesses across multiple product lines, including retail banking and business banking in the U.K. and abroad, investment banking, and asset management. Growth has generally been rapid, and until mid-2007 heavily driven by wholesale banking toward which Barclays' business profile has been shifting. Since that time, the investment bank--like many others--has been pressured by markdowns on structured assets and leveraged loans, and we expect this to result in a weaker, but still profitable, second half. Domestic retail growth has been lower than for many banks in recent years, but seems to be responding to various management initiatives.

Diversification, both by business line and geography, has been increasing, and about 50% of group profits now come from outside the U.K. In part, this has come through the organic growth of global product lines including investment banking and asset management, but also through acquisitions, notably in South Africa and Spain. This has helped sustain a good overall performance during difficult recent trading conditions.

Standard & Poor's Ratings Services regards Barclays as having a broad and effective system of risk management with a relatively advanced approach to economic capital, but we judge the group's risk appetite to be high. We consider Barclays' liquidity position to be strong thanks to a large and diversified deposit base, and that Barclays has navigated the recent tight money market conditions well.

Barclays' loan impairment charge in its U.K. unsecured lending and credit card business has leveled off in 2007 following the large increases in previous years, and its mortgage book has a low risk profile. Nevertheless, Barclays remains exposed to further changes in the U.K. economic climate.

We regard Barclays' capitalization as weaker than some similarly rated peers, notwithstanding some recent improvement. Barclays is shareholder focused and has used hybrid capital rather than ordinary shares to fund much of its recent expansion and is now engaged in a share buyback following its 2007 capital injections from Temasek and China Development Bank.

Outlook

The negative outlook on Barclays reflects our view that profitability could come under pressure in 2008 if economic and capital market conditions deteriorate rapidly. This would likely affect the evolution of impairment losses in the commercial banking divisions, with particular regard to real estate lending, and could lead to a sharp upturn in losses on large corporate leveraged lending. Revenues in investment banking may also suffer from further write-downs, reduced private equity realizations, and lower debt issuance activity in such an environment. A negative rating action could follow if profitability declines materially, if there were evidence of a material failure in risk controls, or if Barclays does not meet its capital targets, although we do not currently regard such events as the most likely scenario. The outlook could return to stable if Barclays continues to show resilience though a challenging environment. A positive rating action is considered unlikely in the current environment, and would require a major improvement in capitalization beyond expectations, but a tight capital policy is likely to act as a rating constraint.

Fitch (15 November 2007)

On 15 November 2007 Fitch Ratings affirmed Barclays Bank plc's (Barclays) Long-term Issuer Default rating (IDR) and senior unsecured debt at 'AA+'. At the same time, Fitch has changed the Outlook for the IDR to Negative from Stable. Fitch has also affirmed Barclays' subordinated debt and other preferred and hybrid securities at 'AA', Short-term IDR at 'F1+', Individual rating at 'A/B', Support rating at '1' and Support Rating Floor at 'A- ' (A minus). The Long-term IDR of Barclays' parent, Barclays PLC, has also been affirmed at 'AA+' and its Outlook changed to Negative from Stable. Fitch has affirmed Barclays PLC's Short-term IDR at 'F1+', Support rating at '5' and Support Rating Floor at 'No Floor'.

The rating action follows today's detailed trading update by Barclays PLC in respect of its Barclays Capital unit in the year to end-October 2007 (FY07). Barclays Capital has recorded net write-downs of GBP1.3bn in H207 in respect of ABS CDOs, other US sub-prime loans, SIVs and leveraged finance positions, but still reported record 10M07 earnings of GBP1.9bn.

"The write-downs announced today are substantial but can be absorbed in the context of Barclays' strong cash generation," says James Longsdon, Senior Director in Fitch's Financial Institutions group. "The revision of Barclays' Outlook to Negative reflects our concerns that the continuing expansion of Barclays Capital might expose the group to greater risks and earnings volatility, which could lead to a ratings downgrade."

Barclays is one of the world's largest banks. In the UK it offers a full range of financial services to retail, SME and corporate/wholesale customers. Internationally, it has mainly retail and commercial operations in Europe and Africa. Through Barclays Capital and Barclays Global Investors, Barclays services large corporates, financial institutions and governments around the world.

Fitch (10 October 2007)

Rating Rationale

The ratings of Barclays Bank PLC, the sole subsidiary of Barclays PLC (Barclays), reflect its strong UK franchise, broad business mix, robust profitability, good liquidity and sophisticated risk management.

In March 2007 Barclays announced a bid for ABN AMRO Holding NV (rated 'AA-'), which sparked a counter-offer by the consortium of The Royal Bank of Scotland Group plc ('AA+'), Banco Santander ('AA') and Fortis Bank ('AA-'). In October 2007, Barclays announced that the acceptance conditions relating to its offer would not be fulfilled and, therefore, its offer lapsed. Fitch does not consider the failure to acquire ABN AMRO as a problem for Barclays, which still has a strong franchise that it can continue to develop organically.

Barclays' profitability has been strong for several years. The improving diversification of revenue and profits by business and by geography is a key strength and has enabled the bank to absorb growing impairment in its UK unsecured retail portfolios. Operating ROAE compares well with that of major European peers.

Barclays has limited direct exposure to the US sub-prime market. However, credit market turmoil will affect some of the bank's business volumes in Barclays Capital. The increased diversification of Barclays Capital in recent years should help to mitigate this, although credit products still accounted for about a quarter of division revenue for H107.

NPLs continued to be relatively low as a proportion of total lending in H107, reflecting an overall benign environment. UK unsecured lending has been the main source of new NPLs, mainly in Barclaycard. Lending criteria have been tightened, and new NPL flows are much reduced.

Barclays is adequately capitalised. Among other tools, it uses a sophisticated economic capital model to measure capital adequacy.

Market risk has historically been well controlled, with limits and exposures comfortable in relation to equity.

Funding and liquidity are strengths; Barclays' retail operations give the bank a large and stable funding base.

Barclays PLC's IDR reflects the very high investment-grade rating of Barclays Bank PLC and the fact that there is no intention for there to be any double leverage at Barclays PLC. Were double leverage to be introduced at Barclays PLC, Fitch would expect a more formal and suitably prudent liquidity policy to be introduced.

Outlook

The Long-Term IDR of Barclays Bank PLC is very high and is unlikely to improve. The Stable Outlook reflects the bank's strong profitability and diversified earnings, which should enable the bank to absorb periodical cyclicality in individual business lines. Negative ratings pressure could arise from greater-than-expected earnings volatility or evidence of an increase in risk appetite, for example in Barclays Capital.

Previous transactions

Citi was a co-lead manager on several recent Barclays debt offerings, including US$1.25 BN 6.05% Fixed Rate Sub Notes due 2017 and $1.25 BN 7.434% Step-up Callable Perpetual Reserve Capital Instruments, completed in November 2007 and September 2007 respectively.

December 2007 - $1.15m Barclays Bank 7.75% PerpNC5 callable 03/15/13

Barclays (Aa3/A+/AA) announced a $300 million PerpNC5 US Retail transaction at a price talk of 7.75 - 7.875%, which progressed very well given the amount of supply the market has seen recently. With the deal pricing at the tight end of price guidance garnering $1.15m in size following the exercise of the greenshoe for 6m shares Citi acted as sole physical bookrunner on this offering.

September 2007 - $1.375m Barclays Bank PLC 7.100% PerpNC5 callable 12/15/12; issued September 2007

QDI-eligible Non-Cumulative Callable Dollar Preference Shares (Aa3/A+/AA) offering in the US retail fixed income market at a size of $1.2 billion. The issuer received non-innovative Tier 1 capital treatment for the securities. The greenshoe for this transaction was exercised for 7m shares - bringing the total deal size to 55m shares or $1.375 billion. Citi served as Physical Book-Runner on the transaction, and significantly outperformed all other bookrunners in distribution of shares.

April 2006 - $750m Barclays Bank 6.625% PerpNC5 callable 09/15/11

Economics

Underwriting will ultimately depend on the final deal size but we assume 15% initial liability (+/- 1%)

Gross spread is 3.15% will be split across u/w liability (15%), selling concession (based on shares sold), and management fee (~17%, split only amongst the management group)

Joint-books = Citi (physical), Barclays, UBS, Wachovia, ML. MS is a senior co-arranger.

Distribution: TBD, usually about 85-90% retail (with limited Asian distribution under 5%), 10-15% institutional.

Due Diligence / Internal AML Rating

Internal AML rating is low as this is a UK based entity listed on the LSE.

Detailed transaction description

USD 1 billion Retail-Targeted Exchangeable Capital Securities; Subordinated issue

Detailed use of proceeds

The proceeds of the issue of the preference shares will be used for general corporate purposes.

Citigroup's relationship with the Company

Citi has business relationships with all of the main business divisions of Barclays.

(i) At the Barclays Group level, Citi has a strong advisory dialogue and was retained as one of the advisers on the 2007 bid for ABN Amro, also acting as equity placement agent for the Temasek and CDB stakes.

(ii) At the Bank/BarCap level, Citi is the largest partner for securities services and related cash around the globe, and is also a significant debt capital markets issuance partner for Treasury. Citi also provides a $200mm funding line to the Equifirst subsidiary in the US.

(iii) In BGI we are similarly a major securities services and administration partner, as well as being a major counterparty for fixed income, equity and derivative sales.

There is good management access and relationships at all levels. Citi is currently in the final stages of a major outsourcing/whitelabelling transaction with Barclays, which if successful, will have highly significant revenue addition.

Facilities extended by Citi are c.$9.5bn (outstandings $4.5bn), with Rorc of 50%+. There are also clearing lines of $12bn and settlement lines of $4bn made available. FY07 revenues were c.$75mm, with GTS, FICC and M&A major contributors.
It should also be noted that Barclays also provides a wide range of services to Citi including sterling clearing, network servies to CGML and GTS in Africa/ME, fund management to Citi's UK pension scheme, and a debt issuance partner to Citi Treasury, as well as being a major trading counterparty.

Description of the Company

Summary introduction

Barclays PLC is a major global financial services provider with over 300 years of history and expertise in banking engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management. Operating in over 50 countries and employing 135,000 people, we move, lend, invest and protect money for over 30 million customers and clients worldwide.

Industry

Currently the banking industry is facing three main global challenges.

Market liquidity
The 'credit crunch' disruption in credit markets that began in the latter half of 2007 is resulting in the movement of assets back on to banks' balance sheets, absorbing capital and constraining banks' ability to lend. The disruption has created an imbalance between the supply and demand for many classes of financial assets and has led to the traditional buyers of debt adopting a very cautious approach to the purchase of any securities which are neither fully transparent in risk profile nor of assured liquidity. Although this liquidity strain began in the asset-backed securities markets, it has since spread to more traditional investment classes. In this environment, the scope for a bank to originate assets beyond its capacity to hold them to term is limited by its available capital and funding resources. This environment is less disruptive to banks that fund their lending through deposits than those that rely on the securitisation or wholesale markets for funding.

Progressive alignment of the capital adequacy framework towards economic capital
As major banks move to the new Basel II capital adequacy framework, their capital requirements will necessarily be more closely matched with their risk profiles. In an environment of economic uncertainty, many banks may need to reduce lending due to forecast increases in capital requirements arising from deterioration in the quality of their credit risk exposures. This reduction in risk appetite may potentially accelerate the deterioration in credit quality as credit availability is restricted during a downturn in the economic cycle. When coupled with a lack of market liquidity, this may lead to polarisation within the banking system. Banks with greater capital and liquidity resources are better placed to meet the ongoing banking requirements of their customers than other banks which are more constrained in this regard.

Regulation
Initiatives such as Basel II, together with the increasing international scope of financial services, have increased the level of cooperation between regulatory authorities in different countries. Enhanced understanding of how risks are originated and dispersed in modern financial markets has reinforced the need to address how best to regulate the increasingly integrated and international nature of banking and financial services; this has been evidenced most recently in coordinated discussions on the global liquidity disruption. In addition, the enlargement of the EU, the introduction of the Markets in Financial Instruments Directive ('MIFID') and the continued effort to endorse consistent standards and enforcement has encouraged regulatory bodies to work together more closely. Interaction and cooperation have led to competitive and regulatory issues emerging in one country rapidly being taken up in other jurisdictions. Uniform global standards, however, continue to be complicated by differing local interpretations, or additional local regulation.

History

2006 A benchmark year when 50 per cent of Barclays profits are made outside the UK.

2005 Barclays Head Office moves to the iconic Canary Wharf building in London's regenerated Docklands. Barclays also acquires a majority stake in Absa Group Ltd, South Africa's largest retail bank with more than eight million customers.

2003 Barclays acquires Banco Zaragozano, one of Spain's largest private sector banking groups, which was founded in 1910.

2001 Barclays forms a strategic alliance with Legal & General to sell life, pensions and investment products throughout its UK network.

2000 Barclays takes over the Woolwich, a leading mortgage bank and former building society founded in 1847.

Lines of business, products, services

For management and reporting purposes, Barclays is organized into the following business groupings:

- Global Retail and Commercial Banking
    - UK Banking, comprising:
        - UK Retail Banking
        - UK Business Banking
    - Barclaycard
- International Retail and Commercial Banking, comprising
    - International Retail and Commercial Banking-excluding Absa
    - International Retail and Commercial Banking-Absa, first included with effect from 27th July 2005
- Investment Banking and Investment Management
    - Barclays Capital
    - Barclays Global Investors
    - Barclays Wealth
    - Barclays Wealth-closed life assurance activities
- Head office functions and other operations

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

UK Retail Banking – UK Retail Banking comprises Personal Customers, Home Finance, UK Premier and Local Business (formerly Small Business). This cluster of businesses aims to build broader and deeper relationships with customers. Personal Customers and Home Finance provide a wide range of products and services to retail customers, including current accounts, savings and investment products, mortgages branded Woolwich and general insurance. UK Premier provides banking, investment products and advice to affluent customers. Local Business provides banking services to small businesses.

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

Barclaycard – Barclaycard is a multi-brand credit card and consumer loans business which also processes card payments for retailers and merchants and issues credit and charge cards to corporate customers and the UK Government. It is one of Europe's leading credit card businesses and has an increasing presence in the United States.

In the UK, Barclaycard comprises Barclaycard, SkyCard and Monument branded credit cards, Barclays branded loans and FirstPlus secured lending. Barclaycard also manages card operations on behalf of Solution Personal Finance.

Outside the UK, Barclaycard provides credit cards in the United States, Germany, Spain, Italy, Portugal and Africa. In the Nordic region, Barclaycard operates through Entercard, a joint venture with FöreningsSparbanken (Swedbank).

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

International Retail and Commercial Banking – International Retail and Commercial Banking provides Barclays personal and corporate customers outside the UK with banking services. The products and services offered to customers are tailored to meet the regulatory and commercial environments within each country. For reporting purposes from 2005, the operations have been grouped into two components: International Retail and Commercial Banking-excluding Absa and International Retail and Commercial Banking-Absa. International Retail and Commercial Banking works closely with all other parts of the Group to leverage synergies from product and service propositions.

International Retail and Commercial Banking-excluding Absa – International Retail and Commercial Banking-excluding Absa provides a range of banking services, including current accounts, savings, investments, mortgages and loans to personal and corporate customers across Spain, Portugal, France, Italy, Africa and the Middle East.

International Retail and Commercial Banking-Absa – International Retail and Commercial Banking-Absa represents Barclays consolidation of Absa, excluding Absa Capital which is included as part of Barclays Capital. Absa Group Limited is one of South Africa's largest financial services organizations serving personal, commercial and corporate customers predominantly in South Africa. International Retail and Commercial Banking-Absa serves retail customers through a variety of distribution channels and offers a full range of banking services, including current and deposit accounts, mortgages, installment finance, credit cards, bancassurance products and wealth management services; it also offers customized business solutions for commercial and large corporate customers.

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

Barclays Capital services a wide variety of client needs, from capital raising and managing foreign exchange, interest rate, equity and commodity risks, through to providing technical advice and expertise. Activities are organized into three principal areas: Rates, which includes fixed income, foreign exchange, commodities, emerging markets, money markets, sales, trading and research, prime services and equity products; Credit, which includes primary and secondary activities for loans and bonds for investment grade, high yield and emerging market credit, as well as hybrid capital products, asset based finance, commercial mortgage backed securities, credit derivatives, structured capital markets and large asset leasing; and Private Equity. Barclays Capital includes Absa Capital, the investment banking business of Absa. Barclays Capital works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

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

BGI offers structured investment strategies such as indexing, global asset allocation and risk controlled active products including hedge funds and provides related investment services such as securities lending, cash management and portfolio transition services. In addition, BGI is the global leader in assets and products in the exchange traded funds business, with over 190 funds for institutions and individuals trading in fifteen markets globally. BGI's investment philosophy is founded on managing all dimensions of performance: a consistent focus on controlling risk, return and cost. BGI collaborates with the other Barclays businesses, particularly Barclays Capital and Barclays Wealth, to develop and market products and leverage capabilities to better serve the client base.

Barclays Wealth – Barclays Wealth serves affluent, high net worth and intermediary clients worldwide, providing private banking, asset management, stockbroking, offshore banking, wealth structuring and financial planning services. Barclays Wealth works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

Barclays Wealth-closed life assurance activities – Barclays Wealth-closed life assurance activities comprise the closed life assurance businesses of Barclays and Woolwich in the UK.

Head office functions and other operations comprise:

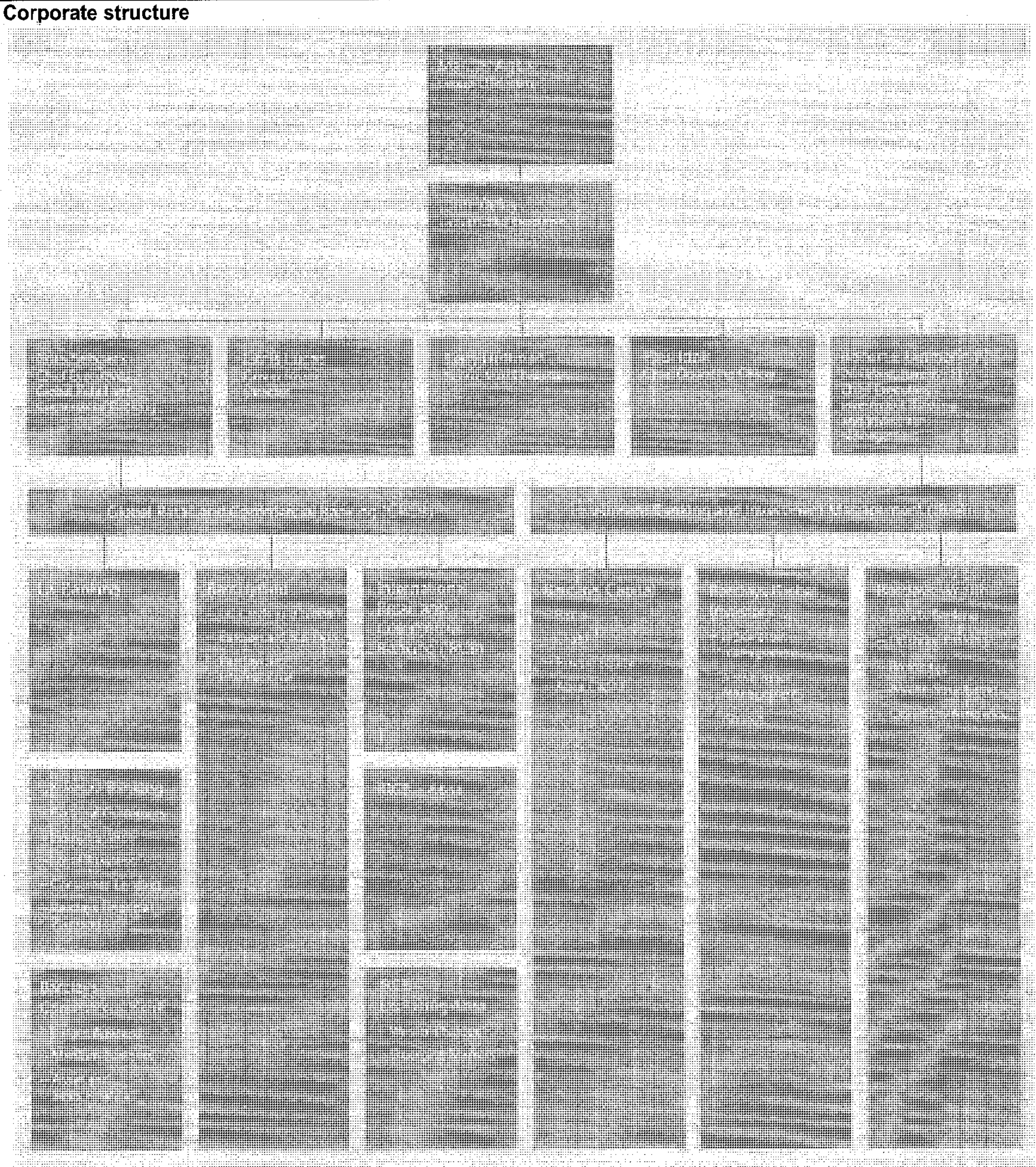
- Head office and central support functions
- Businesses in transition
- Consolidation adjustments.

Head office and central support functions comprise the following areas: Executive management, Finance, Treasury, Corporate Affairs, Human Resources, Strategy and Planning, Internal Audit, Legal, Corporate Secretariat, Property, Tax, Compliance and Risk. Costs incurred wholly on behalf of the businesses are recharged to them. Businesses in transition principally relate to certain lending portfolios that are centrally managed with the objective of maximizing recovery from the assets. Consolidation adjustments largely reflect the elimination of inter-segment transactions.

Analysis of results by business
For the year ended 31st December 2007

	UK Banking £m	Barclaycard £m	International Retail and Commercial Banking £m	Barclays Capital £m	Barclays Global Investors £m	Barclays Wealth £m	Head office functions and other operations £m	Group £m
Net interest income	4,596	1,394	1,890	1,179	(8)	431	128	9,610
Net fee and commission income	1,932	1,080	1,210	1,235	1,936	739	(424)	7,708
Principal transactions*	56	11	248	4,692	(4)	55	(83)	4,975
Net premiums from insurance contracts	252	40	372	–	–	195	152	1,011
Other income	58	(26)	87	13	2	19	35	188
Total income	6,894	2,499	3,807	7,119	1,926	1,439	(192)	23,492
Net claims and benefits incurred on insurance contracts	(43)	(13)	(284)	–	–	(152)	–	(492)
Total income, net of insurance claims	6,851	2,486	3,523	7,119	1,926	1,287	(192)	23,000
Impairment charges	(849)	(838)	(252)	(846)	–	(7)	(3)	(2,795)
Net income	6,002	1,648	3,271	6,273	1,926	1,280	(195)	20,205
Operating expenses	(3,370)	(1,101)	(2,356)	(3,973)	(1,192)	(973)	(234)	(13,199)
Share of post-tax results of associates and joint ventures	7	(7)	7	35	–	–	–	42
Profit before business disposals	2,639	540	922	2,335	734	307	(429)	7,048
Profit on disposal of subsidiaries, associates and joint ventures	14	–	13	–	–	–	1	28
Profit before tax	2,653	540	935	2,335	734	307	(428)	7,076
As at 31st December 2007								
Total assets	161,777	22,164	89,457	839,662	89,224	18,024	7,053	1,227,361
Total liabilities	166,988	1,559	48,809	811,516	87,101	43,988	34,924	1,194,885

Corporate structure



Business strategy
Barclays strategic priorities are to:
- Build the best bank in the UK
- Accelerate growth of global businesses
- Develop Retail and Commercial Banking activities in selected countries outside the UK
- Enhance operational excellence

A range of financial and non-financial key performance indicators (KPIs) are monitored at both a Group and business level to assess progress against these strategic goals.

Growth outlook
Barclays sees another year in which global economic growth will be around 4%. The emerging economies account for about a third of global GDP, but they account for two thirds of global GDP growth and they continue to perform strongly. However, in many economies of the developed world, there will be a slowdown, and in particular we expect economic growth in the UK and the US to be below the trend of recent years. In an environment such as this

Barclays will have to be disciplined in our risk management and rigorous in its approach to lending. The bank's management believes that they will enter 2008 with a strong capital base, a consistent strategic direction, a well diversified set of businesses and significant opportunities for growth in the medium term.

Competition

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

Recent developments

On 3rd March 2008, Barclays entered into an agreement with Petropavlousk Finance (limited liability society) to acquire 100% of the Russian Bank, Expobank, for a consideration of approximately $745m (£373m). The transaction is expected to close in summer 2008 after receipt of appropriate regulatory approvals. Expobank focuses principally on Western Russia, with a substantial presence in Moscow and St Petersburg. Founded in 1994 it has grown rapidly and comprises a blend of retail and commercial banking, operating 32 branches and dealing with a range of corporate and wholesale clients. As at 31st December 2007, Expobank had net assets of $186m (£93m).

On 7th February 2008, Barclays announced the purchase of Discover's UK credit card business for a consideration of approximately £35m. The consideration is subject to an adjustment mechanism based on the net asset value of the business at completion. Completion is subject to various conditions, including competition clearance, and is expected to occur during the first half of 2008.

On 5th October 2007, Barclays announced that as at 4th October 2007 not all of the conditions relating to its offer for ABN AMRO Holding N.V. were fulfilled and as a result Barclays was withdrawing its offer with immediate effect. Barclays also announced that it was restarting the Barclays PLC share buy-back programme to minimise the dilutive effect of the issuance of shares to China Development Bank and Temasek Holdings (Private) Limited on existing Barclays PLC shareholders. This programme was intended to run until 31st December 2007, but was subsequently extended to 31st January 2008.

On 16th April 2007, Barclays announced the sale of Barclays Global Investors Japan Trust & Banking Co., Ltd, a Japanese trust administration and custody operation. The sale completed on 31st January 2008.

Profile and background of Management and Board of Directors

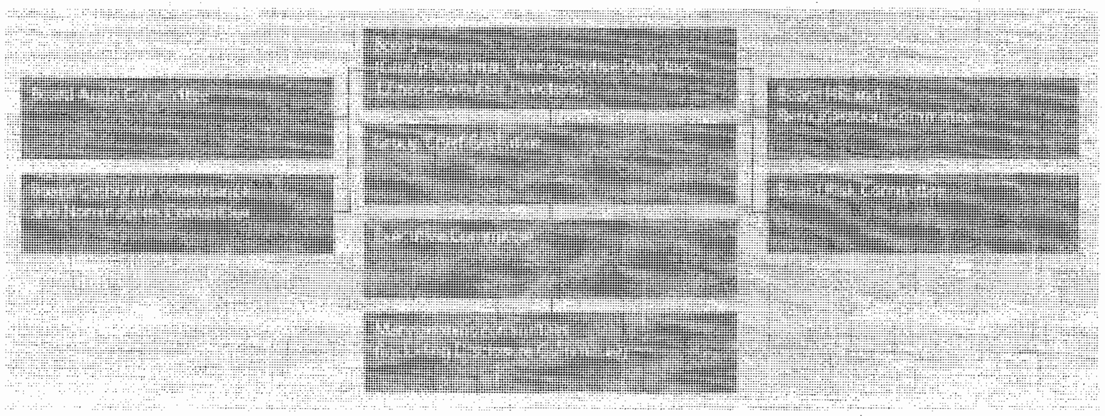
The Board		Date appointed as Director
Marcus Agius	Group Chairman	2006
David Booth	Non-executive Director	2007
Sir Richard Broadbent	Senior Independent Director	2003
Leigh Clifford AO	Non-executive Director	2004
Fulvio Conti	Non-executive Director	2006
Dr Danie Cronjé	Non-executive Director	2005
Professor Dame Sandra Dawson	Non-executive Director	2003
Sir Andrew Likierman	Non-executive Director	2004
Sir Michael Rake	Non-executive Director	2008
Sir Nigel Rudd DL	Deputy Chairman	1996
Stephen Russell	Non-executive Director	2000
Sir John Sunderland	Non-executive Director	2005
Patience Wheatcroft	Non-executive Director	2008
John Varley	Group Chief Executive	1998
Robert E Diamond Jr	President, Barclays PLC and Chief Executive, Investment Banking and Investment Management	2005
Gary Hoffman	Group Vice Chairman	2004
Chris Lucas	Group Finance Director	2007
Frits Seegers	Chief Executive, Global Retail and Commercial Banking	2006

The Executive Committee		Date appointed
John Varley	Group Chief Executive	1996
Robert E Diamond Jr	President, Barclays PLC and Chief Executive, Investment Banking and Investment Management	1997
Paul Idzik	Chief Operating Officer	2004
Chris Lucas	Group Finance Director	2007
Frits Seegers	Chief Executive, Global Retail and Commercial Banking	2006

Other officers		Date appointed
Jonathan Britton	Financial Controller	2006
Lawrence Dickinson	Company Secretary	2002
Patrick Gonsalves	Joint Secretary, Barclays Bank PLC	2002
Mark Harding	General Counsel	2003
Robert Le Blanc	Risk Director	2004

Corporate Governance

Corporate Governance Framework



UK Combined Code on Corporate Governance

As Barclays is listed on the London Stock Exchange it complies with the UK Combined Code on Corporate Governance (the Code). The Code was revised in June 2006 and the revised Code applied to Barclays with effect from 1st January 2007. For the year ended 31st December 2007, Barclays has complied with the relevant provisions set out in section 1 of the Code and applied the principles of the Code as described in this report.

NYSE Corporate Governance Rules

Barclays has American Depositary Receipts listed on the New York Stock Exchange (NYSE) and is therefore subject to the NYSE's Corporate Governance rules (NYSE Rules). As a non-US company listed on the NYSE, Barclays is exempt from most of the NYSE Rules, which domestic US companies must follow. Barclays is required to provide an Annual Written Affirmation to the NYSE of its compliance with the applicable NYSE Rules and also to disclose any significant ways in which its corporate governance practices differ from those followed by domestic US companies listed on the NYSE. As Barclays' main listing is on the London Stock Exchange, Barclays follows the UK's Combined Code.

Further details can be found on page 134 of the Annual report.

Key Shareholders/Principals

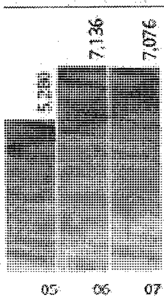
Name	No. Shares	% o/s
SCOTTISH WIDOWS INVESTMENT PARTNERSHIP LTD.	329,648,746	5.0%
LEGAL & GENERAL INVESTMENT MANAGEMENT LTD.	271,732,991	4.1%
CHINA DEVELOPMENT BANK	201,388,889	3.1%
STANDARD LIFE INVESTMENTS LTD.	128,724,190	2.0%
M&G INVESTMENT MANAGEMENT LTD.	126,645,748	1.9%
DEUTSCHE BANK AG (PRIME BROKERAGE)	115,831,000	1.8%
BARCLAYS GLOBAL INVESTORS NA (CA)	99,220,004	1.5%
UBS GLOBAL ASSET MANAGEMENT (UK) LTD.	89,791,177	1.4%
STATE STREET GLOBAL ADVISORS LTD. (UK)	81,427,844	1.2%
INSIGHT INVESTMENT MANAGEMENT (GLOBAL) LTD.	79,631,000	1.2%
BLACKROCK INVESTMENT MANAGEMENT (UK) LTD.	70,108,000	1.1%
ALLIANCEBERNSTEIN LP	68,311,534	1.0%
MORLEY FUND MANAGEMENT	64,784,000	1.0%

Key highlights

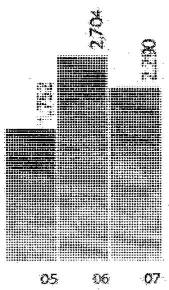
For the year ended 31st December

Income statement	2007 £m	2006 £m	2005 £m
Total income net of insurance claims	23,000	21,595	17,333
Impairment charges and other credit provisions	(2,795)	(2,154)	(1,571)
Operating expenses	(13,199)	(12,674)	(10,527)
Profit before tax	7,076	7,136	5,280
Profit attributable to equity holders of the parent	4,417	4,571	3,447
Economic profit	2,290	2,704	1,752
Basic earnings per share	68.9p	71.9p	54.4p
Diluted earnings per share	66.7p	69.8p	52.6p
Dividend per ordinary share	34.0p	31.0p	26.6p
Return on average shareholders' equity	20.3%	24.7%	21.1%
Tier 1 capital ratio	7.8%	7.7%	7.0%

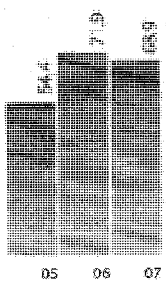
Profit before tax £m



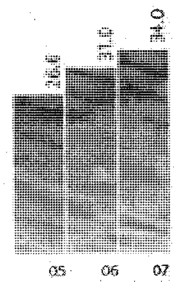
Economic profit £m



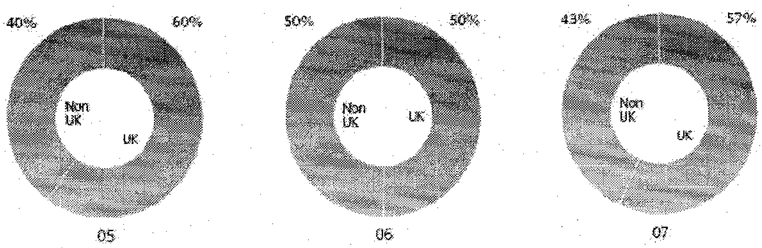
Earnings per share pence



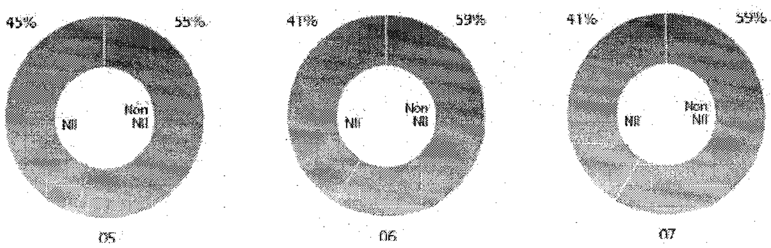
Dividend per share pence



Profit diversification by geographic region %



Revenue mix %



Consolidated income statement summary

For the year ended 31st December

	2007 £m	2006 £m	2005 £m	2004 £m[a]
Net interest income	9,610	9,143	8,075	6,833
Net fee and commission income	7,708	7,177	5,705	4,847
Principal transactions	4,975	4,576	3,179	2,514
Net premiums from insurance contracts	1,011	1,060	872	1,042
Other income	188	214	147	131
Total income	23,492	22,170	17,978	15,367
Net claims and benefits incurred on insurance contracts	(492)	(575)	(645)	(1,259)
Total income net of insurance claims	23,000	21,595	17,333	14,108
Impairment charges and other credit provisions	(2,795)	(2,154)	(1,571)	(1,093)
Net income	20,205	19,441	15,762	13,015
Operating expenses	(13,199)	(12,674)	(10,527)	(8,536)
Share of post-tax results of associates and joint ventures	42	46	45	56
Profit before business disposals	7,048	6,813	5,280	4,535
Profit on disposal of subsidiaries, associates and joint ventures	28	323	–	45
Profit before tax	7,076	7,136	5,280	4,580
Tax	(1,981)	(1,941)	(1,439)	(1,279)
Profit after tax	5,095	5,195	3,841	3,301
Profit attributable to minority interests	678	624	394	47
Profit attributable to equity holders of the parent	4,417	4,571	3,447	3,254
	5,095	5,195	3,841	3,301

Selected financial statistics

	2007	2006	2005	2004
Basic earnings per share	68.9p	71.9p	54.4p	51.0p
Diluted earnings per share	66.7p	69.8p	52.6p	49.8p
Dividends per ordinary share	34.0p	31.0p	26.6p	24.0p
Dividend payout ratio	49.3%	43.1%	48.9%	47.1%
Profit attributable to the equity holders of the parent as a percentage of:				
average shareholders' equity	20.3%	24.7%	21.1%	21.7%
average total assets	0.3%	0.4%	0.4%	0.5%
Cost:income ratio	57%	59%	61%	61%
Cost:net income ratio	65%	65%	67%	66%
Average United States Dollar exchange rate used in preparing the accounts	2.00	1.84	1.82	1.83
Average Euro exchange rate used in preparing the accounts	1.46	1.47	1.46	1.47
Average Rand exchange rate used in preparing the accounts	14.11	12.47	11.57	11.83

The financial information above is extracted from the published accounts for the last three years. This information should be read together with, and is qualified by reference to, the accounts and notes included in this report.

Note

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

Consolidated balance sheet summary

As at 31st December

	2007 £m	2006 £m	2005 £m	2004 £m[a]
Assets				
Cash and other short-term funds	7,637	9,753	5,807	3,525
Treasury bills and other eligible bills	n/a	n/a	n/a	6,658
Trading portfolio and financial assets designated at fair value	341,171	292,464	251,820	n/a
Derivative financial instruments	248,088	138,353	136,823	n/a
Debt securities and equity shares	n/a	n/a	n/a	141,710
Loans and advances to banks	40,120	30,926	31,105	80,632
Loans and advances to customers	345,398	282,300	268,896	262,409
Available for sale financial investments	43,072	51,703	53,497	n/a
Reverse repurchase agreements and cash collateral on securities borrowed	183,075	174,090	160,398	n/a
Other assets	18,800	17,198	16,011	43,247
Total assets	1,227,361	996,787	924,357	538,181
Liabilities				
Deposits and items in the course of collection due to banks	92,338	81,783	77,468	112,229
Customer accounts	294,987	256,754	238,684	217,492
Trading portfolio and financial liabilities designated at fair value	139,891	125,861	104,949	n/a
Liabilities to customers under investment contracts	92,639	84,637	85,201	n/a
Derivative financial instruments	248,288	140,697	137,971	n/a
Debt securities in issue	120,228	111,137	103,328	83,842
Repurchase agreements and cash collateral on securities lent	169,429	136,956	121,178	n/a
Insurance contract liabilities, including unit-linked liabilities	3,903	3,878	3,767	8,377
Subordinated liabilities	18,150	13,786	12,463	12,277
Other liabilities	15,032	13,906	14,918	87,200
Total liabilities	1,194,885	969,397	899,927	521,417
Shareholders' equity				
Shareholders' equity excluding minority interests	23,291	19,799	17,426	15,870
Minority interests	9,185	7,591	7,004	894
Total shareholders' equity	32,476	27,390	24,430	16,764
Total liabilities and shareholders' equity	1,227,361	996,787	924,357	538,181

Risk weighted assets and capital ratios[b]

	2007	2006	2005	2004
Risk weighted assets	353,476	297,833	269,148	218,601
Tier 1 ratio	7.8%	7.7%	7.0%	7.6%
Risk asset ratio	12.1%	11.7%	11.3%	11.5%

Selected financial statistics

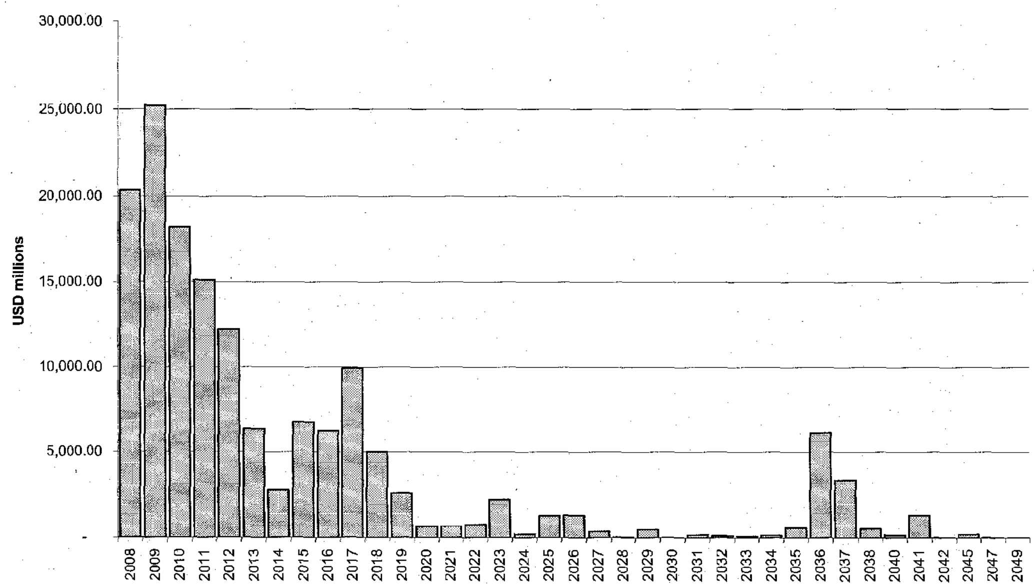
	2007	2006	2005	2004
Net asset value per ordinary share	353p	303p	269p	246p
Year-end United States Dollar exchange rate used in preparing the accounts	2.00	1.96	1.72	1.92
Year-end Euro exchange rate used in preparing the accounts	1.36	1.49	1.46	1.41
Year-end Rand exchange rate used in preparing the accounts	13.64	13.71	10.87	10.86

Notes

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

b Risk weighted assets and capital ratios are calculated on a Basel I basis. Capital ratios for 2004 are based on UK GAAP and have not been restated as these remain as reported to the Financial Services Authority (FSA). As at 1st January 2005 the tier 1 ratio was 7.1% and the risk asset ratio was 11.8% reflecting the impact of IFRS including the adoption of IAS 32, IAS 39 and IFRS 4.

Debt maturity profile



Peer comps

	HSBC Holdings Plc	Citi	Barclays	RBS	Standard Chartered	Santander
Issuer rating						
S&P	AA-	AA	AA	AA	A	AA
Moody's	Aa2	Aa3	Aa1	Aaa	A3	Aa1
Fitch	AA	AA	AA+	AA+	A+	AA
Financial Data						
Time period	FY 2007	FY 2007	FY 2007	FY 2007	FY 2007	FY 2007
Currency	USD	USD	USD	USD	USD	USD
Net interest income	37,795	46,936	19,194	25,302	6,265	22,527
Total Income	87,601	81,698	45,938	62,146	11,067	39,876
Impairment charge	(17,242)	(18,509)	(5,582)	(4,430)	(761)	(5,227)
Operating Expense	(39,042)	(61,488)	(26,362)	(28,068)	(6,215)	(17,981)
Net Income	19,133	3,617	10,176	15,403	2,813	12,546
Total Assets	2,354,266	2,182,700	2,451,420	3,795,926	329,205	1,344,587
Total Loans	981,548	777,993	769,999	2,094,479	189,631	832,863
Deposits and ST funding	1,228,321	1,312,555	770,029	1,987,319	205,640	1,156,180
Equity	135,416	113,600	64,865	182,606	21,452	76,507
Ratios (%)						
Impaired Loans / Gross loans	1.80%	1.31%	3.28%	1.6%	1.5%	0.95%
Tier 1 Ratio	9.30%	7.10%	7.80%	7.3%	9.8%	7.71%
Total Capital Ratio	13.60%	10.90%	12.10%	11.2%	16.7%	12.66%
Equity to Assets	5.75%	5.20%	2.65%	4.8%	6.5%	5.69%
Return on Avg Assets (ROAA)	0.97%	0.13%	0.39%	0.56%	1.00%	1.09%
Return on Avg Equity (ROAE)	15.90%	2.90%	20.30%	16.9%	15.6%	21.90%
Cost To Income Ratio	49.40%	75.00%	57.00%	40.7%	56.0%	44.20%

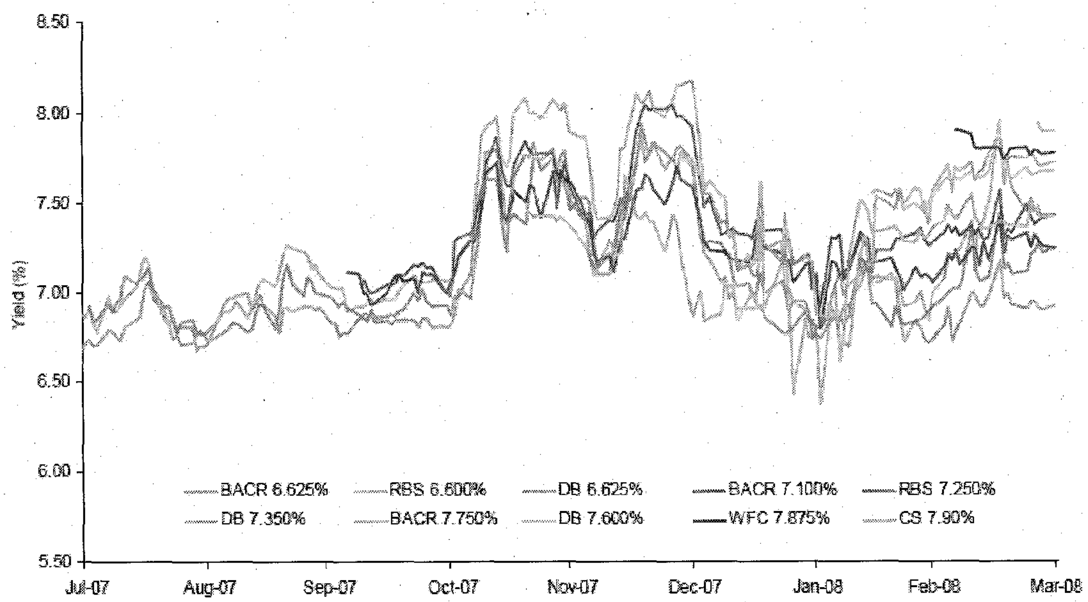
Summary Projected Financial Information

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	8.0	7.5	7.4	7.3	7.0
P/E reported (x)	6.8	7.2	7.4	7.3	7.0
P/BV (x)	1.6	1.4	1.3	1.2	1.1
P/Adjusted BV diluted (x)	1.6	1.4	1.3	1.2	1.1
Dividend yield (%)	6.5	7.1	7.7	8.2	8.8
Per Share Data (p)					
EPS adjusted	60.0	64.0	64.5	65.3	68.0
EPS reported	69.8	66.7	64.5	65.3	68.0
BVPS	303.0	352.9	380.2	405.6	430.8
Tangible BVPS	191.4	242.2	255.8	285.4	314.7
Adjusted BVPS diluted	296.2	343.7	370.2	395.1	419.6
DPS	31.0	34.0	36.5	39.0	42.0
Profit & Loss (£M)					
Net interest income	9,143	9,610	10,313	10,802	11,307
Fees and commissions	7,177	7,824	8,215	8,790	9,406
Other operating Income	5,275	5,682	5,509	5,852	6,221
Total operating income	**21,595**	**23,116**	**24,037**	**25,445**	**26,934**
Total operating expenses	-12,949	-13,322	-14,075	-15,405	-16,478
Oper. profit bef. provisions	**8,646**	**9,794**	**9,961**	**10,039**	**10,456**
Bad debt provisions	-2,154	-2,795	-2,747	-2,674	-2,754
Non-operating/exceptionals	644	77	-159	-157	-156
Pre-tax profit	**7,136**	**7,076**	**7,055**	**7,208**	**7,546**
Tax	-1,941	-1,981	-1,975	-2,018	-2,113
Extraord./Min. Int./Pref. Div.	-624	-678	-763	-776	-793
Attributable profit	**4,571**	**4,417**	**4,317**	**4,414**	**4,640**
Adjusted earnings	3,934	4,239	4,317	4,414	4,640
Growth Rates (%)					
EPS adjusted	11.9	6.6	0.8	1.3	4.2
Oper. profit bef. prov.	23.9	13.3	1.7	0.8	4.1
Balance Sheet (£M)					
Total assets	**996,787**	**1,227,361**	**1,318,778**	**1,422,474**	**1,506,763**
Avg interest earning assets	347,374	380,284	423,130	465,696	495,929
Customer loans	285,631	349,167	375,174	398,293	421,894
Gross NPLs	5,849	11,438	8,479	9,001	9,535
Liab. & shar. funds	**996,787**	**1,227,361**	**1,318,778**	**1,422,474**	**1,506,763**
Total customer deposits	256,754	294,987	316,958	336,490	356,429
Reserve for loan losses	3,069	3,265	3,467	3,681	3,908
Shareholders' equity	**19,799**	**23,291**	**25,347**	**27,309**	**29,291**
Profitability/Solvency Ratios (%)					
ROE adjusted	21.1	19.7	17.8	16.8	16.4
Net interest margin	2.63	2.53	2.44	2.32	2.28
Cost/income ratio	60.0	57.6	58.6	60.5	61.2
Cash cost/average assets	1.3	1.2	1.1	1.1	1.1
NPLs/customer loans	2.0	3.3	2.3	2.3	2.3
Reserve for loan losses/NPLs	52.5	28.5	40.9	40.9	41.0
Bad debt prov./avg. cust. loans	0.8	0.9	0.8	0.7	0.7
Loans/deposit ratio	111.2	118.4	118.4	118.4	118.4
Tier 1 capital ratio	7.7	7.8	7.5	7.5	7.5
Total capital ratio	11.7	12.1	11.4	11.1	10.9

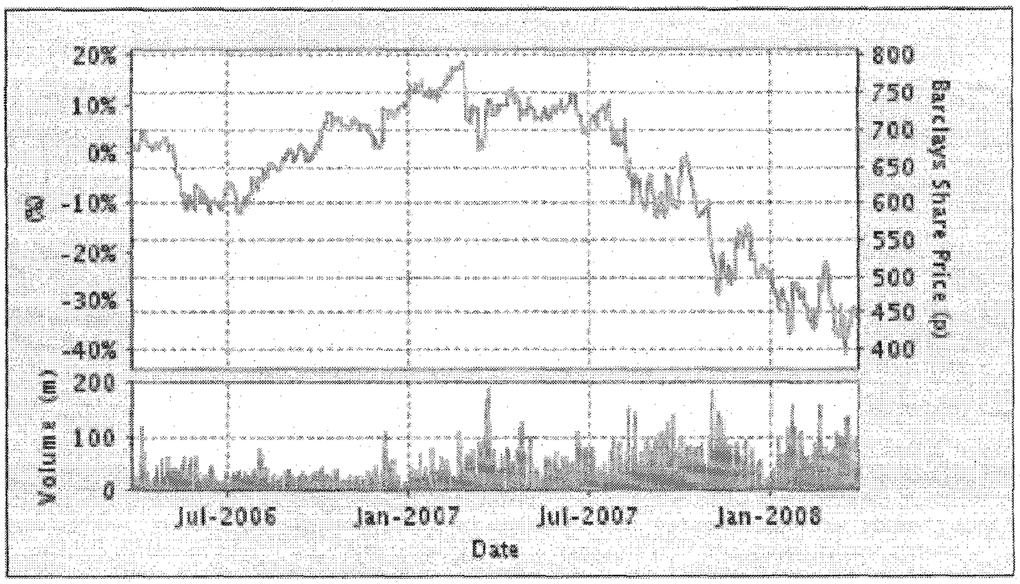
Source: Citi equity research (20th February 2008)

Market data

Bond price performance chart



Share price



Market share (Autex)

ADVERTISED TRADE VOLUME (000 SHARES)

Broker	Mar 29 2007 - Mar 27 2008	% Of Total	# Of Trd	Rank
LEHMAN BROTHERS, INC.	242	52.06	19	1
CITIGROUP	**127**	**27.32**	**12**	**2**
SUNTRUST ROBINSON HUMPHREY	46	9.92	7	3
WILLIAM BLAIR & COMPANY, LLC.	17	3.66	6	4
MORGAN STANLEY	14	3.1	12	5
JPMORGAN	9	1.91	1	6
FERRIS BAKER WATTS & CO.,INC	5	1.14	1	7
UBS	4	0.88	5	8
TOTAL BROKERS = 8	**465**		**63**	

Positive Investment Considerations

- Barclays is one of the largest financial services companies in the world by market capitalization and is present in over 60 countries.
- Barclaycard is one of the leading cards businesses in Europe, and has 15 million UK customers and 8.8 million international cards in issue.
- Barclays Global Investors is one of the world's largest asset managers and a leading provider of investment management products and services, with a leading reputation in index and LDI management
- Fast growing international businesses, with International Retail and Commercial Banking contributed 13% to gross profits in 2007
- Barclays has been in existence for over 300 years.

Negative Investment Considerations / Key Risk Factors

- **Business conditions and general economy.** The profitability of Barclays businesses could be adversely affected by a worsening of general economic conditions in the United Kingdom, globally or in certain individual markets such as the US or South Africa. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the activity level of customers
- **Credit risk.** Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Group's investment in that entity's financial instruments to fall. The credit risk that the Group faces arises mainly from commercial and consumer loans and advances, including credit card lending. Furthermore, credit risk is manifested as country risk where difficulties may arise; in the country in which the exposure is domiciled thus impeding or reducing the value of the asset; or where the counterparty may be the country itself.
- **Market risk.** Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. The main market risk arises from trading activities. The Group is also exposed to interest rate risk in the banking book and market risk in the pension fund.
- **Operational risk.** Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and systems. Operational risks are inherent in Barclays operations and are typical of any large enterprise. Major sources of operational risk include operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

- **Capital risk.** Capital risk is the risk that the Group has insufficient capital resources to:
    - Meet minimum regulatory capital requirements in the UK and in other markets such as the US and South Africa where regulated activities are undertaken. The Group's authority to operate as a bank is dependent upon the maintenance of adequate capital resources.
    - Support its strong credit rating. In addition to capital resources, the Group's rating is supported by a diverse portfolio of activities, an increasingly international presence, consistent profit performance, prudent risk management and a focus on value creation. A weaker credit rating would increase the Group's cost of funds; and
    - Support its growth and strategic options.

- **Regulatory and compliance risk.** The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the UK, the European Union (EU), the US, South Africa and elsewhere.
    - In July 2007, the OFT commenced a test case in the High Court by agreement with Barclays and seven other financial institutions in which the parties seek declarations on two legal issues arising from the banks' terms and conditions relating to overdraft charges.
    - In April 2007, the UK consumer interest association known as Which? submitted a super-complaint to the OFT criticising the various ways in which credit card companies calculate interest charges on credit card accounts
    - On 26th January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. Barclays will charge the fee applicable at the time the customer took out the mortgage, which is one of the options recommended by the FSA.
    - On 7th September 2006, the OFT announced that it had decided to undertake a fact find on the application of its statement on credit card fees to current account unauthorized overdraft fees. The OFT expects this work to take up to six months, at which stage the OFT will consider whether a further detailed investigation into unauthorized overdraft fees is needed.
    - In April 2006, the Office of Fair Trading (OFT) commenced a review of the undertakings given following the conclusion of the Competition Commission Inquiry in 2002 into the supply of banking services to Small and Medium Enterprises (SMEs). The Group is cooperating fully with that review.

- **Liquidity risk.** Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due and to replace funds when they are withdrawn, with consequent failure to repay depositors and fulfil commitments to lend. The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

- **Business risk.** Business risk is the risk of adverse outcomes resulting from a weak competitive position or from poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing and structural inefficiencies.

- **Legal risk.** The Group is subject to a comprehensive range of legal obligations in all countries in which it operates. As a result, the Group is exposed to many forms of legal risk, which may arise in a number of ways. Primarily:
    - the Group's business may not be conducted in accordance with applicable laws around the world;
    - contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
    - the intellectual property of the Group (such as its trade names) may not be adequately protected;
    - the Group may be liable for damages to third parties harmed by the conduct of its business.

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

Due Diligence Review (Appendix A)

Due diligence call is scheduled for April 3rd, 2008. Business and TEG will participate on the call.

Conflicts and Compliance issues/notification

None.

Marketing views of Syndicate

Citi expects good demand from the market given the qualified dividend income nature and the high single A security ratings.

Trading comps

Issuer	Issue Date	Amount ($mm)	Ratings	Dividend	Maturity	Call Lockout	Price*	Strip Yield*
Credit Suisse	03/28/08	1,400	Aa3/A+	7.900%	Perpetual	NC5	$25.00	7.900%
Wells Fargo Capital XII	03/05/08	1,575	Aa2/AA-	7.875%	03/15/68	NC5	$25.25	7.800%
DB Contingent Capital Trust III	02/12/08	1,975	Aa3/A+	7.600%	Perpetual	NC5	$24.89	7.673%
Barclays Bank plc	11/30/07	1,150	Aa3/A+	7.750%	Perpetual	NC5	$25.01	7.775%
DB Capital Funding Trust X	11/07/07	805	Aa3/A+	7.350%	Perpetual	NC5	$24.98	7.359%
Royal Bank of Scotland Group plc	09/20/07	1,600	Aa3/A	7.250%	Perpetual	NC5	$24.82	7.306%
Barclays Bank plc	09/06/07	1,375	Aa3/A+	7.100%	Perpetual	NC5	$24.80	7.182%
DB Capital Funding Trust IX	07/13/07	1,150	Aa3/A	6.625%	Perpetual	NC5	$23.50	7.050%
Royal Bank of Scotland Group plc	06/22/07	950	Aa3/A	6.600%	Perpetual	NC5	$21.98	7.510%
Barclays Bank plc	04/20/06	750	Aa3/A+	6.625%	Perpetual	NC5	$23.79	6.965%

* Source: Bloomberg

Target Investors

Marketed to broad retail and to institutional investors globally. Distribution breakdown is expected to be about 85-90% retail (with limited Asian distribution under 5%), 10-15% institutional.

Timetable of Corporate Actions

Date	Event
05/03/2008	- Final 2007 Ex-Dividend Date
07/03/2008	- Final 2007 Dividend Record Date
24/04/2008	- 2008 Annual General Meeting
25/04/2008	- Final 2007 Dividend Payment Date
15/05/2008	- 2008 First half Interim Management Statement
07/08/2008	- 2008 Half Yearly Financial Report Statement

Other Unusual Circumstances / Concerns / Risks

- Barclays currently has one of the European bank sector's lowest "tangible equity / assets" ratios. Whilst regulatory ratio (tier 1 ratio is 7.8%) is at target levels, the capital markets are also looking at a broader range of ratios including leverage based ratios

- Barclays has RWA's of £353bn (c.$700bn) and thus may be vulnerable to any sharp increases in impairments and delinquencies if economic conditions worsen (large loan book exposures are to consumer, property and construction)

Recommendation

We are supportive of Citi's participation in Barclays' anticipated offering.

Memorandum Exhibits required

Tab 1)	Draft prospectus (supplement).
Tab 2)	Moody's, S&P and Fitch rating reports.
Tab 3)	Citi equity research. Deutsche Bank equity research.
Tab 4)	Credit and trading comparables.
Tab 5)	Recent relevant press cuttings.

S&C Draft of March 28, 2008

Subject to completion
Preliminary Prospectus Supplement dated April , 2008

Prospectus Supplement to Prospectus dated August 31, 2007

<sp>American Depositary Shares, Series 5
Barclays Bank PLC
Representing
Non-Cumulative Callable Dollar Preference Shares, Series 5

(Nominal value of $0.25 each)

The information in this preliminary prospectus supplement is not complete and may be changed.

We, Barclays Bank PLC, are issuing dollar-denominated non-cumulative callable preference shares, series 5, which will be sold in the form of American Depositary Shares, series 5, or ADSs.

From and including the date of issuance, dividends will accrue on each preference share at a rate of % per year on the amount of $25 per preference share. Dividends will be payable quarterly in arrear on March 15, June 15, September 15 and December 15 of each year, commencing on [June] 15, 2008. We may redeem some or all of the preference shares on [June] 15, 201[3] and on any dividend payment date thereafter at a redemption price of $25 per preference share plus accrued but unpaid dividends (if any) for the then-current dividend period.

Dividends on the preference shares are discretionary. However, if dividends are not paid in full on the preference shares, we and our parent, Barclays PLC, will be subject to restrictions on our ability to pay dividends on (or redeem or repurchase) our ordinary shares and Barclays PLC's ordinary shares, other series of preference shares and other share capital, until we next make a payment in respect of your preference shares or redeem or purchase all of your preference shares. Barclays PLC has not otherwise agreed to guarantee our obligations in respect of the preference shares. Dividends on the preference shares are payable only to the extent that payment can be made out of profits that are available for distribution and permitted by law to be distributed.

If we are liquidated, you will be entitled to receive a liquidation preference of $25 per preference share plus accrued but unpaid dividends (if any) for the then-current dividend period, but only after we have paid all of our debts and other liabilities to our creditors and to holders of any of our capital shares that are senior to your preference shares.

Investing in the preference shares or ADSs involves risks. See "Risk Factors" beginning on page S-11 of this prospectus supplement and on page of our Annual Report on Form 20-F incorporated by reference herein.

Application will be made to list the ADSs on the New York Stock Exchange. Trading of the ADSs on the New York Stock Exchange is expected to commence within 30 days after the initial delivery of the ADSs.

Neither the U.S. Securities and Exchange Commission nor any U.S. state securities commission has approved or disapproved of these securities or determined that this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public(1)	Underwriting Compensation(2)	Proceeds, before expenses, to Barclays Bank PLC
Per ADS	$ 25.00	$	$
Total	$	$	$

(1) Plus accrued dividends, if any, from the original date of issuance.

(2) For sales to certain institutions, the underwriting compensation will be $ per ADS and, to the extent of such sales, the total underwriting discount will be less than the amount set forth above.

We have granted the underwriters [an option to purchase on or prior to , 2008] [a day option to purchase] up to an additional ADSs to cover overallotments, if any, at the Price to Public less the Underwriting Compensation. If the option is exercised in full, the total Price to Public, Underwriting Compensation, and Proceeds, before expenses, payable to us will be $, $ and $, respectively. Any ADSs or preference shares issued or sold under the option will have the same terms and conditions as the ADSs or preference shares described herein.

The underwriters expect to deliver the ADSs to purchasers in book-entry form only through the facilities of The Depository Trust Company, or DTC, on or about April , 2008. Beneficial interests in the ADSs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Clearstream Banking, société anonyme and Euroclear Bank S.A./N.V.

Barclays Capital **Citi**

LONDON:302954.2C

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PROSPECTUS SUPPLEMENT

PROSPECTUS

FORWARD-LOOKING STATEMENTS

This prospectus supplement and certain documents incorporated by reference herein contain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to certain of our plans and our current goals and expectations relating to our future financial condition and performance and which involve a number of risks and uncertainties. We caution readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding our future financial position, income growth, impairment charges, business strategy, projected costs and estimates of capital expenditure and revenue benefits, projected levels of growth in the banking and financial markets, future financial and operating results, future financial position, projected costs and estimates of capital expenditures and other statements that are not historical fact.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are subject to, among other things, domestic and global economic and business conditions, market related risks such as changes in interest rates and exchange rates, volatility in the global financial markets (such as those experienced recently), the policies and actions of governmental and regulatory authorities, changes in legislation, progress in the integration of Absa into our business and the achievement of synergy targets related to Absa, the outcome of pending and future litigation, and the impact of competition — a number of which factors are beyond our control. As a result, our actual future results may differ materially from the plans, goals, and expectations set forth in such forward-looking statements. Additional risks and factors are identified in our filings with the U.S. Securities and Exchange Commission (the "SEC") including in our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (the "2007 Form 20-F"), which is available on the SEC's website at www.sec.gov. Any forward-looking statements made by or on our behalf speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect any changes in expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that we have made or may make in documents we have filed or may file with the SEC.

INCORPORATION OF DOCUMENTS BY REFERENCE

This prospectus supplement is part of a registration statement on Form F-3 (File No. 333-145845) we have filed with the SEC under the Securities Act of 1933, as amended. This prospectus supplement omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information in and exhibits to the registration statement for further information on us and the securities we are offering. Statements in this prospectus supplement concerning any document we have filed or will file as an exhibit to the registration statement or that we have otherwise filed with the SEC are not intended to be comprehensive and are qualified in their entirety by reference to these filings. You should review the complete document to evaluate these statements.

The SEC allows us to "incorporate by reference" much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus supplement is an important part of this prospectus supplement. For information on the documents we incorporate by reference in this prospectus supplement and the accompanying prospectus, we refer you to "Incorporation of Certain Documents by Reference" on page 1 of the accompanying prospectus.

In addition to the documents listed in the accompanying prospectus, we incorporate by reference in this prospectus supplement and the accompanying prospectus any future documents we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus supplement until the offering contemplated in this prospectus supplement is completed. Reports on Form 6-K we may furnish to the SEC after the date of this prospectus supplement (or portions thereof) are incorporated by reference in this prospectus supplement only to the extent that the report expressly states that it (or such portions) is incorporated by reference in this prospectus supplement.

We will provide to you, upon your written or oral request, without charge, a copy of any or all of the documents we referred to above or in the accompanying prospectus which we have incorporated in this prospectus supplement by reference. You should direct your requests to Barclays Bank PLC, 200 Park Avenue, New York, New York 10166, Attention: General Counsel (telephone: 212-412-4000).

SUMMARY

The following is a summary of this prospectus supplement and should be read as an introduction to, and in conjunction with, the remainder of this prospectus supplement, the accompanying prospectus and any documents incorporated by reference therein. You should base your investment decision on a consideration of this prospectus supplement, the accompanying prospectus and any documents incorporated by reference therein, as a whole. Words and expressions defined in "Description of Preference Shares" and "Description of American Depositary Receipts" below shall have the same meanings in this summary.

General

The Issuer	Barclays Bank PLC Barclays Bank PLC, including its subsidiary undertakings, is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of Barclays Bank PLC and one of the largest financial services companies in the world by market capitalization. Except as provided in the deed of covenant to be entered into by Barclays PLC containing the dividend restriction referred to below under "Dividends", Barclays PLC has not assumed any obligations in respect of the preference shares.
The Securities We Are Offering	We are offering dollar-denominated non-cumulative callable preference shares, series 5, which will be sold in the form of American Depositary Shares, series 5, or ADSs.
Issue Date	April , 2008
Liquidation Preference	$25
Form of Securities	The preference shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the American Depositary Receipt ("ADR") depositary under the ADR deposit agreement. We may consider the ADR depositary to be a single holder of the preference shares so deposited for all purposes.
Use of Proceeds	The proceeds of the issue of the preference shares will be used for general corporate purposes.
Manner of Offering	The ADSs will be offered in connection with their initial issuance or in market-marking transactions, if any, by our affiliates after initial issuance. The aggregate initial offering price specified on the cover of this prospectus supplement relates to the initial offering of the ADSs. This amount does not include ADSs sold in any market-making transactions.

	We do not expect to receive any proceeds from market-making transactions. Please see "Underwriting" in this prospectus supplement for more information.
Listing	Application will be made to list the ADSs on the New York Stock Exchange. Trading of the ADSs on the New York Stock Exchange is expected to commence within 30 days after the initial delivery of the ADSs. The underlying preference shares will not be listed for trading purposes by any stock exchange or securities market.
Risk Factors	Investing in the ADSs and the underlying preference shares offered under this prospectus supplement involves risk. For a description of risks relating to investing in the ADSs and the underlying preference shares, please see the section "Risk Factors" in this prospectus supplement and the 2007 Form 20-F.
CUSIP	
ISIN	
Over-Allotment Option	We have granted to the underwriters [an option to purchase on or prior to , 2008] [a day option to purchase] up to an additional ADSs to cover over-allotments, if any. Any ADSs or preference shares issued or sold under the option will have the same terms and conditions as the ADSs or preference shares described herein.

Description of Preference Shares

General	The preference shares will have a nominal value of $0.25 each and will, when issued, be fully paid and non-assessable.
Ranking	The preference shares will rank equally among themselves and will rank senior to our ordinary shares and any other class of our shares ranking junior to the preference shares as regards participation in our profits and on a return of capital or a winding-up.
Dividends	Non-cumulative preferential dividends will accrue on the preference shares from and including the date of their issuance. Dividends will accrue and be payable on each preference share at a rate of % per year on the amount of $25 per preference share, from and including the date of issuance. Dividends will be payable quarterly in arrear in U.S. dollars on March 15, June 15, September 15 and December 15 of each year, commencing on [June] 15, 2008.

Dividends on the preference shares may be paid only to the extent that our Board considers that payment can be made out of our distributable profits (i.e., profits of Barclays Bank PLC that are available for distribution and permitted by law to be distributed). We may for any reason not pay in full or in part any dividends on the preference shares in respect of one or more dividend periods.

In addition, we will not pay a dividend on the preference shares if payment of the dividend would cause a breach of the applicable capital adequacy requirements of the United Kingdom's Financial Services Authority ("FSA") unless the FSA agrees otherwise.

If we do not pay in full any dividend on the preference shares on a dividend payment date (or if we fail to set aside the amount of the payment in full), neither we nor Barclays PLC may:

(i) declare or pay a dividend on any of our ordinary shares, other preference shares or other share capital ranking pari passu with or junior to the preference shares in respect to dividend payments and rights in liquidation; or

(ii) redeem, purchase, reduce or otherwise acquire any of our respective ordinary shares, preference shares or other share capital (or set aside any sum or establish any sinking fund for the redemption, purchase or other acquisition thereof);

until the earlier of (a) the dividend payment date on which we next pay in full (or set aside a sum to provide for payment in full of) a dividend on the preference shares and (b) the date on or by which all of the preference shares are either redeemed in full or purchased by or for our account, in each case in accordance with our articles of association and the terms of the preference shares. The restriction in clause (i) above does not apply to any payment by Barclays PLC of a final dividend declared by its shareholders prior to the relevant dividend payment date, or a dividend paid by us to Barclays PLC or to another wholly-owned subsidiary of Barclays PLC. The restriction in clause (ii) above does not apply to purchases, redemptions, reductions or other acquisitions of our shares held by Barclays PLC or another wholly-owned subsidiary of Barclays PLC.

Rights Upon Liquidation.. If there is a return of capital in respect of our voluntary or involuntary liquidation, dissolution, winding-up or otherwise, other than a redemption or purchase by us of any of our issued shares, or a reduction of our share capital, permitted by our articles of association and under applicable law, you will be entitled to receive a

	liquidation distribution of $25 per preference share, plus accrued but unpaid dividends (if any) for the then-current dividend period, as described under "Description of Preference Shares — Rights Upon Liquidation" in this prospectus supplement.
Redemption	Subject to the requirements of the UK Companies Act 1985 (as amended) and the operative company law provisions of the UK Companies Act 2006 (the "Companies Acts"), our articles of association and to giving one month's prior written notice to the FSA (if required), we may redeem some or all of the preference shares on [June] 15, 201[3] and on any dividend payment date thereafter. If we redeem your preference shares, we will give you at least 30 days (but no more than 60 days) prior notice. The redemption price payable on the redemption of preference shares is equal to $25 per preference share plus accrued but unpaid dividends (if any) for the then-current dividend period to the date fixed for redemption. For further information, please see "Description of Preference Shares — Redemption" in this prospectus supplement.
Purchases	Subject to the requirements of the Companies Acts, U.S. securities laws, our articles of association and all other applicable rules and regulations, and subject to the consent of or prior notification to the FSA (if required) we may at any time purchase, or cause to be purchased for our account, all or any of the preference shares at any price. We will not be required to select the shares to be purchased ratably or in any other particular manner as between the holders of preference shares or as between them and the holders of shares of any other class (whether or not the preference shares rank senior to such other class).
Voting Rights	As a holder of the preference shares or ADSs, you will not be entitled to receive notice of, attend or vote at any general meeting of our ordinary shareholders.
Variation of Rights	We may not vary or abrogate the rights attached to the preference shares except pursuant to a special resolution adopted by holders of the preference shares or with the written consent of holders of three-fourths of the preference shares. We may not authorize, create or increase the amount of any shares of any class, or any security convertible into shares of any class, ranking senior to the preference shares, except pursuant to a special resolution passed at a separate general meeting of the holders of the preference shares or with the written consent of holders of three-fourths of the issued preference shares.
Further Issues	We may, at any time and from time to time, and without any consent or sanction of the holders of the preference shares, create or issue further preference shares or other

	share capital ranking equal or junior to the preference shares.
No Additional Amounts	If at any time we are required by a tax authority to deduct or withhold taxes from payments made by us with respect to the preference shares, we will not pay additional amounts. As a result, the net amount received from us by each holder of a preference share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.
Registrar and Paying Agent	The Bank of New York, One Canada Square, London E14 5AL, United Kingdom, will act as the registrar and initial principal paying agent for the preference shares.
Governing Law	English law.

Description of American Depositary Receipts (ADRs)

Depositary	The Bank of New York will act as the ADR depositary. The ADR depositary's corporate trust office in New York City is presently located at 101 Barclay Street, New York, New York 10286.
American Depositary Receipts	An ADR is a certificate evidencing a specific number of ADSs. Each ADS will represent one preference share, or evidence of rights to receive one preference share, deposited with the London office of The Bank of New York, as custodian.
Withdrawal of Deposited Securities	ADRs may be surrendered in exchange for preference shares in registered form only. Upon surrender of ADRs at the ADR depositary's corporate trust office in New York City and upon payment of the taxes, charges and fees provided in the deposit agreement and subject to its terms, an ADR holder is entitled to delivery, to or upon its order, at the ADR depositary's corporate trust office in New York City or the office of the custodian in London of the amount of preference shares represented by the ADSs evidenced by the surrendered ADRs.
Cash Dividends and Other Cash Distributions	The ADR depositary will distribute all cash dividends or other cash distributions that it receives in respect of deposited preference shares to the ADR holders in proportion to their holdings of ADSs representing the preference shares.
Redemption of ADSs	If we redeem the preference shares represented by ADSs, the ADR depositary will distribute the redemption amount to ADR holders as a cash distribution, as described under "Description of American Depositary Receipts — Cash Dividends and Other Cash Distributions" in this prospectus supplement.

General	Neither the ADR depositary nor we will be liable to ADR holders if prevented or forbidden or delayed by any present or future law of any country or by any governmental or regulatory authority or stock exchange, any present or future provision of our articles of association, any provision of any securities issued or distributed by us, or any act of God or war or terrorism or other circumstances beyond our control or the ADR depositary's control in performing our obligations under the deposit agreement.
Governing Law	The deposit agreement and the ADRs are governed by, and construed in accordance with, the laws of the State of New York.
Ratings	It is expected that the ADSs will be rated [•] by Moody's Investors Service, [•] by Standard & Poor's and [•] by Fitch Ratings Ltd. These ratings reflect only the view of the applicable rating agency at the time the rating is issued, and any explanation of the significance of the rating may only be obtained from the relevant rating agency. There is no assurance that any credit rating will remain in effect for any given period of time or that it will not be lowered, suspended, modified or withdrawn entirely by the applicable rating agency if, in that rating agency's judgment, circumstances warrant the lowering, suspension, modification or withdrawal of the rating. Any such lowering, suspension or withdrawal of any rating may have an adverse effect on the market price or the marketability of the ADSs.

RISK FACTORS

Investing in the securities offered under this prospectus supplement involves risk. You should carefully consider the risks and the other information contained in this prospectus supplement, the accompanying prospectus, the 2007 Form 20-F and any other documents incorporated by reference before deciding to invest in the securities. If any of these risks occurs, our business, financial condition, and results of operations could suffer, and the trading price and liquidity of the preference shares or the ADSs could decline, in which case you could lose some or all of your investment.

If We Do Not Make Payments on Other Securities Issued by Us, We Will Not be Permitted to Pay Dividends on the Preference Shares

We have previously issued certain tier-one notes, or TONs, and reserve capital instruments, or RCIs. If we defer any coupon payment on the TONs, we will not be permitted to pay any dividends on (or redeem or repurchase) any preference shares until we make a coupon payment on the TONs. If we defer any coupon payment on the RCIs, we will not be permitted to pay any dividends on any preference shares until we pay the deferred coupon payment.

In addition, we have previously issued other preference shares. If our board of directors decides not to pay in full dividends on those other preference shares, we will not be permitted to pay dividends on (or redeem or repurchase) any preference shares offered under this prospectus supplement.

In the future, we may issue other preference shares and securities that similarly restrict our ability to pay dividends on (or redeem or repurchase) the preference shares offered under this prospectus supplement in the event we do not make payments on such other preference shares and securities.

Dividends on the Preference Shares Are Discretionary and Non-cumulative

Our board of directors may resolve, for any reason and in its absolute discretion, not to pay in full or in part any dividends on the preference shares in respect of a particular dividend period. Also, our board of directors is not permitted to pay any dividends on the preference shares unless such dividends can be paid out of our profits that are available for distribution and permitted by law to be distributed. In addition, we will not pay a dividend on the preference shares if payment of the dividend would cause a breach of the applicable capital adequacy requirements of the FSA.

There can be no assurance that we will have sufficient profits available for distribution for our board of directors to be authorized to pay the full amount of dividends on the preference shares in respect of a particular dividend period. For more information regarding risks that may materially affect the amount of our profits available for distribution and our ability to make payments under the preference shares, please refer to the information under the caption "Risk Factors" in the 2007 Form 20-F, which is incorporated by reference in this prospectus supplement.

Dividends on the preference shares will also be non-cumulative. If our board of directors does not pay the full amount of the dividend payable on a dividend payment date, then the rights of holders of the preference shares or ADSs to receive any unpaid amount in respect of the relevant dividend period will be lost. We will have no obligation to pay the dividend accrued for that dividend period or to pay any interest on the dividend, whether or not dividends on the preference shares are paid for any subsequent dividend period.

If We Are Wound-up or Liquidated, Any Distribution on the Preference Shares Will be Subordinated to the Claims of Our Creditors, and Holders of the Preference Shares may be Treated Differently from Holders of TONs and RCIs

If we are wound-up or liquidated, voluntarily or involuntarily, you will not be entitled to receive any liquidation preference on the preference shares until after the claims of all of our creditors have been satisfied. If we do not have sufficient assets at the time of liquidation to satisfy those claims, you will not receive any liquidation preference on the preference shares. There is no limitation on our ability to issue debt securities in the future that would rank equal or senior in liquidation to the preference shares offered under this prospectus supplement.

Subject to the requirements described under "Description of Preference Shares — Variation of Rights," we will be permitted to issue preference shares in the future that would rank senior in liquidation to the preference shares offered under this prospectus supplement. Because preference shares are in legal form of a different nature to the TONs or RCIs (or similar securities that we have issued or may issue in the future), there can be no assurances that as a holder of a preference share you will be treated equally with such securities in all circumstances.

Dividends on the Preference Shares Could Be Adversely Affected By Regulatory Restrictions on Our Operations

UK bank regulatory authorities could make determinations in the future with respect to us that could adversely affect our ability to pay dividends in respect of the preference shares or ADSs. In addition, United States federal or state regulatory authorities, as well as regulatory authorities in other countries, have regulatory authority over us and/or our subsidiary undertakings. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to us and/or any of our subsidiary undertakings or a portion of their respective operations or assets that could adversely affect the ability of any of them to, among other things, make distributions to their respective securityholders, engage in transactions with affiliates, purchase or transfer assets, pay their respective obligations or make any redemption or liquidation payments to their securityholders. Please refer to the information under the caption "[Section 1 Business Review — Risk Management — Supervision and Regulation]" in the 2007 Form 20-F, which is incorporated by reference in this prospectus supplement, for a description of regulations currently applicable to us.

Holders may be Required to Bear the Financial Risks of an Investment in the Preference Shares and the ADSs for an Indefinite Period of Time

The preference shares and ADSs do not have a fixed final redemption date and investors will have no right to call for the redemption of the preference shares or the ADSs. Although we may redeem preference shares and ADSs on [June] 15, 201[3] and on any dividend payment date thereafter at a redemption price of $25 per preference share plus accrued but unpaid dividends (if any) for the then-current dividend period, we have no obligation to redeem preference shares and ADSs and there may be limitations on our ability to do so. Therefore, you should be aware that you may be required to bear the financial risks of an investment in the preference shares and the ADSs for an indefinite period of time.

An Active Market for the ADSs May Fail to Develop

Application will be made to list the ADSs on the New York Stock Exchange and trading of the ADSs on the New York Stock Exchange is expected to commence within 30 days after the initial delivery of the ADSs. However, we do not intend to list the preference shares for trading on any stock exchange or securities market and we are not required to maintain the listing of the ADSs on the New York Stock Exchange or any other stock exchange or securities market. There can be no assurance that an active public market for the ADSs will develop and, if such a market were to develop, neither the underwriters nor any other person are required to maintain such a market. The liquidity and the market prices for the ADSs can be expected to vary with changes in market and economic conditions generally and in our financial condition, credit rating and prospects in particular, as well as in response to other factors that generally influence the market prices of securities.

National Association of Insurance Commissioners

The National Association of Insurance Commissioners ("NAIC") reviews a broad array of securities, including so-called hybrid securities such as the preference shares, and may from time to time classify them into various categories. Depending on how the NAIC may classify the preference shares, they may be more or less attractive to U.S. insurance companies that may seek to invest in the preference shares, which may in turn affect the demand for the preference shares after this offering. You should consult with your own advisor about the implications to you, if any, of a classification by the NAIC with respect to the preference shares, if any.

Holders of the Preference Shares or ADSs Do Not Have Voting Rights

As a holder of the preference shares or ADSs, you will not be entitled to receive notice of, attend or vote at any general meeting of our ordinary shareholders.

Rating Agencies May Change Rating Methodologies, Including Their Views on "Notching" Practices

The rating agencies may in the future change their rating methodologies for securities with features similar to the preference shares. This may include, for example, the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the preference shares, sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the preference shares were to be subsequently lowered, this may have a negative impact on the trading price of the ADSs.

Implications of Withdrawal of Underlying Preference Shares and Holding Preference Shares in Registered Form.

The preference shares will be represented by a share warrant to bearer in the form of a single global share warrant which will be deposited with the ADR depositary under the ADR deposit agreement. The ADSs are capable of being surrendered in exchange for preference shares in registered form, though such exchanges are not anticipated. If a holder chooses to take delivery of the preference shares underlying its ADSs, neither ad valorem UK stamp duty nor UK stamp duty reserve tax ("SDRT") should be payable on the exchange, provided that the preference shares are not transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts. However, a subsequent transfer of (or unconditional agreement to transfer) preference shares in registered form would be subject to UK stamp duty or SDRT as described below.

Subject to certain exceptions, a documentary transfer of preference shares in registered form, or a documentary agreement to transfer any interest in any preference shares in registered form where such interest falls short of full legal and beneficial ownership, would attract ad valorem UK stamp duty, and an unconditional agreement to transfer preference shares would attract SDRT (provided that SDRT would not be payable if UK stamp duty had been paid), generally at the rate of 0.5% (rounded up, if necessary, to the nearest £5) on the amount or value of the consideration for the transfer.

Furthermore, UK stamp duty would, subject to certain exceptions, be payable at the rate of 1.5% (rounded up, if necessary, to the nearest £5) of the value of preference shares in registered form on any instrument pursuant to which preference shares are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts. SDRT, at the same rate, could also be payable in these circumstances but no SDRT would be payable if stamp duty were paid.

This tax treatment may mean that preference shares held in registered form trade separately from preference shares which are represented by ADSs, and consequently there may be an increased risk of illiquidity in relation to any preference shares held in registered form. Furthermore, in exchanging ADSs for registered preference shares, a holder will also be exchanging listed for unlisted securities, which are likely to be less liquid and marketable than the ADSs.

USE OF PROCEEDS

The net proceeds from the sale of the ADSs, less the underwriting compensation of $ and expenses payable by us estimated at $, are estimated to be $. These proceeds will be used for general corporate purposes.

DESCRIPTION OF PREFERENCE SHARES

The following description of the preference shares replaces in its entirety the description of the preference shares in the accompanying prospectus. If this prospectus supplement is inconsistent with the accompanying prospectus, this prospectus supplement will prevail with regard to the preference shares. The following summary is not complete and is subject to, and qualified in its entirety by reference to, our articles of association, as amended, the written resolutions passed by the fund raising committee of our board of directors, the form of special resolution adopting the terms of the preference shares to be passed by our shareholders, the form of deed of covenant to be entered into by Barclays PLC containing the dividend restriction referred to below under "— Dividends — Partial Payment and Non-Payment of Dividends" and the form of agency agreement to be entered between us and The Bank of New York. We will file a copy of these documents with the SEC under cover of Form 6-K prior to the issuance of the ADSs.

General

Under our articles of association, only our board of directors or an authorized committee of the Board is empowered to provide for the issuance of U.S. dollar-denominated preference shares if a resolution of our shareholders has authorized the allotment.

The preference shares will have a nominal value of $0.25 each and will, when issued, be fully paid and non-assessable. The preference shares will rank equally among themselves and will rank senior to our ordinary shares and any other class of our shares ranking junior to the preference shares as regards participation in our profits and on a return of capital or a winding-up.

The preference shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the ADR depositary under the ADR deposit agreement.

We may consider the ADR depositary to be a single holder of preference shares so deposited for all purposes.

Title to preference shares in registered form will pass by transfer and registration on the register that the registrar for the preference shares shall keep at its office in the United Kingdom. The registrar for the preference shares will not charge for the registration of transfer, but the person requesting it will be liable for any taxes, stamp duties or other government charges.

A summary of certain terms and provisions of the ADR deposit agreement pursuant to which ADRs evidencing the ADSs are issuable is set forth below under the heading "Description of American Depositary Receipts".

Dividends

Dividend Rights

Non-cumulative preferential dividends will, subject to and as set out under "Partial Payment and Non-Payment of Dividends", accrue on the preference shares from and including the date of their issuance. Dividends will be paid on each preference share at a rate of % per year on the amount of $25 per preference share, from and including the date of issuance. Dividends will be payable quarterly in arrear in U.S. dollars on March 15, June 15, September 15 and December 15 of each year, commencing on [June] 15, 2008.

Dividends on the preference shares may be paid only to the extent that payment can be made out of our distributable profits (i.e., profits of Barclays Bank PLC that are available for distribution and permitted by law to be distributed). Our board of directors may resolve, for any reason and in its absolute discretion, not to pay in full or in part any dividends on the preference shares in respect of one or more dividend periods.

In addition, we will not pay a dividend on the preference shares if payment of the dividend would cause a breach of the applicable capital adequacy requirements of the FSA in the United Kingdom.

A "dividend period" is the period from and including the most recent dividend payment date (or the date of issuance) to but excluding the next succeeding dividend payment date.

Dividends on the preference shares will be calculated on the basis of a 360-day year of twelve 30-day months.

Partial Payment and Non-Payment of Dividends

Dividends on preference shares may be paid only to the extent that payment can be made out of our profits which are available for distribution and permitted by law to be distributed. Dividends on the preference shares will not be paid in full if our distributable profits are insufficient on any dividend payment date to enable us to pay accrued dividends in full on the preference shares and at the same time pay (or set aside funds to pay) the full amount of dividends expressed to be payable on or before that dividend payment date on any other class of preference shares or any class of our share capital ranking equal or senior to the preference shares as regards participation in our profits.

If our distributable profits are insufficient on this basis, we will not pay you any dividends on the preference shares until after we have paid (or set aside funds to pay) the full amount of any dividends referred to above in respect of other classes of preference shares or share capital ranking senior to the preference shares. If any distributable profits remain after we have paid those dividends, we will pay you dividends on the preference shares on a pro rata basis with other classes of preference shares or share capital ranking equally with the preference shares.

On any dividend payment date, the dividend on the preference shares which would otherwise be payable on such dividend payment date may, at our discretion, either not be payable at all or only be payable in part.

If a dividend on the preference shares is not paid, or is paid only in part, you will have no claim in respect of such non-payment or partial payment, and we will have no obligation to pay the dividend accrued for the relevant dividend period or to pay interest on that dividend, whether or not we pay dividends on the preference shares for any future dividend period.

If we do not pay in full any dividend on the preference shares on a dividend payment date (or if we fail to set aside the amount of the payment in full), neither we nor Barclays PLC may:

(i) declare or pay a dividend on any of our ordinary shares, other preference shares or other share capital ranking *pari passu* or junior with the preference shares in respect to dividend payments and rights in liquidation; or

(ii) redeem, purchase, reduce or otherwise acquire any of our respective ordinary shares, preference shares or other share capital (or set aside any sum or establish any sinking fund for the redemption, purchase or other acquisition thereof)

until the earlier of (a) the dividend payment date on which we next pay in full (or set aside a sum to provide for payment in full of) a dividend on the preference shares and (b) the date on or by which all of the preference shares are either redeemed in full or purchased by or for our account, in each case in accordance with our articles of association and the terms of the preference shares. The restriction in clause (i) above does not apply to any payment by Barclays PLC of a final dividend declared by its shareholders prior to the relevant dividend payment date, or a dividend paid by us to Barclays PLC or to another wholly-owned subsidiary of Barclays PLC. The restriction in clause (ii) above does not apply to the purchases, redemptions, reductions or other acquisitions of our shares held by Barclays PLC or another wholly-owned subsidiary of Barclays PLC.

Unclaimed Dividends

If you do not claim any dividend paid by us after a period of 12 years from the date when it became due for payment, you will forfeit the dividend and the unclaimed amount will revert to us. We will not act as your trustee in respect of any unclaimed dividend or other amount, even if our board of directors pays a dividend or other amount on the preference shares into a separate account.

No Interest

We will not pay you any interest on any dividend or other amount payable on the preference shares.

Rights Upon Liquidation

If there is a return of capital in respect of our voluntary or involuntary liquidation, dissolution, winding-up or otherwise, other than in respect of any redemption or repurchase of the preference shares permitted by our articles of association and under applicable law, the holders of the outstanding preference shares will be entitled to receive liquidating distributions. Liquidating distributions will:

- come from the assets we have available for distribution to shareholders, before any payment is made to holders of our ordinary shares or any other class of shares then in issue ranking junior to the preference shares upon a return of capital;
- rank equally in every respect on such a return of capital with the holders of any other class of shares then in issue (other than any class of shares then in issue ranking in priority to the preference shares on a winding-up or such other return of capital); and
- be in an amount equal to the liquidation value per share of the preference shares, plus an amount equal to accrued and unpaid dividends (if any), whether or not declared or earned, for the then-current dividend period up to and including the date of commencement of our winding-up or the date of any other return of capital, as the case may be.

After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the preference shares will have no right or claim to participate further in our assets available for distribution among our shareholders and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of our assets, the distribution to our shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consist entirely of cash, will not be deemed a return of capital in respect of our liquidation, dissolution or winding-up.

Redemption

Subject to the requirements of the Companies Acts, our articles of association and to giving one month's prior written notice to the FSA (if required), we may redeem some or all of the preference shares on [June] 15, 201[3] and on any dividend payment date thereafter. If we redeem your preference shares, we will give you at least 30 days (but no more than 60 days) prior notice. The redemption price payable on the redemption of preference shares is equal to $25 per preference share plus accrued but unpaid dividends (if any) for the then-current dividend period to the date fixed for redemption.

In the event that payment of the redemption price in respect of any preference share is improperly withheld or refused, the dividend on the preference share will continue to accrue, at the then applicable rate, from the date fixed for redemption to the date of payment of the redemption price. If the date for payment of any amount due on redemption is not a business day, then payment of that amount will be made on the next succeeding business day, without any interest or payment in respect of such delay.

Purchases

Subject to the requirements of the Companies Acts and U.S. securities laws, our articles of association and all other applicable rules and regulations, and subject to the consent of or prior notification to the FSA (if required) we may at any time purchase, or cause to be purchased for our account, all or any of the preference shares at any price. We will not be required to select the shares to be purchased ratably or in any other particular manner as between the holders of preference shares or as between them and the holders of shares of any other class (whether or not the preference shares rank senior to such other class).

Voting Rights

As a holder of the preference shares or ADSs, you will not be entitled to receive notice of, attend or vote at any general meeting of our ordinary shareholders.

Variation of Rights

The rights, preferences and privileges attached to the preference shares may be abrogated only with the written consent of the holders of at least three-fourths of the outstanding preference shares or with the sanction of a special resolution passed at a separate general meeting of the holders of the outstanding preference shares. A special resolution will be adopted if passed by a majority of at least three-fourths of those holders voting in person or by proxy at the meeting. The quorum required for this separate general meeting will be persons holding or representing by proxy at least one-third of the outstanding preference shares, except that if at any adjourned meeting where this quorum requirement is not met, any two holders present in person or by proxy will constitute a quorum.

We may not authorize, create or increase the amount of any shares of any class, or any security convertible into shares of any class, ranking senior to the preference shares, except, as described above, pursuant to a special resolution passed at a separate general meeting of the holders of the preference shares or with the written consent of holders of three-fourths of the issued preference shares.

This restriction does not apply to our redemption or purchase of any shares, or any reduction of our share capital, permitted by our articles of association and under applicable law.

Notices of Meetings

A notice of any meeting at which holders of the preference shares are entitled to vote will be mailed to each record holder of the preference shares, or published in a leading daily newspaper in London or in an English language newspaper of general circulation in Europe. Each notice will state:

- the place, date and time of the meeting;
- the general nature of the business to be transacted;
- a description of any resolution to be proposed for adoption at the meeting on which those holders are entitled to vote; and
- that each holder entitled to attend and vote is entitled to appoint one or more proxies to attend, and, on a poll, vote instead of such holder and that a proxy need not be a holder.

A holder of the preference shares in registered form who is not registered with an address in the United Kingdom and who has not supplied an address within the United Kingdom to us for the purpose of notices is not entitled to receive notices of meetings from us. For a description of notices that we will give to the ADR depositary and that the ADR depositary will give to ADR holders, you should read "Description of American Depositary Receipts — Reports and Notices" in this prospectus supplement.

Further Issues

We may, at any time and from time to time, and without any consent or sanction of the holders of the preference shares, create or issue further preference shares or other share capital ranking equal or junior to the preference shares. Our creation or issuance of further preference shares or other share capital ranking equally with the preference shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the preference shares. These rights will not be deemed to be varied by any change to the provisions in our articles of association, other than a change which would result in any further preference shares or other share capital ranking senior to the preference shares. Any further series of preference shares or other share capital ranking equal or junior to the preference shares may either carry identical rights in all respects with the preference shares (except as regards the date from which such shares rank for dividend) or carry different rights.

No Additional Amounts

If at any time we are required by a tax authority to deduct or withhold taxes from payments made by us with respect to the preference shares, we will not pay additional amounts. As a result, the net amount received from us by each holder of a preference share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

Registrar and Paying Agent

The Bank of New York, One Canada Square, London E14 5AL, United Kingdom, will act as the registrar and initial principal paying agent for the preference shares.

Governing Law

The creation and issuance of the preference shares and the rights attached to them will be governed by and construed in accordance with English law.

[***Regulatory call provisions remain under consideration.***]

DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

The following description of the ADRs replaces in its entirety the description of the ADRs in the accompanying prospectus. If this prospectus supplement is inconsistent with the accompanying prospectus, this prospectus supplement will prevail with regard to the ADRs. The deposit agreement is among us, The Bank of New York, as ADR depositary, and all holders from time to time of ADRs issued under the deposit agreement. The following summary is not complete and is subject to, and qualified in its entirety by reference to, the deposit agreement. We have filed a copy of the form of deposit agreement with the SEC as an exhibit to our registration statement on Form F-3 333-145845. Copies of the deposit agreement are on file at the ADR depositary's corporate trust office and the office of the custodian. They are open to inspection by owners and holders during business hours.

ADR Depositary

The Bank of New York will act as the ADR depositary. The office of The Bank of New York in London will act as custodian. The ADR depositary's corporate trust office in New York City is presently located at 101 Barclay Street, New York, New York 10286, and the custodian's office is presently located at One Canada Square, London E14 5AL, United Kingdom.

American Depositary Receipts

An ADR is a certificate evidencing a specific number of ADSs, each of which will represent one preference share, or evidence of rights to receive one preference share.

Deposit and Issuance of ADRs

When the custodian has received preference shares, or evidence of rights to receive preference shares, and applicable fees, charges and taxes, the ADR depositary will execute and deliver at its corporate trust office in New York City to the person(s) specified by us in writing, an ADR or ADRs registered in the name of such person(s) evidencing the corresponding number of ADSs.

Withdrawal of Deposited Securities

ADRs may be surrendered in exchange for preference shares in registered form. Upon surrender of ADRs at the ADR depositary's corporate trust office in New York City and upon payment of the taxes, charges and fees provided in the deposit agreement and subject to its terms, an ADR holder is entitled to delivery, to or upon its order, at the ADR depositary's corporate trust office in New York City or the office of the custodian in London, of the amount of preference shares represented by the ADSs evidenced by the surrendered ADRs. The ADR holder will bear the risk and expense for the forwarding of share certificates and other documents of title to the corporate trust office of the ADR depositary. We do not anticipate that ADR holders are likely to elect to take delivery of underlying preference shares for the reasons described above under "Risk Factors."

Cash Dividends and Other Cash Distributions

The ADR depositary will distribute all cash dividends or other cash distributions that it receives in respect of deposited preference shares to the ADR holders in proportion to their holdings of ADSs representing the preference shares. The cash amount distributed will be reduced by any amounts that we or the ADR depositary must withhold on account of taxes.

Before making a distribution, the ADR depositary will deduct any withholding taxes that must be paid. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent.

Redemption of ADSs

If we redeem preference shares represented by ADSs, the ADR depositary will distribute the applicable redemption amount to ADR holders as a cash distribution, as described under "— Cash Dividends and Other Cash Distributions" above.

If fewer than all the ADSs are to be redeemed, the ADSs to be redeemed will be selected by lot, proportionately or by any other equitable method as the ADR depositary may determine. A proportionate amount of preference shares will thereafter be redeemed.

We must give notice of redemption in respect of preference shares to the ADR depositary not less than 30 days before the redemption date. If instructed by us, the ADR depositary will deliver the notice to all registered holders of ADRs.

Transfer of Receipts

Title to an ADR, and the ADSs evidenced thereby, may be transferred by surrendering the ADR, properly endorsed or accompanied by proper instruments of transfer, to the ADR depositary. The ADR depositary will register transfers of ADRs on its transfer books. Where not all of the ADSs evidenced by the ADR are the subject of the transfer, a new ADR in respect of the balance of the ADSs will be issued to the transferor.

Record Date

Whenever any cash dividend or other cash distribution becomes payable, or whenever the ADR depositary causes a change in the number of preference shares represented by each ADS or receives notice of any meeting of holders of preference shares, the ADR depositary will fix a record date for the determination of the ADR holders who are entitled to receive the dividend or to give instructions for the exercise of voting rights at the meeting, or on or after which each ADS will represent the changed number of shares subject to the provisions of the deposit agreement.

Voting of the Underlying Deposited Series

As a holder of the preference shares or ADSs, you will not be entitled to receive notice of, attend or vote at any general meeting of our ordinary shareholders.

When the ADR depositary receives notice of any meeting or solicitation of consents or proxies of holders of preference shares, it will, at our written request and as soon as practicable thereafter, mail to the record holders of ADRs a notice including:

- the information contained in the notice of meeting;
- a statement that the record holders of ADRs at the close of business on a specified record date will be entitled, subject to any applicable provision of English law, to instruct the ADR depositary as to the exercise of any voting rights pertaining to the preference shares represented by their ADSs; and
- a brief explanation of how they may give instructions, including an express indication that they may instruct the ADR depositary to give a discretionary proxy to a designated member or members of our board of directors if no such instruction is received.

Inspection of Transfer Books

The ADR depositary agent will, at its corporate trust office in New York City, keep books for the registration and transfer of ADRs. These books will be open for inspection by ADR holders at all reasonable times. However, this inspection may not be for the purpose of communicating with ADR holders in the interest of a business or object other than our business or a matter related to the deposit agreement or the ADRs.

Reports and Notices

We will furnish the ADR depositary with our annual reports and the ADR depositary will make available at its corporate trust office in New York City, for any ADR holder to inspect, any reports and communications received from us that are both received by the ADR depositary as holder of preference shares and made generally available by us to the holders of those preference shares. This includes our annual report and accounts.

Upon written request, the ADR depositary will mail copies of those reports to ADR holders as provided in the deposit agreement.

On or before the first date on which we give notice, by publication or otherwise, of:

- any meeting of holders of the preference shares;
- any adjourned meeting of holders of the preference shares; or
- the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of, preference shares

we have agreed to transmit to the ADR depositary and the custodian a copy of the notice in the form given or to be given to holders of the preference shares. If requested in writing by us, the ADR depositary will, at our expense, arrange for the prompt transmittal or mailing of such notices, and any other reports or communications made generally available to holders of the preference shares, to all holders of ADRs.

Amendment and Termination of the Deposit Agreement

The form of the ADRs and any provisions of the deposit agreement may at any time and from time to time be amended by agreement between us and the ADR depositary, without the consent of holders of ADRs, in any respect which we may deem necessary or advisable. Any amendment that imposes or increases any fees or charges, other than taxes and other governmental charges, registration fees, transmission costs, delivery costs or other such expenses, or that otherwise prejudices any substantial existing right of holders of outstanding ADRs evidencing ADSs, will not take effect as to any outstanding ADRs until thirty (30) days after notice of the amendment has been given to the record holders of those ADRs. Every holder of any ADR at the time an amendment becomes effective, if it has been given notice, will be deemed by continuing to hold the ADR to consent and agree to the amendment and to be bound by the deposit agreement or the ADR as amended. No amendment may impair the right of any holder of ADRs to surrender ADRs and receive in return the preference shares represented by the corresponding ADSs.

Whenever we direct, the ADR depositary has agreed to terminate the deposit agreement by mailing a termination notice to the record holders of all ADRs then outstanding at least 30 days before the date fixed in the notice of termination. The ADR depositary may likewise terminate the deposit agreement by mailing a termination notice to us and the record holders of all ADRs then outstanding if at any time 90 days shall have expired since the ADR depositary delivered a written notice to us of its election to resign and a successor depositary shall not have been appointed and accepted its appointment.

If any ADRs evidencing ADSs remain outstanding after the date of any termination, the ADR depositary will then:

- discontinue the registration of transfers of ADRs;
- suspend the distribution of dividends to holders of ADRs; and
- not give any further notices or perform any further acts under the deposit agreement, except those listed below, with respect to those ADRs.

The ADR depositary will, however, continue to collect dividends and other distributions pertaining to the preference shares. It will also continue to sell rights and other property as provided in the deposit agreement and deliver preference shares, together with any dividends or other distributions received with respect to them and the net proceeds of the sale of any rights or other property, in exchange for ADRs surrendered to it.

At any time after the expiration of one year from the date of termination of the deposit agreement, the ADR depositary may sell the preference shares then held. The ADR depositary will then hold uninvested the net proceeds of any such sales, together with any other cash then held by it under the deposit agreement in respect of those ADRs, unsegregated and without liability for interest, for the pro rata benefit of the holders of ADRs that have not previously been surrendered.

Charges of ADR Depositary

The following charges shall be incurred by any party depositing or withdrawing preference shares, or by any party surrendering ADRs or to whom ADRs are issued:

- $5 or less for each 100 ADSs (or portion thereof) for the execution and delivery of ADRs (including issuances resulting from a distribution shares of rights or other property) and cancellation of ADRs for the purpose of withdrawal, including the termination of the deposit agreement. The ADR depositary has agreed to waive this fee for the initial execution and delivery of ADRs evidencing the corresponding number of ADSs offered under this prospectus supplement; and

- any applicable taxes or other governmental charges.

Except as provided below, we will pay all other fees or charges of the ADR depositary and those of any registrar, co-transfer agent and co-registrar under the deposit agreement, but persons depositing or withdrawing preference shares will be obligated to pay:

- any applicable share transfer or other registration fees associated with deposits or withdrawals of preference shares; and
- cable, telex, facsimile transmission charges which the deposit agreement provides are at the expense of persons depositing or withdrawing preference shares.

Under the deposit agreement, the ADR depositary may charge an annual fee of $0.02 or less per depositary share for depositary services. The ADR depositary has agreed to waive this fee.

You will be responsible for any taxes or other governmental charges payable on your ADRs or on the preference shares underlying your ADRs. See "Risk Factors" above. The ADR depositary may refuse to transfer your ADRs or allow you to withdraw the preference shares underlying your ADRs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited preference shares underlying your ADRs to pay any taxes owed and you will remain liable for any deficiency. If the ADR depositary sells deposited preference shares, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

General

Neither the ADR depositary nor we will be liable to ADR holders if prevented or forbidden or delayed by any present or future law of any country or by any governmental or regulatory authority or stock exchange, any present or future provision of our articles of association, any provision of any securities issued or distributed by us, or any act of God or war or terrorism or other circumstances beyond our or the ADR depositary's control in performing our obligations under the deposit agreement. The obligations of both us and the ADR depositary under the deposit agreement are expressly limited to performing our duties without gross negligence or bad faith.

Both we and the ADR depositary:

- are not liable if either of us exercises the discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the deposit agreement; and
- are not liable for any action or nonaction by us in reliance upon the advice of or information from legal counsel, accountants, any person presenting securities for deposit, any ADR holder or any other person believed by either of us in good faith to be competent to give such advice or information.

The ADR depositary will act as registrar or appoint a registrar or one or more co-registrars for registration of the ADRs in accordance with any requirements of the NYSE or any other stock exchange or securities market on or by which the ADSs are listed for trading purposes.

The ADRs evidencing ADSs are transferable on the books of the ADR depositary or its agent. However, the ADR depositary may close the transfer books as to ADRs evidencing ADSs at any time when it deems it expedient to do so in connection with the performance of its duties. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR or withdrawal of any preference shares, the ADR depositary or the custodian may require the person presenting the ADR or depositing the preference shares to pay a sum sufficient to reimburse it for any related tax or other governmental charge and any share transfer or registration fee and any applicable fees payable as provided in the deposit agreement. The ADR depositary may withhold any dividends or other distributions, or may sell for the account of the holder any part or all of the preference shares evidenced by the ADR, and may apply those dividends or other distributions or the proceeds of any sale in payment of the tax or other governmental charge. The ADR holder will remain liable for any deficiency.

Any ADR holder may be required from time to time to furnish the ADR depositary or the custodian with proof satisfactory to the ADR depositary of citizenship or residence, exchange control approval, information relating to the registration on our books or those that the registrar maintains for us for the preference shares in registered form, or other information, to execute certificates and to make representations and warranties that the ADR depositary deems necessary or proper. Until those requirements have been satisfied, the ADR depositary may withhold the delivery or registration of transfer of any ADR or the distribution or sale of any dividend or other distribution or proceeds of any sale or distribution or the delivery of any deposited preference shares or other property related to the ADR. The delivery, transfer and surrender of ADRs may be suspended during any period when the transfer books of the ADR depositary are closed or if we or the ADR depositary deem it necessary or advisable, subject to the provisions of the following sentence. The surrender of outstanding ADRs and the withdrawal of preference shares may not be suspended subject only to:

- temporary delays caused by closing our transfer books or those of the ADR depositary or the deposit of preference shares in connection with voting at shareholder meetings, or the payment of dividends;
- the payment of fees, taxes and similar charges; and
- compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of preference shares.

The deposit agreement and the ADRs are governed by, and construed in accordance with, the laws of the State of New York.

TAX CONSIDERATIONS

United States Taxation

This section supplements the discussion of United States federal income taxation in the accompanying prospectus. It applies to you only if you acquire your preference shares or ADSs in this offering and you hold your preference shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds your preference shares or ADSs as part of a straddle or a hedging or conversion transaction, or
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the United States Internal Revenue Code of 1986 (the "Code"), as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the ADR depositary and the assumptions that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. You are a U.S. holder if you are a beneficial owner of preference shares or ADSs and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership (or an entity treated as a partnership for tax purposes) holds preference shares or ADSs, the tax treatment of a partner will generally depend on the state of the partner and the activities of the partnership. If you are a partner in a partnership holding preference shares or ADSs, you should consult your tax advisors.

If you are not a U.S. holder, this section does not apply to you.

You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of preference shares or ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the preference shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet certain other requirements. Subject to applicable limitations that may vary depending on your individual circumstances, dividends we pay with respect to the preference shares will be qualified dividend income.

The dividend is taxable to you when you, in the case of shares, or the ADR depositary, in the case of ADSs, receive it, actually or constructively. The dividend will not be eligible for the dividends received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the preference shares or ADSs and thereafter as capital gain.

For foreign tax credit purposes, dividends will be income from sources outside the United States and will, depending on your circumstances, be either "passive" or "general" income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gain

If you are a U.S. holder and you sell or otherwise dispose of your preference shares, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the value of the amount that you realize and your tax basis in your preference shares or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Redemptions

A redemption of preference shares for cash will be treated as a distribution taxable as a dividend unless an applicable exception applies, in which case it will be treated as a sale or exchange of redeemed shares taxable as described under the caption "— Taxation of Capital Gain" above.

The redemption will be treated as a sale or exchange if it (1) results in a "complete termination" of a U.S. holder's share interest in us or (2) is not "essentially equivalent to a dividend" with respect to a U.S. holder, all within the meaning of Section 302(b) of the Code. In determining whether any of these tests have been met, shares considered to be owned by a U.S. holder by reason of certain constructive ownership rules, as well as shares actually owned by such holder, must generally be taken into account. If a particular U.S. holder of shares does not own (actually or constructively) any of our other shares, or owns only an insubstantial percentage of our outstanding shares, and does not participate in our control or management, a redemption of the shares of such holder will generally qualify for sale or exchange treatment. However, because the determination as to whether any of the alternative tests of Section 302(b) of the Code will be satisfied with respect to any particular U.S. holder of the shares depends upon the facts and circumstances at the time that the determination must be made, prospective U.S. holders of the shares are advised to consult their own tax advisors regarding the tax treatment of a redemption.

If a redemption of preference shares is treated as a distribution, the entire amount received will be treated as a distribution and will be taxable as described under the caption "— Taxation of Dividends" above.

Information Reporting and Backup Withholding

If you are a noncorporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- payments of dividends or other taxable distributions with respect to a preference share or an ADS within the United States, including payments made by wire transfer from outside the United States to an account you maintain in the United States; and

- the payment of the proceeds from the sale of a preference share or ADS effected at a United States office of a broker or at the foreign office of a broker that is a U.S.-controlled person.

Additionally, backup withholding will apply to such payments if you are a noncorporate U.S. holder that:

- fails to provide an accurate taxpayer identification number, is notified by the Internal Revenue Service that you have failed to report all dividends required to be shown on your federal income tax returns; or

- in certain circumstances, fails to comply with applicable certification requirements.

If you are a United States alien holder, which is any holder that is either (i) a non-resident alien individual, (ii) a foreign corporation or (iii) an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a preference share or ADS, you are generally exempt from backup withholding and information reporting requirements with respect to:

- payments of dividends with respect to a preference share or ADS made to you outside the United States by us or another non-United States payor; and

- other payments of dividends and the payment of the proceeds from the sale of a preference share or ADS effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States federal income tax; and

  - the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished to the payor or broker:

    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person; or

    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations; or

  - you otherwise establish an exemption.

Except as provided below, payment of the proceeds from the sale of a preference share or ADS effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of a preference share or ADS that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States;

- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address; or

- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of a preference share or ADS effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person;

- a controlled foreign corporation for United States tax purposes;

- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period; or

- a foreign partnership, if at any time during its tax year:

  - one or more of its partners are "U.S. persons", as defined in U.S. Treasury regulations, who, in the aggregate, hold more than 50% of the income or capital interest in the partnership; or

- such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

United Kingdom Taxation

The following is a summary of certain aspects of the current United Kingdom taxation treatment of the preference shares and ADSs. It relates only to the position of persons who are the absolute beneficial owners of the preference shares or ADSs and who are neither (a) resident in the United Kingdom for tax purposes nor (b) holding preference shares or ADSs in connection with any trade or business carried on in the United Kingdom through any branch, agency or permanent establishment in the United Kingdom (a "Non-resident holder"). This summary may not apply to certain classes of holders, such as dealers in securities. The comments below also assume that holders of ADSs will in practice be treated for purposes of United Kingdom tax as beneficial owners of the preference shares represented by the ADSs. Holders who are in any doubt as to their tax position (including, in particular, any holders who are resident in the United Kingdom for tax purposes or carrying on a trade or business through any branch, agency or permanent establishment in the United Kingdom) should consult their professional advisers. In addition, holders who may be liable to tax in other jurisdictions should also consult their professional advisers.

Taxation of Dividends

We will not be required to withhold tax at source when paying a dividend on the preference shares.

Non-resident holders of preference shares or ADSs will not have any other liability to United Kingdom tax on such dividends.

Non-resident holders of preference shares or ADSs will not generally be able to claim repayment of any part of any tax credit attaching to dividends paid by us, although this will depend on the existence and terms of any double tax treaty between the United Kingdom and the country in which the holder of preference shares or ADSs is resident for tax purposes; holders of preference shares or ADSs who are resident in the United States for tax purposes will not be entitled to any such credit under the terms of the double taxation treaty between the United Kingdom and the United States of July 24, 2001 (as amended).

Non-resident holders of preference shares or ADSs will not generally be subject to UK capital gains tax or corporation tax on a disposal of preference shares or ADSs. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the United Kingdom.

Inheritance Tax

Preference shares or ADSs beneficially owned by an individual may be subject to UK inheritance tax on the death of the individual or, in some circumstances, if the preference shares or ADSs are the subject of a gift, including a transfer at less than full market value, by that individual.

Inheritance tax is not generally chargeable on gifts to individuals made more than seven years before the death of the donor.

Subject to limited exclusions, gifts to settlements (which would include, very broadly, private trust arrangements) or to companies may give rise to an immediate inheritance tax charge. Preference shares or ADSs held in settlements may also be subject to inheritance tax charges periodically during the continuance of the settlement, on transfers out of the settlement or on certain other events. Investors should take their own professional advice as to whether any particular arrangements constitute a settlement for inheritance tax purposes.

Stamp Duty and Stamp Duty Reserve Tax

Issuance of the preference shares in bearer form. No UK stamp duty will be payable on the delivery of preference shares in bearer form to the custodian on behalf of the ADR depositary. Also, we understand that HM Revenue & Customs will not charge stamp duty reserve tax ("SDRT") on the delivery of the preference shares in bearer form to the custodian on behalf of the ADR depositary.

Transfers of the ADRs. Any instrument transferring or containing an agreement to transfer a registered

ADR which is executed outside the United Kingdom and not brought into the United Kingdom for any purpose will not give rise to any obligation to pay UK stamp duty, and an agreement to transfer a registered ADR will not give rise to SDRT.

Registered preference shares. ADRs may be surrendered in exchange for preference shares in registered form.

Subject to certain exceptions, a documentary transfer of preference shares in registered form, or a documentary agreement to transfer any interest in any preference shares in registered form where such interest falls short of full legal and beneficial ownership, would attract ad valorem UK stamp duty, and an unconditional agreement to transfer preference shares would also attract SDRT (provided that SDRT would not be payable if UK stamp duty had been paid), generally at the rate of 0.5% (rounded up, if necessary, to the nearest £5) on the amount or value of the consideration for the transfer. Generally, ad valorem stamp duty applies neither to gifts nor on a transfer from a nominee to the beneficial owner, although in cases of transfers where no ad valorem stamp duty arises, a fixed UK stamp duty of £5 may be payable.

UK stamp duty would, subject to certain exceptions, be payable at the rate of 1.5% (rounded up, if necessary, to the nearest £5) of the value of preference shares in registered form on any instrument pursuant to which preference shares are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts. UK SDRT, at the same rate, could also be payable in these circumstances but no SDRT would be payable if stamp duty were paid.

CAPITALIZATION AND INDEBTEDNESS

The following table sets out the authorised and issued share capital of Barclays Bank PLC and the Barclays Bank PLC Group's total shareholders' equity, indebtedness and contingent liabilities as of December 31, 2007, and as adjusted to reflect the issuance of the preference shares (without giving effect to any exercise of the over-allotment option). The figures set out in the following table were extracted from our audited financial statements for the year ended December 31, 2007, which were prepared in accordance with International Financial Reporting Standards. The adjustments to reflect the issuance of the preference shares have been converted to pounds sterling at an exchange rate of £1=$.

	As of December 31, 2007	Adjusted for the issuance of the preference shares [*To be updated*]
	'000	*'000*
Share capital of Barclays Bank PLC		
Authorized ordinary share capital — shares of £1 each	3,000,000	3,000,000
Authorized preference share capital — shares of £100 each	400	400
Authorized preference share capital — shares of £1 each	1	1
Authorized preference share capital — shares of U.S.$100 each	400	400
Authorized preference share capital — shares of U.S.$0.25 each	150,000	150,000
Authorized preference share capital — shares of €100 each	400	400
Ordinary shares — issued and fully paid shares of £1 each	2,337,161	2,337,161
Preference shares — issued and fully paid shares of £100 each	75	75
Preference shares — issued and fully paid shares of £1 each	1	1
Preference shares — issued and fully paid shares of U.S$100 each	100	100
Preference shares — issued and fully paid shares of U.S.$0.25 each	131,000	
Preference shares — issued and fully paid shares of €100 each	240	240
	£ million	*£ million*
Group shareholders' equity		
Called up share capital	2,382	
Share premium account	10,751	
Other reserves	(170)	(170)
Other shareholders' funds	2,687	2,687
Retained earnings	14,222	14,222
Shareholders' equity excluding minority interests	**29,872**	
Minority interests	1,949	1,949
Total shareholders' equity	**31,821**	
Group indebtedness[1]		
Subordinated liabilities[2]	18,150	18,150
Debt securities in issue[3]	120,228	120,228
Total indebtedness	**138,378**	**138,378**
Total capitalization and indebtedness	**170,199**	
Group contingent liabilities		
Acceptances and endorsements	365	365
Guarantees and assets pledged as collateral security	35,692	35,692
Other contingent liabilities	9,717	9,717
Total contingent liabilities	**45,774**	**45,774**

Notes:

[(1) "Group indebtedness" includes interest accrued as at [June 30], 2007, in accordance with International Financial Reporting Standards.]

(2) On January 23, 2008, Barclays Bank PLC issued €1,750,000,000 6.00% Fixed Rate Subordinated Notes due 2018. On January 25, 2008, Barclays Bank PLC issued €100,000,000 CMS-Linked Subordinated Notes due 2018.

(3) In addition, there were £53,320 million of debt securities in issue accounted on a fair value basis as at December 31, 2007.

[TABLE ABOVE TO BE UPDATED]

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement — Standard Provisions, dated November 30, 2007, incorporated in the pricing agreement dated April , 2008, between us and the underwriters named below, we have agreed to issue to the underwriters, and each underwriter has severally undertaken to pay up in full, the number of preference shares represented by ADSs (each ADS representing one preference share), set forth opposite its name below:

Underwriters	**Number of ADSs**
Barclays Capital Securities Limited	
Citigroup Global Markets Inc	
[•]	
Total	

The underwriting agreement and the pricing agreement provide that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters have undertaken to pay up in full all of the preference shares in the form of ADSs if any are subscribed for.

The underwriters initially propose to offer the ADSs directly to the public at a price per ADS of $25. After the initial offering of the ADSs to the public, the price to public and other selling terms may from time to time be varied by the underwriters.

The underwriters propose to offer part of the ADSs directly to the public at the initial public offering price set forth above and part of the ADSs to certain dealers at the initial public offering price less a concession not in excess of $ per ADS, provided, however, that such concession for sales to certain institutions will not be in excess of $ per ADS. The underwriters may allow, and such dealers may reallow, a concession not in excess of $ per ADS to brokers and dealers.

We estimate that our total expenses for the offering, excluding underwriting commissions, will be approximately $.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The preference shares and ADSs are new issue securities with no established trading market. We will apply to list the ADSs on the New York Stock Exchange. Trading of the ADSs on the New York Stock Exchange is expected to commence within 30 days after the delivery of the ADSs. The preference shares will not be listed for trading and no assurance can be given as to the liquidity of the trading market for the preference shares or ADSs.

The ADSs will settle through the facilities of DTC and its participants (which may include Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme). The CUSIP number for the ADSs is , and the ISIN is .

We expect that delivery of the ADSs will be made against payment on or about April , 2008, which will be the [fifth] business day following the date of this prospectus supplement (such settlement cycle being referred to as "T+[5]"). [Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to the trade expressly agree otherwise. Accordingly, if you wish to trade ADSs on the date of this prospectus supplement or the next succeeding business day you will be required, by virtue of the fact that the ADSs will initially settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should therefore consult your own advisor.]

Because Barclays Capital Inc., an affiliate of ours and a member of the Financial Industry Regulatory Authority ("FINRA") (formerly, the NASD), may be participating in the offering of ADSs in the United States on behalf of Barclays Capital Securities Limited, the offering of the ADSs is being conducted in accordance with the applicable provisions of Rule 2720 of the Conduct Rules of the FINRA.

Certain of the underwriters and their affiliates have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may from time to time engage in transactions with and perform services for us in the ordinary course of business.

Over-Allotment Option

We have granted an option to the underwriters to purchase up to an additional ADSs at the public offering price on the cover page of this prospectus supplement, less the underwriting compensation, [on or before , 2008] [for days from the date of this prospectus supplement]. The underwriters may exercise this option solely to cover overallotments. If the underwriters exercise this option, each underwriter will be obligated, subject to conditions contained in the underwriting agreement, to underwrite a number of additional ADSs proportionate to such underwriter's initial amount reflected in the above table.

Stabilization Transactions and Short Sales

In connection with the offering, the underwriters may purchase and sell ADSs in the open market. These transactions may include sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering. The underwriters may close a short position by either exercising their option to purchase additional ADSs or purchasing ADSs in the open market. Stabilizing transactions consist of various bids for or purchases of the ADSs made by the underwriters in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the ADSs. As a result, the price of the ADSs may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time.

Market-Making Resales

The following discussion of market-making replaces in its entirety the discussion under the heading "Plan of Distribution — Market-Making Resales" and "Matters Relating to Initial Offering and Market-Making Resales" in the accompanying prospectus.

This prospectus supplement may be used by an affiliate of Barclays Bank PLC in connection with offers and sales of the ADSs in market-making transactions. In a market-making transaction, such affiliate may resell the ADSs it acquires from other holders, after the original offering and sale of the ADSs. Resales of this kind may occur in the open market or may be privately negotiated, at prevailing market prices at the time of resale or at related or negotiated prices. In these transactions, such affiliate may act as principal, or agent, including as agent for the counterparty in a transaction in which such affiliate acts as principal, or as agent for both counterparties in a transaction in which such affiliate does not act as principal. Such affiliate may receive compensation in the form of discounts and commissions, including from both counterparties in some cases.

The aggregate initial offering price specified on the cover of this prospectus supplement relates to the initial offering of the ADSs. This amount does not include securities sold in market-making transactions.

We do not expect to receive any proceeds from market-making transactions.

Information about the trade and settlement dates, as well as the purchase price, for a market-making transaction will be provided to the purchaser in a separate confirmation of sale.

Selling Restrictions

United Kingdom

Each underwriter has represented and agreed that, in connection with the distribution of the preference shares or the ADSs:

(i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any preference shares or ADSs in circumstances in which Section 21(1) of the FSMA would not, if Barclays Bank PLC was not an authorized person, apply to Barclays Bank PLC; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the preference shares or ADSs in, from or otherwise involving the United Kingdom.

European Union Prospectus Directive

Each underwriter has severally represented and agreed that 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") it has not made and will not make an offer of the ADSs or preference shares to the public in that Relevant Member State, other than:

(i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive, save that no offer of the ADSs or the preference shares to the public shall be made in reliance on the numerical exemption otherwise available under Article 3(2)(b) of the Prospectus Directive, *provided*, that no such offer of ADSs shall require the underwriter or us to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of the ADSs or the preference shares to the public" in relation to any ADSs or preference shares 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 ADSs or preference shares to be offered so as to enable an investor to decide to purchase or subscribe to the ADSs, 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 includes any relevant implementing measure in each Relevant Member State.

VALIDITY OF SECURITIES

Sullivan & Cromwell LLP, our United States counsel, will pass upon the validity of the ADSs under New York law, and Clifford Chance LLP, our English counsel, will pass upon the validity of the preference shares under English law. Linklaters LLP, United States and English counsel for the underwriters, will pass upon certain matters of New York law for the underwriters.

STANDARD
&POOR'S

RATINGSDIRECT®

January 30, 2008

Summary:
Barclays Bank PLC

Primary Credit Analyst:
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Secondary Credit Analyst:
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Summary:

Barclays Bank PLC

Credit Rating: AA/Negative/A-1+

Rationale

The ratings on U.K.-based Barclays Bank PLC (Barclays) reflect its strong earnings and returns, good market positions, increased diversification, solid funding base, and highly developed risk-management framework. The ratings also reflect increased earnings volatility and potential for further markdowns in its investment bank; its relatively weak, although improving, capitalization; its significant exposure to U.K. unsecured personal debt; and its large defined-benefit pension scheme.

Barclays has a range of strongly profitable businesses across multiple product lines, including retail banking and business banking in the U.K. and abroad, investment banking, and asset management. Growth has generally been rapid, and until mid-2007 heavily driven by wholesale banking toward which Barclays' business profile has been shifting. Since that time, the investment bank--like many others--has been pressured by markdowns on structured assets and leveraged loans, and we expect this to result in a weaker, but still profitable, second half. Domestic retail growth has been lower than for many banks in recent years, but seems to be responding to various management initiatives.

Diversification, both by business line and geography, has been increasing, and about 50% of group profits now come from outside the U.K. In part, this has come through the organic growth of global product lines including investment banking and asset management, but also through acquisitions, notably in South Africa and Spain. This has helped sustain a good overall performance during difficult recent trading conditions.

Standard & Poor's Ratings Services regards Barclays as having a broad and effective system of risk management with a relatively advanced approach to economic capital, but we judge the group's risk appetite to be high. We consider Barclays' liquidity position to be strong thanks to a large and diversified deposit base, and that Barclays has navigated the recent tight money market conditions well.

Barclays' loan impairment charge in its U.K. unsecured lending and credit card business has leveled off in 2007 following the large increases in previous years, and its mortgage book has a low risk profile. Nevertheless, Barclays remains exposed to further changes in the U.K. economic climate.

We regard Barclays' capitalization as weaker than some similarly rated peers, notwithstanding some recent improvement. Barclays is shareholder focused and has used hybrid capital rather than ordinary shares to fund much of its recent expansion and is now engaged in a share buyback following its 2007 capital injections from Temasek and China Development Bank.

Outlook

The negative outlook on Barclays reflects our view that profitability could come under pressure in 2008 if economic and capital market conditions deteriorate rapidly. This would likely affect the evolution of impairment losses in the commercial banking divisions, with particular regard to real estate lending, and could lead to a sharp upturn in losses on large corporate leveraged lending. Revenues in investment banking may also suffer from further write-downs, reduced private equity realizations, and lower debt issuance activity in such an environment. A negative rating action could follow if profitability declines materially, if there were evidence of a material failure in risk controls, or if Barclays does not meet its capital targets, although we do not currently regard such events as the most likely scenario. The outlook could return to stable if Barclays continues to show resilience though a challenging environment. A positive rating action is considered unlikely in the current environment, and would require a major improvement in capitalization beyond expectations, but a tight capital policy is likely to act as a rating constraint.

Additional Contact:
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Moody's Investors Service

Global Credit Research
Credit Opinion
23 OCT 2007

Credit Opinion: Barclays Bank PLC

Barclays Bank PLC

London, United Kingdom

Ratings

Category	Moody's Rating
Outlook	Stable(m)
Bank Deposits	Aa1/P-1
Bank Financial Strength	B+
Issuer Rating	Aa1
Senior Unsecured	Aa1
Subordinate	Aa2
Jr Subordinate	Aa3
Preferred Stock	Aa3
Preference Stock	Aa3
Commercial Paper	P-1
Other Short Term	P-1
Parent: Barclays Plc	
Outlook	Stable
Issuer Rating -Dom Curr	Aa2
ST Issuer Rating -Dom Curr	P-1
Barclays Bank Ireland PLC	
Outlook	Negative(m)
Bank Deposits	Aa2/P-1
Bank Financial Strength	D+

Contacts

Analyst	Phone
Elizabeth Rudman/London	44.20.7772.5454
Edward Vincent/London	
Adel Satel/London	

Key Indicators

Barclays Bank PLC

	[1]2007	2006	2005	2004	2003	5-Year Avg.
Total assets (GBP billion)	1158.26	996.79	924.36	522.09	443.26	[2]22.82
Total assets (EUR billion)	1720.68	1479.43	1345.32	737.44	629.09	[2]20.48
Total capital (GBP billion)	43.79	41.18	36.89	30.60	29.00	[2]10.85
Return on average assets	0.55	0.54	0.53	0.69	0.65	0.60
Recurring earnings power	0.91	0.89	0.94	1.22	1.28	1.12
Net interest margin	1.03	1.14	1.30	1.55	1.71	1.50
Cost/income ratio (%)	58.75	60.59	60.68	57.73	56.30	58.37
Problem loans % gross loans	1.65	1.78	1.91	1.55	1.87	1.86
Tier 1 ratio (%)	7.70	7.70	7.00	7.60	7.90	7.68

[1] As of June 30. [2] Compound annual growth rate.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of B+ to Barclays, which translates into a baseline risk assessment of Aa2. The rating derives from the bank's broad spread of earnings, which are based on its very strong franchise in the UK, diversified business lines and income streams, and its very healthy and sustainable financial fundamentals. While UK retail and business banking accounted for approximately 36% of profits in 2006, other operations including Barclays Capital (BarCap), Barclays Global Investors (BGI), and international businesses now represent a growing proportion of consolidated group revenues.

Moody's continues to believe that the probability of systemic support for Barclays plc is very high, which would -- were the outlook of Barclays BFSR to be stable -- result in a two-notch uplift in the deposit ratings to Aaa from the Aa2 baseline risk assessment. However with the BFSR on negative outlook the rating is at Aa1.

Thus, the deposit and debt ratings of Barclays incorporate three main elements: (1) the bank's BFSR of B+; (2) Moody's assessment of a very high probability of support from the UK authorities (a component of joint default analysis, referred to as JDA) and (3) the seniority of its deposits and debt.

Credit Strengths

- Strong positions in all key areas of UK financial markets

- Consistent profitability, driven by intense management focus on value creation

- Growth of international operations adds diversification to UK operations, while execution risk has been well managed

- Solid funding profile and strong liquidity

Credit Challenges

- Profitability of UK retail bank is improving but margin pressures persist

- Vulnerability of credit cards and unsecured lending to a downturn in UK consumer lending market

- Barclays Capital's current focus and risk appetite will be a key to managing the inherent volatility of earnings that these businesses entail

- Managing the cost structure of the bank as a whole

Rating Outlook

The outlook on the long term debt and deposit rating and the short term debt and deposit rating is stable.The negative outlook on the BFSR was initially assigned in April 2007 following the announcement of the proposed merger with ABN AMRO. The negative outlook was maintained after the offer lapsed in October 2007 as the dislocation in the financial markets since July continues to create uncertainty for the performance of all banks which are involved in structured securities and related capital market activities.

What Could Change the Rating - Up

Greater clarity on market conditions and on how their impact on banks develop over the next 3 - 6 months will be a key factor for upward pressure on the BFSR. Evidence that Barclays is able to maintain the earnings momentum of the last few years, and in particular achieve greater leverage off its UK retail franchise, would also be positive for the BFSR.

What Could Change the Rating - Down

Negative rating pressure would likely occur if strategic decisions led to a material increase in Barclays' risk/return profile; for example, due to increased market-related activities or international acquisitions. If conditions in the UK retail market were to deteriorate significantly and so as to lead to an increased provisioning burden then this might also impact negatively on the rating.

Recent Results

Barclays reported a 12% increase in pre-tax profits to GBP4.1 billion for H107 (H106: GBP3.7 billion). UK Banking produced a pre-tax profit of GBP1.4 billion (an increase of 9% on H106), while BarCap delivered record results, with a 33% rise in pre-tax profit to GBP1.7 billion (H106: GBP1.2 billion). Between them, UK Banking and BarCap produced 74% of overall group pre-tax profit. Profit from Barclaycard declined 17% to GBP 272m (H106: GBP 326m) - although excluding a loss on a disposal in H107 and a property gain in H106 Barclaycard pre-tax profits were up 4% - while profit from International Retail and Commercial Banking declined by 12% to GBP452 million

(H106: GBP512 million). Elsewhere, profit growth remained strong. BGI reported a 7% rise in pre-tax profit to GBP388 million (H106: GBP364 million), with both income and profit up substantially more in USD terms. Barclays Wealth reported a 34% rise in pre-tax profit to GBP173 million (H106: GBP129 million), reflecting strong income growth from increased client funds and transaction volumes.

Loan impairment charges for the Group overall reduced by 9% to GBP959 million for H107 (H106: GBP1.1 billion), despite evidence of increased financial market volatility (notably in the UK and US).

Barclays' Tier 1 capital ratio at H107 was unchanged from year-end 2006 at 7.7%.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Barclays ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a B+ BFSR to Barclays. Moody's believes the B+ rating is an appropriate measure of the bank's financial strength at present given its strong regional franchise, moderate risk profile and good financial fundamentals. Additionally, we believe that the franchise of Barclays Global Investors is under-rated in the scorecard, and note that this is stable business area which is gaining market share and that the figures may well improve further going forward.

Key positive elements driving the BFSR scorecard outcome are Barclays' franchise value across a number of countries, its strong liquidity and risk positioning.

A key negative element driving the BFSR scorecard outcome is the more moderate score for capital adequacy.

Qualitative Rating Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Barclays Bank PLC has strong market shares in all significant fields of UK banking, including being one of the major players in the current account market, credit cards (through Barclaycard), small business banking and corporate finance. BarCap - its investment banking operation - has a major presence in debt and risk management markets in Europe and a growing presence in the US and Asia. BGI is one of the world's largest institutional fund managers.

Within this broad spread of businesses, the bank is not overly dependent on potentially volatile revenues from corporate and investment banking in order to maintain high levels of profitability. Furthermore, around 50% of its profits (albeit that this is a reducing trend) are currently generated in the UK, which is a large, diverse and stable economy.

Barclays has a significant international presence in over 50 countries with 27 million customers and 3,648 branches. This presence has been enhanced over the last few years by a number of acquisitions.

These most notably include Banco Zaragozano in Spain (2003), US credit card company Juniper Financial Corporation (2004) and most recently the acquisition of Absa in South Africa (2005). These acquisitions are clearly helping to further broaden the revenue base of the bank. We note that Barclays has a good record in integration and that potential problems of execution risk have not arisen.

Factor 2: Risk Positioning

Trend: Neutral

The bank's market risk tolerance, as measured by its value at risk (VaR) limits is in line with other large international banks. Although there will always be risks associated with a banking group which is actively involved in markets and trading activities, we believe that the risk appetite at Barclays is such as to maintain these at acceptable levels going forward. Nevertheless, we believe the group will need to maintain its disciplined approach to risk management in light of BarCap's ambitious growth plans and the ongoing dislocation in the financial markets. With reference to Basel II, Barclays continues to develop its approach to operational risk and plans to follow the Advanced Management Approach.

Factor 3: Regulatory Environment

Trend: Neutral

All UK banks are subject to the same score on regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Refer to Moody's Banking System Outlook for the United Kingdom, published September 2006, for a detailed discussion of regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is a blended score to account for the different geographies in which Barclays operates (notably South Africa). Moody's assigns an A- for the overall operating environment. Refer to Moody's Banking System Outlook for the United Kingdom, published September 2006, for a detailed discussion of the bank's domestic operating environment.

Quantitative Rating Factors (50%)

Factor 5: Profitability

Trend: Neutral

Barclays has a solid financial profile, generating pre-provision income of GBP8.5 billion in 2006. The net interest margin fell back in 2006 to 1.14% from 1.28% in 2005. (The net interest margin is defined as net interest income as a percentage of average interest earning assets.) However, net interest income now accounts for a smaller proportion of operating income (approximately 42% in 2006 and 47% in 2005 compared to 54% in the year 2000) with net fees and commissions as well as dealing profits representing a growing share of revenues. Risk-weighted recurring earning power (pre-provision income as a percentage of average total assets), however, remained strong at 3.00% for the year 2006.

Factor 6:

Liquidity

Trend: Neutral

The solid funding profile and good liquidity of Barclays is a key underpinning of the bank's rating. Barclays has, in our opinion, a diverse and stable depositor base - by type and by geography - as well as good flexibility in its balance sheet, with an ability to manage its asset base in times of stress. Barclays has, as one might expect, a strong funding franchise in the UK with strong positions in the current account, savings and business banking sectors, supported by the savings franchise under both the Barclays and the Woolwich brands. The structure of the balance sheet ensures that the retail and commercial banking books are 'self-funded' (i.e. the assets are funded with customer deposits from within the franchise),

The bank manages its wholesale funding according to a schedule of "Wholesale Borrowing Guidelines", which specifies a maximum net cumulative mismatch of funds in local and foreign currency, for one day, one week and one month, across five global regions. In particular, Barclays closely manages the trading and liquidity balance sheet of Barclays Capital. The bank raises sizeable amounts of wholesale funds to finance local operations in the US. In addition, Barclays makes modest use of securitisation programmes for its Barclaycard and residential mortgage portfolios in order to enhance balance sheet flexibility, but to date has not made use of covered bond programmes. Barclays' average market funds (excluding interbank funds) as percentage of average funding is at first sight relatively high at 56% at end-2006. However, we take comfort from Barclays' excellent reputation and longstanding presence in the wholesale market.

We note that liquidity is good: liquid assets as a percentage of total assets were 55% at end-2006, which compares favourably with other highly rated European banks. And with the exception of the banking loan book, the majority of Barclays Capital's assets are highly liquid.

Factor 7: Capital Adequacy

Trend: Neutral

Barclays' target Tier 1 ratio is around 7.25%, of which a portion is planned to be in the form of hybrid instruments. We observe that the level of core Tier 1 looks relatively light for a bank of Barclays' profile. However, and notwithstanding the reduction in core Tier 1, we are reasonably comfortable with the current levels of capitalisation in view of the risks that the bank accepts and the quality of its earnings. Indeed, while these ratios are important, the level and consistency of the bank's earnings are the more significant drivers of its high ratings: capitalisation ratios and composition are more likely to become a significant factor at the margin - i.e. if the rating was under pressure (upwards or downwards) for other reasons.

Buybacks are seen as an integral part of the capital management toolkit, but are viewed very much as an option to be used occasionally to deal with excess capital, not a core policy.

Factor 8: Efficiency

Trend: Neutral

While Barclays' cost-to-income ratio of 61% in 2006 is relatively high compared to similarly rated peers, we recognise that the bank continues to make investments in UK Retail Banking, Barclays Capital, BGI and Barclaycard. Operational excellence is clearly defined as an objective and inevitably there needs to be some investment before the bank can achieve its goal, both operationally and in terms of reduced cost ratios.

Factor 9: Asset Quality

Trend: Neutral

Barclays continues to show a good level of asset quality; the bank's exposures to industries which have potential for higher credit risk (for example, autos and airlines) are not, in our opinion, likely to lead to a significant deterioration in the bank's credit strength.

It is important to bear in mind the context of this relative deterioration in asset quality and rise in impairment charges. The current economic climate, while still relatively good, is undoubtedly less benign than 12 or 18 months ago. This is particularly true in relation to household finances, where clear signs of strain are beginning to emerge as a result of lower disposable incomes and high levels of personal indebtedness.

Nonetheless, the core strengths of Barclays should continue to provide an extremely strong buffer against possible deterioration in the UK operating environment. Indeed, we note that the bank, in common with its large UK peers, has demonstrated a significant degree of stability, both strategically and in terms of financial fundamentals, over the past few years, when there have been a number of financial and economic crises globally.

Overall asset quality in the UK is good and Barclays has very strong pre-provision earnings (GBP8.5 billion in 2006), which should allow it to withstand any currently foreseeable deterioration with ease.

Global Local Currency Deposit Rating (Joint Default Analysis)

The deposit/debt ratings are Aa1/Prime-1. Were the BFSR to fall back from one notch from B+ to B then, given the current probability of systemic support, the long-term rating would remain at Aa1.

Moody's assessment of the probability of support as very high recognises Barclays importance to the UK economy and its payment systems.

Notching Considerations

Ratings for Barclays' junior obligations should be notched off the fully supported deposit rating because Moody's believes that there is no legal authority in place in the UK to impose losses on subordinated creditors outside of a liquidation scenario.

Foreign Currency Deposit Rating

The Foreign Currency Deposit ratings of Barclays are unconstrained given that the UK, in common with other EU members, has a country ceiling of Aaa.

Foreign Currency Debt Rating

The Foreign Currency Debt Rating's ratings of Barclays are unconstrained given that the UK, in common with other EU members, has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of government support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the LCDC.

National scale ratings

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes, however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

Rating Factors

Barclays Bank PLC

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						B	
Factor 1: Franchise Value (20%)						B+	Neutral
Market Share and Sustainability	x						
Geographical Diversification	x						

Earnings Stability			x				
Earnings Diversification [2]							
Factor 2: Risk Positioning (20%)						**C+**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks				--	--		
Controls and Risk Management	x						
- Risk Management	x						
- Controls	x						
Financial Reporting Transparency	x						
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information	x						
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management	x						
Market Risk Appetite	x						
Factor 3: Regulatory Environment (5%)	--	--	--	--	--	--	--
Factor 4: Operating Environment (5%)						**A-**	**Neutral**
Economic Stability	x						
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						**C+**	
Factor 5: Profitability (7.9%)						**C+**	**Improving**
PPP % Avg RWA		2.84%					
Net Income % Avg RWA			1.67%				
Factor 6: Liquidity (7.9%)						**A-**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets		-1.56%					
Liquidity Management	x						
Factor 7: Capital Adequacy (7.9%)						**C**	**Neutral**
Tier 1 ratio (%)			7.40%				
Tangible Common Equity % RWA	--	--	--	--	--		
Factor 8: Efficiency (3.5%)						**C**	**Improving**
Cost/income ratio			60.57%				
Factor 9: Asset Quality (7.9%)						**C+**	**Weakening**
Problem Loans % Gross Loans		1.75%					
Problem Loans % (Equity + LLR)			23.04%				
Lowest Combined Score (15%)						**C**	
Economic Insolvency Override						**Neutral**	
Total Scorecard Implied BFSR						**B-**	
Assigned BFSR						**B+**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

United Kingdom
Credit Analysis

Barclays Bank PLC

Ratings

Barclays Bank PLC
Foreign Currency

Long-Term IDR*	AA+
Short-Term IDR*	F1+
Outlook	Stable
Individual	A/B
Support	1
Support Rating Floor	A-

Barclays PLC
Foreign Currency

Long-Term IDR*	AA+
Short-Term IDR*	F1+
Outlook	Stable
Support	5
Support Rating Floor	NF

Sovereign Risk

Foreign Long-Term IDR*	AAA
Local Long-Term IDR*	AAA
Outlook	Stable

* IDR – Issuer Default Rating

Financial Data

Barclays PLC

	30 Jun 07	31 Dec 06
Total Assets (USDm)	2,322,190	1,956,786
Total Assets (GBPm)	1,158,262	996,787
Equity (GBPm)	28,721	27,620
Operating Profit (GBPm)	3,951	6,482
Published Net Income (GBPm)	2,943	5,195
Comprehensive Income (GBPm)	n.a.	4,508
Operating ROAA (%)	0.73	0.67
Operating ROAE (%)	28.05	24.94
Tier 1 Ratio (%)	7.7	7.7

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Rating Rationale

- The ratings of Barclays Bank PLC, the sole subsidiary of Barclays PLC (Barclays), reflect its strong UK franchise, broad business mix, robust profitability, good liquidity and sophisticated risk management.
- In March 2007 Barclays announced a bid for ABN AMRO Holding NV (rated 'AA-'), which sparked a counter-offer by the consortium of The Royal Bank of Scotland Group plc ('AA+'), Banco Santander ('AA') and Fortis Bank ('AA-'). In October 2007, Barclays announced that the acceptance conditions relating to its offer would not be fulfilled and, therefore, its offer lapsed. Fitch does not consider the failure to acquire ABN AMRO as a problem for Barclays, which still has a strong franchise that it can continue to develop organically.
- Barclays' profitability has been strong for several years. The improving diversification of revenue and profits by business and by geography is a key strength and has enabled the bank to absorb growing impairment in its UK unsecured retail portfolios. Operating ROAE compares well with that of major European peers.
- Barclays has limited direct exposure to the US sub-prime market. However, credit market turmoil will affect some of the bank's business volumes in Barclays Capital. The increased diversification of Barclays Capital in recent years should help to mitigate this, although credit products still accounted for about a quarter of division revenue for H107.
- NPLs continued to be relatively low as a proportion of total lending in H107, reflecting an overall benign environment. UK unsecured lending has been the main source of new NPLs, mainly in Barclaycard. Lending criteria have been tightened, and new NPL flows are much reduced.
- Barclays is adequately capitalised. Among other tools, it uses a sophisticated economic capital model to measure capital adequacy.
- Market risk has historically been well controlled, with limits and exposures comfortable in relation to equity.
- Funding and liquidity are strengths; Barclays' retail operations give the bank a large and stable funding base.
- Barclays PLC's IDR reflects the very high investment-grade rating of Barclays Bank PLC and the fact that there is no intention for there to be any double leverage at Barclays PLC. Were double leverage to be introduced at Barclays PLC, Fitch would expect a more formal and suitably prudent liquidity policy to be introduced.

Support

- There is an extremely high probability that Barclays Bank PLC would be supported by the UK authorities if necessary.

Rating Outlook and Key Rating Drivers

- The Long-Term IDR of Barclays Bank PLC is very high and is unlikely to improve. The Stable Outlook reflects the bank's strong profitability and diversified earnings, which should enable the bank to absorb periodical cyclicality in individual business lines. Negative ratings pressure could arise from greater-than-expected earnings volatility or evidence of an increase in risk appetite, for example in Barclays Capital.

Profile

- Barclays is one of the world's largest banks. In the UK it offers a full range of financial services to retail, SME and corporate/wholesale customers. Internationally, it has mainly retail and commercial operations in Europe and Africa. Through Barclays Capital and Barclays Global Investors (BGI), Barclays services large corporates, financial institutions and governments around the world.

10 October 2007

Profile

- **Strong UK franchise**
- **Significant growth in business outside UK, driven by the strong growth in Barclays Capital and BGI**
- **China Development Bank and Temasek introduced as strategic shareholders**

The UK is Barclays' primary presence, but it also has mainly retail, wealth management and credit card operations in Europe and Africa, including Absa Group Limited (Absa; see the credit analysis on this company, published on 12 June 2007, and available at www.fitchratings.com), and provides a broad range of commercial and investment banking services to large multi-nationals through Barclays Capital. Barclays is arranged along six business lines.

UK Banking: The division comprises UK Retail Banking and UK Business Banking. The former provides current account, mortgage, savings and general insurance products to retail customers in the UK, banking services to small businesses, and banking, investment and advisory services to affluent customers (UK Premier). Woolwich was acquired in 2000 and significantly strengthened Barclays' position in the UK mortgage market (its market share of stock fell until H107 and is about 6%). UK Business Banking provides banking services to larger and medium-sized businesses in the UK. Woolwich UK high street branches have recently been rebranded as Barclays as part of an initiative to revitalise the UK retail bank and improve the performance of this division against peers.

Barclays Wealth provides private and offshore banking, stockbroking and asset management services, mainly in the UK and continental Europe. It also includes Barclays' closed life assurance activities. Barclays acts as a distributor of other manufacturers' life assurance products. It has GBP127bn of customer deposits and assets under management.

International Retail and Commercial Banking (IRCB) provides a range of retail and corporate banking services to customers in Spain (including through Barclays' Banco Zaragozano subsidiary), Portugal, France, Italy, Africa and the Middle East. The division includes Absa, in which Barclays acquired a 57% stake in H205. Absa owns Absa Bank Limited, one of South Africa's leading retail banks. Absa had consolidated assets of GBP33bn at end-June 2007, compared with GBP42bn for the rest of the division.

Barclays Capital contains the group's investment banking business and manages the group's largest corporate, institutional and government relationships, with more complex financing and risk management requirements. Operations are split between three areas: Global Markets, which incorporates interest rates, fixed-income, FX, commodities, inflation and equity-related activities; Credit Markets, including investment banking, debt capital markets, structuring and securitisation, loans, leasing and credit trading; and Private Equity. Barclays Capital has grown exceptionally in the last decade, with income increasing more than 4.5x during 1999-2006. This growth has come with an expanding product offering (eg ABS/MBS, structured equities, commodities and credit derivatives) and geographical reach (particularly in the US). Barclays Capital is not very active in cash equities or M&A.

Barclaycard is the largest credit card company in the UK and Europe, with more than 9.6 million customers in the UK at end-June 2007, a decline from previously stated figures due to the closure of inactive accounts. There are also 7.6 million cards in issue internationally. Since 2004 Barclaycard has also included Barclays' non-card consumer lending operations.

BGI is one of the world's largest institutional asset managers. Assets under management (AuM) increased to GBP1.0trn in H107, reflecting a combination of new funds and positive market movements. In US dollar terms, AuM have increased almost 2.5x since 2002. At end-June 2007, 59% of AuM were low-margin indexed assets, 23% were in actively managed assets and 18% were in iShares/exchange traded funds.

Strategy: In March 2007 Barclays announced a bid to acquire ABN AMRO, which would have added significant scale to Barclays' activities, and further diversified its income base within Europe and some emerging markets. The integration of such a large bank would have resulted in significant operational risk, however. Barclays' largely share-based bid sparked the largely cash-based counter-offer by the Royal Bank of Scotland-led consortium including Banco Santander and Fortis. In October 2007 Barclays announced that the acceptance conditions relating to its offer would not be fulfilled and the offer therefore lapsed.

In July 2007 Barclays announced the investment of up to GBP9.0bn by China Development Bank (rated 'A'/Positive), one of the three state-owned policy banks in China, and Temasek Holdings (Private) Limited (Temasek), the investment arm of the Singapore government. The immediate impact of this was to enable Barclays to introduce a significant cash component into its offer for ABN AMRO.

Although the bid ultimately failed, Fitch views the co-operation with China Development Bank positively from a business generation perspective. Barclays has not announced the expected benefits of increased co-operation, although the main one is likely to be the cross-referral of clients. China Development Bank will also use BGI as one of its preferred asset managers.

Performance

- **Performance in 2006 and H107 led by the rapid growth of Barclays Capital**
- **Slowdown in capital markets activity to have impact in H207, but limited direct losses on investments expected**
- **Increasingly diversified earnings**

Barclays performed well in H107 and 2006, increasing pre-tax earnings by 12% in H107 (compared with H106) and achieving operating ROAE of 28%, which compares well with that of its large European peers. In 2006, all business lines except Barclaycard performed well, with Barclays Capital again showing strong growth. The turbulence in the credit markets at the start of H207 will undoubtedly affect Barclays' profits, through some losses on its investment and liquidity portfolios and lower deal volume. BGI may also be affected by poorer performance fees, although a fair proportion of these are calculated on relative rather than absolute measures. However, exposure to US sub-prime debt, either through direct lending or holding US sub-prime-backed securities, is limited. Bob Diamond, Barclays' President and head of Barclays Capital, stated publicly that Barclays Capital traded profitably during both July and August 2007.

Reported earnings have become increasingly diversified by division and geography, and in 2006 the strategic aim of generating 50% of net income outside the UK was achieved (from 25% in 2004). This has been influenced by extremely strong performance by Barclays Capital in particular, and also BGI. Even removing what might be seen as extraordinary or volatile profit, Barclays as a whole has become more diversified.

UK Retail Banking: The senior management of this division has substantially changed since 2005 to address its underperformance against management expectations and peers. The key to improving performance here is increasing the level of cross-selling of products, and Barclays has invested in a new operating platform to better identify potential products for customers, and changing the incentive structure for front-line staff. Barclays has also targeted key areas where it wanted to increase market share; in 2006 its new mortgage lending market share was 6%.

Pre-tax profits rose in H107 by 9% compared with H106, largely driven by increased volumes while maintaining impairment charges at a similar nominal level, although this followed an increase in loan impairments in 2006, primarily from small businesses. The UK economy remains strong and unemployment low, although higher interest rates combined with historically high personal debt could mean that impairment charges will rise in the medium term. Costs have been a focus, and the cost/income ratio improved to 56% in H107, although H107 benefited from gains from the sale and leaseback of properties of GBP113m (2006: GBP116m).

Table 1: Divisional Profitability

(GBPm)	H107	% PBT[a]	2006	2005
UK Banking	1,363	31.6	2,546	2,236
UK Retail Banking	651	15.1	1,181	1,076
UK Business Banking	712	16.5	1,365	1,160
Barclays Wealth	173	4.0	245	164
IRCB	452	10.5	1,216	593
IRCB - ex Absa	142	3.3	518	295
IRCB - Absa	310	7.2	698	298
Barclays Capital	1,660	38.5	2,216	1,431
Barclaycard	272	6.3	458	639
BGI	388	9.0	714	540
Head Office	(207)	n.a.	(259)	(323)
Profit Before Tax	4,101	100	7,136	5,280

[a] Excludes Head Office and Other
PBT – Profit before tax
Source: Barclays

In July 2007 the Office for Fair Trading (OFT) announced it was to launch a test case in the High Court against the UK's leading banks and banking groups regarding the application of the law on unauthorised overdraft fees. Barclays is a party to this test case. This is another example, along with the introduction of payment protection insurance, credit card fees and OFT's broader current account study, of the increasing regulatory and legislative scrutiny to which the UK banks have become subject. Should there be a judgement against the banks, the scale of financial redress is difficult to predict, but could prove material.

UK Business Banking has been performing well and earnings growth was again good, up 9% in H107 and 18% in 2006. H107 revenue increased by 8% across all revenue lines, driven by strong balance sheet growth. Loan impairment charges increased by 23% in H107, after 42% in 2006, though from an unsustainably low level.

Barclays Capital again experienced extremely strong growth in profit before tax in H107 (33% on

H106) and 2006 (55% on 2005) due to the growth in risk tendencies of broadly similar levels (see "*Risk Management*" below). This has been supported by strong market conditions in many of its areas of operation, although the number of businesses in which Barclays Capital is active has increased fairly substantially in recent years. There is still a bias toward the credit market, but this business area accounted for a lower 28% of H107 revenue. Interest-rate products represented 18% of 2006 revenue and equity-related products 17%. Barclays Capital revenue will be sensitive to market sentiment, although increased diversification in revenue streams does add some comfort.

To be expected for an investment bank, costs relative to income are quite high at Barclays Capital, at 64% for 2006. Within this, there is a fair amount of discretionary costs with performance-related pay representing 41% of total costs and investment in the business a further 5%.

Barclaycard suffered in 2006 from increased loan impairment charges (GBP1.1bn), which led to a 28% fall in profit before tax. Changes in the credit-granting processes were made in H205, although loan impairments remained high in H107 at GBP443m. Barclays states that new flow of impairments is significantly reduced.

On a pre-provisioning level, improvements were seen in 2006, with income increasing by 9%, although this dropped to 2% in H107. Tighter lending criteria have led to a drop in UK customers to 9.6 million at end-June 2007 from 11.2 million at end-June 2006 and in outstanding balances to GBP8.5bn from GBP9.6bn. Pre-provisioning income is likely to suffer as a result.

IRCB: Income was higher in H107 and 2006 compared with 2005, partly reflecting the consolidation of Absa's earnings for only five months in that year. Excluding Absa and other one-offs of GBP76m (gains from sale and leaseback and profit from stake in FirstCaribbean International Bank, now sold), net income rose 19% in 2006. Excluding Absa, most of this division's income comes from Western Europe. Absa's results for H107 suffered from a 20% depreciation of the South African rand, and therefore profit declined. In rand terms, net income rose by 32%.

BGI's profitability has again grown strongly, profit before tax rising 7% in H107 compared with H106. AuM grew 14% in H107, with iShares growth strong at 44% to account for 18% of total AuM. AuM grew by GBP76bn in H107 (of which GBP25bn was new inflows) compared with GBP46bn in 2006 (GBP37bn of new inflows). The fall in the value of the credit markets may affect BGI's AuM, although a fair proportion of performance fees is assessed in relative rather than absolute terms.

Barclays Wealth represents a relatively low contributor to net income, although this is growing. Barclays is one of the largest five wealth providers in the UK, and in a fragmented market intends to grow rapidly, as demonstrated by its recruitment of a number of experienced personnel. Barclays' strong position in the UK market provides ongoing deal flow, and the expertise within BGI and Barclays Capital should enable strong product development. Total customer funds increased 20% to GBP126.8bn in H107.

Prospects: Barclays' business has become increasingly diversified by business line and geography. Fitch views this positively, as it should enable the group to continue to report solid earnings through many business-specific cycles. Barclays has benefited from strong operating conditions in many of its core markets, in particular for Barclays Capital, and growth and profitability rates are unlikely to continue at recent rates. Barclays is likely to be affected by the volatility in the credit markets, particularly through lower deal volume, although the increased diversification in Barclays Capital should partly mitigate this. Despite the growing level of non-UK earnings, the main threat to Barclays' earnings remains a sharp sustained economic downturn in the UK. This appears unlikely in the medium term.

■ Risk Management

- **Credit the main risk**
- **Sophisticated risk management systems**

Through the board risk committee, the board sets risk management standards and approves the group risk governance framework and appetite. Three further committees report to the executive committee: the risk oversight committee (ROC), which ensures consistency with group risk appetite, debates and agrees actions on risk profile and controls and considers issues escalated by sub-committees; the group treasury committee, responsible for monitoring and controlling the group's liquidity, maturity mismatch, regulatory and economic capital usage and interest rate exposure; and the governance and control committee, which maintains and reviews the effectiveness of group risk management procedures. Independent assurance is provided by internal audit.

The group uses a sophisticated credit risk measurement system called risk tendency, which combines probability of default (PD; expressed through an internal credit rating), exposure at default

(EAD) and loss given default (LGD) to model the loss for the performing loan portfolio for the forthcoming months (risk tendency is PD x EAD x LGD). Risk tendency is used for risk-sensitive pricing, performance measurement and risk transfer. Barclaycard has the highest risk tendency by a substantial margin (GBP1.4bn in 2006) out of group risk tendency of GBP2.3bn, which increased from GBP1.8bn in 2005.

Market risk is mostly concentrated at Barclays Capital and has historically been tightly controlled. The ROC allocates a daily value-at-risk (DVaR) limit for group trading activities and delegates day-to-day control to the group market risk director, who sets limits for each trading area. DVaR is calculated using a historical simulation model to a 98% confidence level, with a one-day holding period and a two-year observation period. The effectiveness of the group's DVaR systems is assessed by back-testing, including to a 99% confidence level, one-day holding period. In 2006 and 2005 there were no instances of a daily trading revenue loss exceeding the corresponding back-testing DVaR. The group also conducts regular stress testing and scenario simulations.

Barclays has been making good progress toward preparation for Basel II, and intends to adopt the more sophisticated approaches for credit and operational risk from 1 January 2008. The bank made its ICAAP submission to the UK Financial Service Authority during 2007 and is awaiting regulatory feedback. Fitch considers Barclays' preparations more advanced than those of most of its peers.

Credit Risk: Barclays' gross customer loan book grew by 14% in H107 after 5% in 2006. Growth was across all geographies and customers, although it was noticeably greater outside the UK at 22% for H107. At end-June 2007, lending in the UK accounted for 57% of the loan book, followed by other EU countries (16%), the US (10%), Africa (11%) and the rest of the world (6%). Home loans, about two-thirds of which were in the UK, and the remainder, predominantly Spain and Absa, accounted for 32% of the book. Other personal lending accounted for a further 9.8%. Wholesale lending is well diversified by sector. Barclays Capital has reduced its loan assets significantly in recent years through a combination of credit derivatives and syndications, activity levels in the former having increased markedly.

Barclays is an active player in the European LBO market; the strategy is to originate and then very substantially sell down. However, it will not originate deals it would be unwilling to hold on its own balance sheet. With the turmoil in the credit markets in early H207, Barclays was left with a significant number of LBOs it was unable to syndicate. However, these are of good quality and there have been no credit losses on this book to date.

LTVs in Barclays' residential mortgage book are at historical lows – only 5% of the book has an LTV of more than 90% at end-2006, a slight increase from 4% at end-2005. The average marked-to-market LTV of the book was 34%. A sharp correction in house prices (of which there is no sign in the UK at present) would probably reverse the recent trend of stable LTVs, but would not, in itself, necessarily result in a material level of mortgage-related impairment losses.

Trading portfolio assets (GBP218bn at end-June 2007) and liabilities (GBP79bn) are marked to market through the income statement, while AFS assets (GBP48bn) are marked to market through equity. Trading book assets and liabilities are mainly government and corporate bonds and customer deposits. Equities of GBP32bn long (at end-2006) and GBP13bn short are mainly listed and are held for hedging derivative and other exposures. This is reflected in the fact that equity DVaR peaked at GBP15.3m in H107 and GBP11.6m in 2006, although this is an increase from the 2005 high of GBP8.3m.

Asset Quality: Barclays defines impaired loans as those that are non-performing; they generally have an impairment provision raised against them. NPLs include impaired loans and others that are 90 days or more overdue. Barclays also discloses potential problem loans.

NPLs grew by 5.2% to GBP5.4bn at end-June 2007 following a decline of 2.3% in 2006, and the NPL/gross loans declined marginally to 1.6% from 1.8% at end-2006 and 1.7% at end-2005. Loan impairment coverage of NPLs was 61% at end-June 2007. This seems reasonable given the collateral covering the loan book. New NPLs have originated from most areas, although there is a bias toward the UK, and particularly Barclaycard, which has accounted for about 70% of impairment charges in 2006, 2005 and 2004.

Market Risk: Trading activity is concentrated in Barclays Capital, and includes client-driven and proprietary position-taking transactions. Table 2 shows the DVaR positions taken during 2006. Average DVaR was higher than in 2005 (GBP32.0m) and the highest exposure also increased (2005: GBP40.7m).

There are clear limitations in using a VaR methodology for assessing market risk, and the stated figures are likely to underestimate the level of risk run given benign markets in 2006 and 2005. Nevertheless, the VaR amounts are low.

Barclays Capital's average daily revenue was GBP22.0m (2005: GBP16.3m), and 96% of trading days were revenue positive. Trading losses never exceeded back-testing DVaR (to a 99% confidence level, one-day holding period).

Table 2: DVaR

2006	Average (GBPm)	High (GBPm)	Low (GBPm)
Interest Rate Risk	20.1	28.8	12.3
Credit Spread Risk	24.3	33.1	17.9
Commodities Risk	11.3	21.6	5.7
Equities Risk	7.8	11.6	5.8
FX Risk	4.0	7.7	1.8
Diversification effect	(30.4)	n.a.	n.a.
Total	37.1	43.2	31.3

n.a. – Not available
Source: Barclays

Interest-rate mismatches are managed through a system of limits and through the use of interest-rate swaps and other derivatives. The group's policy is to finance overseas investments denominated in currencies other than UK pounds so as to limit the effect of FX movements on the group's risk asset ratios. The group has hedged the FX risk on the pound value of the Absa investment.

Liquidity Risk: As a retail bank, although a significant element of the group's liabilities are non-contractual obligations and therefore its liquidity position is potentially difficult to predict, Barclays benefits from the size and diversity of its funding base. Barclays Capital monitors its cash flow mismatch position, and has a broad range of funding tools available. The group maintains a substantial portfolio of unencumbered, liquid assets to cover potential funding shortfalls.

As part of its investment banking business, Barclays Capital has structured a number of special investment vehicles (SIVs). In the recent market conditions, a number of these SIVs have experienced difficulty in refinancing their predominantly short-term funding. Barclays has some exposure to the senior tranches of these SIVs, which are backed by collateral. There is no commitment to provide substantial liquidity to SIVs and total exposure is not material to Barclays' liquidity. However, the bank may suffer some reputational damage from the failure of structures it helped create.

Barclays also provides liquidity lines to its own ABCP conduits, although these are nearly all 'AAA' rated, with minimal exposure to mortgage-backed securities. Total exposure is reasonable relative to Barclays' balance sheet, and there is no exposure to third-party conduits.

Operational Risk: Non-financial risks (ie operational risk and business risk) are an area of increasing focus for Barclays and are managed by business and functional heads within a framework approved by the board. Barclays' operational risk management has historically concentrated on qualitative factors (ie risk identification and control), but is now building its quantitative analysis in preparation for adopting the advanced measurement approach under Basel II.

Barclays is a defendant in a number of proceedings in the US relating to the collapse of Enron, including the class action, but it is not possible to quantify a potential loss in relation to these matters at this stage.

■ Funding and Capital

- **Large and stable funding base**
- **Liquidity is a strength**
- **Adequately capitalised**
- **Strong internal capital generation**

Barclays benefits from a large and stable source of customer deposits (GBP292bn; 26% of non-equity liabilities at end-June 2007). Other funding sources include interbank (GBP87bn) and repurchase agreement funds (GBP181bn) and debt securities (GBP119bn). Barclays has increasingly been securitising its credit card, mortgage and commercial loan receivables (GBP24bn of the above debt securities).

Capital: Barclays' Tier 1 capital ratio was 7.7% at end-June 2007. This has been supported by the issuance of hybrid securities, and the "equity Tier 1" ratio was 5.3%. Basel II is unlikely to change the level of risk-weighted assets significantly.

Balance Sheet Analysis
BARCLAYS PLC

	30 Jun 2007				31 Dec 2006		31 Dec 2005	
	6 Months - Interim USDm Original	6 Months - Interim GBPm Original	As % of Assets Original	Average GBPm Original	Year End GBPm Original	As % of Assets Original	Year End GBPm Original	As % of Assets Original
A. LOANS								
1. Private	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Corporate	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Government	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Other	650,621.5	324,517.0	28.02	305,074.0	285,631.0	28.66	272,342.0	29.46
5. Loan impairment	6,564.0	3,274.0	0.28	3,302.5	3,331.0	0.33	3,446.0	0.37
6. Loan Impairment (memo)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL A	**644,057.5**	**321,243.0**	**27.73**	**301,771.5**	**282,300.0**	**28.32**	**268,896.0**	**29.09**
B. OTHER EARNING ASSETS								
1. Loans and Advances to Banks	468,617.4	233,737.0	20.18	220,580.5	207,424.0	20.81	193,404.0	20.92
2. Government Securities	6,790.6	3,387.0	0.29	30,299.0	57,211.0	5.74	59,509.0	6.44
3. Trading Assets	436,210.4	217,573.0	18.78	170,324.5	123,076.0	12.35	98,437.0	10.65
4. Derivatives	349,302.3	174,225.0	15.04	156,289.0	138,353.0	13.88	136,823.0	14.80
5. Other Securities and Investments	178,226.9	88,896.0	7.67	84,303.5	79,711.0	8.00	62,928.0	6.81
6. Equity Investments	3,769.2	1,880.0	0.16	1,739.5	1,599.0	0.16	1,796.0	0.19
7. Insurance	184,839.0	92,194.0	7.96	87,496.0	82,798.0	8.31	83,193.0	9.00
TOTAL B	**1,627,755.7**	**811,892.0**	**70.10**	**751,032.0**	**690,172.0**	**69.24**	**636,090.0**	**68.81**
C. TOTAL EARNING ASSETS (A+B)	**2,271,813.2**	**1,133,135.0**	**97.83**	**1,052,803.5**	**972,472.0**	**97.56**	**904,986.0**	**97.90**
D. TANGIBLE FIXED ASSETS	**5,088.4**	**2,538.0**	**0.22**	**2,515.0**	**2,492.0**	**0.25**	**2,754.0**	**0.30**
E. NON-EARNING ASSETS								
1. Cash and Due from Banks	14,671.8	7,318.0	0.63	7,331.5	7,345.0	0.74	3,906.0	0.42
2. Other	30,616.7	15,271.0	1.32	14,874.5	14,478.0	1.45	12,711.0	1.38
F. TOTAL ASSETS	**2,322,190.1**	**1,158,262.0**	**100.00**	**1,077,524.5**	**996,787.0**	**100.00**	**924,357.0**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING								
1. Due to Customers - Current	586,318.6	292,444.0	25.25	213,390.5	134,337.0	13.48	128,429.0	13.89
2. Due to Customers - Savings	n.a.	n.a.	-	n.a.	65,786.0	6.60	60,945.0	6.59
3. Due to Customers - Term	n.a.	n.a.	-	n.a.	113,754.0	11.41	103,549.0	11.20
4. Deposits with Banks	542,780.4	270,728.0	23.37	216,172.0	161,616.0	16.21	144,407.0	15.62
5. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL G	**1,129,099.0**	**563,172.0**	**48.62**	**519,332.5**	**475,493.0**	**47.70**	**437,330.0**	**47.31**
H. OTHER LIABILITIES								
1. Derivatives	356,417.7	177,774.0	15.35	159,235.5	140,697.0	14.12	137,971.0	14.93
2. Trading Liabilities	158,891.7	79,252.0	6.84	75,563.0	71,874.0	7.21	71,564.0	7.74
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Insurance	195,487.0	97,505.0	8.42	93,010.0	88,515.0	8.88	88,968.0	9.62
TOTAL H	**710,796.3**	**354,531.0**	**30.61**	**327,808.5**	**301,086.0**	**30.21**	**298,503.0**	**32.29**
I. OTHER FUNDING								
1. Long-term Borrowing	365,361.5	182,235.0	15.73	173,679.5	165,124.0	16.57	136,713.0	14.79
2. Subordinated Debt	30,207.7	15,067.0	1.30	14,426.5	13,786.0	1.38	12,463.0	1.35
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL I	**395,569.2**	**197,302.0**	**17.03**	**188,106.0**	**178,910.0**	**17.95**	**149,176.0**	**16.14**
J. NON-INTEREST BEARING	**29,143.1**	**14,536.0**	**1.25**	**14,107.0**	**13,678.0**	**1.37**	**14,988.0**	**1.62**
K. HYBRID CAPITAL								
1. Hybrid capital accounted for as equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Hybrid Capital accounted for as debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
L. TOTAL LIABILITIES	**2,264,607.6**	**1,129,541.0**	**97.52**	**1,049,354.0**	**969,167.0**	**97.23**	**899,997.0**	**97.36**
M. EQUITY								
1. Common Equity	42,048.6	20,973.0	1.81	20,654.0	20,335.0	2.04	16,975.0	1.84
2. Minority Interest	15,533.9	7,748.0	0.67	7,669.5	7,591.0	0.76	7,004.0	0.76
3. Revaluation Reserves	0.0	0.0	0.00	-153.0	-306.0	-0.03	381.0	0.04
TOTAL M	**57,582.5**	**28,721.0**	**2.48**	**28,170.5**	**27,620.0**	**2.77**	**24,360.0**	**2.64**
MEMO:CORE CAPITAL	**42,728.3**	**21,312.0**	**1.84**	**21,191.0**	**21,070.0**	**2.11**	**17,271.0**	**1.87**
MEMO: ELIGIBLE CAPITAL	**n.a.**	**n.a.**	**-**	**n.a.**	**n.a.**	**-**	**n.a.**	**-**
N. TOTAL LIABILITIES & EQUITY	**2,322,190.1**	**1,158,262.0**	**100.00**	**1,077,524.5**	**996,787.0**	**100.00**	**924,357.0**	**100.00**
Exchange Rate		USD1 = GBP 0.4988			USD1 = GBP 0.5094		USD1 = GBP 0.5808	

Income Statement Analysis
BARCLAYS PLC

	30 Jun 2007		31 Dec 2006		31 Dec 2005	
	Income Expenses GBPm Original	As % of Total AV Earning Assts Original	Income Expenses GBPm Original	As % of Total AV Earning Assts Original	Income Expenses GBPm Original	As % of Total AV Earning Assts Original
1. Interest Income	12,055.0	2.29	21,820.0	2.32	17,254.0	2.42
2. Interest Expense	7,448.0	1.41	12,662.0	1.35	9,157.0	1.28
3. NET INTEREST REVENUE	**4,607.0**	**0.88**	**9,158.0**	**0.98**	**8,097.0**	**1.14**
4. Net Fees & Commissions	3,812.0	0.72	7,177.0	0.76	5,705.0	0.80
5. Net Insurance Revenue	194.0	0.04	485.0	0.05	227.0	0.03
6. Other Operating Income	3,289.0	0.62	4,821.0	0.51	3,349.0	0.47
7. Personnel Expenses	4,581.0	0.87	8,169.0	0.87	6,318.0	0.89
8. Other Operating Expenses	2,411.0	0.46	4,916.0	0.52	4,200.0	0.59
9. PRE-IMPAIRMENT OPERATING PROFIT	**4,910.0**	**0.93**	**8,556.0**	**0.91**	**6,860.0**	**0.96**
10. Loan Impairment Charge	959.0	0.18	2,074.0	0.22	1,574.0	0.22
11. Other Credit Impairment and Provisions	n.a.	-	n.a.	-	n.a.	-
12. OPERATING PROFIT	**3,951.0**	**0.75**	**6,482.0**	**0.69**	**5,286.0**	**0.74**
13. Other Income and Expenses	150.0	0.03	654.0	0.07	-6.0	0.00
14. PUBLISHED PRE-TAX PROFIT	**4,101.0**	**0.78**	**7,136.0**	**0.76**	**5,280.0**	**0.74**
15. Taxes	1,158.0	0.22	1,941.0	0.21	1,439.0	0.20
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-
17. Change in Value of AFS Investments	n.a.	-	-93.0	-0.01	-89.0	-0.01
18. Currency Translation Differences	n.a.	-	-594.0	-0.06	214.0	0.03
19. Other Gains/(Losses) not in Published Net Income	n.a.	-	n.a.	-	n.a.	-
20. FITCH COMPREHENSIVE INCOME	**n.a.**	**-**	**4,508.0**	**0.48**	**3,966.0**	**0.56**
21. Total Gains/(Losses) not in Published Net Income	n.a.	-	-687.0	-0.07	125.0	0.02
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-
23. PUBLISHED NET INCOME	**2,943.0**	**0.56**	**5,195.0**	**0.55**	**3,841.0**	**0.54**

Ratio Analysis
BARCLAYS PLC

		30 Jun 2007 6 Months - Interim GBPm Original	31 Dec 2006 Year End GBPm Original	31 Dec 2005 Year End GBPm Original
I. PERFORMANCE				
1. Net Interest Margin	%	0.88	0.98	1.14
2. Loan Yield	%	n.a.	5.52	4.54
3. Cost of Funds	%	2.11	2.04	1.82
4. Costs/Average Assets	%	1.30	1.36	1.44
5. Costs/Income	%	58.75	60.59	60.68
6. Pre-Impairment Operating ROAA	%	0.91	0.89	0.94
7. Operating ROAA	%	0.73	0.67	0.72
8. Pre-Impairment Operating ROAE	%	34.86	32.92	33.62
9. Operating ROAE	%	28.05	24.94	25.91
II. CAPITAL ADEQUACY				
1. Internal Capital Generation	%	-2.59	9.76	11.17
2. Core Capital/Total Assets	%	1.85	2.13	1.88
3. Eligible Capital/Regulatory Weighted Risks	%	n.a.	n.a.	n.a.
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	n.a.	-0.10	0.14
5. Tier 1 Regulatory Capital Ratio	%	7.70	7.70	7.00
6. Total Regulatory Capital Ratio	%	11.80	11.70	11.30
7. Free Capital/Equity	%	76.54	80.37	75.70
III. LIQUIDITY (year end)				
1. Liquid Assets/Deposits & Money Mkt Funding	%	8.35	38.01	39.22
2. Loans/Deposits	%	109.85	89.94	91.80
IV. ASSET QUALITY				
1. Loan Impairment Charge/Gross Loans (av.)	%	0.63	0.74	0.59
2. Total Credit Impairment/Pre-impairment Operating Profit	%	19.53	24.24	22.94
3. Loan Impairment/Gross Impaired Loans	%	69.76	74.95	75.74
4. Individual Loan Impairment/Gross Impaired Loans	%	n.a.	n.a.	n.a.
5. Impaired Loans Gross / Loans Gross	%	1.45	1.56	1.67
6. Impaired Loans Net/Eligible Capital	%	n.a.	n.a.	n.a.
7. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.

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Fitch Changes Barclays Bank's Outlook to Negative; Affirms 'AA+' Rating Ratings

15 Nov 2007 12:28 PM (EST)

Fitch Ratings-London-15 November 2007: Fitch Ratings has today affirmed Barclays Bank plc's (Barclays) Long-term Issuer Default rating (IDR) and senior unsecured debt at 'AA+'. At the same time, Fitch has changed the Outlook for the IDR to Negative from Stable. Fitch has also affirmed Barclays' subordinated debt and other preferred and hybrid securities at 'AA', Short-term IDR at 'F1+', Individual rating at 'A/B', Support rating at '1' and Support Rating Floor at 'A-' (A minus). The Long-term IDR of Barclays' parent, Barclays PLC, has also been affirmed at 'AA+' and its Outlook changed to Negative from Stable. Fitch has affirmed Barclays PLC's Short-term IDR at 'F1+', Support rating at '5' and Support Rating Floor at 'No Floor'.

The rating action follows today's detailed trading update by Barclays PLC in respect of its Barclays Capital unit in the year to end-October 2007 (FY07). Barclays Capital has recorded net write-downs of GBP1.3bn in H207 in respect of ABS CDOs, other US sub-prime loans, SIVs and leveraged finance positions, but still reported record 10M07 earnings of GBP1.9bn.

"The write-downs announced today are substantial but can be absorbed in the context of Barclays' strong cash generation," says James Longsdon, Senior Director in Fitch's Financial Institutions group. "The revision of Barclays' Outlook to Negative reflects our concerns that the continuing expansion of Barclays Capital might expose the group to geater risks and earnings volatility, which could lead to a ratings downgrade."

Barclays is one of the world's largest banks. In the UK it offers a full range of financial services to retail, SME and corporate/wholesale customers. Internationally, it has mainly retail and commercial operations in Europe and Africa. Through Barclays Capital and Barclays Global Investors, Barclays services large corporates, financial institutions and governments around the world.

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Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

Moody's Investors Service

Global Credit Research
Announcement
16 NOV 2007

Announcement: Barclays Bank PLC

Moody's Comments on Write downs at Barclays Capital

London, 16 November 2007 -- Moody's commented on the GBP1.7bn charges and write downs (excluding the offsetting effect of GBP400m fair valuation on its own debt) within Barclays Capital over the period July -- October 2007 announced yesterday by Barclays PLC. The rating agency said that the announcement has led to no change in the ratings of the bank. The outlook for the bank's debt and deposit ratings (Senior at Aa1) remains stable, while the outlook for Barclays' B+ Bank Financial Strength Rating (BFSR) remains negative.

Given the ongoing dislocation in the financial markets, Moody's will continue to monitor the impact of market conditions on Barclays Bank PLC, including its exposures to structured products. Barclays reported net exposures of structured products at the end of October 2007 totalling GBP11.3bn, with a relatively small proportion of the more volatile mezzanine super senior CDOs. But an important consideration with regards to the possibility of further write downs, will be the efficacy of hedges the bank has in place and the sufficiency of the marks taken relative to gross and net exposures.

However, Moody's considers that the strong earnings capabilities and solid capitalisation of Barclays mean that this current write down can be absorbed without negatively impacting the credit rating of the bank. In conducting its own stress tests, Moody's has concluded that the bank would be able to absorb further write downs roughly equal to the size of those announced to date without experiencing further negative pressure on its rating.

Barclays Bank plc is headquartered in London, United Kingdom, and had total assets of GBP 1,158 billion at 30 June 2007.

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each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Amid Strong 2007 Results, Credit Concerns Loom For U.K. Banks, Says Report

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LONDON (Standard & Poor's) March 12, 2008--At first glance, U.K. banks appear to have emerged relatively unscathed to date from the global banking crisis, Standard & Poor's Ratings Services notes in a report, titled "Strong 2007 Performance Masks Growing Rating Concerns For U.K. Banks," published on March 11, 2008.

Reported pretax profits for the five major U.K. banking groups were a respectable £38.6 billion in 2007, fractionally up on 2006, which in turn was about double 2002 levels. Nevertheless, Standard & Poor's has become more cautious about the industry's prospects for 2008. "This reflects the greater uncertainty regarding the future contribution of the capital markets activities of the major banks, the impact of the harsher liquidity and funding environment on smaller lenders, and the weaker U.K. economic outlook," said Standard & Poor's credit analyst Nigel Greenwood.

Some financial institutions have already felt the chill: Both Barclays PLC and The Royal Bank of Scotland Group PLC (RBSG) now have negative outlooks, mortgage lenders Alliance & Leicester PLC and Bradford & Bingley PLC have been placed on CreditWatch with negative implications, and, of course, Northern Rock PLC has recently been nationalized.

The most striking feature of the major U.K. banks' reported earnings was the impact of credit market-related markdowns. These totalled about £7 billion if gains on fair valuing their own debt are excluded and ABN AMRO Bank N.V.-rel ated write-downs for RBSG are included. These markdowns were clearly material, but were insufficient on their own to affect ratings, and were not outsized in a global context. Further write-downs on structured investments, leveraged finance, and monoline exposures are possible, and could still loom large as a ratings factor.

Our ratings focus for the major U.K. banks in 2008 is switching toward:

-- Earnings prospects for their capital markets activities;

-- Resilience of their property and construction exposures (both commercial and residential);

-- Our expectation that corporate defaults will rise toward the long-term average; and

-- Continued income pressures faced by U.K. consumers.

Long-term ratings on the major U.K. banks have essentially been stable at the 'AA' level for a number of years. During the good times we were constrained from raising these ratings reflecting our approach of rating through the cycle. It also takes into account our cautious view on the evolution of the U.K. economy, the rise in household debt, and that, with the exception of HSBC, U.K. banks tend to manage capitalization more tightly than most large global peers. "As a result, there is a degree of slack in the current ratings to absorb both the recent impact of credit market-related events and the prospect of a broader softening in revenue growth and higher loan impairments," added Mr. Greenwood. Clearly, if the benefits of their diverse business profile prove insufficient to offset the effects of the weaker operating environment, the ratings could be lowered.

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The report is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-9823 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select Ratings in the left navigation bar, then Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office by sending an e-mail to media_europe@standardandpoors.com.

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March 11, 2008

Strong 2007 Performance Masks Growing Rating Concerns For U.K. Banks

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Strong 2007 Performance Masks Growing Rating Concerns For U.K. Banks

At first glance, U.K. banks appear to have emerged relatively unscathed to date from the global banking crisis. Reported pretax profits for the five major U.K. banking groups were a respectable £38.6 billion in 2007 (see table 1), fractionally up on 2006, which in turn was about double 2002 levels. Nevertheless, Standard & Poor's Ratings Services has become more cautious about the industry's prospects for 2008. This reflects the greater uncertainty regarding the future contribution of the capital markets activities of the major banks, the impact of the harsher liquidity and funding environment on smaller lenders, and the weaker U.K. economic outlook. Some financial institutions have already felt the chill: Both Barclays PLC and The Royal Bank of Scotland Group PLC (RBSG) now have negative outlooks, mortgage lenders Alliance & Leicester PLC and Bradford & Bingley PLC have been placed on CreditWatch with negative implications, and, of course, Northern Rock PLC has recently been nationalized.

Table 1

Headline 2007 Results For The Five Largest U.K. Financial Institutions*

(Mil. £)

	Ratings	Reported 2007 pretax profit	Pretax profit growth (2007 versus 2006) (%)	Pretax profit H2 2007 versus H1 2007 (%)	Core earnings/average RWAs (%)
Barclays PLC	AA/Negative/A-1+	7,076	(1)	(38)	1.5
HBOS PLC	AA/Stable/A-1+	5,474	(4)	(8)	1.3
HSBC Holdings PLC¶	AA/Stable/A-1+	12,106	10	(41)	1.9
Lloyds TSB Group PLC	AA/Stable/A-1+	4,000	(6)	1	1.7
Royal Bank of Scotland Group PLC§	AA/Negative/A-1+	9,900	8	1	1.7

Ratings shown are for the main operating banks and are Standard & Poor's at March 11, 2008. *Data are based on prelims except for HSBC Holdings PLC, which is based on audited final results. ¶HSBC Holdings PLC results have been converted from reported U.S. dollar numbers. §Data for Royal Bank of Scotland Group PLC is fully consolidated and includes those ABN AMRO businesses that are not reserved for Royal Bank of Scotland Group PLC. The impact on 2007 earnings was minimal. We define core earnings as a bank's consolidated net income (before allocation to minority interests) adjusted to arrive at what we deem to be sustainable earnings. Core earnings provide an indication of the bank's ability to self-finance its growth, as well as absorb unexpected shocks. Our assessment of a bank's future performance is focused on core earnings. RWAs--Risk-weighted assets.

The most striking feature of the major U.K. banks' reported earnings was the impact of credit market-related markdowns. These totalled about £7 billion if gains on fair valuing their own debt are excluded and ABN AMRO Bank N.V.-related write-downs for RBSG are included (see table 2). These markdowns were clearly material, but were insufficient on their own to affect ratings, and were not outsized in a global context. Further write-downs on structured investments, leveraged finance, and monoline exposures are possible, and could still loom large as a ratings factor.

Our ratings focus for the major U.K. banks in 2008 is switching toward:

- Earnings prospects for their capital markets activities;
- Resilience of their property and construction exposures (both commercial and residential);
- Our expectation that corporate defaults will rise toward the long-term average; and
- Continued income pressures faced by U.K. consumers.

U.K. financial institutions reported strong domestic asset quality in 2007, but if tighter credit conditions start to affect the broader economy materially, credit-quality deterioration could accelerate, and property values could also decline more sharply than they have to date.

Table 2

Reported 2007 Credit Market-Related Writedowns

	Total	ABS CDO super senior markdowns	Other subprime and CMBS markdowns	Leveraged finance markdowns	Other trading portfolio markdowns
(Mil. £)					
Barclays PLC	(2,293)	(1,412)	(823)	(58)	N.A.
HSBC Holdings PLC	(889)	N.A.	(493)	(97)	(299)
HBOS PLC	(227)	N.A.	N.A.	N.A.	(227)
Lloyds TSB Group PLC	(280)	(114)	N.A.	N.A.	(166)
Royal Bank of Scotland Group PLC	(1,895)	(659)	(456)	(285)	(495)

Data excludes gains on fair valuing its own debt. Royal Bank of Scotland Group PLC data excludes ABN AMRO related write-downs (a reduction of £978 million in the carrying value of financial instruments acquired). Data for HSBC Holdings PLC excludes loan loss impairments in its U.S. consumer finance business. ABS--Asset-backed securities. CDO--Collaterized debt obligations. CMBS--Commercial mortgage-backed securities. N.A.--Not available.

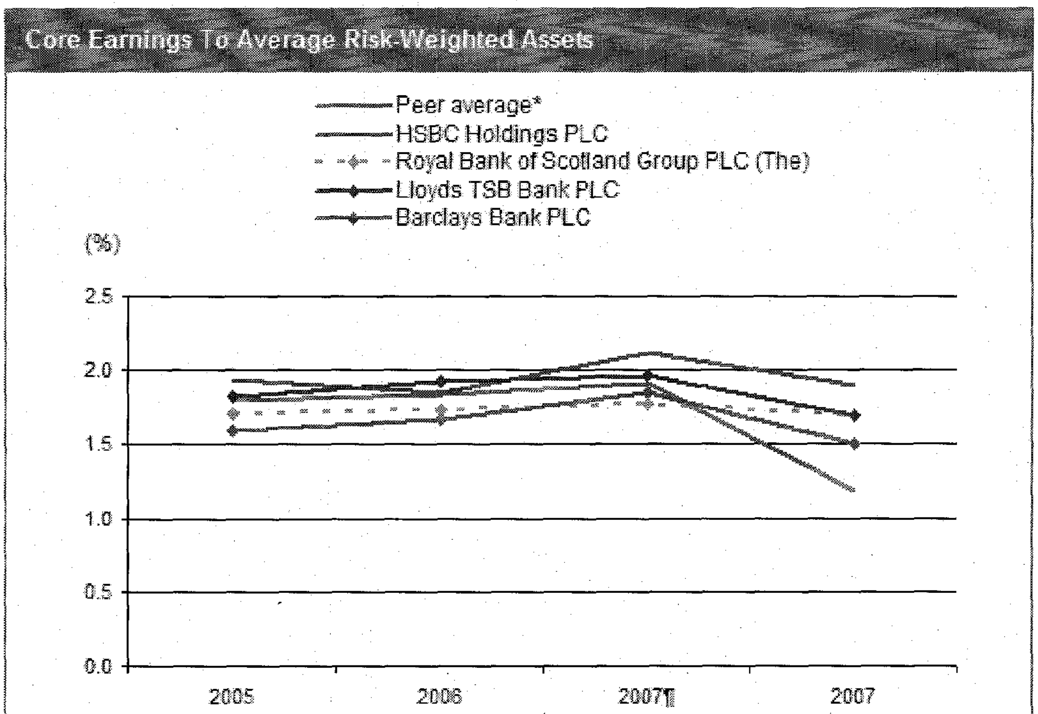
The sound overall earnings performance in 2007 reflects the very diverse business profile of the major U.K. banks. Their appetite to expand away from the U.K. (particularly in the case of Barclays, HSBC Holdings PLC, and RBSG) and increase the role for nonretail business lines is a key feature of their evolution over the past several years. In part, this shows the limited scope for domestic market consolidation, and their modest degree of confidence in the relative growth and returns of the U.K. retail market. This trend was starkly illustrated by the 2007 battle for ABN AMRO Bank N.V. ownership, which was ultimately acquired by a consortium led by RBSG, beating a rival bid from Barclays.

Long-term ratings on the major U.K. banks have essentially been stable at the 'AA' level for a number of years. During the good times we were constrained from raising these ratings reflecting our approach of rating through the cycle. It also takes into account our cautious view on the evolution of the U.K. economy, the rise in household debt, and that, with the exception of HSBC, U.K. banks tend to manage capitalization more tightly than most large global peers. As a result, there is a degree of slack in the current ratings to absorb both the recent impact of credit market-related events and the prospect of a broader softening in revenue growth and higher loan impairments. Clearly, if the benefits of their diverse business profile prove insufficient to offset the effects of the weaker operating environment, the ratings could be lowered.

Key Performance Indicators, Trends, And Expectations

The solid ratios of core earnings to average risk-weighted assets in 2007, and perhaps more importantly a consistently healthy track record, demonstrate the strong profitability of the major U.K. banks. Chart 1 highlights recent performance relative to a range of global peers and the degree to which some of those peers deteriorated in the latter part of 2007. Meanwhile, strong business diversity continues to support the ratings.

Chart 1



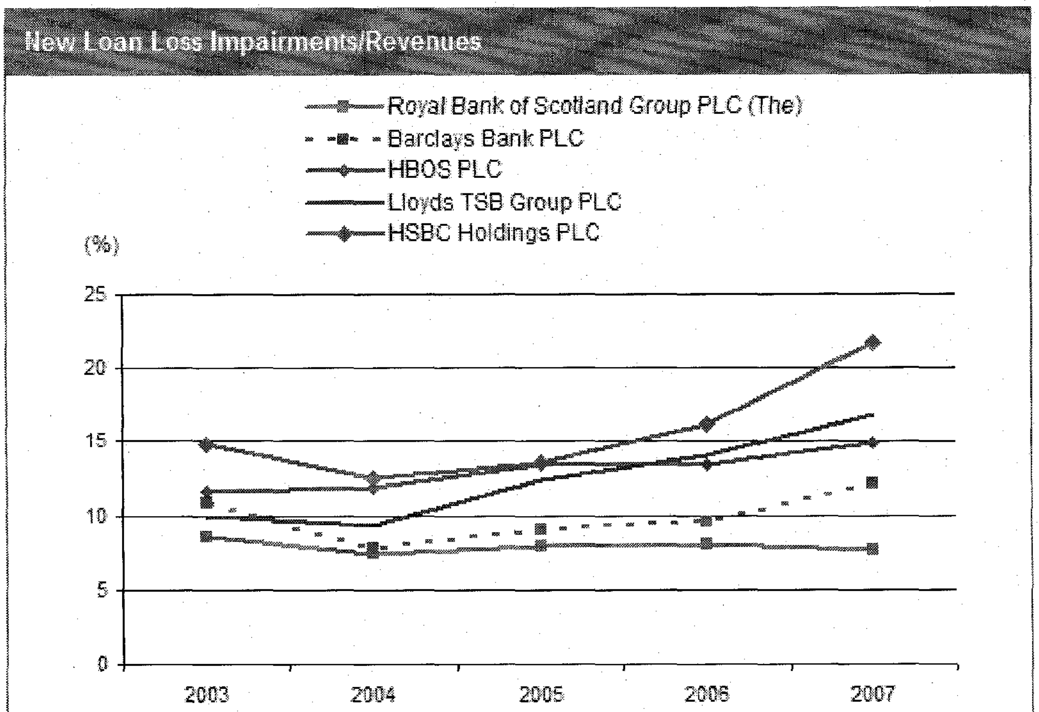
*Average is for Nordea Bank AB, ABN AMRO Bank N.V., ING Bank N.V., Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), BNP Paribas, Societe Generale, Fortis Inc., Danske Bank A/S, National Australia Bank Ltd., Royal Bank of Canada, Bank of Ameica Corp., Citigroup Inc., Wachovia Bank. NA, Banco Santander S.A., Deutsche Bank AG, and UBS AG. ¶First-half of 2007. Source: Standard & Poor's.

Earnings are underpinned by sound net interest margins, a high degree of noninterest income with a fairly modest relative reliance on market-sensitive income, and a track record of good efficiency. These factors remained true in 2007, and we believe that they will put U.K. banks in good stead through the more difficult operating environment.

The speed and degree of asset-quality deterioration could be crucial

A feature of U.K. bank results over the past several years has been the historically low impact of loan loss impairments on earnings. The shift in 2007 was mainly as a result of the impact of credit market related write-downs on revenues and impairment charges (see chart 2).

Chart 2



Royal Bank of Scotland Group PLC 2007 data excludes ABN AMRO Bank N.V. Data for 2003-2004 is based on U.K. GAAP and are not fully comparable. Source: Standard & Poor's.

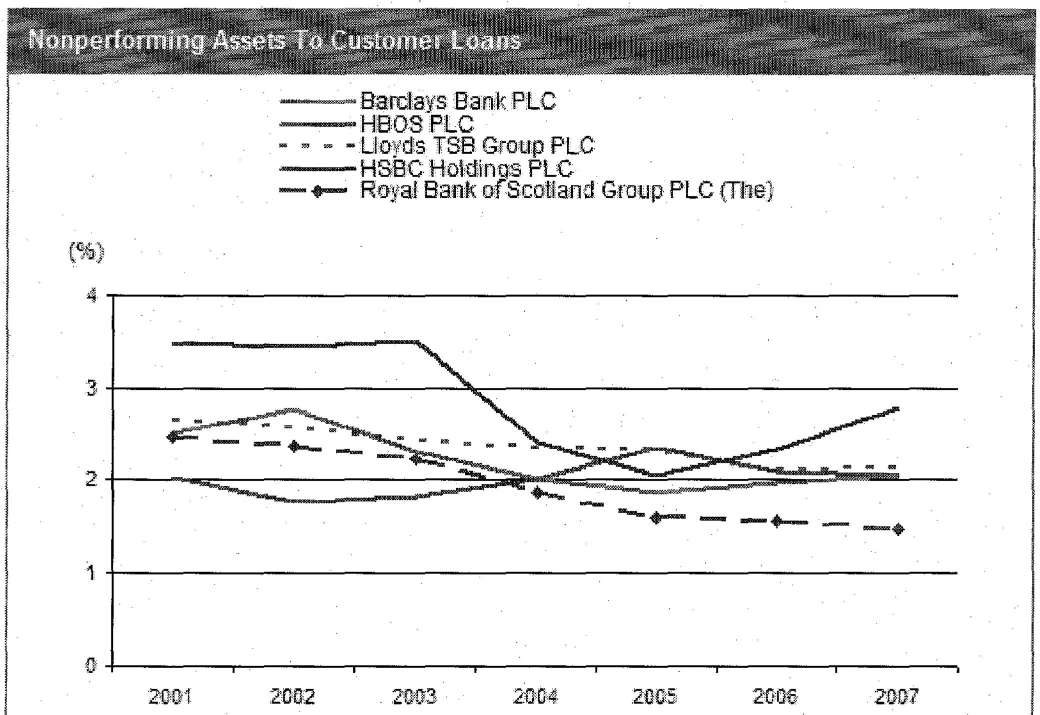
The higher level of impairments at HSBC reflects the difficulties suffered by its U.S. consumer finance business as a result of the severe deterioration in the U.S. housing market. HSBC stated that North American loan impairment charges and other credit risk provisions hit a high $12.2 billion in 2007 ($6.8 billion in 2006 and $4.9 billion in 2005) or more than two-thirds of the total for the group. These figures indicate both the speed and degree to which impairments can rise.

U.K. banks last experienced this effect in the early 1990s when domestic credit quality deteriorated sharply. To put the current low impairment charges into context, taking 1991-1993 as the stress period, the average ratio of new loan loss provisions to revenues (under U.K. GAAP) was about 25% (based on a peer group of Barclays, Bank of Scotland PLC, Lloyds Bank PLC, Midland Bank (now rebranded and part of HSBC), National Westminster Bank PLC, and RBSG). While we are not expecting a return to a similarly severe operating environment in the U.K., such a sharp deterioration in asset quality could clearly impact the ratings.

On the other hand, the performance of HSBC in 2007 is quite revealing. Their U.S. loan loss impairments were at a stressful level in 2007, yet the diversity of its earnings still led to a record overall performance. Therefore, it is worth highlighting the greater degree of revenue diversity of the major U.K. banks today versus the early 1990s.

Asset quality measured by nonperforming loans to average customer loans also remains close to historical lows (see chart 3). These figures contrast to an average ratio of about 7.5% between 1991 and 1993.

Chart 3

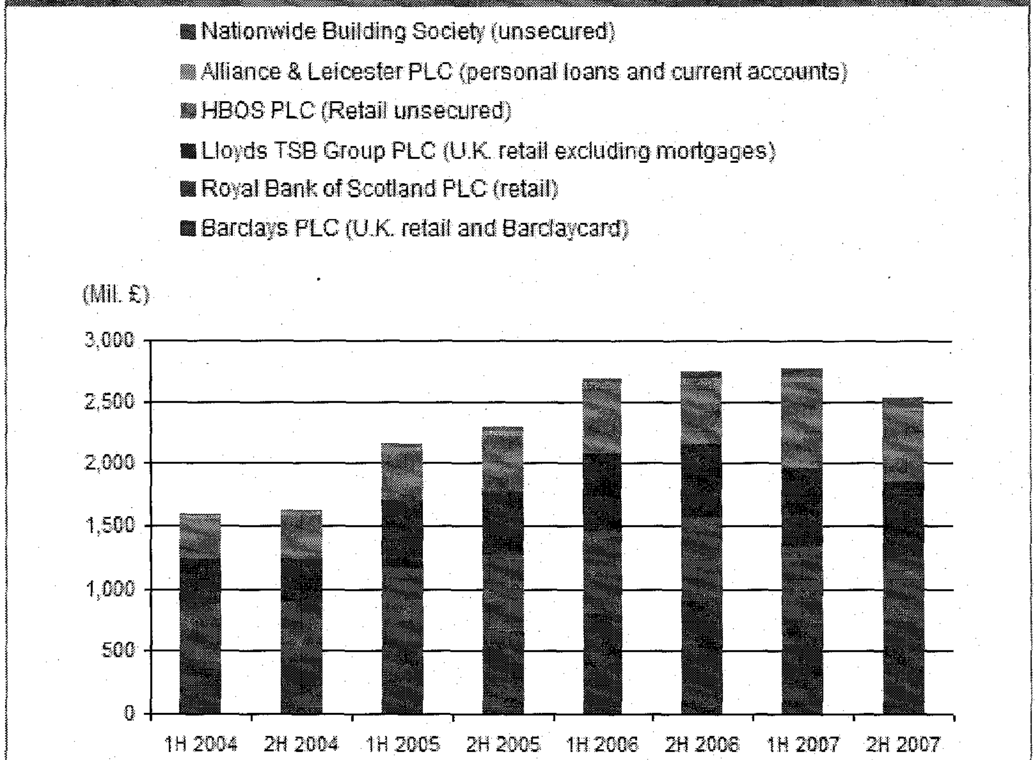


Royal Bank of Scotland Group PLC 2007 data excludes ABN AMRO Bank N.V. Data for 2003-2004 is based on U.K. GAAP and are not fully comparable. Source: Standard & Poor's.

Standard & Poor's also takes some comfort from U.K. banks having already experienced some stress over the past three years and have found this experience manageable. This stress followed the deterioration in U.K. unsecured credit quality due to higher levels of household debt, changes in insolvency legislation, and an increased willingness of consumers to take on debt (see chart 4). Related impairments rose sharply in 2005 and further still in 2006. Encouragingly, indications by the banks that this issue would start to moderate were borne out in the latter half of 2007. This timing was quite fortuitous given the credit problems elsewhere. Over the past three years, U.K. banks have adopted a more conservative approach to consumer credit, which should leave them a little better positioned if the U.K. economy does slip into recession.

Chart 4

Unsecured Impairment Charges For Large U.K. Lenders



Source: Company accounts.

To date, impairments on lending secured on property are not material. Losses remain negligible on residential mortgages, but we note that mortgage debt represents about 85% of total household debt (or £1.2 trillion). There are differences between the U.S. mortgage experience and that of the U.K. (for example, U.K. rate rises were less severe, house price inflation was more resilient to date, the subprime market was proportionately smaller, relaxation in lending standards was less marked, and key supply and demand fundamentals were pertinent to the U.K.). On closer inspection, however, the differences should not be exaggerated. Mortgage arrears and properties in possession are rising from cyclical lows. Losses relating to commercial real estate are also small, but U.K. banks do have large property and construction exposures, and these loan books have grown quickly in recent years. Cash flows to service debt remain healthy, but recent declines in commercial property valuations have been marked.

Segmental Reporting Highlights Benefits Of Diversification

Ratings on the major U.K. banks benefit from the diversified nature of their earnings. Although divisional reporting is not directly comparable, it provides a useful indication of overall performance drivers (see table 3). The obvious areas of weakness in 2007 came from capital markets activities (after a strong first half), but this was partly compensated by surprisingly resilient U.K. performance (both corporate and retail banking). Standard & Poor's notes, however, that the outlook for most business segments could be weak, with the exception of Asian banking, which only applies in a material sense to HSBC, and that expected weaknesses in capital markets and U.K. banking could prove lingering.

Table 3

Segmental Reporting Of Earnings (As Reported)

(Mil. £)	*2007	2006	(% change)
Barclays PLC			
U.K. Banking	2,653	2,546	4
o/w U.K. Retail Banking	1,282	1,181	9
o/w Barclays Commercial Bank	1,371	1,365	0
Barclaycard	540	458	18
International Retail and Commercial Banking	935	1,216	(23)
o/w International Retail and Commercial Banking--ex Absa	246	518	(53)
o/w International Retail and Commercial Banking--Absa	689	698	(1)
Barclays Capital	2,335	2,216	5
Barclays Global Investors	734	714	3
Barclays Wealth	307	245	25
Head office functions and other operations	(428)	(259)	65
Profit before tax	7,076	7,136	(1)
HBOS PLC			
Retail	2,049	2,364	(13)
Corporate	2,320	1,776	31
Insurance and Investment	644	581	11
International	757	617	23
Treasury and Asset Management	275	350	(21)
Group items	(337)	(241)	40
Drive	-	90	N.M.
Group underlying profit before tax	5,708	5,537	3
HSBC Holdings PLC¶ ($)			
Personal Financial Services	5,900	9,457	(38)
Commercial Banking	7,145	5,997	19
Global Banking and Markets	6,121	5,806	5
Private Banking	1,511	1,214	24
Other	3,535	(388)	N.M.
Profit before tax	24,212	22,086	10
Lloyds TSB Group PLC			
U.K. Retail Banking	1,732	1,549	12
Insurance and Investments	1,035	1,034	0
Wholesale and International Banking	1,822	1,640	11
Central group items	(382)	(324)	18
Insurance gross up§	(207)	349	N.M.

Table 3

Segmental Reporting Of Earnings (As Reported)(cont.)			
Profit before tax	4,000	4,248	(6)
The Royal Bank of Scotland Group PLC			
Corporate Markets	5,648	5,541	2
o/w Global Banking & Markets	3,687	3,779	(2)
o/w UK Corporate Banking	1,961	1,762	11
Retail Markets	2,883	2,568	12
o/w Retail	2,470	2,250	10
o/w Wealth Management	413	318	30
Ulster Bank	513	421	22
Citizens	1,323	1,582	(16)
RBS Insurance	683	749	(9)
ABN AMRO	128	-	N.M.
Central Items	(896)	(1,447)	(38)
Group operating profit**	10,282	9,414	9

*Based on preliminary data except for HSBC Holdings PLC, which is based on audited final results. ¶HSBC Holdings PLC results are expressed in U.S. dollars. §Attributable to the policyholders of the group's long-term assurance funds. **Profit before amortization of purchased intangible assets and integration costs. N.M.--Not meaningful.

Last year was very much one of two halves for capital markets activities. These activities are most prominent for Barclays and RBSG (and in the latter case will increase further in importance as a result of its acquisition of ABN AMRO's global wholesale business). Barclays Capital's pretax profit fell to £675 million in the second half of 2007, down 59% from £1.6 billion in the first half. Operating profit at RBSG's Global Banking and Markets division was down 30% to £1,517 million from £2,170 million in the first half. Standard & Poor's notes that both of these businesses demonstrate good diversity by income and geography. Some of the potential uncertainties for these and other banks include the outlook for their structured products businesses and investment portfolios; pressures for cost flexibility and restructuring; sluggish conditions in the leveraged finance market; and the potential for higher litigation charges. In addition, we also expect reduced income from principal investments, which provided a useful boost to 2007 earnings. Markdowns on credit market assets were lower than at many overseas investment banks; this may be justified, but we do expect further markdowns in 2008.

U.K. retail and commercial banking earnings proved quite resilient in 2007. All of the major banks, with the exception of HBOS PLC, recorded useful growth. (HSBC, for whom the U.K. represents just less than one-quarter of group profits stated that profit before tax in the U.K. rose by 21% in 2007). The resilient performance was driven by satisfactory income growth, good cost control, and reduced consumer credit loan loss impairments. Strong growth in retail deposits was also a feature. Weaker results in HBOS' Retail Division reflected a rise in impairments on unsecured loans, but also a slight fall in net interest income as a result of mortgage margin compression and the impact of its greater relative reliance upon wholesale funding. We expect income growth to be challenged by the marked reduction in mortgage loan growth--although banks have been widening mortgage spreads--while corporate lending will be affected by lower commercial property-related transactions. As discussed earlier, there is the potential for loan loss impairments to deteriorate quickly.

Wealth management was a strong performer in 2007, much as it had been in 2006. However, its relative contribution to earnings is and will remain fairly modest. Significant overseas investment by several of the banks indicates that they see wealth management as one of the growth drivers, but weak investment market conditions may temper some of this sales growth versus plan. General insurance earnings were lower in 2007, largely as a result of claims related to the severe floods in the U.K. during the middle of the year.

Accounting Issues

The accounting classification of financial assets determines how, where, and when the write-downs are reported in the banks' financial statements. For example, the figures stated above mainly relate to write-downs against revenue on financial assets that are fair valued through the income statement (see table 2). The write-downs represent a point-in-time valuation at year-end. It seems quite possible that the reduction in valuation of asset-backed securities, collateralized debt obligation, subprime assets, and the deterioration in monolines' financial standing since the year-end will result in further write-downs in 2008.

Additionally, some banks recorded significant write-downs directly through equity on available-for-sale (AFS) assets. Reported fair-value losses (gross of tax) on AFS assets amounted to £727 million for HBOS, £638 million for HSBC, and £590 million for Lloyds TSB, respectively (data are not available for Barclays and RBSG). If current market conditions continue, some of these losses may ultimately be deemed impaired and will be transferred to the income statement and reported as impairment. Banks are comfortable that there is no reason to consider them impaired at end-2007. For equity instruments, a significant or prolonged decline in fair value of an investment below its cost would provide evidence of impairment. For AFS debt instruments, impairment will potentially be influenced less by current fair values, with a greater emphasis on the recovery of value through future cash flows. This may be particularly important in cases where the current fair values are significantly weakened by issues other than credit, such as liquidity and spreads.

The exposures that have resulted in the write-downs are summarized in table 4. The majority of these exposures are fair valued either through profit or loss, or directly in equity. These exposures are predominantly illiquid and hard-to-value assets, and are typically fair valued with significant unobservable inputs. The percentage of trading assets of U.K. banks that were fair valued using significant unobservable inputs were 9.9% for HBOS, 4.6% for Barclays, 3.8% for RBSG, and 3.1% for HSBC (data are not available for Lloyds TSB).

As a result of widening spreads in the current market conditions, major U.K. banks that opted for the fair-value option of their own debt, reported significant gains in their income statements. The gains amounted to £1.5 billion for HSBC, £658 million for Barclays, and £275 million for RBSG. In contrast, HBOS and Lloyds TSB Group PLC do not fair value their own debt. As an aside, the widening spreads on 'AA' rated corporate bonds also had a notable effect on the valuation of defined-benefit pension schemes of the major U.K. banks. This resulted in significant actuarial gains in their 2007 financial statements, which boosted their shareholders' funds. This benefit would be greater for the banks that have not adopted the corridor method of pension accounting.

Table 4

Subprime And Other Exposures At Year-End 2007

(Mil. £)

	Net ABS CDO exposure	Other U.S. subprime	Alt-A	Monoline insurers	CMBS, commercial mortgages	Leveraged finance
Barclays PLC	4,671	5,037	4,916	1,335	12,399	7,368
HBOS PLC	329	105	7,097	551	3300	N.A.

Table 4

Subprime And Other Exposures At Year-End 2007(cont.)						
HSBC Holdings PLC	279	3,674	N.M.*	602	N.A.	4,432
Lloyds TSB Group PLC	130	N.A.	619	155	1,355	N.A.
Royal Bank of Scotland Group PLC	3,834	1,292	2,233	2,547	8,808	8,698

*HSBC's exposure to Alt-A is through its direct lending in the U.S. and amounts to less than £150 million. Royal Bank of Scotland Group PLC includes consolidated figures of ABN AMRO at year end. ABS--Asset-backed securities. CDOs--Collaterized debt obligations. CMBS--Commercial mortgage-backed securities. N.A.--Not available. N.M.--Not meaningful.

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RATINGSDIRECT®

December 19, 2007

Bank Industry Risk Analysis: U.K. Banks Are Charting More Turbulent Waters

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Bank Industry Risk Analysis: U.K. Banks Are Charting More Turbulent Waters

Major Rating Factors

Strengths:

- A solid track record of strong profitability, underpinned by good efficiency
- Solid and consistent banking market shares
- Generally strong risk management
- Diversity of revenues, both by business line and geographically

Weaknesses:

- Highly indebted household sector under increased affordability pressures, leading to rising retail impairment charges
- Adverse funding conditions
- Cyclically weaker prospects for the economy and the mortgage market
- Relatively weak capitalization
- Reputational damage to the sector from the bailout of Northern Rock PLC
- Increased regulatory scrutiny of retail banking

Executive Summary

Following years of profitable growth, the U.K. banking sector has faced an exceptionally demanding market environment in the second half of 2007. While funding conditions are expected to improve in 2008, the year will bring additional challenges. Standard & Poor's Ratings Services' stable outlooks on most of our U.K. bank ratings reflect our expectation that the industry will show a high resilience overall and will continue to be supported by broadly favorable economic conditions. These expectations are, however, dependent on the magnitude and duration of current market dislocation. If market conditions deteriorate further or if economic prospects weaken materially, U.K. bank ratings could be exposed to broader downward pressures.

U.K. banks have gone into this difficult period relatively well placed. Standard & Poor's considers the U.K. banking system to be one of the strongest in the world. It operates within solid economic, accounting, and legal frameworks, all of which are supportive of its fundamental strength. In addition, profitability has been strong and while some of the larger banks in particular are now having to cope with unexpected balance sheet expansion--due to longer warehousing of risk and funding off balance sheet commitments--the impact appears manageable.

Asset quality for U.K. banks continues to be strong, which reflects the combination of a benign credit environment in recent years and improvements in risk management. However, U.K. household indebtedness is high by any standard, and there is clear evidence that the credit cycle has turned. To date, financial stress has been felt hardest in the most vulnerable segments and credit quality remains almost universally sound outside of the unsecured lending portfolios. However, household finances continue to be squeezed and many mortgage borrowers will also experience a degree of payment shock, even though base rates appear to have peaked. We continue to expect any deterioration in asset quality to be moderate in the absence of a severe weakening in the macroeconomic environment. However, if tighter credit conditions start to materially affect the broader economy, leading to a significant rise in unemployment, credit-quality deterioration could be much more rapid and property values could also be expected to decline sharply.

Profitability for U.K. banks is expected to remain satisfactory; the highest rated being underpinned by their diversity both by business line and geography, coupled with consistent efficiency measures. While retail banking is not going to become a low profitability business, it will typically become a less profitable one in 2008 due to significantly weaker revenue growth prospects and the ongoing constraints from the current funding conditions. The associated margin impact should be offset to a significant degree by margin expansion on lending. Higher loan loss provisions, albeit from a low base, are also expected to impact profitability further.

Despite strong profitability, U.K. banks' capitalization has remained quite weak in the past few years as a result of share buybacks and acquisitions. Standard & Poor's preferred measures of capital strength have diverged from regulatory ratios, and U.K. banks now compare unfavorably in this respect with those of many other banking systems. Nevertheless, the comfortable profit margins of most U.K. banks provide good capacity to withstand all but the most extreme loss rates without eroding capital.

Outlooks on U.K. banks are predominantly stable, reflecting Standard & Poor's view that the banks are typically well positioned to cope with current market conditions and a more widespread economic downturn, while maintaining sound financial performance. However, some banks will be more vulnerable to earnings pressures or to deteriorating asset quality. Downgrades may occur if banks do not meet Standard & Poor's expectations of earnings resilience and risk management capabilities. Positive ratings actions are less likely and would need to be based on clear evidence of banks' superior ability to withstand any cyclical downturn, combined with demonstrated improvements in their business mix and franchise, as well as superior risk management.

Economic Risk

Macroeconomic background

With nominal GDP of £1.3 trillion (see table 1), the U.K. is one of the largest economies in the world. It has relatively high average wealth, as demonstrated by per capita GDP of about $45,000, which is in line with its European 'AAA'-rated peers. It has a well-developed and diversified economy, underpinned by flexible and competitive markets, proven ability to attract inward investment, and a relatively strong resilience to external shocks. Historically, it has experienced periods of economic volatility, but the establishment of a credible monetary policy via the now-independent Bank of England (BoE) has promoted greater stability.

Table 1

U.K. Economic And Financial Indicators

	2009f	2008f	2007f	2006	2005	2004	2003
GDP nominal (bil. £)	1,494	1,433	1,375	1,302	1,234	1,184	1,118
GDP per capita ($)	47,683	46,857	45,177	39,831	37,304	36,267	30,709
Real GDP (% change)	2.2	2.1	3.1	2.8	1.8	3.3	2.8
Trade balance (bil.$)	(6.0)	(5.9)	(5.8)	(5.9)	(5.6)	(5.1)	(4.3)
General government balance (% of GDP)	(2.7)	(2.8)	(2.8)	(2.7)	(3.3)	(3.4)	(3.5)
General government debt (% of GDP)	46.3	45.5	44.5	43.9	42.8	39.4	39.3
CPI inflation (average % change)	2.0	2.1	2.4	2.3	2.0	1.3	1.4

Table 1

U.K. Economic And Financial Indicators(cont.)							
Unemployment (% of workforce)	5.1	5.2	5.3	5.4	4.7	4.8	5.00
Domestic credit to private sector and NFPEs (% of GDP)	213.9	201.8	187.1	174.9	162.8	153.7	146.3
Monetary aggregate growth (%)	11.8	11.2	10.4	12.7	12.7	9.1	7.2

Source: Standard & Poor's Sovereign Database. f--Forecast. NPFEs--Nonfinancial public enterprises.

Strong and sustained economic growth to slow

The U.K.'s relative economic performance has undergone a remarkable period of expansion in recent years, as demonstrated by 61 successive quarters of increases in output to the third quarter of 2007. After average GDP growth of 2.5% over 2001-2004, the economy slowed to 1.8% in 2005 before rebounding to 2.8% in 2006, thanks to a recovery in consumer demand and a still expansive fiscal policy. Growth has remained close to 3% in 2007, but is expected to fall back to about 2.0% in 2008 and 2009 in the light of the acute deterioration in market conditions in the second half of 2007 and the wealth effects related to the significant slowdown in the housing market.

Consumer spending has been the mainstay of economic growth, supported by real wage increases, continuing low unemployment and, to a limited extent, releases of capital in the form of home equity withdrawal. However, household finances have been steadily stretched over the past few years by higher debt servicing costs--a product of borrowing on higher income multiples and the tightening cycle of interest rates. December's 25 basis point (bp) rate cut should help some mortgage borrowers, although how much of this will be passed on is unclear as banks are seeking to expand margins. However, many other borrowers will suffer a degree of payment shock as their low, fixed-rate deals start to reset. Consumers' ability to spend is likely to be further impinged by rising energy and food prices in 2008, although this is not to say that the U.K. consumer is about to fall out of love with shopping. Standard & Poor's expects consumer demand to increase by 1.8% in 2008, compared with 2.8% in 2007. However, there is downside risk to this projection. If the credit squeeze is prolonged and it infects the wider economy, the knock-on effects for first consumer confidence and then employment could be expected to lead to a sharper slowdown. (For more information, see "European Economic Forecast: Downside Risks Dampen The Outlook For Growth In Europe," published on Oct. 2, 2007, on RatingsDirect.)

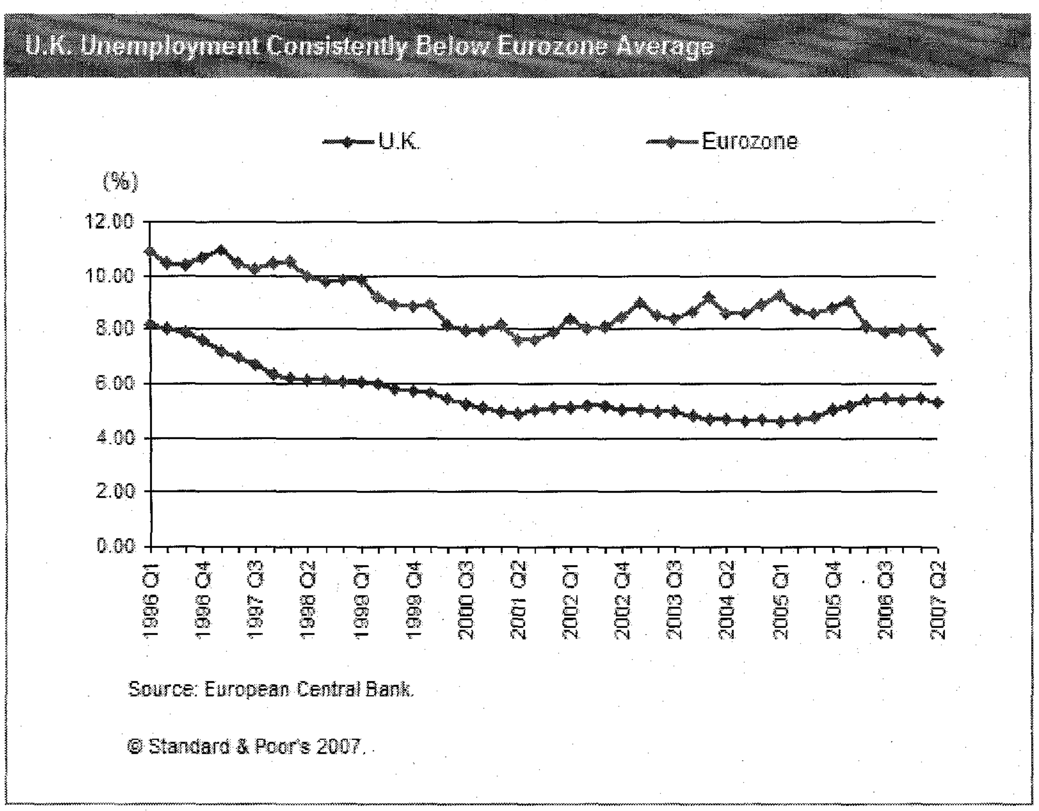
In the public sector, the government's expansionary fiscal policy continues to support near-term growth, particularly in employment. The U.K. has recorded the highest increase in government spending as a proportion of GDP in the OECD since 2000, with government debt set to reach 44.5% of GDP in 2007--although this is still some way below the Eurozone average. Government spending is expected to level off, with the current-account deficit remaining just less than 3% of GDP in the medium term.

In the corporate sector, investment activity has continued its steady revival following a weak period in 2003-2004. Increased investment has largely been focused on improving productivity and reducing energy consumption to support cost competitiveness. The corporate sector remains relatively profitable due to a combination of higher interest income and increased property income receipts. Corporate sector debt remains high, however, despite the sector surplus of recent years, and the commercial property market has started to soften.

Unemployment relatively low and stable

The U.K.'s labor market is one of the most flexible in Western Europe, and continues to expand as a result of strong migrant labor inflows from the newer EU member states. Even so, robust job growth in recent years has led to a tighter labor market and above inflation rises in wages. However, while unemployment remains well below the average for the Eurozone at 5.3% and there is no immediate prospect of a material deterioration, there are prospective signs of weakening due to slower economic growth, weaker corporate earnings prospects, and a gradual refocusing on public sector efficiency (see chart 1).

Chart 1



Monetary Policy Committee being pulled in opposite directions

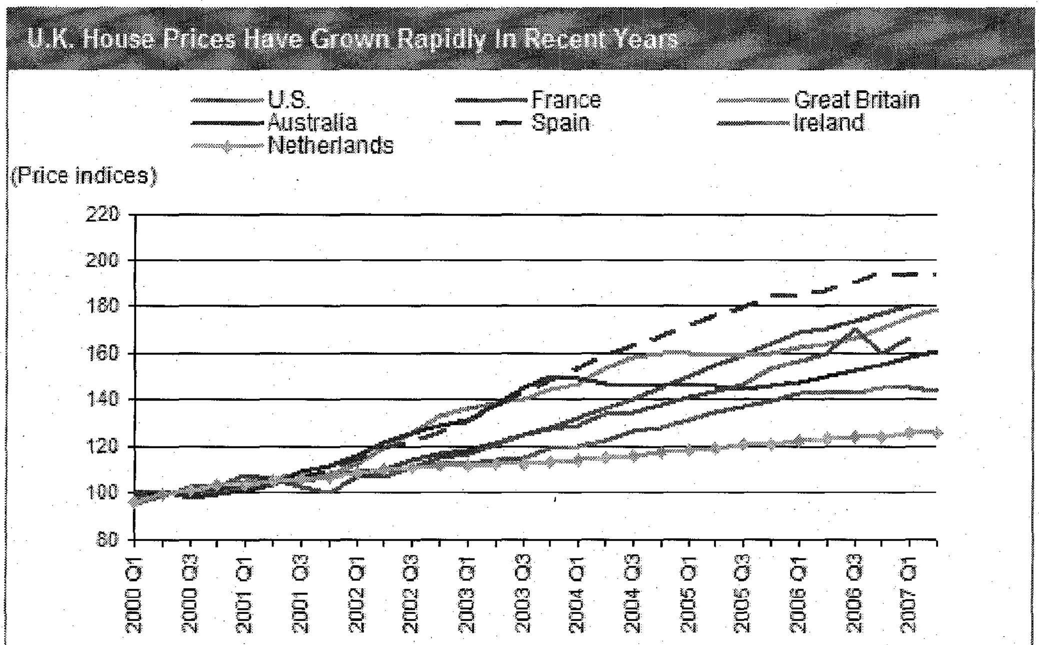
Since 1997, sole responsibility for inflation and interest rate policy has been with the Monetary Policy Committee (MPC) of the BoE, which targets 12-month consumer price (CPI) growth of 2.0%. While rising base rates have led to a fall in CPI from its recent peak of 3.1% in April 2007 to 2.1% in October, inflationary pressures from higher energy and food prices remain.

The BoE has established a credible record for price control and inflation targeting in the past decade, but must now weigh up the conflicting pressures of still evident inflationary pressures and a credit crisis that, if left unchecked, could lead to a much more rapid slowdown in the economy. This is arguably leading to one of the toughest periods of decision-making for the MPC since it was set up. While clearly still concerned about inflationary pressures, the MPC voted for a 25 bp cut on Dec. 6, 2007, reducing the BoE's base rate to 5.5%. Standard & Poor's expects the rate to be cut by a further 50 bps through the first half of 2008.

House price growth has peaked

Since 1995, the U.K. housing market has seen some of the fastest price growth of all developed economies (see chart 2). Following a relative slowdown in house price inflation in 2005, prices rose again in 2006 and early 2007, with the annual rate of house price inflation touching 10%. This follows a long-established trend of house prices rising faster than incomes, leading to lower affordability and, when combined with the interest rate rises, rising debt service costs. Indeed, mortgage lenders' accommodating stance--through longer repayment periods, higher income multiples, and the development of products for less creditworthy borrowers--has been a supporting pillar of the continued demand. Further stimulus has come from the buy-to-let (BTL) market, which has picked up the slack as first-time buyers have increasingly been priced out of the market and instead continued to rent. BTL accounted for 10% of outstanding balances at end-June 2007, from 3% five years ago.

Chart 2

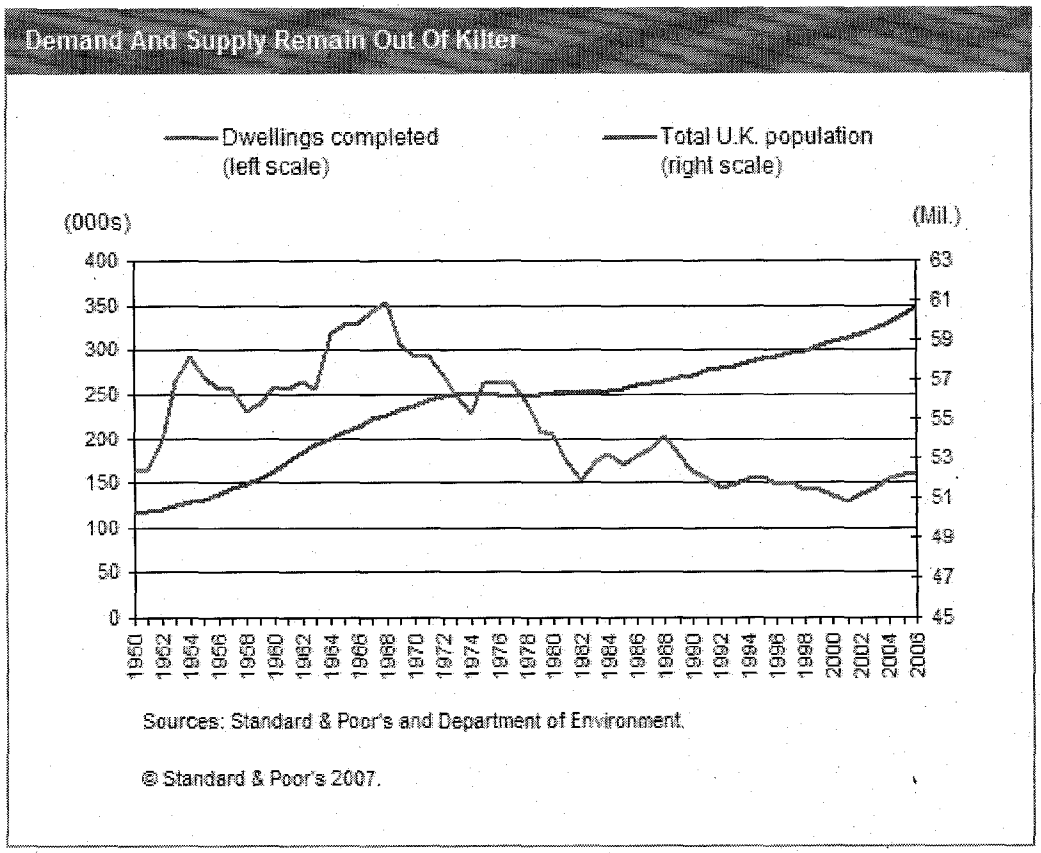


Real House Price Indices--2,000=100. (Corrected for CPI inflation.)
Sources: Standard & Poor's and OECD.

Since mid 2007, the market appears to have turned and sales activity has eased considerably--new mortgage approvals in September were 30% down year on year and property values have started falling on some measures. This appears to be reflective of affordability constraints taking an even tighter grip and, latterly, a fall in consumer confidence and the supply of credit.

Standard & Poor's expects annual house price inflation to continue to diminish fairly rapidly in the coming months, but that the market will experience a soft landing overall. Further modest reductions in interest rates will provide support to house prices, as will the long-term fundamental imbalance that persists in many areas of the country between the supply of new houses and the demand for housing (see chart 3). In addition, the BTL market, which has primarily relied for yield on returns from capital growth, is now receiving some greater support from rising rents in many areas.

Chart 3



Nevertheless, there is significant downside risk to that prediction if credit supply is further constrained, the economy slows more markedly than we anticipate or confidence evaporates. For now, sellers are sitting on their hands, but a significant rise in unemployment would further reduce demand and, additionally, could prompt a glut of supply at depressed prices if arrears lead to a material rise in repossessions. This would be exacerbated if property investors start to cash in their chips--about 30% of properties are not owner occupied. This is not our central forecast, however.

Generally low systemic risk

Overall, the U.K.'s systemic risk is relatively low, given its strong political system and economic maturity. The following structural vulnerabilities exist, however:

- Low savings ratio. Household savings have deteriorated steadily in the past decade as the consumer spending boom took hold. In the second quarter of 2007, the savings ratio fell to a 40-year low of 2.0%. While weaker economic prospects and slower wage growth can be expected to curtail household spending, the savings ratio is likely to remain below its long-term average of 7.0% in the medium term.
- High U.K. household sector indebtedness in relation to income. Although in general, household balance sheets look reasonably strong, there are signs of stress among a minority of households, with personal insolvencies rising sharply, particularly among nonhomeowners. Household finances are expected to be squeezed further in 2008, but debt levels would only become a cause for systemic concern in the event of a severe economic downturn.

- Exchange-rate volatility. The openness of the U.K.'s economy and its role as a trading nation make it vulnerable to changes in its exchange rate. Increased economic predictability has led to greater exchange-rate stability, but it remains sensitive to the changing relative fortunes of the U.S. and the Eurozone. The weak dollar is making U.K. exports increasingly uncompetitive.
- Twin deficits. The U.K. has run a trade deficit of about 3% of GDP since mid 2005. This raises some sustainability issues, partially offset by the country's substantial "invisible earnings," achieved in part via London's role as an international financial center. The regular fiscal deficit of about 3% of GDP against a backdrop of strong economic growth implies a structural deterioration in public finances. However, while it would mark a break with current policy, the moderate stock of government debt (44% of GDP) does afford the government some latitude to provide additional fiscal stimulus in the event of a sustained economic downturn.

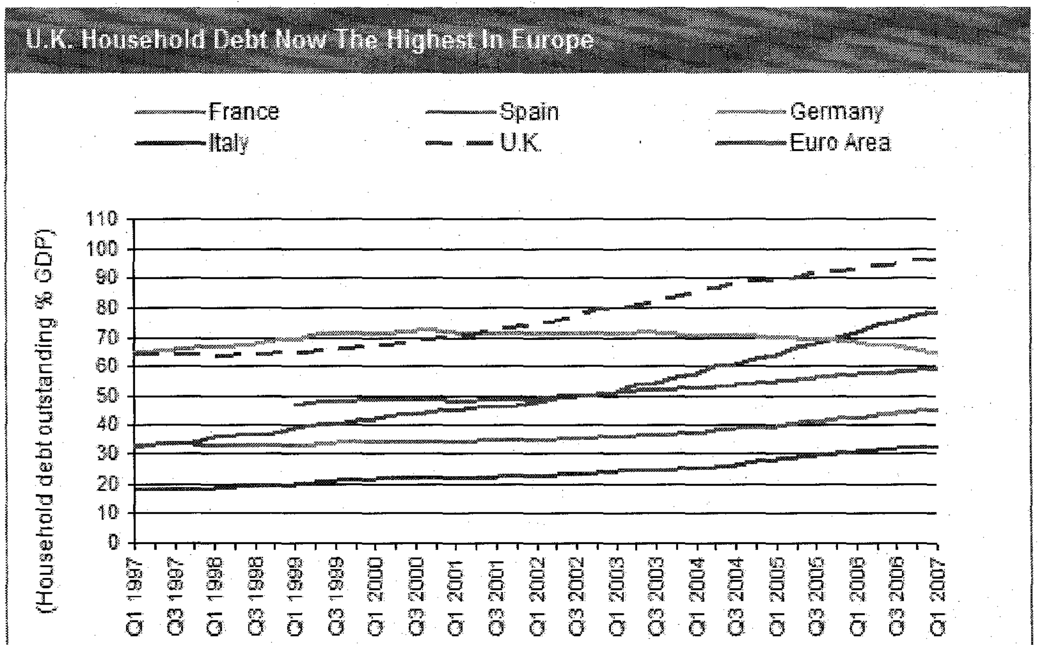
We continue to expect any deterioration to be moderate, in the absence of a severe weakening in the macroeconomic environment. However, if tighter credit conditions start to materially impact the broader economy, leading to a significant rise in unemployment, credit-quality deterioration could be much more rapid.

Household consumer debt has risen sharply

The rapid accumulation of debt and exposure of a large proportion of U.K. households to changes in borrowing rates suggest that the personal sector is more vulnerable to an economic shock than in many other countries. In addition, the development of the BTL and the subprime lending markets in recent years has increased uncertainty about asset quality in the event of a downturn.

U.K. consumer debt has risen sharply in the past decade as households responded to the low cost of borrowing, strong earnings growth, rising house prices, and greater job security. This trend is evidenced by the deteriorating savings ratio, which mirrors that in the U.S. The result is that household debt in the U.K. now stands at 97% of GDP, making it the highest in Europe (see chart 4). Although household wealth has also risen sharply over the period, this is attributable principally to the rising value of a large and relatively illiquid asset--housing. Although the value of housing stock exceeds that of mortgage debt by more than 3x, the U.K. household sector is in a net borrowing position, which means that total debt exceeds total savings.

Chart 4



Sources: Standard & Poor's, Banca d'Italia, Banco de Espana, Deutsche Bundesbank, Office for National Statistics, Thomson Financial, and European Central Bank.

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However, despite the rises in interest rates and the quantum of debt, debt-servicing costs have remained moderate by historical standards, suggesting that increased debt for the population at large has been manageable (see chart 5). Indeed, U.K. bank mortgage arrears, while rising, remain low by historical standards.

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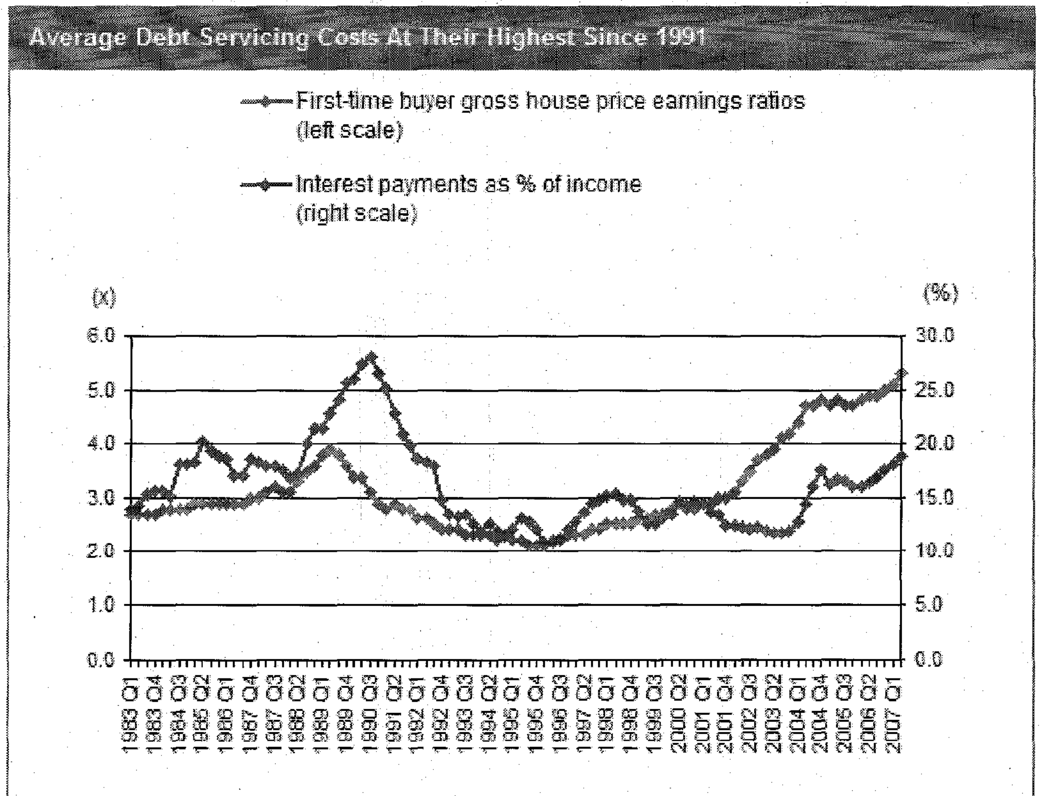
UW_Barclays_0000001358

Chart 5



Sources: Standard & Poor's, Royal Institute of Chartered Surveyors, and Council of Mortgage Lenders.

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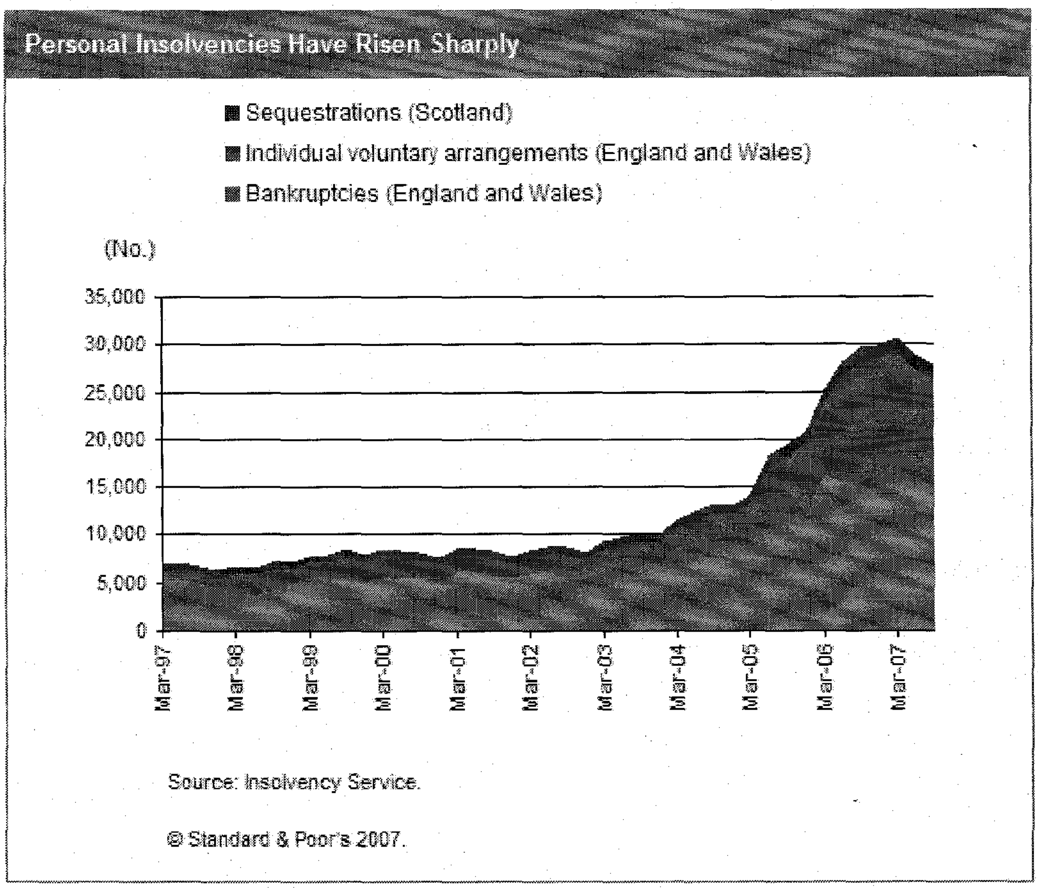
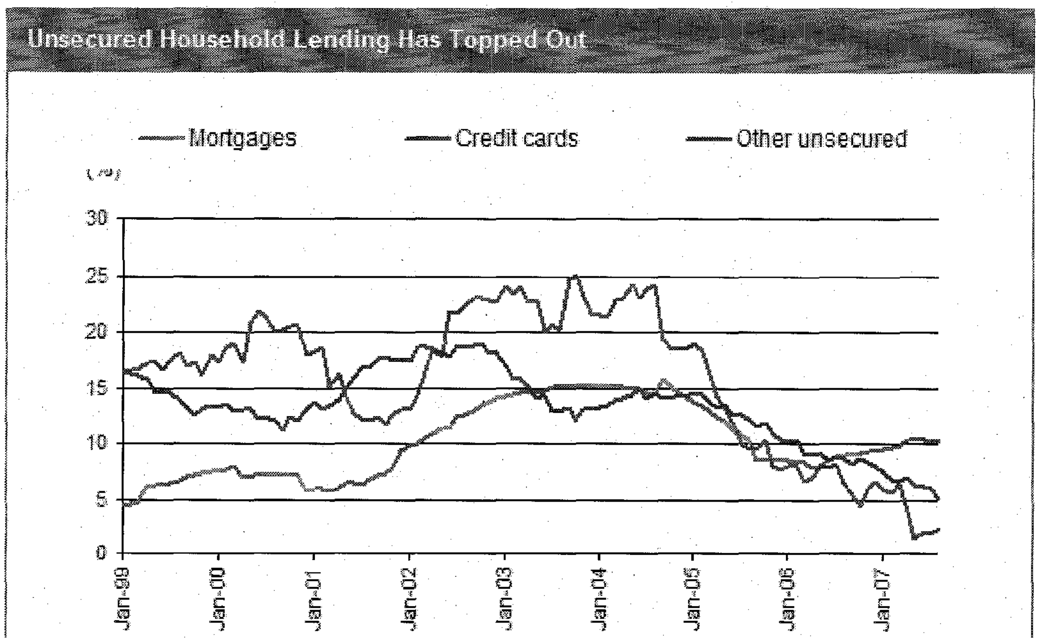
However, while "average" households have been able to continue to service their debts, there is considerable variance around this mean. For the past few years, a rising number of the most highly leveraged borrowers have been struggling with repayments, indicated by the increase in personal insolvencies, which doubled between March 2005 and March 2007. While this is in part the impact that rising interest rates have had on affordability, the trend can also be attributed to other factors. These include new legislation allowing individuals to declare themselves insolvent with fewer repercussions--known as Individual Voluntary Arrangements (IVAs)--the willingness of some lenders to throw credit at consumers in previous years, greater cultural acceptance of insolvency, and the rapid growth of the subprime market, which has enabled those with weak credit histories to still get mortgage finance, albeit at more punitive rates (see chart 6).

Chart 6



This trend is also apparent from banks' own data, which started to show a significant increase in the charge-off rate on unsecured lending from 2005. For instance, Barclaycard, the consumer lending arm of Barclays PLC and the largest credit card issuer in the U.K., saw impairment charges jump 38% in 2005 and a further 36% in 2006, before reducing in 2007. In response, most banks were quick to tighten scorecards, reprice their offerings, cut back unused credit facilities, and enhance their credit collection procedures. Unsecured lending has continued to grow, but at a much slower pace (see chart 7). While individual insolvencies have continued to rise, a trend that Standard & Poor's expects to continue, the pre-emptive actions and the small relative size of unsecured consumer lending as a proportion of most institutions' total lending and profits will mean that these credit losses should not impinge unduly on bank earnings.

Chart 7

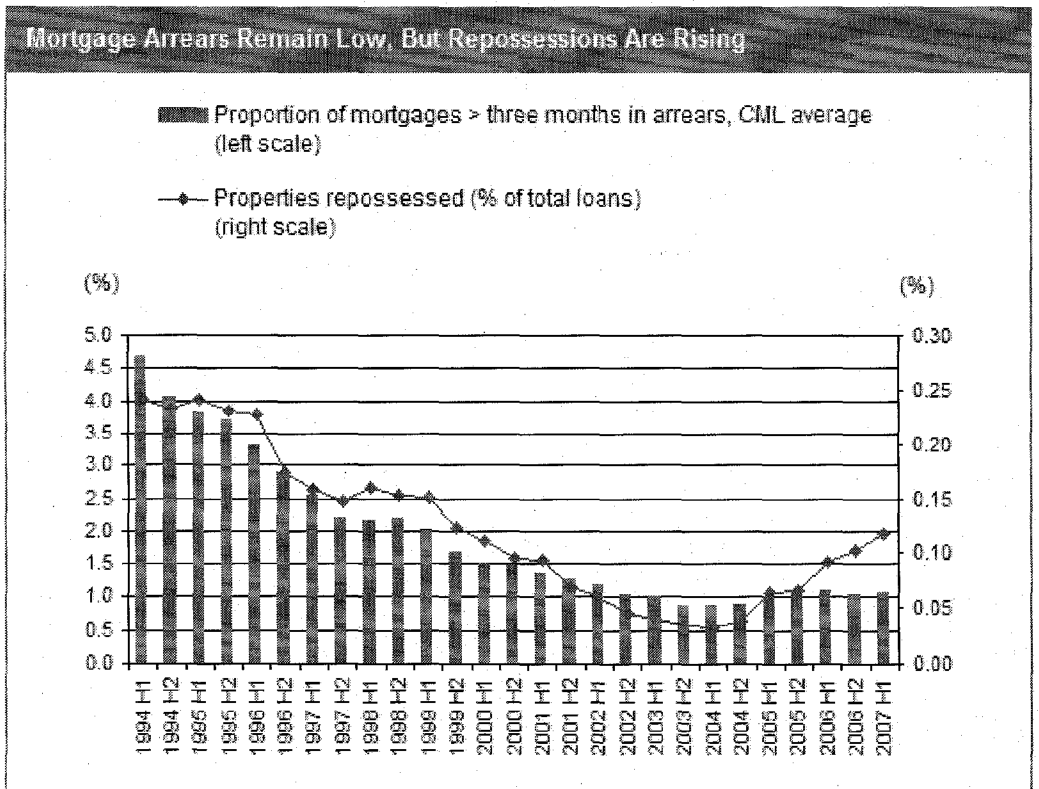


Annual growth in major U.K. banks' lending to U.K. households. Major U.K. banks are defined as: HSBC PLC, Abbey National PLC, Lloyds TSB PLC, Nationwide PLC, Northern Rock PLC, Barclays PLC, HBOS PLC, The Royal Bank of Scotland PLC, Alliance & Leicester PLC, and Bradford & Bingley PLC. Source: Bank of England.

The third quarter of 2007 saw a marked slowdown in the growth in personal insolvencies. However, the reduction in IVAs appears at odds with the underlying pressures on household finances, the continuing rise in bankruptcy orders, and reports from the Citizens Advice Bureau that it dealt with a record 1.7 million debt problems during the past 12 months, an increase of 20% on the previous year. Rather than signaling an improvement in the situation, it appears more likely that the reduction is mainly attributable to the dispute between the IVA practitioners and the banks, who accuse the former of charging too much. This could be resulting in a stockpiling of IVA cases, which will work their way through the system over the coming year.

To date, the adverse experience in the consumer credit market has not been echoed in mortgage lending, which accounts for more than 80% of outstanding consumer debt. Although mortgage arrears have started to creep up since 2005, the overall picture remains relatively benign, with only 1.06% of all mortgage loans more than three months in arrears, slightly higher than the 20-year low reached in mid 2004 (see chart 8). Repossessions have followed a similar path, but are now on a more pronounced upward trend. This is indicative of the softening property market--until recently rising property prices made forced sales a more attractive option for both banks and borrowers.

Chart 8



CML--Council of Mortgage Lenders. Source: Standard & Poor's and Council of Mortgage Lenders.

For overall U.K. household credit quality, an unlikely, but wholly plausible scenario would involve a combination of significantly increased interest rates at the same time as a sharp rise in unemployment and a sharp fall in house prices. This combination of circumstances would represent a profound shock for the household sector, given its leverage, with significant second-order effects on the broader economy. It would also lead to a material rise in arrears and credit losses on mortgage books. Most lenders stress test their lending portfolios based on such a scenario, which essentially follows the pattern of the recession in the early 1990s.

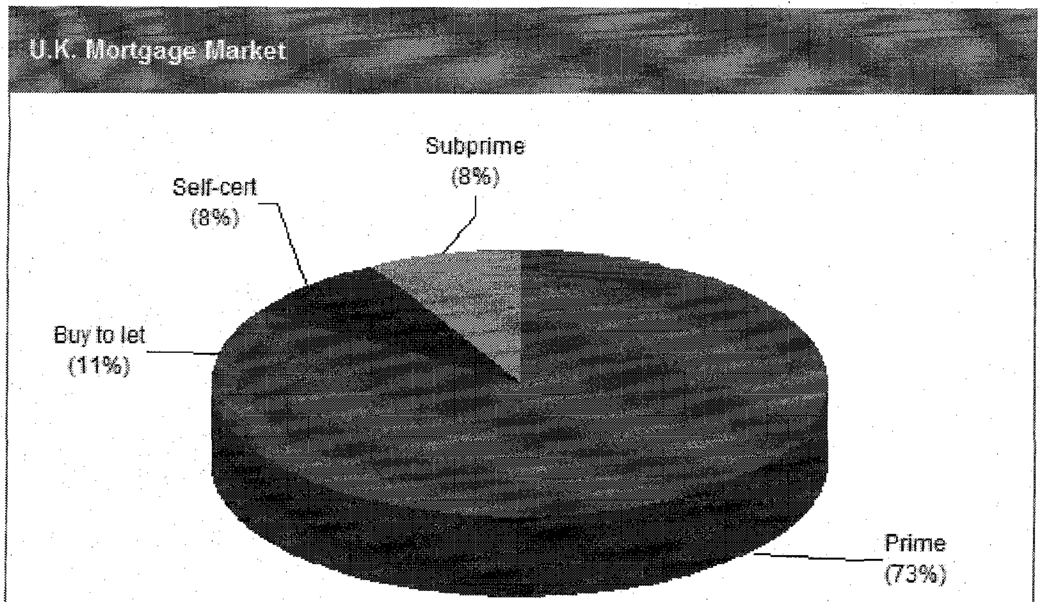
Borrowing costs have increased in recent years, leading to a steady squeeze on household finances and payment shock for the estimated 1.4 million households with mortgages that are due to reset by the end of 2008, and they may not fall back despite the predicted cuts in interest rates. However, mortgage serviceability is not yet near the peaks seen in the early 1990s, and the additional factors of rapidly falling house prices and significantly rising unemployment are not yet in place.

Arrears will continue to trend higher over the coming year--the Council of Mortgage Lenders predicts that repossessions could rise to 45,000 by the end of 2008 (from 22,700 in 2006), with the number of mortgages more than three months in arrears going up by 17% to 170,000. However, even if this does occur, there would be only a modest effect on the overall credit quality of banks' prime mortgage books. Indeed, the comfortable profit margins of most U.K. banks provide good capacity to withstand all but the most extreme loss rates without eroding capital.

U.K. specialist mortgage under greater scrutiny

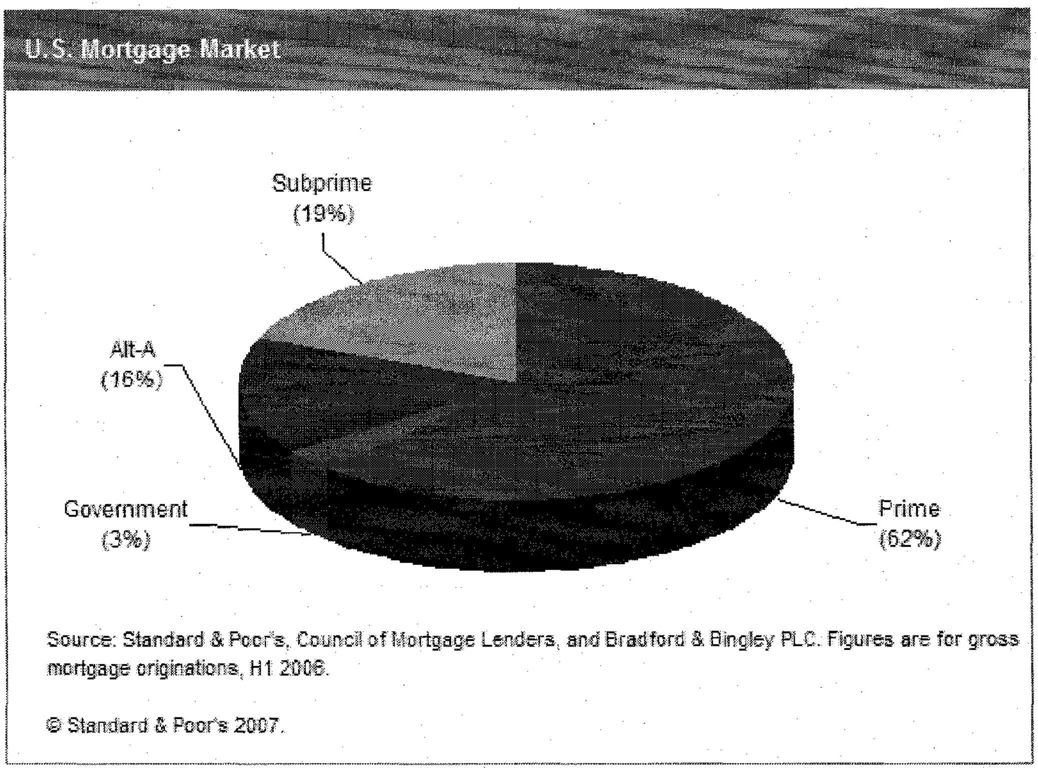
The woes of the U.S. subprime market and the more gloomy economic outlook for the U.K. have brought renewed attention to the U.K. "specialist" mortgage market, which accounts for about 27% of new lending and mainly comprises the subprime, self-certified, and BTL subsectors (see chart 9 and chart 10).

Chart 9



Source: Standard & Poor's, Council of Mortgage Lenders, and Bradford & Bingley PLC. Figures are for gross mortgage originations, 2006.

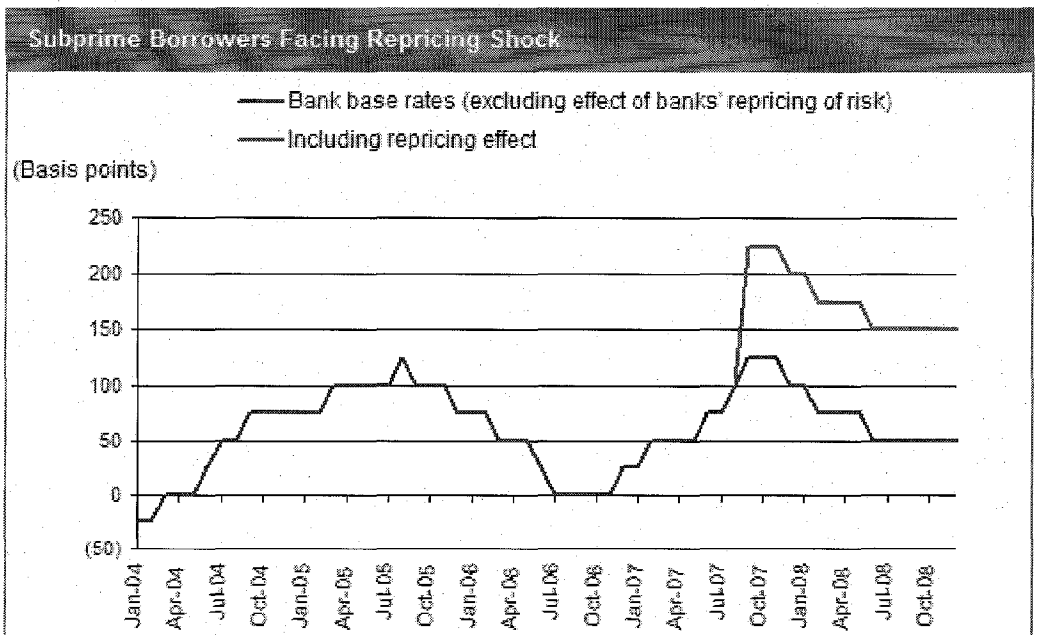
Chart 10



Standard & Poor's is more cautious when it comes to these subsectors as they are relatively new products and their likely performance through a downturn is uncertain. In this sense they are all rightly regarded as higher risk, a feature also reflected in their pricing. However, we do distinguish between them, noting in particular that the BTL subsector has continued to perform well, with arrears below those of the general market.

Standard & Poor's does not consider that rated U.K. mortgage lenders are as exposed as were certain U.S. lenders by the type of weaknesses that have emerged in the U.S. subprime market. This is for several reasons: the U.K. subprime market is proportionately smaller; it has a higher average credit quality as it also includes "near-prime" loans; the relaxation of lending standards in recent years has been less severe; and few U.K. rated lenders have a material exposure to the market. In addition, the fairly prescriptive regulatory regime for mortgages sales in the U.K. should mean that the U.K. market has avoided the riskier practices and apparent widespread misselling seen in the U.S. Nevertheless, there are parallels between the two markets and, while borrowers may have managed to stay afloat until now, many will experience acute payment shock, resulting from the lenders' repricing of credit in this segment and the lack of financing alternatives following the withdrawal of many products (see chart 11). Significant deterioration can therefore be expected in this segment.

Chart 11

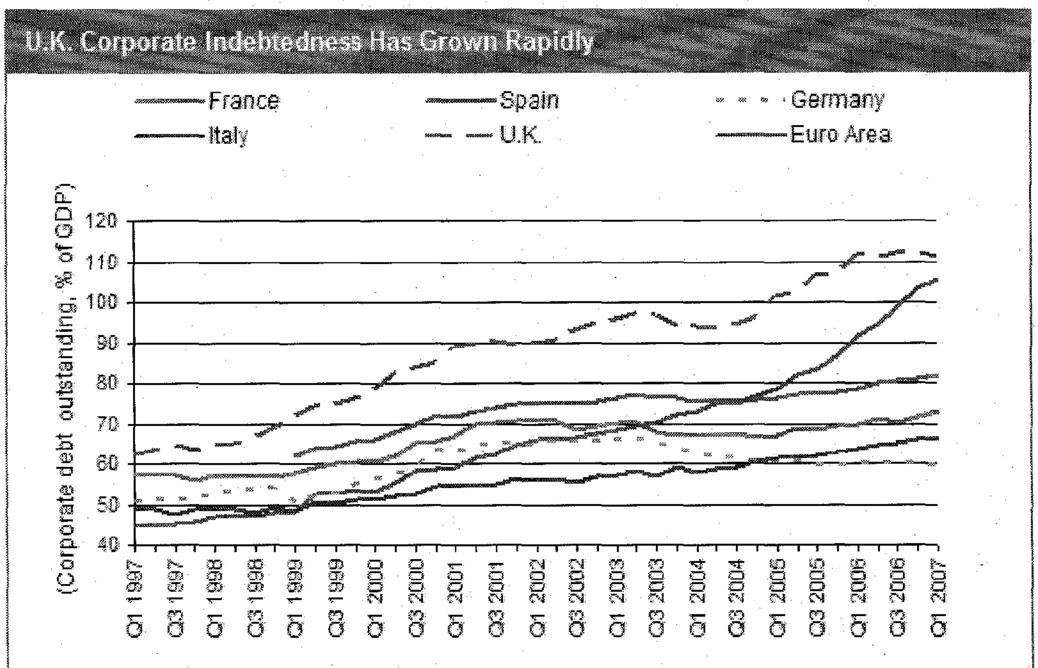


Source: Standard & Poor's and Bank of England.

Strong corporate sector profitability and asset quality

Corporate asset quality in the U.K. remains relatively sound, thanks to good profitability and cash flow. This remains the case despite the fact that capital gearing, which rose strongly in 1999-2003, remains high (see chart 12). The net debt-equity ratio of U.K. private nonfinancial companies was about 32% in the second quarter of 2007, which, while down from a peak of 36% in 2003, is almost 2x the level of the late 1990s and equivalent to levels seen in the early 1990s.

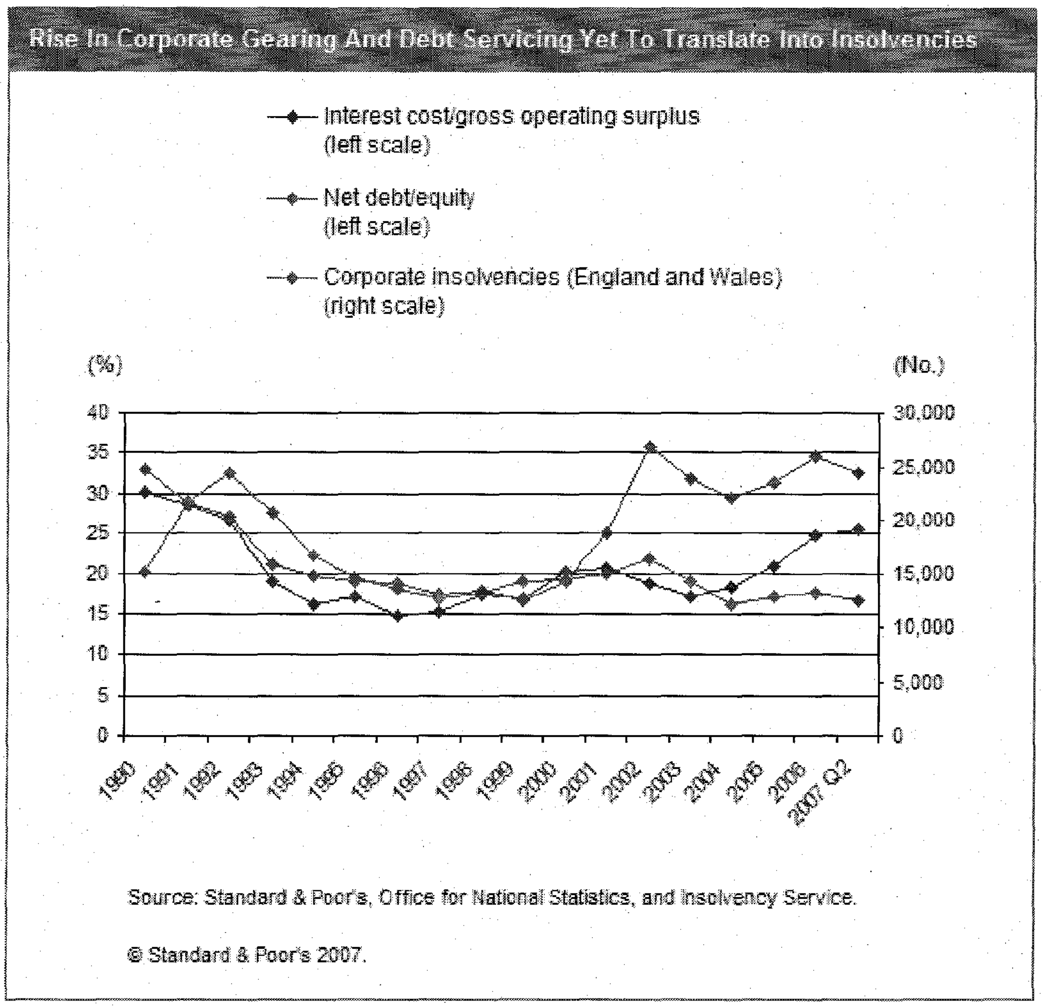
Chart 12



Source: Standard & Poor's, Banca d'Italia, Banco de Espana, Bundesbank, Office for National Statistics, Thomson Financial, and European Central Bank.

U.K. banks experienced a significant increase in corporate bad debts in 2002, but since then, general corporate credit quality has improved markedly. In contrast to households, corporate insolvencies in the second quarter of 2007 remain close to their lowest level for 20 years, although, like household finances, corporate finances have been stretched by interest rate rises--interest cost as a proportion of gross operating surplus now stands at 25%, a level last exceeded in 1992 (see chart 13). The current market dislocation will bring further discomfort as many corporate loans are referenced to three-month LIBOR, not base rates.

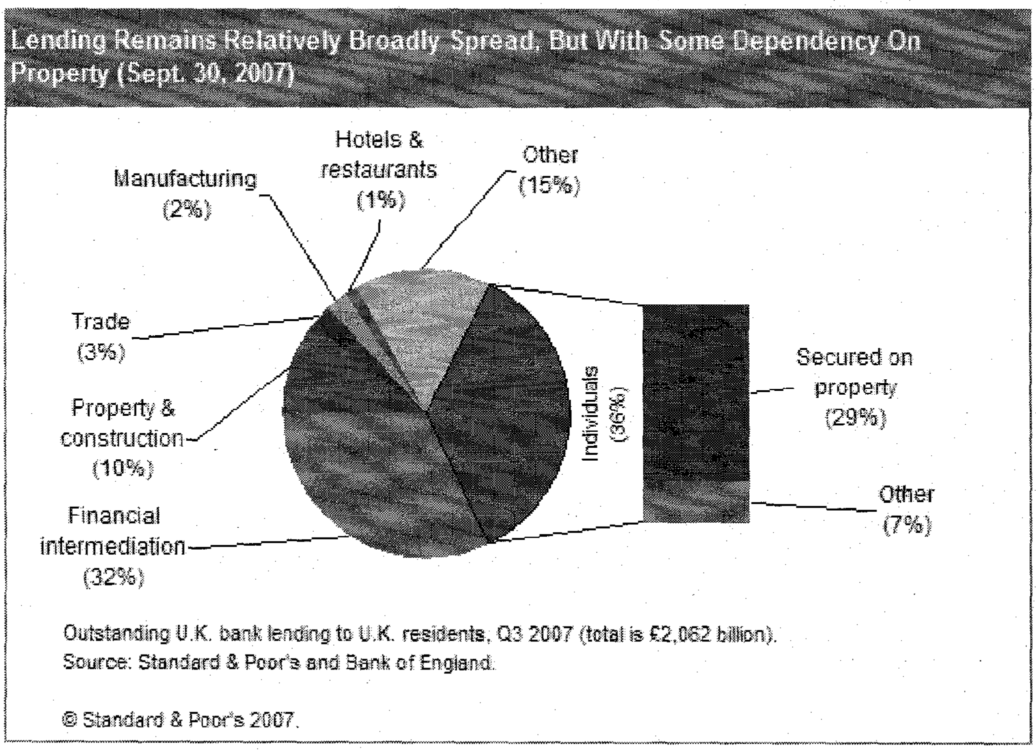
Chart 13



Generally speaking, risk management for corporate exposures has improved across the spectrum, with greater focus on reducing concentrated exposure to industrial sectors and individual counterparties. Nevertheless, some banks (Barclays, The Royal Bank of Scotland PLC (RBS), and HBOS PLC) have increased their involvement in the leveraged loan market in recent years and are now seeing a moderate reintermediation of credit as distribution capacity has weakened. More widely, an economic downturn, which could be hastened by a prolonged contraction in the supply of credit, could lead to a rapid increase in corporate loan-loss provisions from the current very low levels, as reduced consumer spending causes firms to restructure or downsize.

The recession of the early 1990s demonstrated the potential volatility of commercial property prices, which resulted in significant losses for many U.K. banks. Commercial property and construction remains a significant exposure for the sector as a whole and a number of institutions have grown their property books rapidly over recent years (see chart 14). Although lending practices and risk-mitigation techniques have undoubtedly improved and there is much less lending on speculative developments than in the late 1980s, a downturn in the wider economy could still lead to problems. The slowdown in the housing market could also put pressure on residential property developers, although this element of banks' loan books is relatively small.

Chart 14



Gross problematic asset range remains manageable

For all the banking systems it analyses, Standard & Poor's estimates the potential level of gross problematic assets (GPAs), expressed as a percentage of domestic private sector credit, that could result in the 12 months following a reasonable, but severe, economic downturn. GPAs are defined as assets more than 90 days past due. In this high-probability, low-impact scenario, Standard & Poor's estimates that GPAs in the U.K. banking system could rise to 5%-15%, the lowest of six categories used. This illustrates the relative strength of the U.K. banking system, despite the potential challenges of high indebtedness.

Industry Risk

The U.K. banking system is relatively concentrated, with the largest five banks dominating the domestic lending and savings markets. This follows an extended period of demutualization and consolidation. The end of consolidation opportunities and the quest for organic growth and the arrival of new competitors have contributed to pressure on interest margins, although to date this has generally been offset by strong volume growth. Going forward, weaker economic prospects and ongoing funding constraints mean that revenue growth, particularly in retail banking, will be a key challenge for the sector. Higher loan loss provisions, albeit from a low base, will further affect profitability. All this can be expected to lead to a tightly disciplined approach to capital-efficient investment in the U.K., further focus on foreign opportunities for growth, and renewed emphasis on cost control to sustain profit. Profitability should, nevertheless, remain above that of most systems, and geographic and business line diversification should continue to be supportive of overall returns. In addition, reputational damage to the sector from the Northern Rock PLC bailout should ultimately be repairable (for a full list of U.K. credit institutions rated by Standard & Poor's see table 2).

Table 2

U.K. Credit Institutions Rated By Standard & Poor's

	Long-term rating	Outlook	Short-term rating
Retail banks			
Abbey National PLC* (subsidiary of Banco Santander, S.A.)	AA	Stable	A-1+
AIB Group (UK) PLC (subsidiary of Allied Irish Banks PLC)	A+	Positive	A-1
Alliance & Leicester PLC*	A+	Negative	A-1
Barclays Bank PLC	AA	Stable	A-1+
Bradford & Bingley PLC*	NR	N/A	A-1
Clydesdale Bank PLC (subsidiary of National Australia Bank Ltd.)	AA-	Stable	A-1+
Bank of Scotland PLC	AA	Stable	A-1+
HSBC Bank PLC (subsidiary of HSBC Holdings PLC)	AA	Stable	A-1+
Lloyds TSB Bank PLC	AA	Stable	A-1+
Northern Rock PLC*	A-	Watch Dev	A-1
National Westminster Bank PLC	AA	Negative	A-1+
The Royal Bank of Scotland PLC	AA	Negative	A-1+
Ulster Bank Ltd.	AA	Negative	A-1+
Standard Life Bank Ltd. (subsidiary of Standard Life Assurance Co.)	A-	Stable	A-2
U.K. banks primarily operating overseas			
Standard Chartered Bank	A+	Stable	A-1
U.K. bank holding companies			
Barclays PLC	AA-	Stable	A-1+
HBOS PLC	AA-	Stable	A-1+
HSBC Holdings PLC	AA-	Stable	A-1+
Lloyds TSB Group PLC	AA-	Stable	A-1+
Standard Chartered PLC	A	Stable	N.R.
The Royal Bank of Scotland Group PLC	AA-	Negative	A-1+
Building societies			
Britannia Building Society	A	Stable	A-1
Nationwide Building Society	A+	Stable	A-1
Yorkshire Building Society	A	Stable	A-1
Foreign banks incorporated in the U.K.			
Citibank International PLC (subsidiary of Citigroup Inc.)	AA+	Watch Neg	A-1+
Credit Suisse International (subsidiary of Credit Suisse)	AA-	Positive	A-1+
Morgan Stanley Bank International Limited	AA-	Negative	A-1+
Nomura Bank International PLC (subsidiary of Nomura Holdings Inc.)	A	Stable	A-1
Sumitomo Mitsui Banking Corp. Europe Ltd. (subsidiary of Sumitomo Mitsui Banking Corp.)	A+	Stable	A-1
UBS Ltd. (subsidiary of UBS AG)	AA	Stable	A-1+
Europe Arab Bank PLC (subsidiary of Arab Banking Group)	A-	Stable	A-2

Table 2

U.K. Credit Institutions Rated By Standard & Poor's (cont.)			
FCE Bank PLC (subsidiary of Ford Motor Co.)	B+	Stable	B-3
JPMorgan Securities Ltd.	AA	Stable	A-1+
Westpac Europe Ltd. (subsidiary of Westpac Banking Corp.)	AA	Stable	A-1+
Securities firms			
Banc of America Securities Ltd.	AA+	Stable	A-1+
Lehman Brothers Holdings PLC (subsidiary of Lehman Brothers Holdings Inc.)	A+	Stable	A-1
Morgan Stanley Group (Europe) PLC (subsidiary of Morgan Stanley)	N.R.	N/A	A-1+
Morgan Stanley & Co. International PLC	AA	Negative	A-1+
Asset managers			
F&C Asset Management PLC	BBB+	Watch Neg	A-2
Fidelity International Ltd. (incorporated in Bermuda)	A	Stable	A-1
Gartmore Investment Management Ltd.	BB+	Stable	B
Schroders PLC	A	Stable	A-1
Invesco PLC	BBB+	Stable	N.R.
Investment trusts			
3i Group PLC	A+	Stable	A-1
Edinburgh Investment Trust PLC	AA	Stable	A-1+
JPMorgan European Investment Trust PLC	AA-	Stable	A-1+
JPMorgan Fleming Mercantile Investment Trust PLC	AA	Stable	A-1+
Scottish American Investment Co. PLC	A+	Positive	A-1
Witan Investment Trust PLC	AA+	Stable	A-1+

Ratings at Dec. 18, 2007. *Converted from building society status to bank. N/A--Not applicable. N.R.--Not rated.

London: a global marketplace home to global players

London plays a vital role as an international financial center and is therefore host to a large number of foreign banks. These banks accounted for more than 50% of total U.K. banking assets at end-2006, the highest proportion of any major country. These banks are mainly engaged in interbank funding activity, corporate and investment banking, and, with a few exceptions, play little part in the domestic scene.

The strength and breadth of the U.K. economy, the size of its banking markets, the relatively high historical rate of growth, and the growing overseas earnings of U.K. banks have combined to create some of the most highly valued banking franchises in Europe and the world. Five of the largest 20 European financial companies by market capitalization are based in the U.K., and two of the 10 largest banking groups in the world are U.K. based.

Relatively high concentration

The U.K. retail banking landscape is dominated by the five biggest U.K. banks, listed below in order of total group balance sheet size. Between them they account for three-quarters of personal current accounts, 45% of outstanding residential mortgage advances, and 80% of ATMs. Their dominance is such that the Competition Commission has effectively barred them from making any further major in-market mergers or acquisitions. These are closely followed by two players with strong retail presences, Abbey National PLC and Nationwide Building Society.

- HSBC Holdings PLC, which owns HSBC Bank PLC in the U.K.;
- The Royal Bank of Scotland Group PLC, which owns The Royal Bank of Scotland PLC and National

Westminster Bank PLC;

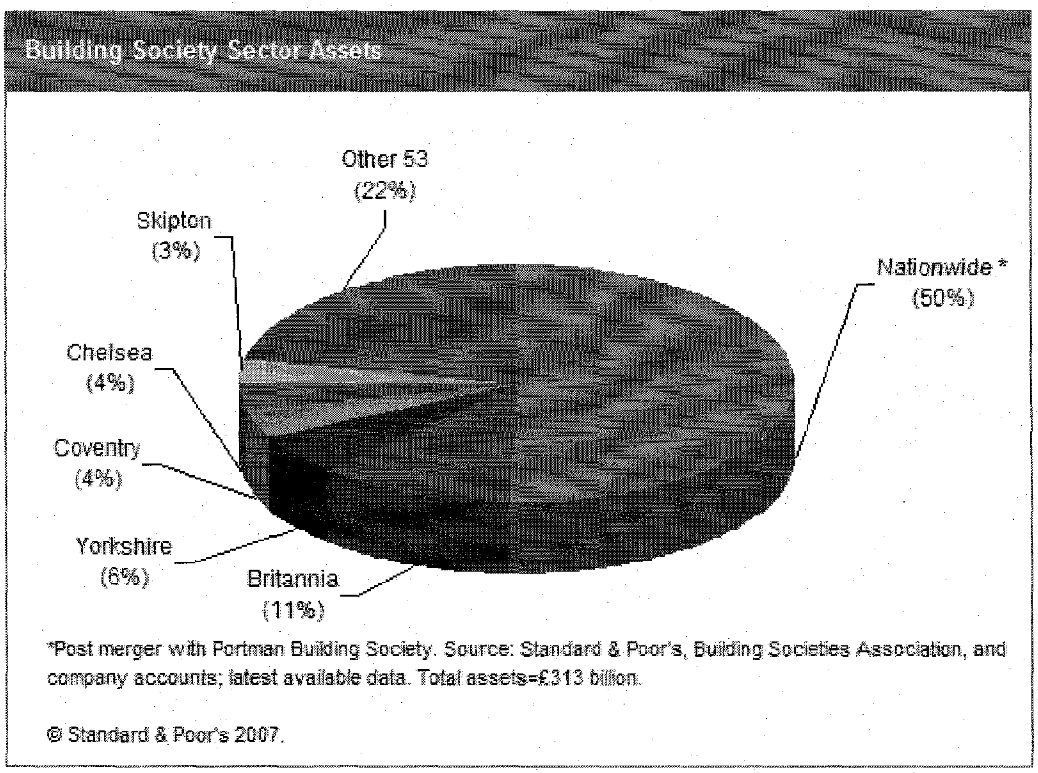
- Barclays PLC, which owns Barclays Bank PLC;
- HBOS PLC, which owns Bank of Scotland PLC (BoS);
- Lloyds TSB Group PLC, which owns Lloyds TSB Bank PLC.

Despite the dominance of the Big Five, the U.K. banking system remains open to new entrants. Recent examples include ING Bank N.V. (ING; AA/Stable/A-1+), which has built a useful deposit-taking franchise through its ING Direct brand, and Banco Santander S.A. (Santander; AA/Stable/A-1+), which has been working hard to rejuvenate Abbey National PLC since its acquisition in 2004. Niche opportunities also remain, particularly in business banking, where Bank of Ireland (BoI; A+/Positive/A-1), Allied Irish Banks PLC (A+/Positive/A-1), and Clydesdale Bank PLC have made inroads, and private banking, where the marketplace remains fragmented and small domestic banks vie with the Big Five and the large global wealth managers.

Building societies occupy a small, but important, niche

A further niche in the market is occupied by the building societies, mutual credit institutions akin to U.S. savings and loans. This sector is relatively small by most measures (the sector holds under 6% of U.K. banking assets), but punches above its weight in its core areas of expertise--the savings and residential mortgage markets, where it has historically maintained an 18%-20% market share. The sector has consolidated hugely in the past 20 years--from 273 societies in 1980, to 59 in September 2007. It has always been, and remains, a highly concentrated sector, and is dominated by Nationwide Building Society, which expanded further in 2007 through its merger with the Portman Building Society. The three largest societies, all rated by Standard & Poor's, together hold two-thirds of sector assets (see chart 15).

Chart 15



The sector's raison d'etre is to provide value to its members. Societies usually do this through more attractive product pricing, displaying weaker reported profitability as a result, and some also pay members a quasi dividend. The "lost" profit arising from the former is hard to quantify precisely, but, given the partial flexibility that societies have here, Standard & Poor's takes this implicit subsidy into account when analyzing performance.

Abbey National became the first society to go down the demutualization route in 1989. Many others have since followed, for example, Halifax PLC in 1997, Alliance & Leicester PLC (A&L) in 1997, Northern Rock PLC in 1997, Bradford & Bingley PLC (B&B) in 2000--leaving commentators ready to write the sector's obituary a few years ago. However, while the societies tend to lack the diversification from which higher rated banks benefit, the sector's cultural differentiation remains its strength and, with more cautiously managed institutions having returned to fashion in the current market climate, its franchise appears stronger now than it has been for some time.

Strong competition in retail banking to continue, but growth set to slow

The U.K. retail sector continues to generate a significant part of banks' earnings and balance sheet exposures. Competition in the domestic banking market remains intense, but the banks have managed to maintain this as a high growth, high return business. Faced with a lack of acquisition opportunities, they have focused instead on customer acquisition--often achieved through initially weakly profitable or even loss-making rates--and cross selling to achieve organic growth. However, there are few barriers to customers' freedom to shop around, which has diminished customer loyalty for some products, such as credit cards and mortgages. These factors have led to margin squeezing, but given strong historical volume growth and still quite widespread customer inertia in some product lines, overall profitability has, to date, remained ample for funding organic growth, and many banks have run significant share buyback programs.

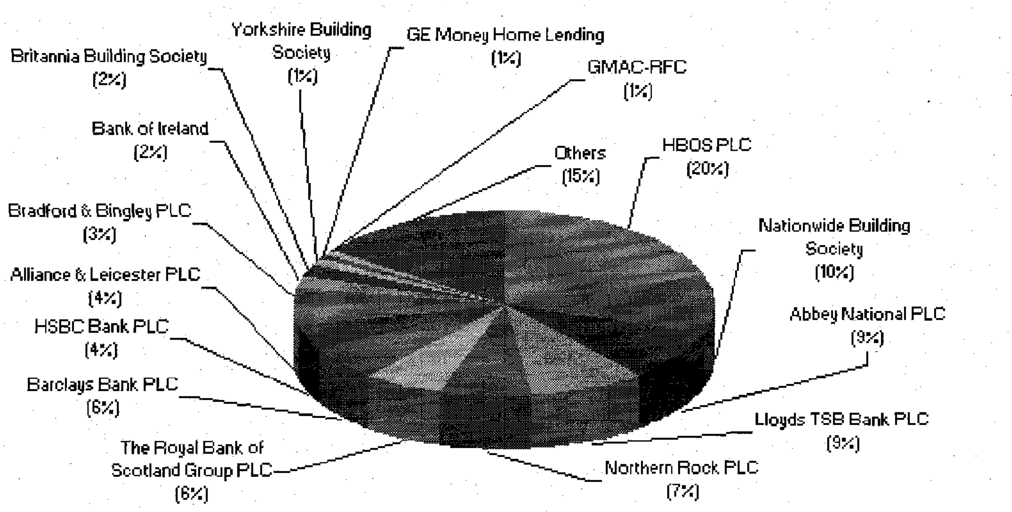
The outlook is less positive. The slowing economy and the mortgage market, and tighter credit conditions will all dampen revenue growth and rising loan loss provisions will similarly impact profit growth. While the U.K. banking market is mature, the degree of saturation remains unclear. The banks have started to leverage cross selling, but white-labeling opportunities remain, which allow them to bring in revenues from outside their own franchise. We expect to see more joint ventures, such as those already in place with many supermarkets. In addition, it should be remembered that unlike in many continental European countries, the broker and advisor channel is very strong in the U.K., meaning that the banks currently only see a small part of total U.K. nonbanking business. While the demise of this channel is hard to foresee, there is scope for the banks to wrest more market share, and fee income, into their own direct distribution channels. This would be tough to do, however, and would require a longer term project of engineering a fundamental shift in the customer's psyche, from product provider to trusted advisor--differentiation perhaps most easily achieved through customer segmentation and branding. In the meantime, the banks can be expected to plough the existing furrows--cost efficiency, further geographical expansion, product diversification, and capital efficiency.

The mortgage market pauses for breath...

Between 1999 and 2007, the U.K. mortgage market grew by 140%, with outstanding balances at end October 2007 of £1.17 trillion. This huge expansion is indicative of the rise in house prices, but equally reflects the increase over that period in lending activity generated from remortgaging, which accounts for about 40% of gross lending. The market is a far more dynamic and competitive one than it used to be. It has also become more concentrated as the scale economies of the largest players have enabled them to price more competitively--the top-five lenders hold a collective market share of about 55% (see chart 16).

Chart 16

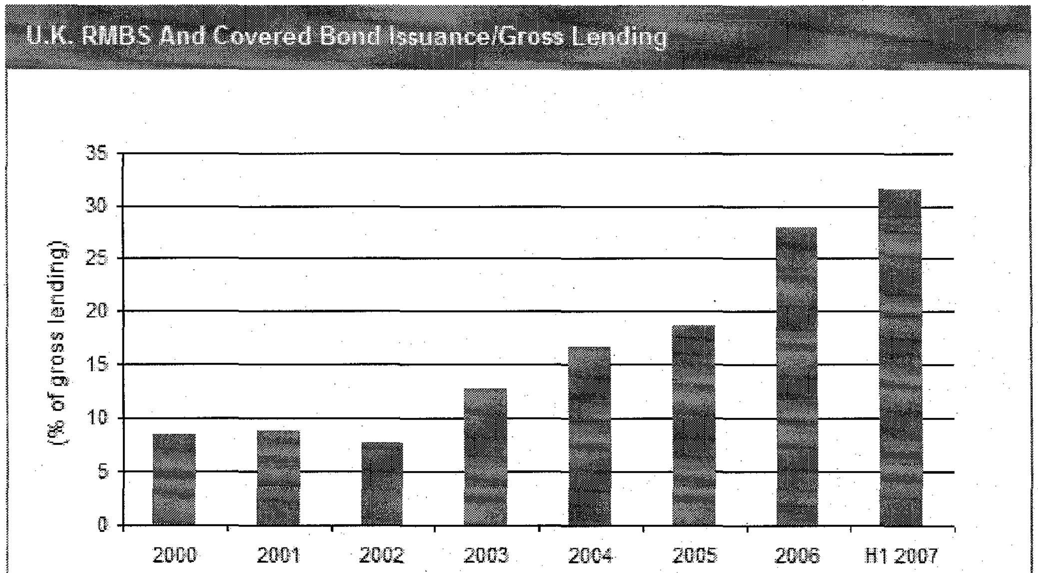
Largest U.K. Mortgage Lenders By Outstanding Balances, 2006



Source: Standard & Poor's, Council of Mortgage Lenders, and company data.

The growth in the market has been enabled by the flourishing of the RMBS, and latterly covered bond, markets, which have allowed banks to grow assets faster than they can attract deposits and to reduce their need for additional capital. RMBS issuance has grown rapidly and was equivalent to approximately one-third of gross mortgage lending in the first half of 2007, more than any other country in Europe (see chart 17). The current closure of this market therefore represents a real problem for the mortgage lenders, even if it proves to be temporary.

Chart 17



Source: Standard & Poor's, Council of Mortgage Lenders, and European Securitization Forum. First-half 2007 does not include covered bond issuance as data are not available.

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The RMBS market has also allowed a fundamental shift to take place in the nature of the lender/borrower relationship and a transition from the old "take and hold" model to one of "underwrite and distribute". This brought in new players, increased competition, compressed margins and, over time, has led the banks to increase their focus on higher margin (and higher risk) market segments. Most banks have dabbled in these segments, but a few, such as B&B, refocused their offering entirely.

The changed dynamic of the market has bought with it attendant risks, some realized in the U.K., some not. Securitization has been a useful tool for better aligning maturities of assets and liabilities, but high reliance on wholesale funding has clearly proven to be a weakness. However, there has been little evidence of other risks crystallizing, such as materially weaker underwriting standards or widespread cases of misconduct or fraud by intermediaries, with their highly commission-based incomes.

While the turn in the market has led to a widespread rethinking of approach by lenders and investors alike, the model itself is not broken. Securitization continues to provide an effective tool for banks' risk transfer and funding and as a portfolio diversification tool for investors. Standard & Poor's therefore expects the market to reopen to the banks, albeit perhaps with higher overcollateralization requirements and initially only for the best quality mortgages. This will logically first be seen in the covered bond market, which offers greater security than RMBS, and which will soon be underpinned by legislative framework in the U.K.

Chart 18
The Funding Crisis At Northern Rock PLC

Northern Rock PLC was a building society until 1997, when it demutualized. From 1999, it embarked on an aggressive growth strategy in its core sector, the U.K. residential mortgage market. This was facilitated by the development of the securitization markets, the bank's expertise in leveraging its highly efficient operational model, and its consequent ability to pass on attractive pricing to borrowers. It was so successful in this regard that it accounted for an exceptionally high 19% share of total new lending in the first half of 2007, and was the U.K.'s fifth-largest mortgage lender with 7% of stock. However, this model brought with it a key weakness--a high reliance on wholesale funding.

While the bank's credit quality has remained strong, it was undone by the rapid deterioration in the credit and money markets from July 2007, which ultimately saw the term funding markets--securitization and covered bonds--closed off. The bank's financing options became increasingly limited, so much so that by mid September it was compelled to seek backup liquidity support from the Bank of England, which it anticipated it would not need to draw on. Due to the perceived risk of contagion, the Government authorized the BOE to provide the facility, collateralized with Northern Rock mortgages. However, this frightened depositors and led to the first run on a U.K. bank since 1866. The Government stemmed this by guaranteeing all wholesale funding existing on Sept. 20, 2007, and all deposits.

At the time of writing, Northern Rock is undertaking minimal new mortgage lending. The BOE facility, which is open-ended to the extent that collateral is available, is thought to have grown to about £25 billion. A bidding process is underway for the bank, and is expected to be concluded by February 2008. If a sale does not proceed, alternatives include nationalization.

...but opportunities remain for the fittest

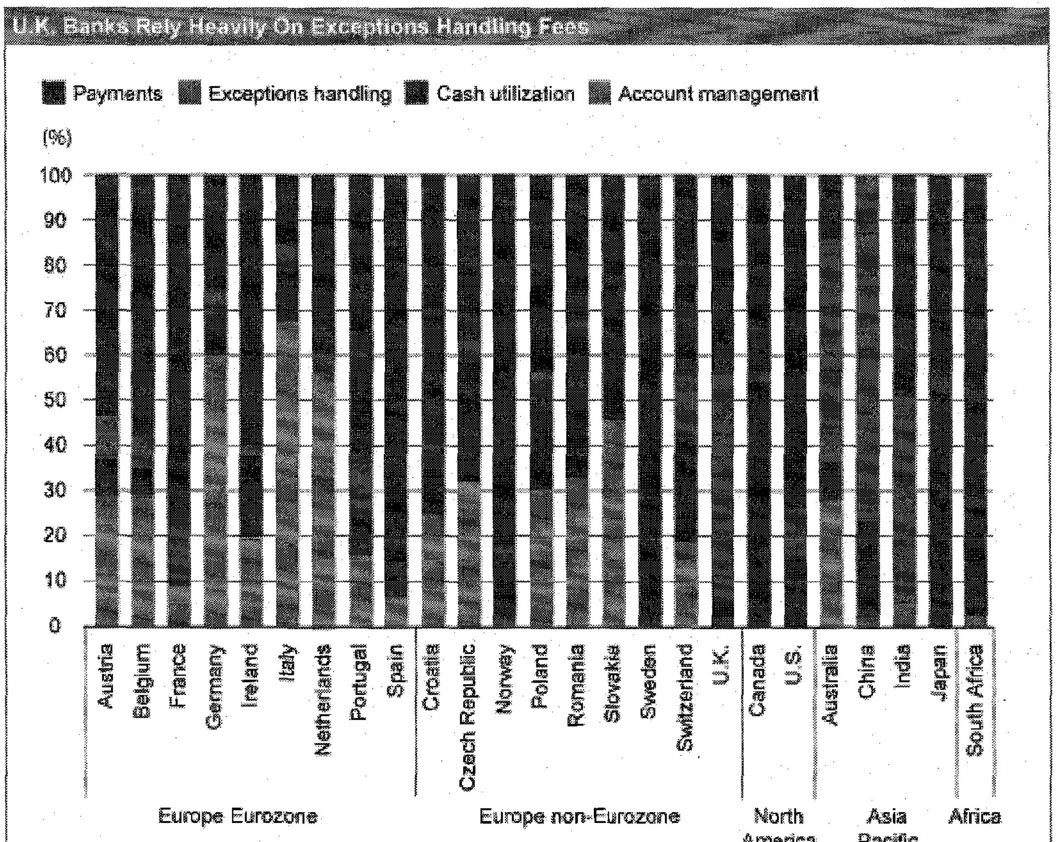
The supply of credit to the mortgage market has fallen markedly since August 2007 due to the, perhaps temporary, curtailment of Northern Rock's lending activity (see chart 18) and the scaling down of activity by those other lenders hit hardest by funding constraints (see chart 16). Those now most constrained have typically been the more aggressive and often highly wholesale funded, nonbank financial institutions such as Paragon (not rated) and Kensington (not rated).

The rethinking of risk appetite by lenders can be expected to reduce supply further, particularly in the riskier segments. While greater mortgage persistency will support profitability for lenders, many are having to rethink their mortgage and funding strategies as a result of current market conditions, potentially leading some to take a seat on the sidelines until funding conditions improve. The fall in house market activity means that lenders will be fishing from a smaller pool going forward, but there will still be profitable and/or higher quality opportunities for those who have been able to establish a substantial degree of prefunding for 2008, and who also have the capital base and franchise to support it. Against a background of increasing household financial stress, lenders will require strong risk management to avoid adverse selection, but reduced competition should allow greater scope to cherry pick customers.

The end of "free" banking?

As margin contraction has pressurized interest income, U.K. banks have sought to offset this through growing noninterest income. This has included efforts to make additional product sales and the imposition of additional or higher penalty fees and charges on some products. The latter is also the function of a consumer base that appears to have an aversion to paying upfront fees for financial services. This results in markets in the U.K. such those for credit cards and current accounts, the latter being characterized by the dominance of the "free" banking model, that is, no standing charges. Aside from the striking difference across the various national banking markets, chart 19 shows the predominance of transaction charges and penalty fees as sources of income for U.K. banks. It is a small minority of the customer base that accounts for the majority of these fees.

Chart 19



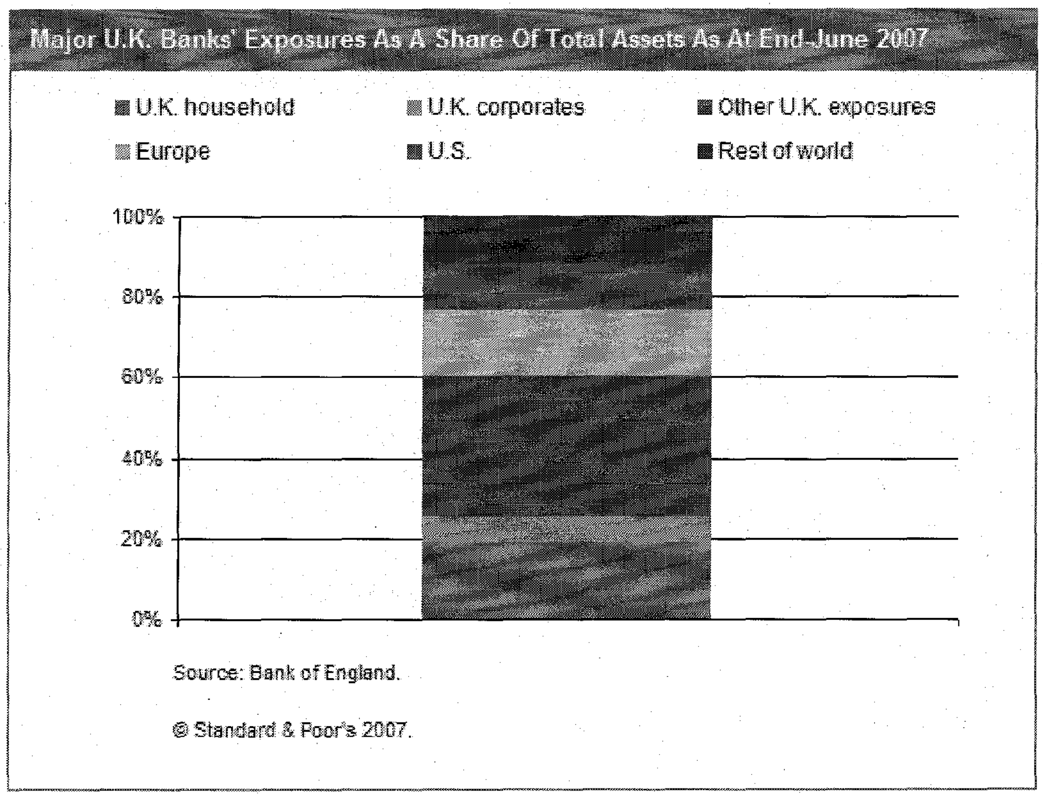
Source: Capgemini.

As noted below, the perceived excessiveness of banks' overdraft charges is an area of increased regulatory scrutiny at present, and a legal challenge to the charges is due to be heard in 2008. If the judgment goes against the banks, it could result in millions of pounds of additional reimbursements to customers. This could be expected to dent earnings in the period, but the banks can be expected to react and raise fees elsewhere. Of greater fundamental importance is the related, but separate, ongoing market study by the Office for Fair Trading (OFT) into personal current accounts, which addresses wider questions about competition and price transparency. Whatever the result, the principal value of current accounts, as a source of valuable credit quality information and enhanced cross-selling opportunities, is unlikely to change. However, one possible outcome is that standing charges on current accounts, which currently tend to appear only where additional services are provided, could become widespread. Other banks will have been studying closely the February 2007 move by HSBC's telephone and Internet banking subsidiary, First Direct, to introduce a monthly fee from for sole current account holders who keep average monthly balances below a certain limit.

Overseas expansion a continuing theme

The generally solid returns available from the domestic market led the U.K. banks to have a predominantly domestic focus in years gone by. The main exceptions have always been HSBC and Standard Chartered Bank (A+/Stable/A-1), both of which are international groups generating the majority of their earnings outside the U.K. Taking the large banking groups as a whole, their aggregate balance sheet is split 60%/40% domestic to overseas exposure (see chart 20).

Chart 20



The other large U.K. banks have a mixed history of overseas activity. Lloyds TSB Group is now essentially a domestic focused institution, having sold its principal remaining overseas operations in 2003/2004. By contrast, the others have been actively pursuing overseas expansion strategies for many years, mainly through acquisitions.

- HBOS acquired full control of BankWest in Australia in 2003, and also has an expanding presence in Ireland.
- RBS's $10.5 billion acquisition of Charter One in the U.S. in 2004 was the culmination of a string of smaller

acquisitions, starting from its purchase of RBS Citizens NA (AA-/Negative/A-1+) in 1988. It also has a material interest in Ireland (through Ulster Bank Ltd.; AA/Negative/A-1+) and is now in the process of acquiring part of ABN AMRO Bank N.V. (AA-/Positive/A-1+).

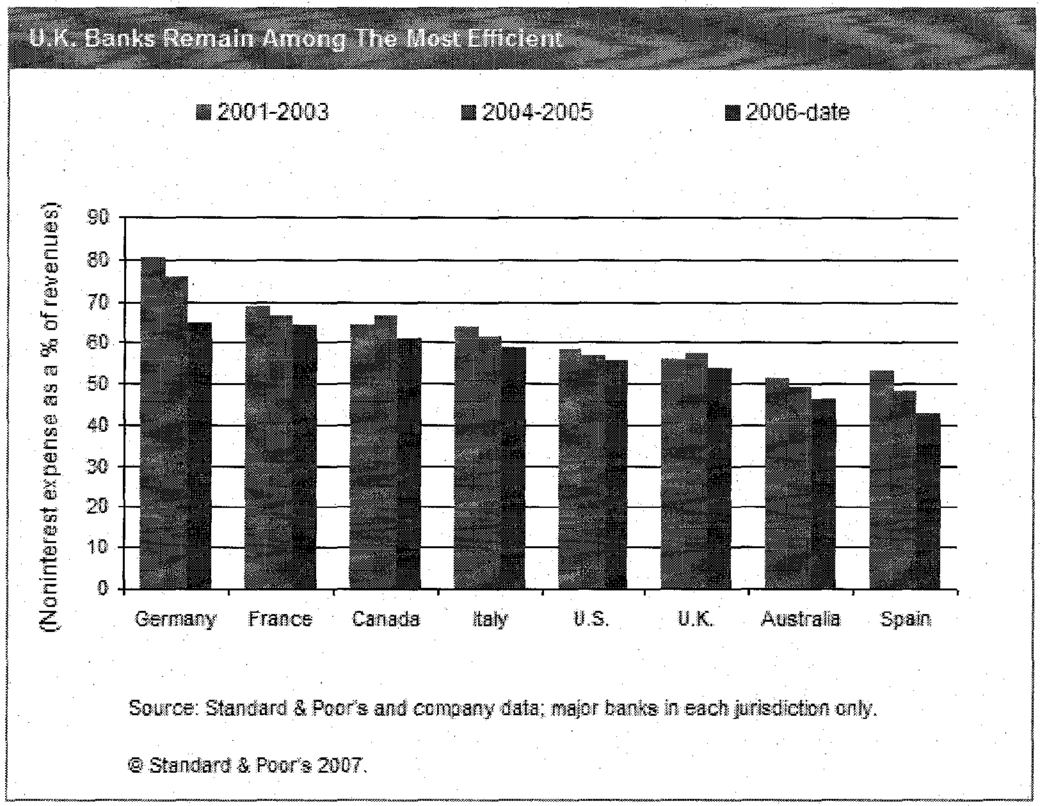
- Barclays international expansion has been more organic (in investment banking, asset management, and credit cards), but also by acquisition, notably the Spanish bank, Banco Zaragozano (not rated), in 2003 and the South African group ABSA (Absa Bank Ltd. is rated Api; unsolicited rating) in 2005.

Overseas expansion has been well managed so far in Standard & Poor's view, and should continue to provide significant diversification benefits and more attractive growth prospects than in the U.K. Therefore, while Standard & Poor's does not consider a wave of cross-border activity to be imminent, a continuation of the current trend of selective expansion can be expected. Other smaller U.K. institutions (Nationwide and A&L) are expected to continue to gradually increase their non-U.K. commercial assets on the fringes.

Relatively strong efficiency...

U.K. banks are among the most efficient in the world, as measured by cost-to-income ratios (see chart 21). The efficiency improvements have been enabled through substantial organizational and technological changes. These have seen the rapid growth of Internet and telephone banking to the partial detriment of the branch network, which is now focused more on sales and advice than account servicing. This has been facilitated for some by the establishment of centers of excellence for certain functions, such as call centers and transaction processing, often in locations such as India, where there is a large pool of cheap, but skilled, and English-speaking labor. Overall, U.K. staff numbers have reduced as a result, a task made simpler by the relatively flexible labor laws and the lack of government interference in private sector staffing decisions.

Chart 21



The scope for further significant reductions in the cost-to-income ratio appears limited in the medium term, as the quick wins for cost reduction have already been leveraged and provisioning requirements are expected to continue to rise as asset quality weakens. Nevertheless, there is likely to be renewed focus on cost control as banks seek to maintain current profitability.

...but regulatory pressures continue to rise

The deregulation of the banking sector was largely completed in the 1980s. Since then, State intervention has been quite limited, although attitudes have changed markedly in recent years. The government has also extended the reach of the Financial Services Authority's (FSA) regulation to include the conduct of mortgage and general insurance intermediation. Political reaction to banks' announcements of record profits and previous cases of misselling by the financial services industry have more recently led to increasing focus on the banks' sources of income.

Aside from the rule making around mortgage and general insurance sales, the FSA's pressure has typically been at a high level--encouraging banks to design products and processes that align shareholder and customer interests, and make banks take a closer interest in the actions of intermediaries. By contrast, the Competition Commission and OFT have focused on specific products and services. This has resulted in a litany of investigations in recent years which have variously identified the misselling of payment protection insurance, excessive profits on small and midsize enterprise (SME) business banking accounts, excessive mortgage exit fees, hidden costs to the customer in check clearing, and excessive default charges on credit cards and current accounts. Price controls on SME bank accounts (since rescinded) and credit card fees, fines, and enforced redress payments have followed.

This consumer-led agenda looks set to continue to occupy a significant amount of management time. To date, the impact on profitability has been relatively limited as compensation payments have not been hugely punitive and banks have been able to offset specific fee reductions by varying their overall fee structure, known as the "waterbed effect". While Standard & Poor's expects this resourcefulness to continue and does not expect a major long-term impact on bank earnings, continued pressure could lead banks to more fundamentally reappraise their retail business models.

Ownership: Strong Culture Of Shareholder Value

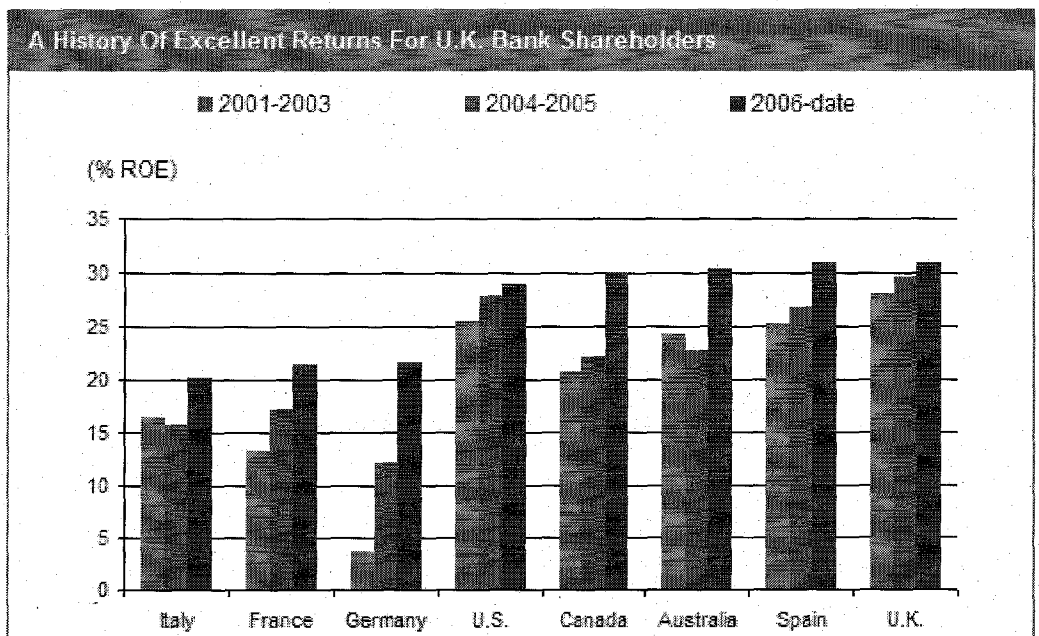
Unlike many European banking sectors, much of the U.K. banking system is publicly quoted. Government involvement is limited to the Post Office and National Savings, both of which have adopted a more commercial stance in recent years. The Post Office distributes a broad range of third-party financial products (via a joint venture with BoI) including loans, while National Savings now offers equity-linked products. The mutual sector remains significant, but is comparatively fragmented. Owing to the predominantly commercial nature of the U.K. banking sector, a strong culture of shareholder value has developed, which helps to explain the focus on profitability.

Bank shares are listed on the London Stock Exchange, where liquidity is usually very good, ownership well distributed among institutional investors, and disclosure requirements strong. Building societies are mutually owned, and the bulk of their customers are members, although they also issue a publicly traded form of capital known as permanent interest-bearing shares.

Financial Trends

The absolute profitability of the U.K. banking sector has been strong and resilient for several years, thanks in large part to the benign credit environment. Opportunities for profit growth have become harder to come by in the past few years, however, as a result of weaker retail demand, although this has been offset by a high degree of revenue diversity, expanded corporate and investment banking operations for some, increased operational efficiency, and still relatively high margins on some products. Share buyback schemes and hybrid debt issues have been employed widely to assure shareholder value, with the result that the largest U.K. banks still have the highest average ROE of their international peer group (see chart 22).

Chart 22



ROE defined defined as core earnings/average adjusted common equity. Source: Standard & Poor's and company accounts.

However, the credit cycle has turned abruptly since August 2007. Higher funding costs may be offset by widened asset spreads to a significant degree, but some banks are recording significant impairment losses on their investments, and lower volumes and rising bad-debt charges can be expected to constrain future profit growth. Unexpected balance sheet expansion, due to the longer warehousing of risk and funding off balance sheet commitments to structured investment vehicles (SIVs) and conduits, is a further constraint for some. However, the impact here is primarily on funding, rather than capital, and it appears manageable.

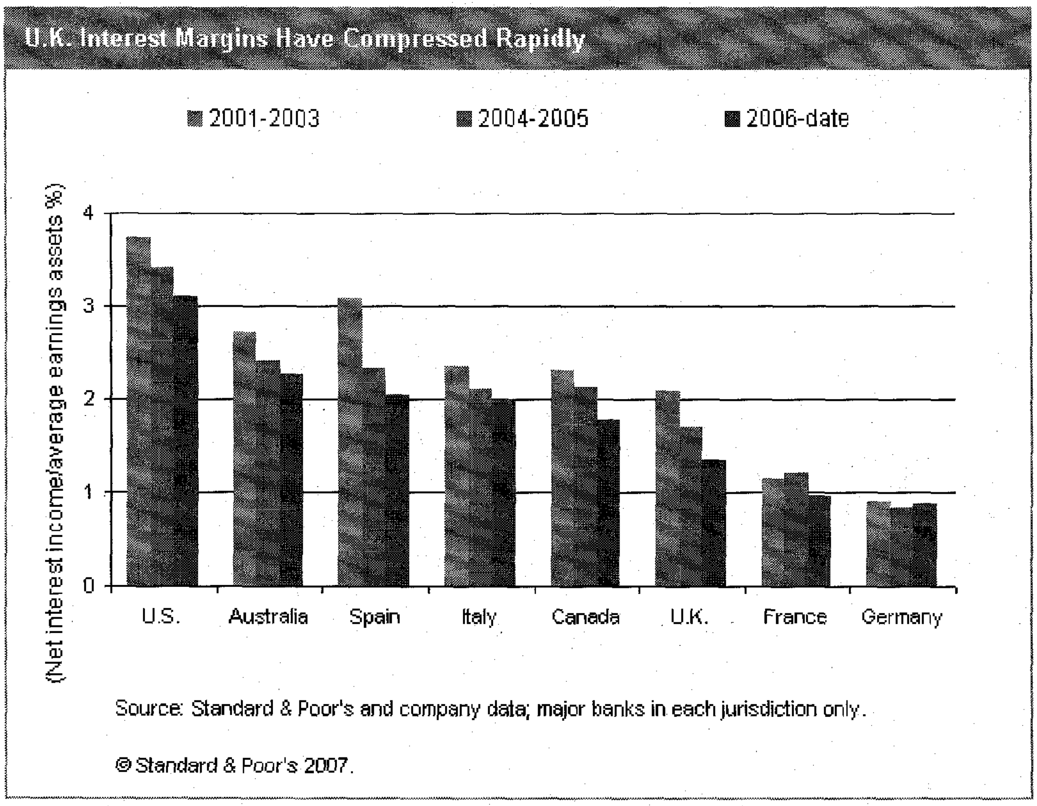
Overall, Standard & Poor's expects the downturn to remain manageable for most of the rated sector within current rating levels, but we do expect to see a greater dispersion in reported performance. Painful though it will be, the repricing of credit risk will ultimately benefit the banking sector and the broader economy, leading to a more differentiated and more adequate pricing of the risk in the medium to long term. This will mean that lenders and investors will be more appropriately compensated for, and better protected against, credit risk on new business.

Overall profitability strong, despite margin compression

In absolute terms, the rate of domestic earnings growth for the U.K. banking sector has slowed in recent years. Nevertheless, overall profitability continues to compare well with that of international peers', largely due to good cost control and business diversification. The comparatively wide range of business and geographic diversity of most U.K. banks should continue to provide a buffer against the current cyclical downturns in the credit markets.

Slowing domestic earnings are due to the margin squeezing seen in the past few years (see chart 23). While margins have declined among international peers too, they were already tighter in the U.K. and the compression has been more acute. This has resulted in asset growth outpacing income growth and a drive toward higher margin--and higher risk--segments and fee-based income. Standard & Poor's expects the decline in margins to moderate, but, while the repricing of assets is already underway, liability spreads look set to decline. The probability of a material improvement in interest margins is therefore low.

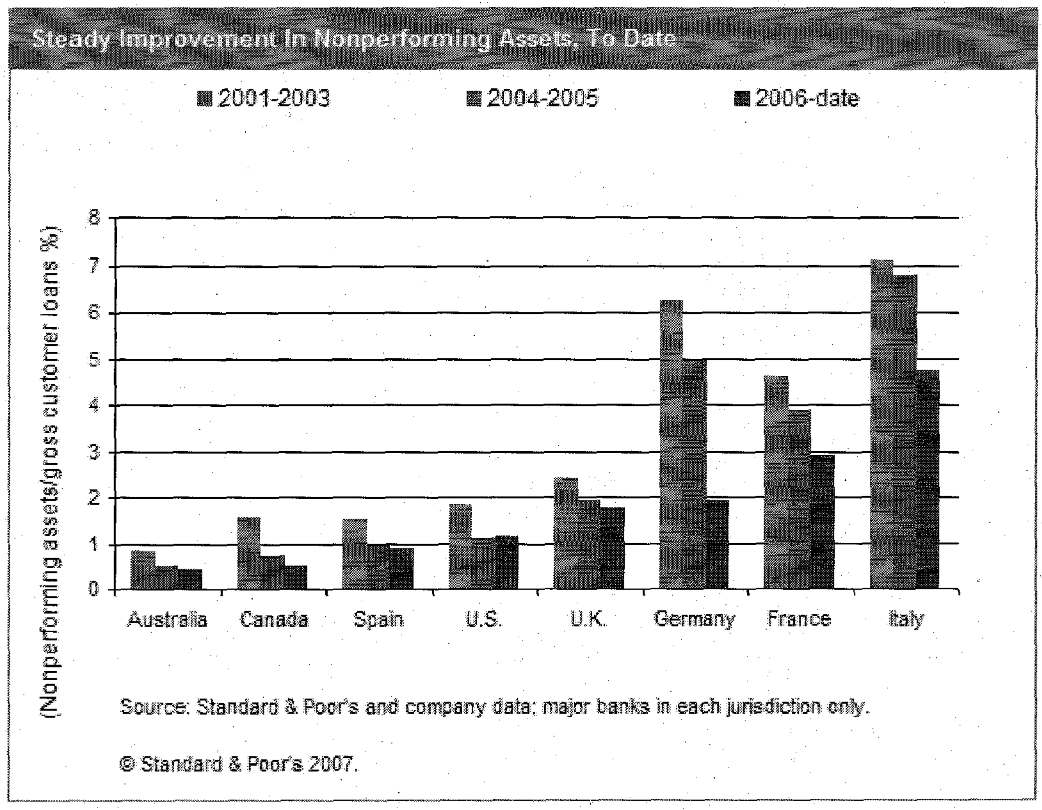
Chart 23



Specific credit quality concerns emerging, but still a healthy overall picture

Credit quality is robust for corporate loans and residential mortgage borrowers, with loan loss provisions and nonperforming assets remaining consistently low by historical standards and satisfactory when compared with international peers (see chart 24). However, the household sector continues to weaken and write-off rates in unsecured lending have already spiked. This is echoed, albeit to a lesser degree, in the corporate world, where leverage has increased. Bad-debt charges are therefore likely to continue to rise into 2008 from the current levels. Standard & Poor's considers, however, that provisioning growth is likely to be gradual and measured, so that the impact on banks' profitability will be relatively muted.

Chart 24



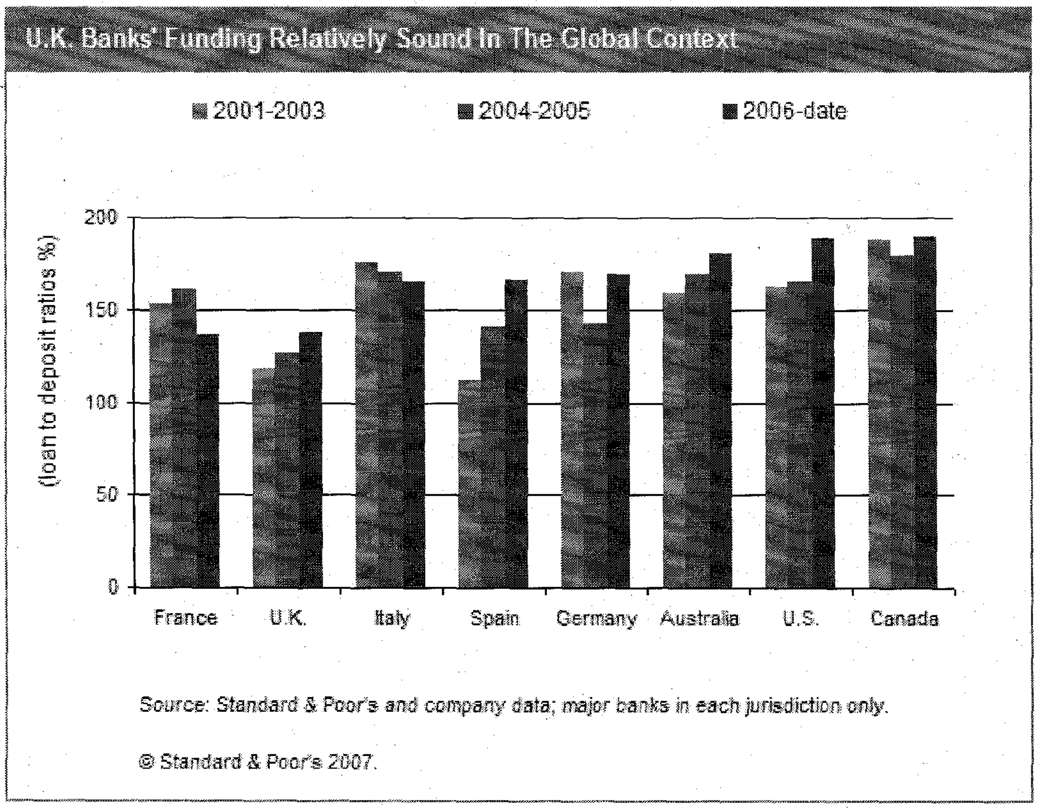
In addition, U.K. banks have not been immune from the problems in the U.S. and the broader turn in market sentiment. While direct exposures to U.S. subprime have been modest, many banks have taken hits to reserves due to write-downs on their investment portfolios and/or impairment losses on their exposures to SIVs. In addition, some of the larger banks--Barclays and HBOS in particular--have been big players in the leveraged finance market and are now having to warehouse underwritten loans for longer and take, as yet modest, markdowns to some of them. While the underlying credit quality is typically still sound, these tend to be quite concentrated exposures. It is as yet unclear whether further write-downs will be needed.

Generally moderate levels of wholesale funding in the global context...

U.K. banks and building societies were traditionally largely funded by customer deposits. This remains the case for most building societies, including Nationwide and Yorkshire Building Society, who typically have wholesale funding ratios of less than 25%. Although societies now have increased legal freedom to take on more wholesale funding (for more information, see "U.K. Parliament Proposed Legislation Will Not Affect Building Society Ratings," published on Aug. 23, 2007, on RatingsDirect), they are unlikely to do so in a material way, particularly in the current environment.

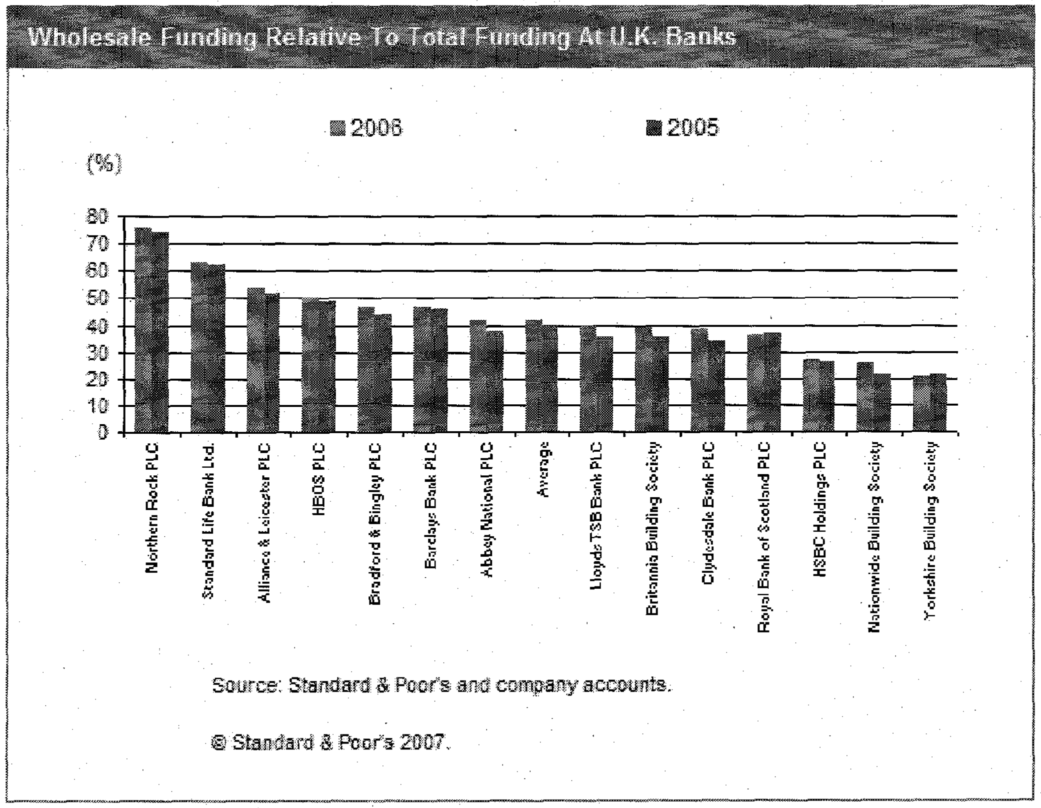
By contrast, U.K. banks have seen strong asset growth outstrip that of deposits in recent years, requiring them to increase their wholesale funding. This has been facilitated by the emergence of the covered bond market in the U.K., which has developed since 2003, despite there being no specific legal regime for covered bonds in the U.K. Despite this trend, U.K. banks have remained relatively deposit funded by global standards (see chart 25).

Chart 25



However, as it has been well documented, there are outliers within this U.K. peer group--notably Northern Rock (see chart 26).

Chart 26

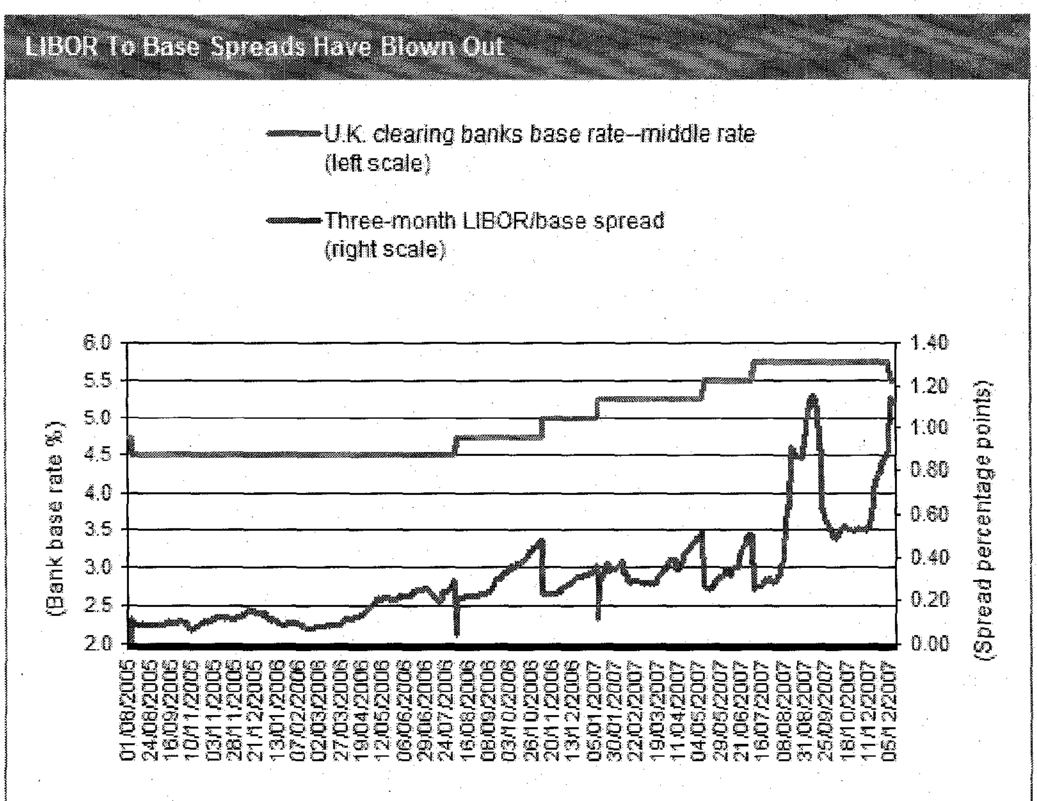


..but that is of scant comfort when the term lending market closes

Until recently, wholesale funding has been a cost efficient and predictable way of growing the balance sheet--competition for term retail deposits remains fierce and has led to the increased prevalence of "hot money" that moves with the best available rates.

The market dislocation that has occurred since August has exceeded the expectations of all but the most pessimistic stress tests--the secured lending market has almost entirely dried up, some SIVs and conduits are having to be funded or their assets brought on balance sheet, the door to the U.S. (and other) CP markets has been shut for many U.K. banks, and the LIBOR spread over BoE base rates has mushroomed, hitting 152 bps on Sept. 12, 2007. While the latter then retrenched somewhat, it has moved out again (see chart 27). This is the result of continued negative market sentiment, mutual distrust, and cash hoarding, particularly as banks move into the traditionally illiquid Christmas and New Year period.

Chart 27



Source: Standard & Poor's and Datastream.

Most U.K. banks went into this period quite well placed, having spent the past year actively diversifying their funding sources and extending the maturity profile of their debt. However, while a few cash-rich institutions have since fared reasonably well--typically those with a very strong retail funding base or who had prefunded their expected lending--the majority has been hit hard, albeit to varying degrees. Although regulatory liquidity ratios have not been seriously under threat, the inability to borrow beyond three months in the wholesale markets at anything other than the most punitive rates, even on a secured basis, has led to a steady diminution of average funding tenor for many institutions.

The banks have deployed a mixture of strategies in response--renewing attempts to attract retail deposits, curtailing loan growth, selling noncore assets. A handful has even managed private placements of securitized loans, albeit at more elevated prices. In doing so, U.K. banks have been at a notable disadvantage when compared with Eurozone banks in that, unlike the European Central Bank (ECB; AAA/Stable/A-1+), the BOE has had a longstanding policy of not accepting securitized residential mortgages as collateral. Although the BOE has since changed its stance, accepting these notes at its special auctions, this route remains somewhat stigmatized. Some banks have instead pledged the notes from their internally securitized mortgages directly with the ECB--possible if they have a branch in the Eurozone--or repoed the notes through friendly third parties.

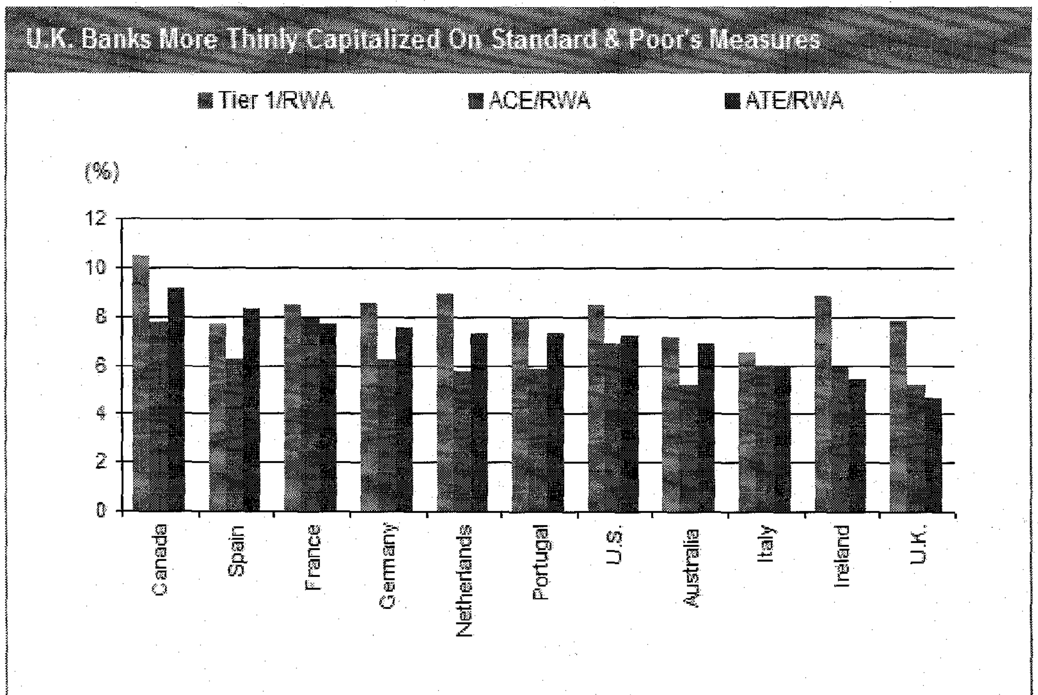
Standard & Poor's continues to be in regular contact with all of its issuers regarding their liquidity, and expects funding conditions to start to normalize in the New Year--although this could certainly be as late as the second quarter. When the smoke finally clears, some banks can be expected to fundamentally rethink their funding and liquidity policies and the regulatory requirements may also change--both of which could have wider implications for business strategy and interest margin. Although as Northern Rock has shown, retail deposits can be subject to flight in extremis, Standard & Poor's continues to regard retail deposits as the most stable and least risk-sensitive form of funding, and therefore from a liquidity perspective regards those banks with proven retail deposit franchises favorably. This is not to say, however, that wholesale funding does not have its place--particularly where it is well diversified by tenor and source, and it serves to match the maturities of an institution's assets and liabilities more closely.

Some institutions have benefited from a one-off inflow from the reported "£10" billion of former Northern Rock deposits since withdrawn. Competition for retail money, which is already quite strong, can be expected to pick up further, with predictable consequences for interest margin. However, even though economic growth should grow the deposit pool and the weaker market outlook will bring in money from other investment types, how much extra money is out there is unclear. It is certainly conceivable that some banks will be unable to hit their deposit targets and may have to constrain asset growth as a result.

Relatively weak capitalization, despite strong earnings generation

Standard & Poor's considers the capitalization of the major U.K. banking groups to be quite weak. This is the result of the banks' strong culture of shareholder value, which has led capitalization to be tightly managed and, in the event of the buildup of "excess" capital, share buybacks to be regularly deployed. In addition, U.K. banks have been at the forefront of the shift toward the greater use of nonequity Tier 1 capital and securitization.

Chart 28



ACE--Adjusted common equity. RWAs--Risk-weighted assets.
Source: Standard & Poor's and company accounts, 2006 data.

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Capital ratios for U.K. banks, when analyzed by Standard & Poor's preferred capital measures do not compare well internationally (see chart 28). Standard & Poor's capital measures now differ markedly from regulatory capital for several reasons. First, this reflects the significant role for nonequity capital within Tier 1 (typically more than 25% of the total), which is excluded from Standard & Poor's adjusted common equity (ACE) measure. Second, following the introduction of IFRS, the FSA took a lenient approach because it only partially deducts pension deficits and proposed dividends. Both of these are material for U.K. banks because they have tended to have relatively high pension deficits and dividend payout ratios. Standard & Poor's considers these should be fully deducted from equity capital.

Third, the FSA only deducts from total regulatory capital the embedded value of life insurance subsidiaries, net assets of general insurance subsidiaries, investments in other banks' capital, and retained equity in securitization vehicles. Standard & Poor's takes a more conservative view by analyzing adjusted total equity (ATE), which further adjusts for these factors. The above, combined with the U.K. banks' emphasis on origination and distribution of credit risk in recent years, have created material and growing differences between regulatory ratios and Standard & Poor's preferred capitalization measures to an extent not seen in most other countries.

Capital outlook uncertain

There are currently a number of opposing forces on U.K. bank capitalization, which will likely lead banks to plot different courses to maintain the status quo. On the upside, Standard & Poor's expects bank earnings to continue to support capital generation and for many banks to benefit from reduced capital requirements under Basel II. Slower asset growth should also result in less capital strain. This is counterbalanced, however, by a number of headwinds. Market conditions have forced a return, perhaps temporarily, from the distribution and securitization-led model of loan origination adopted by many institutions to the old one of "take and hold". The resultant asset growth will be exacerbated for those banks being forced to bring conduit funding and SIVs back on balance sheet. Additional pressures include impairment charges on some investment portfolio assets and the further expected rise (from a low base) of NPLs.

Standard & Poor's expects U.K. banks and building societies to continue to have the means to fairly comfortably exceed their capital requirements. However, the above factors will weigh differently on individual banks and the implications could range from capital releases for those with the least risky profiles, to restricted asset growth, sales of noncore assets, or even dividend cuts. What is certain is that share buybacks will not be as ubiquitous as they have been until now.

Basel II implications unclear for overall bank capitalization

By Jan. 1, 2008, all U.K. banks and building societies will have moved to the Basel II capital regime. Regulatory approval of their capital models continues apace, but it seems likely that, as in many other European countries, the larger, more complex institutions will typically be on internal-ratings based approaches for credit risk and standardized or advanced approaches for operational risk. The FSA is less usual in that it has both the power and the intent to make an additional Pillar 2 charge where it considers capital to be an appropriate mitigant of risks not captured by Pillar 1. As in other countries, the FSA will impose a floor, limiting any capital release in 2008 to 10% of the capital requirement under Basel I.

Some trends are already clear. Institutions with a large proportion of residential mortgages on their books will see their credit risk charges fall materially below current requirements--in many cases they could more than halve--to the extent that they will be nowhere near offset by the new operational risk and Pillar 2 charge. Institutions will have an even greater focus on efficient capital usage, leading to exits from business lines or asset disposals where risk-adjusted returns have become less attractive. Indeed, this was the primary driver behind the recent loan book disposals by B&B and RBS. Finally, as Standard & Poor's is already seeing, the quality and effectiveness of enterprise risk management and disciplines such as stress testing is generally rising, particularly at smaller U.K. institutions.

While Standard & Poor's broadly welcomes Basel II and expects any changes in bank capitalization to be gradual, we are concerned that some banks might seek to 'spend' the regulatory benefits of Basel II through asset growth or capital releases. We will assess such changes in capital policy closely as, in our view, Basel II merely changes the measurement of risk, not the underlying economic risk itself. In addition, the variety of approaches permissible under Basel II will make meaningful international comparison of banks' capitalization levels very difficult. As a result, our new risk-adjusted capital measure (see related articles listed in table 3) will become our benchmark to assess banks' risk-adjusted capital and risk-adjusted profitability. Standard & Poor's continues to press for enhanced and consistent disclosures under Pillar 3 (see table 3).

An internationally respected regulatory regime has lost some of its luster

The high-level approach to financial services regulation is laid down in a Memorandum of Understanding (MoU) between Her Majesty's Treasury (the finance ministry), the BoE, and the FSA--collectively known as the Tripartite Authorities. Its purpose is to specify each party's responsibilities to avoid gaps or duplication in their work programs. The Treasury is responsible for the overall structure of regulation and the legislation that governs it. The BoE is responsible for the overall stability of the financial system and its infrastructure, particularly the payment systems. The FSA authorizes and supervises individual firms and regulates the conduct of financial markets. The MoU sets out a framework for regular information exchange between the three bodies.

The FSA has a broad remit as the single regulator of the U.K. financial services sector. A key driver behind its establishment in 1997 was the number of financial services conglomerates in the U.K., and the blurring of traditional product boundaries. Most financial groups are now supervised on an integrated basis by the FSA.

The FSA assumed its full powers in 2001, following the enactment of the Financial Services and Markets Act 2000 (FSMA). The FSA's responsibilities are governed by four statutory objectives included in the FSMA:

- Maintaining confidence in the U.K. financial system;
- Promoting public understanding of the financial system;
- Securing the right degree of protection for consumers; and
- Helping to reduce financial crime.

In addition to inheriting the supervisory roles of its predecessor bodies, the FSA has since been allocated a number of new responsibilities. It has been given a much stronger consumer education remit than any previous regulator, for example, and its supervisory net has also been widened to capture activities such as the Lloyd's insurance market and wholesale market abuse. A further extension of its powers in 2005 was the introduction of mortgage and general insurance regulation. This regime focuses on the sales and administration processes for these products, which used to be subject to a voluntary code of conduct. The FSA is a major contributor to developments in international banking supervisory standards, and strictly applies them to U.K. institutions. In several cases, its rules are more stringent than those required by the Bank for International Settlements (BIS). It routinely sets minimum total regulatory capital ratios that exceed, often by a considerable margin, the 8% level prescribed by the BIS, for example.

Overall, Standard & Poor's regards the FSA as a well-managed organization that capably carries out its supervisory responsibilities. Indeed, its integrated and proportionate approach and principles-based regime have arguably helped to underpin the attractiveness of London as a global financial center. However, it remains an organization of finite resources, which has been asked to expand its remit into new areas while simultaneously implementing new capital (Basel II, Solvency II) and conduct of business (MiFID) regimes, monitoring the health of the entire U.K. financial system, and trying to attract experienced professionals in a hot labor market. While the FSA has always been clear that it operates a nonzero failure regime, the near failure of Northern Rock PLC, one of the country's biggest banks, is not consistent with this principle. However, lessons will be learned and the reputational damage to the FSA, and that of London as a whole, should be repairable.

Crisis management: changes afoot in the light of Northern Rock

In the event of a problem arising, the Tripartite Authorities' are required to work closely together to coordinate their response, including possible support operations. The combined business continuity working group that would take the lead in managing an operational disruption caused by, for example, widespread system failures or a terror incident. While the arrangement appeared sound in principle, the Northern Rock case--which was its first major test--highlighted certain disagreements and differences in approach that arose from the differing objectives of each constituent body. Although there will no doubt be lessons learned from the episode, the model appears likely to remain substantially unchanged.

Like most mature market economies, the U.K. is classified as "supportive" by Standard & Poor's. The Tripartite Authorities make no forward commitment to intervene in the event of a bank failure--consistent with the FSA's nonzero failure regime of supervision. However, where a bank failure would be of systemic importance, such that it would have financial stability implications, intervention appears much more likely. This is the scenario that led to their extraordinary support of Northern Rock. Where this support occurs, the implications are factored into the ratings on that institution. While the Northern Rock case sets a precedent, Standard & Poor's considers that potential extraordinary future external government support in the U.K. for individual institutions remains uncertain. The credit ratings of U.K. banks will therefore continue to receive no routine uplift for this to their stand-alone rating.

Bank depositors are protected under the Financial Services Compensation Scheme (FSCS). Independent from the FSA, but accountable to it, the FSCS covers deposits, investments, and insurance in the event that an FSA-authorized, U.K-incorporated company is unable to pay its obligations. If an overseas bank with a U.K. branch became insolvent, the deposit protection arrangements and legislation of the relevant home country would determine the recovery potential of U.K. depositors.

Until recently, the FSCS provided substantial, but not full coverage of deposits up to a £35,000 threshold, with any payment above this amount depending on the proportion of the bank's assets that could be recovered. Although this level of coverage is relatively generous when compared with some other EU countries, the queues outside Northern Rock branches highlighted some retail depositors' ignorance of the scheme, as well as broader concerns about its partial coverage and the timeliness of any compensation. The coverage of the scheme has since been extended to 100% of the first £35,000 that depositors have with each institution. To date, this move has had limited immediate financial implications for the banks who fund the scheme. However, since the scheme remains only partially prefunded, a contingent liability remains in the form of a future call on the banking sector up to £1.8 billion if a bank failure triggers a large compensation payout. Despite the change to coverage noted above, concerns remain around the timeliness of payments, the coverage levels, and other aspects of the scheme. The Tripartite Authorities are therefore undertaking a root and branch review of the FSCS, the outcome of which is due to be announced in 2008.

Accounting

Comparability improving following transition to IFRS

With effect from 2005, for listed companies U.K. GAAP was replaced by IFRS--a common accounting framework implemented across all EU countries. The principal advantage of IFRS is that it allows better cross-border comparisons of company accounts, thanks to greater standardization, although the extent of harmonization is still unclear.

The major U.K. banks restated their 2004 GAAP accounts under IFRS, taking advantage of the option not to apply the new accounting standards IAS32, IAS39, or IFRS4 to their 2004 comparatives. Financial statements from 2005 include the effect of these standards, and are therefore not directly comparable with 2004 IFRS restatements--although many banks attempted to quantify the difference. This transitional loss of time series comparability is being remedied over time with the publication of more recent full-year accounts, which are consistent with those in 2005.

Pensions deficits falling, for now

Until quite recently, U.K. banks have tended to have relatively large pension deficits as a result of the emphasis on final salary occupational schemes in the U.K. and the significant falls in stock markets in 2000-2003. There are also other postretirement benefit obligations (principally medical schemes), but these are relatively small.

IFRS requires either full recognition of a net deficit or surplus on balance sheet or, under the "corridor approach", to defer certain actuarial gains and losses. This has the effect of reducing equity at most U.K. banks, given that most schemes are in deficit. It also increases the volatility of shareholders' equity, because deficits can move significantly with market performance and assumptions underlying the actuarial valuation of the pension liability. This volatility has been mitigated for the purposes of regulatory capital, however, because the FSA allows an institution to deduct from Tier 1 an actuarial estimate of the next five years' of employer contributions into the funds if this is lower than the full deficit. This approach is likely to be reviewed in the coming 12 months-18 months.

Although Standard & Poor's considers these deficits to be manageable, they are, nevertheless, a real--if long term--liability and therefore need to be taken into account in an assessment of capital. We therefore adjust ACE and ATE for institutions that do not fully reflect these deficits in their net assets. This includes Barclays and Lloyds TSB, who both report under the corridor approach to IAS19. (For more information, see "Defined-Benefit Pension Obligations: Massive Reductions In Deficits For Western European Banks Mask Underlying Risk," published on July 26, 2007.)

A mix of higher pension contributions from some banks during 2006 and, more importantly, favorable market conditions that lifted asset returns, resulted in a huge reduction in the deficits reported under IAS19 by U.K. and other Western European banks. In addition, even though the benefits payable in the future increased due to the revision of assumptions regarding longevity, salary growth, and inflation rates, these were typically offset to a significant extent by the change in the discount rate on these obligations.

For the largest six U.K. banks, the aggregate deficit plummeted from £20.3 billion at end 2005 to £11.9 billion at end 2006. This equates to 6% of the total reported equity of these banks, against an average of 5% for Western European banks as a whole. However, aggregate obligations still stood at 47% of the total reported equity of these banks. This highlights that such liabilities still represent a significant risk to the banks' balance sheet and that their management is an important part of a bank's overall financial and risk management strategy.

Furthermore, as we noted in the article cited above, Standard & Poor's does not consider the recent improvements in deficits to be permanent--deficits could deteriorate in the future depending on the application of asset-liability management strategies, bond yields, and other market movements. Indeed, while the banks' end-2007 accounts may see further reductions in their reported pension deficits, the prospect of further increases in life expectancy, weaker equity returns, and lower interest/discount rates seems to place upward pressure on pension fund deficits from 2007 onwards.

Appendix 1: Basic Data On The U.K. Banking System

Sovereign credit ratings

Table 3

Sovereign Ratings On The U.K.		
	Local currency	**Foreign currency**
Long-term rating	AAA	AAA
Short-term rating	A-1+	A-1+
Outlook	Stable	Stable

The long-term sovereign rating on the U.K. has been maintained at 'AAA' since it was first assigned in 1978. The most recent analysis of the U.K. was published on Jan. 25, 2007.

Number of banks

At the end of October 2007, there were 339 authorized banks in the U.K. Of these, 156 were U.K. incorporated, 100 were incorporated elsewhere in the European Economic Area (EEA) and operated in the U.K. on a branch or cross-border basis, and 83 were incorporated outside the EEA. In addition, there were 59 building societies.

System deposits

At Sept. 30, 2007, the U.K. banking sector's balance sheet included £6,157 billion of deposits, of which £2,649 billion were held by U.K. financial institutions, and £3,509 billion by overseas financial institutions. About £2,886 billion of the total came from outside the U.K.

Deposits per capita

Deposits with banks and building societies by U.K. residents totaled £27,075 per capita at Sept. 30, 2007.

Form of regulation

The FSA became the single regulator for financial services in the U.K. in December 2001, and supervises banks and building societies under the FSMA. The BoE retains responsibility for the oversight of payment systems.

Bank superintendent

The Chairman of the FSA is Sir Callum McCarthy, who was appointed in September 2003. The Chief Executive is Mr. Hector Sants, who succeeded Mr. John Tiner in July 2007.

Appendix 2

Table 4

Related Articles	
Major European Banks Show Resilience In Difficult Market	Nov. 15, 2007
Lessons From The U.S. For U.K. Nonconforming Mortgages—Six Months On	Nov. 5, 2007
European Economic Forecast: Europe's Central Banks Weigh Inflation Against The Fallout From The U.S. Slowdown	Oct. 31, 2007
Northern Rock And The Liquidity Squeeze: Implications For U.K. Banks In The Longer Term	Oct. 11, 2007
Payment Shock Approaching For Borrowers In U.K. Nonconforming RMBS	Sept. 27, 2007
What Are The Implications Of Northern Rock's Bailout For Other U.K. Banks?	Sept. 18, 2007
Defined-Benefit Pension Obligations: Massive Reductions In Deficits For Western European Banks Mask Underlying Risk	July 26, 2007
Greater Basel II Pillar 3 Disclosure Would Enhance Transparency And Comparability In The Global Banking Sector	July 10, 2007
Growth And Returns Lure Lenders To The U.K. Specialist Mortgage Market	June 6, 2007
Building Standard & Poor's Risk-Adjusted Capital Framework	June 4, 2007
European Credit Card Index Report Q3 2007	Nov. 19, 2007

Table 4

Related Articles(cont.)	
U.K. Prime RMBS Index Report Q3 2007	Nov. 26, 2007
U.K. Nonconforming RMBS Index Report Q3 2007	Nov. 16, 2007

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Barclays PLC (BARC.L)

Estimate change

Relief Rally Overdone

- **No new black holes discovered** — New disclosure and the apparent absence of new problem areas has injected a degree of confidence that further credit market related losses will remain manageable. Although this may yet prove optimistic, with significant 'Alt A' and other US subprime-related exposures remaining on balance sheet, we do not view this as the single most pressing issue facing the group.

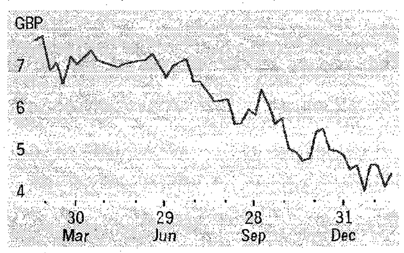
- **Lack of revenue growth drivers a major concern** — We estimate that underlying revenue growth in 2H07 at Barclays Capital fell to c2% yoy and would not expect conditions to significantly ease in 2008, despite an expectation of lower credit related write-downs overall. We struggle to see where the lost ground can be meaningfully recovered, with both domestic and international businesses currently facing headwinds elsewhere in the group.

- **Balance sheet leverage unresolved** — While raising additional non equity capital has increased the Tier 1 ratio to 7.8%, well ahead of the company's targeted 7.25%, has also increased balance sheet gearing with non-equity instruments now constituting 35% of Tier 1 capital. In addition we expect organic capital rebuild to be limited with the Equity Tier 1 ratio rising from 5.1% to only 5.3% by 2010E, a factor we expect to remain a drag on the group's rating.

- **400p target price unchanged, retain Sell** — We have cut underlying EPS by 1% to 64.5p in 2008E. Our new estimates for both tNAV (259p) and EPS lead us to maintain our target price at 400p and we retain our Sell (3M) recommendation.

Sell/Medium Risk	**3M**
Price (19 Feb 08)	£4.77
Target price	£4.00
Expected share price return	-16.1%
Expected dividend yield	7.7%
Expected total return	**-8.4%**
Market Cap	£31,367M
	US$61,237M

Price Performance (RIC: BARC.L, BB: BARC LN)



	2008E			2009E			2010E		
£m, unless stated	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**
Revenue	24,467	24,037	-2%	26,050	25,445	-2%	27,855	26,934	-3%
Costs	(14,635)	(14,277)	-2%	(16,063)	(15,607)	-3%	(17,172)	(16,680)	-3%
Operating Profit	9,831	9,759	-1%	9,987	9,837	-2%	10,683	10,254	-4%
Impairment losses	(2,812)	(2,747)	-2%	(2,463)	(2,674)	9%	(2,611)	(2,754)	5%
Pre-Tax Profit	7,038	7,055	0%	7,544	7,208	-4%	8,093	7,546	-7%
EPS (p) Reported	67.3p	66.7p	-1%	72.2p	67.5p	-7%	77.1p	70.3p	-9%
EPS (p) Underlying	**65.1p**	**64.5p**	**-1%**	**69.9p**	**65.3p**	**-7%**	**74.7p**	**68.0p**	**-9%**
DPS (p)	38.0p	36.5p	-4%	41.0p	39.0p	-5%	44.0p	42.0p	-5%
Cost Income Ratio (%)	59.8%	59.4%	-42bp	61.7%	61.3%	-32bp	61.6%	61.9%	28bp
Equity Tier 1 Ratio(%)	5.4%	5.1%	-33bp	5.7%	5.2%	-52bp	6.1%	5.3%	-73bp
Tier 1 Ratio (%)	7.8%	7.5%	-25bp	8.0%	7.5%	-51bp	8.3%	7.5%	-77bp

Source: Company Information and Citi Investment Research

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See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets Ltd

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	8.0	7.5	7.4	7.3	7.0
P/E reported (x)	6.8	7.2	7.4	7.3	7.0
P/BV (x)	1.6	1.4	1.3	1.2	1.1
P/Adjusted BV diluted (x)	1.6	1.4	1.3	1.2	1.1
Dividend yield (%)	6.5	7.1	7.7	8.2	8.8
Per Share Data (p)					
EPS adjusted	60.0	64.0	64.5	65.3	68.0
EPS reported	69.8	66.7	64.5	65.3	68.0
BVPS	303.0	352.9	380.2	405.6	430.8
Tangible BVPS	191.4	242.2	255.8	285.4	314.7
Adjusted BVPS diluted	296.2	343.7	370.2	395.1	419.6
DPS	31.0	34.0	36.5	39.0	42.0
Profit & Loss (£M)					
Net interest income	9,143	9,610	10,313	10,802	11,307
Fees and commissions	7,177	7,824	8,215	8,790	9,406
Other operating Income	5,275	5,682	5,509	5,852	6,221
Total operating income	**21,595**	**23,116**	**24,037**	**25,445**	**26,934**
Total operating expenses	-12,949	-13,322	-14,075	-15,405	-16,478
Oper. profit bef. provisions	**8,646**	**9,794**	**9,961**	**10,039**	**10,456**
Bad debt provisions	-2,154	-2,795	-2,747	-2,674	-2,754
Non-operating/exceptionals	644	77	-159	-157	-156
Pre-tax profit	**7,136**	**7,076**	**7,055**	**7,208**	**7,546**
Tax	-1,941	-1,981	-1,975	-2,018	-2,113
Extraord./Min. Int./Pref. Div.	-624	-678	-763	-776	-793
Attributable profit	**4,571**	**4,417**	**4,317**	**4,414**	**4,640**
Adjusted earnings	3,934	4,239	4,317	4,414	4,640
Growth Rates (%)					
EPS adjusted	11.9	6.6	0.8	1.3	4.2
Oper. profit bef. prov.	23.9	13.3	1.7	0.8	4.1
Balance Sheet (£M)					
Total assets	**996,787**	**1,227,361**	**1,318,778**	**1,422,474**	**1,506,763**
Avg interest earning assets	347,374	380,284	423,130	465,696	495,929
Customer loans	285,631	349,167	375,174	398,293	421,894
Gross NPLs	5,849	11,438	8,479	9,001	9,535
Liab. & shar. funds	**996,787**	**1,227,361**	**1,318,778**	**1,422,474**	**1,506,763**
Total customer deposits	256,754	294,987	316,958	336,490	356,429
Reserve for loan losses	3,069	3,265	3,467	3,681	3,908
Shareholders' equity	**19,799**	**23,291**	**25,347**	**27,309**	**29,291**
Profitability/Solvency Ratios (%)					
ROE adjusted	21.1	19.7	17.8	16.8	16.4
Net interest margin	2.63	2.53	2.44	2.32	2.28
Cost/income ratio	60.0	57.6	58.6	60.5	61.2
Cash cost/average assets	1.3	1.2	1.1	1.1	1.1
NPLs/customer loans	2.0	3.3	2.3	2.3	2.3
Reserve for loan losses/NPLs	52.5	28.5	40.9	40.9	41.0
Bad debt prov./avg. cust. loans	0.8	0.9	0.8	0.7	0.7
Loans/deposit ratio	111.2	118.4	118.4	118.4	118.4
Tier 1 capital ratio	7.7	7.8	7.5	7.5	7.5
Total capital ratio	11.7	12.1	11.4	11.1	10.9

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Barclays' full-year 2007 results provided additional disclosure on a range of financial exposures and increased its write-downs from £1.7bn to £2.3bn. We estimate additional losses of £1.5bn to be taken through the course of 2008. A more pressing issue appears to be the lack of revenue momentum across the group. With Barclays Capital's revenue boosted by a number of 'one-off' items in 2H07, we would expect any further write-downs in 2008 to represent a big drag on growth. It would also appear unlikely that the same degree of cost control can be maintained with the prospect of further headcount expansion into 2008. With BarCap needing to overcome weaker operating conditions and headwinds apparent in other business lines, we believe Barclays group will struggle to deliver meaningful earnings growth in 2008. On broadly unchanged estimates we retain our 400p target price and Sell (3M) recommendation.

The BarCap engine splutters

Figure 1 shows our estimated revenue breakdown for BarCap on a product-by-product basis, excluding £658m of fair value gains in 2H07. It can be seen that the 2H07 performance was particularly weak in Credit Products and Mortgages & ABS, where financial write-downs have been taken. This was partly off-set by stronger performance in Interest Rate Products, Currency Products and Emerging Markets.

Figure 1. Barclays Capital Composition of Revenues

£m, unless stated	1H06	2H06	FY06	1H07	2H07	FY07	1H07 vs. 1H06	2H07 vs. 2H06	2H07 vs. 1H07
Credit Products	975	765	1,740	1,160	-280	880	19%	-137%	-124%
Interest Rate Products	715	300	1,015	765	1,020	1,785	7%	240%	33%
Equity Products	575	385	960	675	545	1,220	17%	42%	-19%
Commodities	285	435	720	570	355	925	100%	-18%	-38%
Currency Products	340	180	520	395	455	850	16%	153%	15%
Emerging Markets	250	250	500	320	360	680	28%	44%	13%
Private Equity	155	330	485	95	430	525	-39%	30%	353%
Mortgages & ABS	140	185	325	175	-575	-400	25%	-411%	-429%
TOTAL	3,437	2,830	6,267	4,153	2,308	6,461	21%	-18%	-44%

Source: Company information and Citi Investment Research estimates

Figure 2 shows that we believe there are a number of other adjustments that can be made to derive a better measure of underlying revenue growth. The adjustments we make are subjective and the rationale is explained below.

Figure 2. Reconciling underlying estimates for Barclays Capital

£m, unless stated	1H06	2H06	2006	1H07	2H07	2007
Reported revenue	**3,437**	**2,830**	**6,267**	**4,153**	**2,966**	**7,119**
Write-downs taken to revenue	-	-	-	-	*1,453*	*1,453*
Gains on own debt	-	-	-	-	*(658)*	*(658)*
Net write downs to revenue	-	-	-	-	795	795
Net investment income	(277)	(296)	(573)	(206)	(747)	(953)
Fair value adjustment of financial instruments	-	(85)	(85)	-	(514)	(514)
Underlying revenue	**3,160**	**2,449**	**5,609**	**3,947**	**2,500**	**6,447**
yoy growth	56.4%	18.3%	37.1%	24.9%	2.1%	14.9%

Source: Citi Investment Research

Write-downs taken to revenue

These reflect a variety of write-downs against the credit market portfolio. Of the £1.5bn, £690m is against ABS CDO exposure, with the remainder against a range of other exposures. We have added these back to revenue for comparison purposes, although note that we assume further hits to revenue will occur in 2008 in relation to the residual exposures shown in Figure 4.

Gains on own debt

This reflects the IFRS accounting treatment where a company's own debt is revalued and if found to have fallen in value generates a gain that is taken in the P&L. We believe it is fair to net these gains against other losses as it is arguably the result of the same weak conditions in the marketplace.

Net investment income

We have fully deducted this line for comparison purposes, although note that in recent times there has been a consistent £200-300m of such gains. In 2H07 this jumped to a surprisingly high level of £747m on the back of private equity realisations, disposal gains in Asia, and structured credit transactions. Although we do not deduct this from our estimate of underlying EPS, we believe that 2H07 was significantly flattered by these gains.

Fair value adjustment on financial instruments

These gains arise when financial assets or liabilities, primarily derivatives contracts, have to be initially valued at the transaction price as there are not enough observable inputs to use other fair value techniques. When such inputs do arise, the unrealised gain can be recognised as revenue. In 2007 BarCap recognised £514m of such gains compared to £85m in 2006. Assuming no significant further additions the end 2007 unrecognised figure of £154m implies a significant drop in the level of such revenue contributions.

Cost growth falls sharply but difficult to sustain

Figure 3 shows that costs were tightly controlled in 2H07, helping offset the weaker underlying revenue performance. We note that performance-related costs fell by 78% in 2H07, suggesting that this bore the brunt of the sizeable write-downs. We believe that the cost income ratio was flattered by the fact that a large chunk of the 'one-off' revenue gains will have generated little in the way of extra cost.

Figure 3. Barclays Capital Composition of Costs

£m, unless stated	1H05	2H05	1H06	2H06	1H07	2H07	FY05	FY06	FY07
New Investment	55	93	85	116	99	99	148	200	199
Performance Related	524	572	997	647	1,167	144	1,096	1,644	1,311
Contractors	55	63	64	97	74	84	119	160	159
Core Costs	745	855	976	1,029	1,142	1,162	1,600	2,005	2,304
Total Costs	**1,379**	**1,584**	**2,121**	**1,888**	**2,483**	**1,490**	**2,963**	**4,009**	**3,973**

	YoY (%)				YoY (%)	
	1H06	2H06	1H07	2H07	FY06	FY07
New Investment	54%	24%	17%	-14%	35%	-1%
Performance Related	**90%**	**13%**	**17%**	**-78%**	**50%**	**-20%**
Contractors	15%	53%	17%	-13%	35%	-1%
Core Costs	31%	20%	17%	13%	25%	15%
Total Costs	**54%**	**19%**	**17%**	**-21%**	**35%**	**-1%**

Source: Company information and Citi Investment Research estimates

We question whether this performance can be maintained in 2008 when the management guidance is that it is preparing to increase investment and headcount in different parts of the business. Figure 14 gives a full breakdown of our divisional forecasts, showing that we expect BarCap PBT to fall in 2008E.

Further credit market write-downs expected

Figure 4 shows Barclays latest disclosure of its trading exposure, which includes 'Alt A', Monoline Insurers and Commercial Mortgages. Although necessarily subjective, we show the extent of write-downs we expect to be incurred in 2008E.

Figure 4. Credit Market Write-Downs

Barclays (£m)	Dec 07 Pre Write-Down	2007 Write-downs Revenue	2007 Write-downs Impairment	2007 Write-downs Total	Dec 07 Post Write-Down	% Write-Down	2008E Cumulative Write-downs Revenue	2008E Cumulative Write-downs Impairment	2008E Cumulative Write-downs Total	
ABS CDO (net of hedging)	**6,083**	**(690)**	(722)	(1,412)	4,671	-23%	**(892)**	**(933)**	(1,825)	-30%
Other US sub prime[1]	-	-	-	-	5,037	-	-	-	-	-
Alt A	-	-	-	-	4,916	-	-	-	-	-
Monoline Insurers	-	-	-	-	1,335	-	-	-	-	-
Commercial Mortgages	-	-	-	-	12,399	-	-	-	-	-
SIVs & SIV Lites	-	-	-	-	742	-	-	-	-	-
Other Structured Credit	**25,252**	**(763)**	**(60)**	**(823)**	**24,429**	**-3%**	**(1,639)**	**(129)**	**(1,768)**	**-7%**
Leveraged Loans	7,296	0	(58)	(58)	7,238	-1%	0	(219)	(219)	-3%
Credit Market positions	**38,631**	**(1,453)**	**(840)**	**(2,293)**	**36,338**	**-6%**	**(2,531)**	**(1,281)**	**(3,811)**	**-10%**
Annual movement	-	(1,453)	(840)	(2,293)	-	-	(1,078)	(441)	(1,518)	-

[1] Whole loan and trading positions

Source: Company reports and Citi Investment Research

Forecast Changes

We have reduced our 2008E and 2009E underlying EPS estimates by 1% and 7% respectively. Stronger volume growth, particularly in UK Retail Banking and IRCB is largely offset by weaker margins, resulting in a 1% increase in net interest income in 2008E and 2% in 2009E. However, this is more than offset at the total income level where we have reduced forecasts by 2% in both years primarily as a result of increased fair value adjustments in BarCap's Credit Markets portfolio, which further depresses trading income. We expect Barclays to continue to focus on cost control, although this is limited by expansion plans in BarCap and IRCB. Although we anticipate a more rapid deterioration in credit quality in a number of divisions, we have reduced our 2008E impairment charge forecast by 2% reflecting a changing mix in BarCap write-downs with the majority expected to be accounted as fair value adjustments through the revenue line. We have amended our dividend forecasts to approximate growth of 7% given management's medium-term expectation of 5%-10% growth in economic profit.

Figure 5. Summary Forecast Changes — Barclays

	2008E			2009E			2010E		
£m, unless stated	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**	**Old**	**New**	**% Chg**
PROFIT & LOSS ITEMS									
Customer Advances	330,938	375,174	13%	349,483	398,293	14%	370,079	421,894	14%
AIEA	424,957	450,106	6%	448,085	481,285	7%	473,969	510,573	8%
Net Interest Margin	**2.39%**	**2.29%**	**-4%**	**2.37%**	**2.24%**	**-5%**	**2.36%**	**2.21%**	**-6%**
Net Interest Income	10,162	10,313	1%	10,639	10,802	2%	11,198	11,307	1%
Non Interest Income	14,305	13,724	-4%	15,411	14,643	-5%	16,656	15,626	-6%
o/w Trading Income	4,444	3,571	-20%	4,844	3,857	-20%	5,328	4,165	-22%
Total Income	**24,467**	**24,037**	**-2%**	**26,050**	**25,445**	**-2%**	**27,855**	**26,934**	**-3%**
Total Costs	(14,635)	(14,277)	-2%	(16,063)	(15,607)	-3%	(17,172)	(16,680)	-3%
Cost Income Ratio (%)	59.8%	59.4%	-0.4%	61.7%	61.3%	-0.3%	61.6%	61.9%	0.3%
Operating Profit	**9,831**	**9,759**	**-1%**	**9,987**	**9,837**	**-2%**	**10,683**	**10,254**	**-4%**
Impairment Losses	(2,812)	(2,747)	-2%	(2,463)	(2,674)	9%	(2,611)	(2,754)	5%
- o/w UK Banking	(855)	(957)	12%	(923)	(1,039)	13%	(941)	(1,041)	11%
- o/w International Retail & Commercial Banking	(326)	(440)	35%	(402)	(554)	38%	(475)	(596)	26%
- o/w Barclaycard	(877)	(896)	2%	(872)	(955)	9%	(915)	(984)	7%
- o/w Barclays Capital	(750)	(440)	-41%	(262)	(110)	-58%	(276)	(115)	-58%
- o/w Other	(5)	(15)	223%	(4)	(16)	273%	(5)	(17)	243%
Impairments as % Average Loans & Advances	1.20%	1.11%	-9bp	1.00%	1.01%	1bp	1.00%	0.98%	-2bp
- o/w UK Banking	0.61%	0.67%	6bp	0.63%	0.69%	6bp	0.61%	0.66%	5bp
- Retail Banking	0.65%	0.65%	-	0.65%	0.62%	-3bp	0.62%	0.60%	-2bp
- Business Banking	0.55%	0.70%	15bp	0.60%	0.80%	20bp	0.60%	0.75%	15bp
- o/w International Retail & Commercial Banking	0.50%	0.61%	12bp	0.57%	0.71%	14bp	0.63%	0.72%	9bp
- o/w Barclaycard	4.50%	3.75%	-75bp	4.30%	3.60%	-70bp	4.30%	3.50%	-80bp
Pre-Tax Profit Underlying	**7,038**	**7,055**	**0%**	**7,544**	**7,208**	**-4%**	**8,093**	**7,546**	**-7%**
EPS (p) Underlying (fully diluted)	**65.1p**	**64.5p**	**-1%**	**69.9p**	**65.3p**	**-7%**	**74.7p**	**68.0p**	**-9%**
DPS (p)	**38.0p**	**36.5p**	**-4%**	**41.0p**	**39.0p**	**-5%**	**44.0p**	**42.0p**	**-5%**
GROWTH RATES (% yoy)									
Loan Growth	5.2%	7.4%		5.6%	6.2%		5.9%	5.9%	
AIEA Growth	7.7%	13.6%		5.4%	6.9%		5.3%	6.1%	
Net Interest Income	5.5%	7.3%		4.7%	4.7%		5.3%	4.7%	
Non Interest Income	5.5%	1.6%		7.7%	6.7%		8.1%	6.7%	
Total Income	5.5%	4.0%		6.5%	5.9%		6.9%	5.9%	
Total Costs	6.1%	5.6%		9.8%	9.3%		6.9%	6.9%	
Operating Profit	4.6%	1.7%		1.6%	0.8%		7.0%	4.2%	
Impairment Losses	5.4%	-1.7%		-12.4%	-2.7%		6.0%	3.0%	
Pre-Tax Profit Underlying	4.3%	3.2%		7.2%	2.2%		7.3%	4.7%	
EPS (p) Underlying (fully diluted)	3.2%	0.8%		7.4%	1.3%		6.8%	4.2%	
DPS (p)	8.6%	7.4%		7.9%	6.8%		7.3%	7.7%	

Source: Citi Investment Research

UW_Barclays_0000001401

'Underlyingitis' Monitor

Total revenues (net of insurance claims) in 2007 were reported as £23,000m, a 6.5% increase vs. 2006 (Figure 6). We adjust the 2007 reported revenues by adding back the pensions mis-selling provision in Barclays Wealth (£19m in 2007, £67m in 2006), the settlements on overdraft fees (£116m in 2007, £nil in 2006), the loss on disposal of part of the monument card portfolio (£27m in 2007, £nil in 2006) and also the write-downs related to credit market exposures (£1,453m in 2007, £nil in 2006). We deduct the fair value measurement of financial instruments (£514m in 2007, £85m in 2006) and also the gains arising from the fair valuation of notes issued by Barclay Capital (£658m in 2007, £nil in 2006). We do not adjust for net investment income within BarCap, although note that in 2H07 this appeared to be c£450m ahead of normal run-rate. Following these adjustments, we estimate underlying revenue growth on a Citi basis to be +8.6% in 2007 vs. 2006. The company makes no adjustments to reported revenues.

Figure 6. Barclays – Underlying Revenue Growth, FY06 – FY07

£m	FY06	FY07	% Change
Reported Revenues	**21,595**	**23,000**	**+6.5%**
add back mis-selling provision	67	19	
add back settlements on overdraft fees	-	116	
add back loss on disposal of Monument card portfolio	-	27	
add back write-downs related to credit market exposures	-	1,453	
less fair value measurement of financial instruments	-85	-514	
less gains arising from fair valuation of own debt	-	- 658	
Citi Underlying Revenue Growth	**21,577**	**23,443**	**+8.6%**

Source: Company Reports and Citi Investment Research

Figure 7 shows the reconciliation between reported and underlying cost growth. We deduct the benefit of the £267m Sale & Leaseback gain in 2007 (£432m in 2006) and the £58m break fee relating to the ABN Amro transaction (£nil in 2006). These adjustments reduce statutory cost growth of 4.1% to an underlying 3.2% (Citi basis). The company makes no adjustments to the costs.

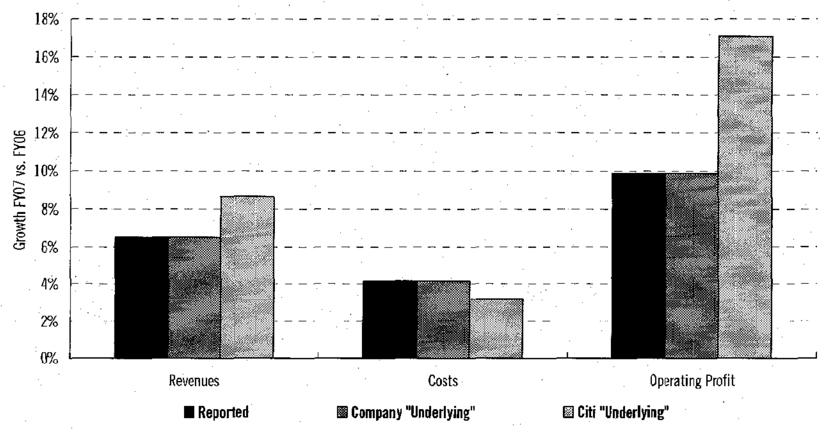
Figure 7. Barclays – Underlying Cost Growth, FY06 – FY07

£m	FY06	FY07	% Change
Reported Costs	**12,674**	**13,199**	**+4.1%**
less *Sale & Leaseback Disposals*	432	267	
less break fee relating to ABN Amro transaction	-	58	
Citi Underlying Cost Growth	**13,106**	**13,524**	**+3.2%**

Source: Company Reports and Citi Investment Research

Figure 8 shows that on a Citi basis, the growth in pre-provision profit growth was 17.1%. This compares to 9.9% on a statutory (and company) basis.

Figure 8. Barclays — Underlyingitis (Growth), FY06 – FY07



Source: Company Reports and Citi Investment Research

Figure 9. Underlyingitis Monitor — FY07 Results to Date

Year-on-Year Growth (CIR basis)	Results Date	Underlying Income	Underlying Cost	Underlying Operating Profit
Barclays	**19th February 2008**	**+8.6%**	**+3.2%**	**+17.1%**
Bradford & Bingley	13th February 2008	-1.7%	+3.2%	-5.5%

Source: Citi Investment Research

Valuation

Price to book target range

Figure 10 shows the theoretical price-to-book valuation based on a range of RoE and long-term growth assumptions and a 12.0% cost of equity. Figure 11 shows the implied target price based on these multiples and our 2008E tNAV per share estimate of 259p. We have indicated the range that we believe to be most applicable for Barclays in the current environment.

Figure 10. Theoretical Price to Book Multiple based on range of RoE and Growth assumptions (Cost of Equity 12.0%)

	Return on Equity										
Long term growth	**14.0%**	**15.0%**	**16.0%**	**17.0%**	**18.0%**	**19.0%**	**20.0%**	**21.0%**	**22.0%**	**23.0%**	**24.0%**
0.0%	1.17	1.25	1.34	1.42	1.50	1.59	1.67	1.75	1.84	1.92	2.00
0.5%	1.18	1.26	1.35	1.44	1.52	1.61	1.70	1.79	1.87	1.96	2.05
1.0%	1.18	1.28	1.37	1.46	1.55	1.64	1.73	1.82	1.91	2.00	2.10
1.5%	1.19	1.29	1.38	1.48	1.57	1.67	1.77	1.86	1.96	2.05	2.15
2.0%	1.20	1.30	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.20
2.5%	1.21	1.32	1.42	1.53	1.64	1.74	1.85	1.95	2.06	2.16	2.27
3.0%	1.23	1.34	1.45	1.56	1.67	1.78	1.89	2.00	2.12	2.23	2.34
3.5%	1.24	1.36	1.47	1.59	1.71	1.83	1.95	2.06	2.18	2.30	2.42
4.0%	1.25	1.38	1.50	1.63	1.75	1.88	2.01	2.13	2.26	2.38	2.51
4.5%	1.27	1.40	1.54	1.67	1.81	1.94	2.07	2.21	2.34	2.47	2.61
5.0%	1.29	1.43	1.58	1.72	1.86	2.01	2.15	2.29	2.44	2.58	2.72

Source: Citi Investment Research

Figure 11. Barclays Target Price based on Theoretical Price to Book Multiple (2008E tNAV per share 259p)

	Return on Equity										
Long term growth	**14.0%**	**15.0%**	**16.0%**	**17.0%**	**18.0%**	**19.0%**	**20.0%**	**21.0%**	**22.0%**	**23.0%**	**24.0%**
0.0%	303	324	346	367	389	411	432	454	475	497	519
0.5%	304	327	350	372	395	417	440	462	485	507	530
1.0%	306	330	354	377	401	424	448	472	495	519	542
1.5%	309	333	358	383	408	432	457	482	506	531	556
2.0%	311	337	363	388	415	441	467	493	519	545	571
2.5%	314	341	368	396	423	451	478	505	532	560	587
3.0%	317	346	375	404	432	461	490	519	548	577	605
3.5%	321	351	382	412	443	473	504	534	565	595	626
4.0%	324	357	389	422	454	487	519	551	584	616	649
4.5%	329	363	398	433	467	502	536	571	606	640	675
5.0%	334	371	408	445	482	519	556	593	631	668	705

Source: Citi Investment Research

Figure 12. Barclays — Profit and Loss Account, 2006A-10E (Pounds in Millions)

	2006		2007		2007		2008E		2009E		2010E	
	1H	FY	1H	% Chg	FY	% Chg	FY	% Chg	FY	% Chg	FY	% Chg
Net Interest Income	**4,404**	**9,143**	**4,589**	**4.2%**	**9,610**	**5.1%**	**10,313**	**7.3%**	**10,802**	**4.7%**	**11,307**	**4.7%**
Net fees and commissions	3,652	7,177	3,899	6.8%	7,824	9.0%	8,215	5.0%	8,790	7.0%	9,406	7.0%
Net trading income	2,201	3,614	2,811	27.7%	3,759	4.0%	3,571	(5.0%)	3,857	8.0%	4,165	8.0%
Net insurance income	651	1,447	590	(9.4%)	1,735	19.9%	1,787	3.0%	1,841	3.0%	1,896	3.0%
Other	61	214	127	108.2%	188	(12.1%)	150	(20.0%)	155	3.0%	160	3.0%
Total Other Income	6,565	12,452	7,427	13.1%	13,506	8.5%	13,724	1.6%	14,643	6.7%	15,626	6.7%
Total Income	**10,969**	**21,595**	**12,016**	**9.5%**	**23,116**	**7.0%**	**24,037**	**4.0%**	**25,445**	**5.9%**	**26,934**	**5.9%**
Staff Costs	4,147	8,169	4,581	10.5%	8,405	2.9%	8,993	7.0%	10,071	12.0%	10,876	8.0%
Other Administrative	1,916	3,980	1,893	(1.2%)	4,036	1.4%	4,157	3.0%	4,363	5.0%	4,581	5.0%
Depreciation	207	455	227	9.7%	467	2.6%	490	5.0%	515	5.0%	541	5.0%
Amortisation of intangibles	69	157	89		202		202					
Operating Lease rental	168	345	204		414		435		457		479	
Total Costs	**6,507**	**13,106**	**6,994**	**7.5%**	**13,524**	**3.2%**	**14,277**	**5.6%**	**15,607**	**9.3%**	**16,680**	**6.9%**
Operating Profit	**4,462**	**8,489**	**5,022**	**12.6%**	**9,592**	**13.0%**	**9,759**	**1.7%**	**9,837**	**0.8%**	**10,254**	**4.2%**
Impairment loss	1,057	2,154	959	(9.3%)	2,795	29.8%	2,747	(1.7%)	2,674	(2.7%)	2,754	3.0%
Exceptionals	238	755	38		237		0		0		0	
Associates	30	46	0		42		43		45	3.0%	46	3.0%
PBT	**3,673**	**7,136**	**4,101**	**11.7%**	**7,076**	**(0.8%)**	**7,055**	**(0.3%)**	**7,208**	**2.2%**	**7,546**	**4.7%**
Taxation	(1,072)	(1,941)	(1,158)		(1,981)		(1,975)		(2,018)		(2,113)	
Minorities - equity	(155)	(342)	(167)		(377)		(380)		(393)		(409)	
Minorities - non equity	(139)	(282)	(142)		(301)		(383)		(383)		(383)	
Attributable Profit	**2,307**	**4,571**	**2,634**	**14.2%**	**4,417**	**(3.4%)**	**4,317**	**(2.3%)**	**4,414**	**2.2%**	**4,640**	**5.1%**
Dividends	1,105	1,771	1,311	18.6%	2,079	17.4%	2,325	11.8%	2,516	8.2%	2,723	8.2%
Retained Profit	**1,202**	**2,800**	**1,323**		**2,338**		**1,992**		**1,897**	**0.0%**	**1,917**	**0.0%**
EPS (Reported)	36.3p	71.9p	41.4p	14.1%	68.9p	(4.2%)	66.7p	(3.2%)	67.5p	1.2%	70.3p	4.1%
EPS (Fully Diluted Basis)	35.1p	69.8p	40.1p	14.4%	66.7p	(4.5%)	64.5p	(3.3%)	65.3p	1.3%	68.0p	4.2%
Dividend per share	**10.5p**	**31.0p**	**11.5p**	**9.5%**	**34.0p**	**9.7%**	**36.5p**	**7.4%**	**39.0p**	**6.8%**	**42.0p**	**7.7%**
Underlying Adjustments												
PBT	3,673	7,136	4,101	11.7%	7,076	(0.8%)	7,055	(0.3%)	7,208	2.2%	7,546	4.7%
minus exceptional items	(238)	(323)	109		30		0		0		0	
minus Sale & Leaseback Gain	0	(432)	(147)		(267)		0		0		0	
Underlying cash PBT	**3,435**	**6,381**	**4,063**	**18.3%**	**6,839**	**7.2%**	**7,055**	**3.2%**	**7,208**	**2.2%**	**7,546**	**4.7%**
EPS (Fully Diluted Basis)	35.1p	69.8p	40.1p		66.7p		64.5p		65.3p		68.0p	
less exceptional items	(2.6p)	(9.8p)	(0.4p)		(2.7p)		0.0p		0.0p		0.0p	
Underlying Cash EPS (Fully Diluted Basis)	**32.5p**	**60.0p**	**39.7p**	**22.2%**	**64.0p**	**6.6%**	**64.5p**	**0.8%**	**65.3p**	**1.3%**	**68.0p**	**4.2%**
Summary Balance Sheet (£m)												
Customer Advances	285,497	285,631	324,517	13.7%	349,167	22.2%	375,174	7.4%	398,293	6.2%	421,894	5.9%
RWA	290,924	297,833	318,043	9.3%	353,476	18.7%	390,806	10.6%	419,256	7.3%	444,098	5.9%
Intangible Assets	7,093	7,307	7,863	10.9%	8,296	13.5%	8,094	-2.4%	7,892	-2.5%	7,690	-2.6%
Balance Sheet Assets	986,124	996,787	1,158,262	17.5%	1,227,361	23.1%	1,318,778	7.4%	1,422,474	7.9%	1,506,763	5.9%
Customer Deposits	253,200	256,754	292,444	15.5%	294,987	14.9%	316,958	7.4%	336,490	6.2%	356,429	5.9%
Equity	17,988	19,799	20,973	16.6%	23,291	17.6%	25,347	8.8%	27,309	7.7%	29,291	7.3%
Tier 1 Capital	21,017	23,005	24,469	16.4%	27,408	19.1%	29,428	7.4%	31,325	6.4%	33,242	6.1%
Loan to Deposit Ratio	113%	111%	111%		118%		118%		118%		118%	
Tangible Equity/Assets Ratio	1.82%	1.25%	1.13%		1.22%		1.31%		1.36%		1.43%	
Reported NAV (p)	**276p**	**303p**	**321p**	**16.1%**	**353p**	**16.5%**	**380p**	**7.7%**	**406p**	**6.7%**	**431p**	**6.2%**
Tangible NAV (p)	**167p**	**191p**	**201p**	**19.9%**	**227p**	**18.9%**	**259p**	**13.9%**	**288p**	**11.4%**	**318p**	**10.1%**
Equity Tier 1 Ratio	**4.9%**	**5.3%**	**5.3%**		**5.1%**		**5.1%**		**5.2%**		**5.3%**	
Tier 1 Ratio	7.2%	7.7%	7.7%		7.8%		7.5%		7.5%		7.5%	
Total Capital Ratio	11.1%	11.7%	11.8%		12.1%		11.4%		11.1%		10.9%	

Please note profit and loss account continues overleaf.

Source: Company reports and Citi Investment Research estimates.

Figure 13. Barclays — Profit and Loss Account, 2006A-10E (Pounds in Millions)

	2006	2006	2007	2007	2008E	2009E	20010E
Performance Ratios	1H	FY	1H	FY	FY	FY	FY
Margin (Divisional Basis)							
UK Retail Banking	3.74%	3.76%	3.70%	3.64%	3.50%	3.45%	3.40%
UK Business Banking	3.24%	3.27%	3.33%	3.24%	3.05%	3.00%	3.00%
UK Banking	3.54%	3.56%	3.55%	3.48%	3.32%	3.27%	3.24%
Wealth Management	7.35%	7.07%	6.40%	5.82%	5.00%	4.75%	4.60%
Barclaycard	7.85%	7.72%	7.52%	7.26%	6.75%	6.60%	6.50%
International ex Absa	2.27%	2.22%	2.18%	2.26%	2.20%	2.20%	2.20%
International	3.39%	3.20%	3.05%	3.18%	3.19%	3.10%	3.08%
Dealing Income as % of Total Income	20.1%	16.7%	23.4%	16.3%	14.9%	15.2%	15.5%
Non Interest Income/Total Income	59.9%	57.7%	61.8%	58.4%	57.1%	57.5%	58.0%
Cost Measures							
Cost/Income ratio	59.3%	60.7%	58.2%	58.5%	59.4%	61.3%	61.9%
Provision as % average balances							
UK Retail Banking	0.84%	0.86%	0.73%	0.71%	0.65%	0.62%	0.60%
UK Business Banking	0.39%	0.48%	0.47%	0.54%	0.70%	0.80%	0.75%
UK Banking	0.66%	0.71%	0.62%	0.64%	0.67%	0.69%	0.66%
Wealth Management	0.04%	0.04%	0.06%	0.09%	0.15%	0.15%	0.15%
Barclaycard	5.65%	5.95%	4.76%	4.37%	3.75%	3.60%	3.50%
International ex Absa	0.12%	0.15%	0.16%	0.24%	0.40%	0.50%	0.50%
International	0.27%	0.32%	0.34%	0.42%	0.61%	0.71%	0.72%
Total	**1.08%**	**1.07%**	**0.92%**	**1.28%**	**1.11%**	**1.01%**	**0.98%**
Tax Rate	**29.2%**	**27.2%**	**28.2%**	**28.0%**	**28.0%**	**28.0%**	**28.0%**
Returns							
Return on Equity (reported)	27.9%	25.2%	28.0%	21.0%	18.2%	17.2%	16.8%
Return on Equity (underlying)	24.4%	20.5%	26.1%	19.0%	18.2%	17.2%	16.8%
Return on RWA	1.55%	1.35%	1.66%	1.26%	1.12%	1.05%	1.04%
Dividends							
Conventional Dividend Cover	2.1x	2.6x	2.0x	2.1x	1.9x	1.8x	1.7x
Underlying Dividend Cover	3.1x	1.9x	3.5x	1.9x	1.8x	1.7x	1.6x

Please note profit and loss account continues overleaf.

Source: Company reports and Citi Investment Research estimates.

Figure 14. Barclays — Divisional Forecasts, 2006A-10E (Pounds in Millions)

	2006		2007		2007		2008E		2009E		2010E	
	1H	FY	1H	% Chg	FY	% Chg	FY	% Chg	FY	% Chg	FY	% Chg
UK Retail Banking												
Net Interest Income	1,358	2,765	1,407	4%	2,858	3%	2,964	4%	3,097	4%	3,235	4%
Other Income	751	1,581	801	7%	1,555	-2%	1,586	2%	1,618	2%	1,666	3%
Total Income	**2,109**	**4,346**	**2,208**	**5%**	**4,413**	**2%**	**4,550**	**3%**	**4,715**	**4%**	**4,902**	**4%**
Costs	(1,319)	(2,785)	(1,307)	-1%	(2,656)	-5%	(2,603)	-2%	(2,681)	3%	(2,761)	3%
Operating Profit	**790**	**1,561**	**901**	**14%**	**1,757**	**13%**	**1,947**	**11%**	**2,034**	**4%**	**2,140**	**5%**
Impairment Losses	(306)	(635)	(277)	-9%	(559)	-12%	(551)	-2%	(557)	1%	(571)	3%
Associates	0	2	1	0%	7	250%	7	3%	7	3%	8	3%
Trading Profit	**484**	**928**	**625**	**29%**	**1,205**	**30%**	**1,404**	**17%**	**1,485**	**6%**	**1,577**	**6%**
Loans & advances	72,200	74,700	77,500	7%	82,000	10%	86,920	6%	92,135	6%	97,663	6%
Average balances	73,128	73,593	76,747	5%	78,502	7%	84,693	8%	89,774	6%	95,161	6%
Margin (based on loans)	3.7%	3.8%	3.7%		3.6%		3.5%		3.5%		3.4%	
Impairment losses as % ave balances	0.8%	0.9%	0.7%		0.7%		0.7%		0.6%		0.6%	
Cost/Income Ratio	62.5%	64.1%	59.2%		60.2%		57.2%		56.9%		56.3%	
Barclays Commercial Bank												
Net Interest Income	822	1,702	863	5%	1,738	2%	1,769	2%	1,810	2%	1,882	4%
Other Income	332	693	388	17%	816	18%	873	7%	917	5%	963	5%
Total Income	**1,154**	**2,395**	**1,251**	**8%**	**2,554**	**7%**	**2,642**	**3%**	**2,727**	**3%**	**2,845**	**4%**
Costs	(432)	(917)	(441)	2%	(946)	3%	(965)	2%	(994)	3%	(1,024)	3%
Operating Profit	**722**	**1,478**	**810**	**12%**	**1,608**	**9%**	**1,677**	**4%**	**1,733**	**3%**	**1,821**	**5%**
Impairment Losses	(100)	(252)	(123)	23%	(290)	15%	(406)	40%	(483)	19%	(471)	-3%
Associates	2	3	0	0%	0	-100%	0	0%	0	0%	0	0%
Trading Profit	**624**	**1,229**	**687**	**10%**	**1,318**	**7%**	**1,271**	**-4%**	**1,250**	**-2%**	**1,351**	**8%**
Cost/Income Ratio	37.4%	38.3%	35.3%		37.0%		36.5%		36.5%		36.0%	
UK BANKING												
Net Interest Income	2,180	4,467	2,270	4%	4,596	3%	4,733	3%	4,907	4%	5,118	4%
Other Income	1,083	2,274	1,189	10%	2,371	4%	2,459	4%	2,535	3%	2,629	4%
Total Income	**3,263**	**6,741**	**3,459**	**6%**	**6,967**	**3%**	**7,193**	**3%**	**7,442**	**3%**	**7,747**	**4%**
Costs	(1,751)	(3,702)	(1,748)	0%	(3,602)	-3%	(3,568)	-1%	(3,675)	3%	(3,785)	3%
Operating Profit	**1,512**	**3,039**	**1,711**	**13%**	**3,365**	**11%**	**3,625**	**8%**	**3,767**	**4%**	**3,961**	**5%**
Impairment Losses	(406)	(887)	(400)	-1%	(849)	-4%	(957)	13%	(1,039)	9%	(1,041)	0%
Associates	2	5	1		7	40%	7	3%	7	3%	8	3%
Trading Profit	**1,108**	**2,157**	**1,312**	**18%**	**2,523**	**17%**	**2,675**	**6%**	**2,735**	**2%**	**2,928**	**7%**
Cost/Income Ratio	53.7%	54.9%	50.5%		51.7%		49.6%		49.4%		48.9%	
Cost/Income Ratio (including property gains)	49.2%	50.3%	46.5%		47.9%							
Wealth Management												
Net Interest Income	192	392	205	7%	431	10%	481	12%	515	7%	543	6%
Other Income	386	768	430	11%	856	11%	942	10%	1,017	8%	1,098	8%
Total Income	**578**	**1,160**	**635**	**10%**	**1,287**	**11%**	**1,423**	**11%**	**1,532**	**8%**	**1,641**	**7%**
Costs	(448)	(913)	(460)	3%	(973)	7%	(1,041)	7%	(1,114)	7%	(1,192)	7%
Operating Profit	**130**	**247**	**175**	**35%**	**314**	**27%**	**382**	**22%**	**418**	**9%**	**450**	**8%**
Impairment Losses	(1)	(2)	(2)	0%	(7)		(14)		(16)		(18)	
Trading Profit	**129**	**245**	**173**	**34%**	**307**	**25%**	**368**	**20%**	**401**	**9%**	**432**	**8%**
Cost/Income Ratio	77.5%	78.7%	72.4%		75.6%		73.2%		72.7%		72.6%	
International Retail and Commercial Banking (IRCB)												
Net Interest Income	844	1,653	844	0%	1,890	14%	2,283	21%	2,404	5%	2,569	7%
Other Income	767	1,596	802	5%	1,633	2%	1,733	6%	1,867	8%	1,998	7%
Total Income	**1,611**	**3,249**	**1,646**	**2%**	**3,523**	**8%**	**4,017**	**14%**	**4,271**	**6%**	**4,567**	**7%**
Costs	(1,113)	(2,217)	(1,116)	0%	(2,379)	7%	(2,669)	12%	(2,857)	7%	(3,083)	8%
Operating Profit	**498**	**1,032**	**530**	**6%**	**1,144**	**11%**	**1,348**	**18%**	**1,415**	**5%**	**1,484**	**5%**
Impairment Losses	(68)	(167)	(93)	37%	(252)	51%	(440)	75%	(554)	26%	(596)	8%
Associates	27	49	1		7	-86%	7	3%	7	3%	8	3%
Trading Profit	**457**	**914**	**438**	**-4%**	**899**	**-2%**	**915**	**2%**	**868**	**-5%**	**896**	**3%**
Cost/Income Ratio	69.1%	68.2%	67.8%		67.5%		66.4%		66.9%		67.5%	
IRCB - ex Absa												
Net Interest Income	293	604	334	14%	753	25%	900	20%	976	9%	1,045	7%
Other Income	225	442	268	19%	586	33%	674	15%	755	12%	830	10%
Total Income	518	1,046	602	16%	1,339	28%	1,574	18%	1,731	10%	1,875	8%
Costs	(383)	(829)	(449)	17%	(1,046)	26%	(1,203)	15%	(1,383)	15%	(1,522)	10%
Operating Profit	135	217	153	13%	293	35%	371	27%	348	-6%	353	2%
Impairment Losses	(16)	(41)	(24)	50%	(79)	93%	(164)	107%	(222)	36%	(237)	7%
Associates	21	40	(1)	-105%	(4)	-110%	(4)	-7%	(4)	9%	(4)	9%
Trading Profit	140	216	128	-9%	210	-3%	204	-3%	122	-40%	111	-9%
Cost/Income Ratio	73.9%	79.3%	74.6%		78.1%		76.4%		79.9%		81.2%	

Barclays — Divisional Forecasts, 2006A-10E (Pounds in Millions) cont...

	2006		2007		2007		2008E		2009E		2010E	
	1H	FY	1H	% Chg	FY	% Chg	FY	% Chg	FY	% Chg	FY	% Chg
ABSA £												
Net Interest Income	551	1,049	510	-7%	1,137	8%	1,383	22%	1,428	3%	1,524	7%
Other Income	542	1,154	534	-1%	1,047	-9%	1,059	1%	1,112	5%	1,168	5%
Total Income	**1,093**	**2,203**	**1,044**	**-4%**	**2,184**	**-1%**	**2,443**	**12%**	**2,540**	**4%**	**2,692**	**6%**
Costs	(730)	(1,388)	(667)	-9%	(1,333)	-4%	(1,466)	10%	(1,473)	1%	(1,561)	6%
Operating Profit	**363**	**815**	**377**	**4%**	**851**	**4%**	**977**	**15%**	**1,067**	**9%**	**1,131**	**6%**
Impairment Losses	(52)	(126)	(69)	33%	(173)	37%	(277)	60%	(332)	20%	(359)	8%
Associates	6	9	9		11		11		11		0	0
Trading Profit	**317**	**698**	**310**	**-2%**	**689**	**-1%**	**711**	**3%**	**746**	**5%**	**784**	**5%**
Cost/Income Ratio	66.8%	63.0%	63.9%		61.0%		60.0%		58.0%		58.0%	
£:Rand - period end	13.19	13.71			13.64	-1%	14.92	9%	14.92	0%	14.92	0%
£:Rand - average	11.31	12.47			14.11	13%	14.92	6%	14.92	0%	14.92	0%
ABSA Rm												
Net Interest Income	6,231	13,081	7,196	15%	16,043	23%	20,639	29%	21,300	3%	22,736	7%
Other Income	6,130	14,390	7,535	23%	14,773	20%	15,807	7%	16,598	5%	17,428	5%
Total Income	**12,361**	**27,471**	**14,731**	**19%**	**30,816**	**12%**	**36,447**	**18%**	**37,897**	**4%**	**40,164**	**6%**
Costs	(8,256)	(17,308)	(9,411)	14%	(18,809)	9%	(21,868)	16%	(21,981)	1%	(23,295)	6%
Operating Profit	**4,105**	**10,163**	**5,319**	**30%**	**12,008**	**18%**	**14,579**	**21%**	**15,917**	**9%**	**16,869**	**6%**
Impairment Losses	(588)	(1,571)	(974)	66%	(2,441)	55%	(4,128)	69%	(4,953)	20%	(5,350)	8%
Associates	68	112	28	-58%	155	-50%	163	5%	171	5%	180	5%
Trading Profit	**3,585**	**8,704**	**4,374**	**22%**	**9,722**	**12%**	**10,614**	**9%**	**11,135**	**5%**	**11,699**	**5%**
Cost/Income Ratio	66.8%	63.0%	63.9%		61.0%		60.0%		58.0%		58.0%	
Loans & advances	308,659	331,782	369,944	20%	420,112	27%	496,299	18%	536,003	8%	578,883	8%
Average balances	274,000	304,118	350,380	28%	368,723	21%	458,652	24%	495,344	8%	534,971	8%
RWAs	272,688	284,181	307,519	13%	321,931	13%	380,313	18%	410,738	8%	443,597	8%
Average RWAs	249,577	264,006	295,850	19%	147,925	-44%	351,122	137%	395,526	13%	427,168	8%
Margin (based on ave loans)	4.59%	4.30%	4.14%		4.35%		4.50%		4.30%		4.25%	
Margin (based on ave RWAs)	5.03%	4.95%	4.91%		10.85%		5.88%		5.39%		5.32%	
Impairment losses as % ave balances	0.43%	0.52%	0.56%		0.66%		0.90%		1.00%		1.00%	
Barclaycard												
Net Interest Income	678	1,383	700	3%	1,394	1%	1,612	16%	1,750	9%	1,827	4%
Other Income	580	1,131	560	-3%	1,092	-3%	1,103	1%	1,136	3%	1,170	3%
Total Income	**1,258**	**2,514**	**1,260**	**0%**	**2,486**	**-1%**	**2,715**	**9%**	**2,886**	**6%**	**2,997**	**4%**
Costs	(483)	(1,019)	(516)	7%	(1,101)	8%	(1,211)	10%	(1,272)	5%	(1,335)	5%
Operating Profit	**775**	**1,495**	**744**	**-4%**	**1,385**	**-7%**	**1,504**	**9%**	**1,614**	**7%**	**1,662**	**3%**
Impairment Losses	(488)	(1,067)	(443)	-9%	(838)	-21%	(896)	7%	(955)	7%	(984)	3%
Associates	1	(8)	(2)		(7)	-13%	(7)	3%	(7)	3%	(8)	
Trading Profit	**288**	**420**	**299**	**4%**	**540**	**29%**	**601**	**11%**	**652**	**9%**	**670**	**3%**
Cost/Income Ratio	38.4%	40.5%	41.0%		44.3%		44.6%		44.1%		44.6%	
Loans & advances	17,400	18,200	18,300	5%	20,100	10%	23,115	15%	24,733	7%	25,970	5%
Average Balances	17,408	17,918	18,761	8%	19,191	7%	23,886	24%	26,514	11%	28,105	6%
Margin (based on ave loans)	15,698	17,035	17,053	9%	19,929	17%	22,520	13%	23,646	5%	24,355	3%
Impairment losses as % ave balances	7.85%	7.72%	7.52%		7.26%		6.75%		6.60%		6.50%	
Barclays Capital												
Net Interest Income	495	1,158	567	15%	1,179	2%	1,203	2%	1,227	2%	1,251	2%
Other Income	2,942	5,109	3,586	22%	5,940	16%	5,465	-8%	5,902	8%	6,492	10%
Total Income	**3,437**	**6,267**	**4,153**	**21%**	**7,119**	**14%**	**6,667**	**-6%**	**7,129**	**7%**	**7,743**	**9%**
Costs	(2,121)	(4,009)	(2,483)	17%	(3,973)	-1%	(4,092)	3%	(4,835)	18%	(5,313)	10%
Operating Profit	**1,316**	**2,258**	**1,670**	**27%**	**3,146**	**39%**	**2,575**	**-18%**	**2,294**	**-11%**	**2,431**	**6%**
Impairment Losses	(70)	(42)	(10)	-86%	(846)	1914%	(440)	48%	(110)	-75%	(115)	5%
Trading Profit	**1,246**	**2,216**	**1,660**	**33%**	**2,335**	**5%**	**2,171**	**-7%**	**2,221**	**2%**	**2,354**	**6%**
Cost/Income Ratio	62%	64%	60%		56%		61%		68%		69%	
Staff numbers	10,500	13,200	13,200	33%	16,200	23%	17,334	7%	18,201	5%	18,747	3%
Average headcount	10,200	11,025	11,850	30%	14,700	33%	16,767	14%	17,767	6%	18,474	4%
BGI												
Net Interest Income	7	10	(2)	-129%	(8)	-180%	0	0%	0	0%	0	0%
Other Income	838	1,655	945	13%	1,934	17%	2,031	5%	2,132	5%	2,239	5%
Total Income	**845**	**1,665**	**943**	**12%**	**1,926**	**16%**	**2,031**	**5%**	**2,132**	**5%**	**2,239**	**5%**
Costs	(481)	(951)	(555)	15%	(1,192)	25%	(1,371)	15%	(1,508)	10%	(1,613)	7%
Operating Profit	**364**	**714**	**388**	**7%**	**734**	**3%**	**660**	**-10%**	**624**	**-5%**	**625**	**0%**
Cost/Income Ratio	56.9%	57.1%	58.9%		61.9%		67.5%		70.7%		72.1%	

Source: Company reports and Citi Investment Research

Figure 15. Barclays — What's Next

Date	Time	Event
05/03/2008	-	Final 2007 Ex-Dividend Date
07/03/2008	-	Final 2007 Dividend Record Date
24/04/2008	-	2008 Annual General Meeting
25/04/2008	-	Final 2007 Dividend Payment Date
15/05/2008	-	2008 First half Interim Management Statement
07/08/2008	-	2008 Half Yearly Financial Report Statement

Source: Citi Investment Research

Barclays PLC

Company description

Barclays is a UK-based financial services group with a significant international presence, particularly in Europe, the USA and Africa. It is engaged in retail and commercial banking, investment banking and investment management. In addition to servicing retail customers, high net worth individuals and businesses from SMEs to multinationals, three businesses operate globally providing credit cards, investment banking and risk management and asset management.

Investment strategy

We have a Sell/ Medium Risk (3M) rating on Barclays' shares. Barclays full year 2007 results provided more detailed disclosure on a range of financial exposures without suffering further material write-downs. We estimate additional losses of £1.5bn to be taken through the course of 2008. A more pressing issue appears to be the lack of revenue momentum across the group. With Barclays Capital's revenue boosted by a number of 'one-off' items in 2H07, we would expect any further write-downs to represent a big drag on growth. It would also appear unlikely that the same degree of cost control can be maintained with the prospect of further headcount expansion into 2008. With BarCap needing to overcome weaker operating conditions and headwinds apparent in other business lines, we believe Barclays group will struggle to deliver meaningful earnings growth in 2008.

Valuation

With market volatility and liquidity constraints leading to considerable uncertainty on the earnings outlook, we prefer to use a price to book approach rather than earnings-based valuation tools. Based on our revised model we forecast this tangible net asset value at 259p per share in 2008E. We set our target price of 400p in line with the 1.5x book multiple suggested by our assumptions on the return on equity (17.0%), cost of equity (12.0%) and growth rate (2.0%) that the market is likely to discount.

Risks

We rate Barclays as Medium Risk because its exposure to higher risk banking activities, such as derivatives, is offset by its lower risk banking activities such as the UK mortgage market. There are a number of risks which could cause the share to deviate significantly from our target price, including a stronger-than-expected performance in fixed income and related capital market activities. A slowdown in the wider UK housing market could reduce demand for mortgages and result in borrowers getting into negative equity. Rising UK interest rates and a deterioration in economic conditions could increase arrears levels in the consumer and corporate businesses. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

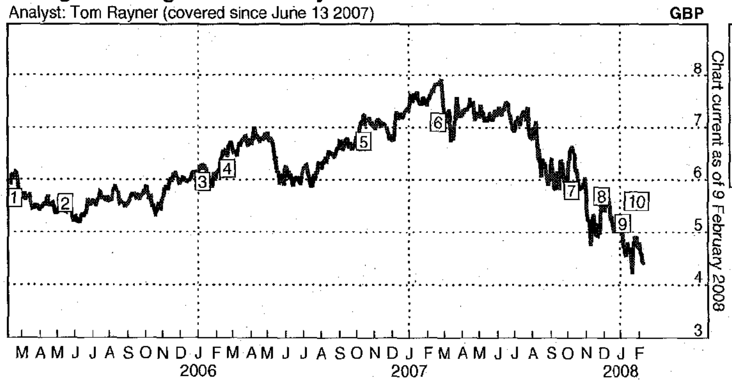
Analyst Certification

Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Barclays PLC (BARC.L)

Ratings and Target Price History - Fundamental Research
Analyst: Tom Rayner (covered since June 13 2007)



#	Date	Rating	Target Price	Closing Price
1:	10 Feb 05	3M	*5.50	5.94
2:	16 May 05	3M	*5.00	5.39
3:	9 Jan 06	3M	*5.50	6.28
4:	21 Feb 06	3M	*5.75	6.46
5:	13 Oct 06	3M	*6.00	7.24
6:	20 Feb 07	3M	*6.60	7.85
7:	8 Oct 07	3M	*5.75	6.62
8:	28 Nov 07	3M	*5.00	5.54
9:	4 Jan 08	3M	*4.50	4.87
10:	29 Jan 08	3M	*4.00	4.91

*Indicates change.

Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 December 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3421)	50%	37%	12%
% of companies in each rating category that are investment banking clients	52%	53%	40%

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Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.
For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk

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stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).
Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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OTHER DISCLOSURES

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Deutsche Bank

19 February 2008

Barclays

Reuters: **BARC.L** Bloomberg: **BARC LN** Exchange: **LSE** Ticker: **BARC**

Strong trading, confident on capital

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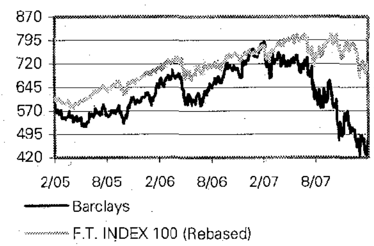
Results Review

Buy

Price at 19 Feb 2008 (GBP)	**480.60**
Price Target (GBP)	**700.00**
52-week range (GBP)	**790.00 - 420.75**

Price/price relative

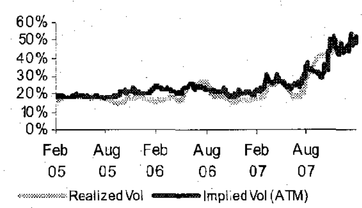


Performance (%)	1m	3m	12m
Absolute	*6.0*	*-2.9*	*-39.0*
F.T. INDEX 100	*0.8*	*-2.8*	*-7.7*

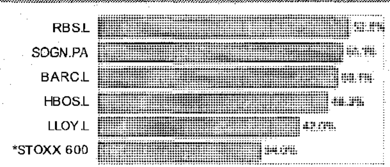
Stock & option liquidity data

Price Target (GBP)	700.00
Market cap (GBP)	32,035
Shares outstanding (m)	6,597
Free float (%)	-
Option volume (und. shrs., 1M avg.)	103,113,636

Implied & Realized Volatility (3M)



Implied Volatility (3M, ATM) vs. Peers



*Weighted-avg. of index components
Data as of 18-Feb-08

Earnings and capital ratios exceed DB and consensus expectations

Barclays reported FY07 earnings 2% of consensus and well ahead of our expectations with BarCap net writedowns of £1.6bn below our £2.3bn forecast. Underlying trading was good in UK Retail, BarCard, Wealth and IRCB. BarCap's 2H07 revenue and cost performance was especially noteworthy. A 7.6% tier 1 ratio and 10% increase in dividend (EPS -4% YoY) underlines confidence in the balance sheet. New EP targets look for around ~8% profit growth to 2011. On 7x earnings, with ~8% yield, we believe the stock is too cheap. Buy, TP 700p.

Solid and cheap

Barclays delivered results that were ahead of our and consensus expectations with better-than-expected writedowns and extraordinary cost control in BarCap of particular mention. Improved diversity of earnings also resulted from strong underlying profit growth from UK Retail (+18%), Wealth (+25%) and BarCard (+18%). We believe that adequacy of balance sheet capital has been put further beyond doubt. New Economic Profit targets for 2007-2011 announced today look for 5-10% annual growth in EP, as compared with a previous range of 10-13% for 2003-2007. Is this reduction in profit growth ambition a disappointment? We think not. If Barclays can really deliver around 8% annual growth in earnings and dividends over the next four years (and we think that it can) we regard the share as far too cheap.

Attractively valued

Barclays is trading at 7.3x 2008E earnings (despite allowing for a further £1bn in asset impairments in 2008, after £1.6bn in 2007) and 5.9x 2009E earnings, as compared with the European banks sector on 8.7x and 7.4x respectively. Our target price of 700p is derived using a sum-of-the-parts methodology (Figure 9) and suggests healthy capital upside in addition to the estimated 7.7% dividend yield. We retain our Buy recommendation.The key risks are a fall in capital markets activity and an unexpected spike in corporate and wholesale credit costs beyond those already captured in earnings forecasts..

Forecasts and ratios

Year End Dec 31	2006A	2007A	**2008E**	2009E
EPS Adjusted (GBP)	64.82	69.38	**66.01**	81.60
P/E Adjusted (x)	11.3	7.3	**7.3**	5.9
DPS(GBP)	31.00	34.00	**37.20**	40.50
Dividend Yield (%)	4.7	5.1	**7.7**	8.4
P/B Tangible (x)	3.7	2.0	**1.7**	1.5

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

Model updated:19 February 2008

Running the Numbers

Europe

United Kingdom

Banks

Barclays

Reuters: BARC.L Bloomberg: BARC LN

Buy

Price (19 Feb 08)	GBP 480.60
Target price	GBP 700.00
52-week Range	GBP 420.75 - 790.00
Market Cap (m)	GBP 32,035 USD 62,512

Company Profile

Barclays is one of the UK's 'Big 4' clearing banks, and one of Europe's 10 largest banks by market capitalisation. The group is increasingly driven by its capital markets businesses: Barclays Capital (debt-related investment banking), Barclays Global Investors (primarily passive asset management) and Wealth Management (private banking). In addition, Barclays is building a portfolio of international retail and commercial banking operations, with the bulk of profits generated by its Spanish (Banco Zaragozano) and South African (ABSA) businesses.

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Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Data Per Share						
EPS (stated)(GBp)	54.39	71.90	68.47	63.84	79.72	86.37
EPS (DB) (GBp)	54.48	64.82	69.38	66.01	81.60	88.22
Growth Rate - EPS (DB) (%)	3.2	19.0	7.0	-4.9	23.6	8.1
DPS (GBp)	26.60	31.00	34.00	37.20	40.50	43.88
BVPS (stated) (GBp)	267.28	306.90	382.42	408.76	447.56	489.50
Tang. NAV p. sh. (GBp)	154.44	195.09	256.73	287.48	330.79	377.31
Market Capitalisation	39,478	47,706	33,264	32,035	32,035	32,035
Shares in issue	6,486	6,507	6,587	6,597	6,674	6,752
Valuation Ratios & Profitability Measures						
P/E (stated)	11.2	10.2	7.4	7.5	6.0	5.6
P/E (DB)	11.2	11.3	7.3	7.3	5.9	5.4
P/B (stated)	2.3	2.4	1.3	1.2	1.1	1.0
P/Tangible equity (DB)	4.0	3.7	2.0	1.7	1.5	1.3
ROE(stated)(%)	21.1	24.5	19.4	15.6	18.1	17.9
ROTE (tangible equity) (%)	34.0	37.1	30.8	24.1	26.3	24.9
ROIC (invested capital) (%)	20.1	21.2	19.1	15.9	18.2	18.1
Dividend yield(%)	4.7	4.7	5.1	7.7	8.4	9.1
Dividend cover(x)	2.0	2.3	2.0	1.7	2.0	2.0
Profit & Loss (GBPm)						
Net interest revenue	8,075	9,143	9,610	10,165	10,752	11,370
Non interest income	9,258	12,452	13,390	13,125	14,790	16,107
Commissions	5,705	7,177	7,708	8,428	9,415	10,276
Trading Revenue	3,179	4,576	4,975	3,958	4,608	5,034
Other revenue	374	699	707	740	766	797
Total revenue	17,333	21,595	23,000	23,290	25,541	27,477
Total Operating Costs	10,448	12,517	12,997	13,470	14,222	15,071
Employee Costs	6,318	8,169	8,405	8,596	8,967	9,406
Other costs	4,130	4,348	4,592	4,875	5,254	5,665
Pre-Provision profit/(loss)	6,885	9,078	10,003	9,819	11,320	12,406
Bad debt expense	1,571	2,154	2,795	2,860	2,751	3,049
Operating Profit	5,314	6,924	7,208	6,959	8,568	9,357
Pre-tax associates	45	46	42	42	43	43
Pre-tax profit	5,359	6,970	7,250	7,001	8,611	9,401
Tax	1,439	1,941	1,981	1,969	2,433	2,658
Other post tax items	-473	-458	-880	-934	-1,000	-1,064
Stated net profit	3,447	4,571	4,389	4,098	5,179	5,678
Goodwill	79	157	202	212	223	234
Extraordinary & Other items	8	-510	-21	44	44	44
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	3,534	4,218	4,570	4,355	5,446	5,956
Key Balance Sheet Items (GBPm) & Capital Ratios						
Risk-weighted assets	269,143	297,833	353,476	367,426	397,356	430,519
Interest-earning assets	0	0	0	0	0	0
Customer Loans	268,896	282,300	345,398	374,448	408,462	446,980
Total Deposits	238,684	256,754	294,987	319,797	348,847	381,743
Stated Shareholder Equity	17,270	20,056	25,240	27,246	30,130	33,280
Equals: Tangible Equity	9,979	12,749	16,944	19,162	22,268	25,653
Tier 1 capital	18,895	23,005	26,743	29,310	32,763	36,494
Tier 1 ratio (%)	7	8	8	8	8	8
o/w core tier 1 capital ratio (%)	4.9	5.6	5.1	5.6	5.9	6.3
Credit Quality						
Gross NPLs/Total Loans(%)	1.94	1.80	1.82	2.02	2.22	2.22
Risk Provisions/NPLs(%)	66	66	56	50	46	46
Bad debt / Avg loans (%)	1,571.00	2,154.00	2,795.00	2,860.31	2,751.12	3,048.85
Bad debt/Pre-Provision Profit(%)	22.8	23.7	27.9	29.1	24.3	24.6
Growth Rates & Key Ratios						
Growth in revenues (%)	22	25	7	1	10	8
Growth in costs (%)	23	20	4	4	6	6
Growth in bad debts (%)	44	37	30	2	-4	11
Growth in RWA (%)	23	11	19	4	8	8
Net int. margin (%)	nm	nm	nm	nm	nm	nm
Cap.-market rev. / Total revs (%)	41	43	45	42	44	70
Total loans / Total deposits (%)	113	110	117	117	117	117
ROTE Decomposition						
Revenue % ARWAs	7.11	7.62	7.06	6.46	6.68	6.64
Net interest revenue % ARWA	3.31	3.23	2.95	2.82	2.81	2.75
Non interest revenue % ARWA	3.80	4.39	4.11	3.64	3.87	3.89
Costs/income ratio (%)	60.3	58.0	56.5	57.8	55.7	54.8
Bad debts % ARWAs	0.64	0.76	0.86	0.79	0.72	0.74
Tax rate (%)	27.1	28.0	27.5	28.3	28.4	28.4
Adj. Attr. earnings % ARWA	1.43	1.47	1.39	1.20	1.41	1.43
Capital leverage (ARWA/Equity)	23.5	24.9	21.9	20.0	18.5	17.3
ROTE (Adj. earnings/Ave. equity)	33.6	36.7	30.5	23.9	26.1	24.7

Source: Company data, Deutsche Bank estimates

Key issues

Reassuring earnings, dividends and tier 1 ratio

Barclays reported EPS of 68.9p, 2% ahead of consensus and substantially above our forecast almost entirely driven by lower than expected mark-downs of risk assets which reported at a net £1.6bn compared with our £2.3bn forecast. Profit before tax of £7076m was 2% ahead of consensus of £6964m. Dividend per share of 34p was in line with our forecasts (+10% YoY) and, combined with a tier 1 ratio of 7.8% (DB 7%, Barclays target 7.25%) should give greater confidence on balance sheet strength.

However, cyclical pressures on vanilla banking profitability were also evident in the results. All divisions other than International Retail and Commercial (IRCB) reported lower earnings on a half on half basis. UK banking was broadly in line with our expectations, up 9% and 6% YoY on a stated basis (Retail was up 18% excluding current account fee refunds of £116m). Barclaycard delivered strong growth (+18% YoY) as credit charges peaked and the US build-out proved less of a drag than in the past. In addition, a stronger Pound dented reported profits for both IRCB (down 4% YoY) and BGI (+3% YoY).

BarCap produced the best result relative to our forecasts with net writedowns of £1.6bn £700m below our forecast. However, despite absorbing these substantial charges (equivalent to all of 2004's BarCap profits, for example) the division was profitable and managed to grow pre-tax profit by 5% YoY. Part of the longer term investing opportunity in Barclays, in our view, lies in reflecting just how strong a performance this is compared with the peer group of Swiss and US investment banks many of which reported writedowns which drove losses for the entire bank in many cases, let alone the investment banking division. Figure 1 shows Barclays' divisional profit track record and performance relative to our expectations.

Figure 1: Barclays divisional profit track record, and performance relative to DB forecasts

	1H06	YoY %	2H06	YoY %	FY2006	YoY %	1H07	YoY %	2H07e	YoY %	FY07e	FY07A	YoY %	HoH	vs DB
UK Banking	1,253	10%	1,217	11%	2,470	10%	1,363	9%	1,355	11%	2,718	2,653	7%	-5%	-2%
UK Retail Banking	600	9%	581	10%	1,181	10%	651	9%	678	17%	1,329	1,282	9%	-3%	-4%
UK Business Banking	653	11%	636	12%	1,289	11%	712	9%	677	6%	1,389	1,371	6%	-7%	-1%
BarCap	1,246	66%	970	42%	2,216	55%	1,660	33%	-652	-167%	1,008	2,335	5%	-59%	132%
BarCap ex w/o's	1,246	66%	970	42%	2,216	55%	1,660	33%	498	-49%	2,163	3,135	41%	-11%	45%
BGI	364	51%	350	17%	714	32%	388	7%	383	9%	771	734	3%	-11%	-5%
Wealth Management	129	54%	116	45%	245	49%	173	34%	203	75%	376	307	25%	-23%	-18%
BarCard	326	-6%	132	-55%	458	-28%	272	-17%	235	78%	507	540	18%	-1%	6%
IRCB	512	194%	457	9%	969	63%	452	-12%	466	2%	918	936	-4%	7%	2%
o/w ABSA	317	100%	381	28%	698	134%	310	100%	362	-5%	672	689	-1%	22%	3%
o/w Other	195	12%	76	-37%	271	-8%	142	-27%	104	36%	246	246	-9%	-27%	0%
Central costs	-157	293%	-26	-91%	-183	-43%	-207	32%	-162	523%	-369	-428	134%	7%	16%
Total	**3,673**	**37%**	**3,216**	**24%**	**6,889**	**30%**	**4,101**	**12%**	**1,827**	**-43%**	**5,928**	**7,076**	**3%**	**-27%**	**19%**

Source: Deutsche Bank estimates, Company data

Forecast changes

With group earnings before BarCap writedowns much in line with our expectations our forecasts are left little changed following today's results. As Figure 2 shows our 2008 and 2009 adjusted EPS forecasts are increased by 1% and 2% respectively, placing the stock on 7.3x and 5.9x forward earnings in each case.

UW_Barclays_0000001419

Figure 2: Barclays earnings forecast changes

	2006	2007	2008e	2009e
EPS (Adjusted) - Old	64.8	57.3	65.4	79.6
EPS (Adjusted) - New	64.8	69.4	66.0	81.6
% change	n/a	21%	1%	2%
YoY % growth	19%	7%	-5%	24%
DPS	31.0	34.0	37.2	40.5

[redacted]

Capital: Adequate

Perhaps the largest investor concern we've encountered with Barclays in the last six months has been a relatively widely held view that the bank would be required to raise additional equity in order to fund writedowns of risk assets and/or future growth. The group reported a Basel 1 tier 1 capital ratio of 7.8% and total capital ratio of 12.1%. The tier 1 ratio is now above the management target of 7.25%. The dividend declared of 34p was up 10% despite stated earnings per share falling by 4% YoY.

Figure 3: Most banks have ample capital on the measures used by the regulator

	Core tier 1 ratio (07e)	Tier 1 ratio (2007e)	Assets/Tang. equity (07e, x)	Core tier 1 Capital (£'m)	Tier 1 capital (£'m)	W/O: Core tier 1 to 4% (£'m)	% FY07e profit	W/O: T1 of 4% (£'m)	% FY07e profit
A&L	5.0%	6.6%	46.3	1,760	2,351	493	89%	1,337	242%
Barclays	5.1%	7.8%	74.9	18,027	26,743	5,554	88%	18,006	285%
B&B	7.7%	8.6%	45.0	1,288	1,437	886	258%	1,098	320%
HBOS	5.8%	7.5%	34.0	18,493	24,104	8,052	144%	16,068	286%
HSBC	7.8%	9.6%	25.9	41,094	50,869	28,457	229%	42,422	342%
Lloyds TSB	6.6%	8.4%	37.0	11,304	14,286	6,430	152%	10,690	252%
Northern Rock	5.6%	10.4%	69.1	1,028	1,933	412	110%	1,705	454%
RBS	4.2%	7.1%	90.7	21,067	35,373	1,707	21%	22,144	269%
StanChart	8.9%	10.3%	20.1	7,338	8,518	5,767	280%	7,453	361%
UK Banks	6.0%	8.1%	45.1	121,397	165,613	57,759	144%	120,924	301%

Source: Deutsche Bank estimates, Company data

Barclays senior management were extremely clear in our view that these numbers and the proposed dividend should give equity investors sufficient comfort that the current capital base is more than adequate to fund future growth and absorb whatever writedowns might be appropriate in future (more on this below). We continue to be of the view that none of the UK banks will seek additional equity capital (though we think at least one bank would benefit from this, despite the EPS dilution it would entail).

BarCap 1: Exceptional relative performance

As mentioned above, we think a key component of the Barclays investment case is the lack of equity market differentiation between investment banks despite massive variances in trading performance through the past few months. Figure 4 highlights this point: Banks with significantly larger writedowns (Citigroup, Morgan Stanley, UBS, Merrill Lynch) and capital injections have seen between 39% and 50% of market cap eroded since the credit crises began whilst banks with far larger provision rates such as CS, Barclays and BNP Paribas have lost similar proportions of group capital.

Figure 4: Almost no market discrimination for extent of mark-downs or capital increase

Group One	Mkt Cap (US$'m 30/6/07	Mkt Cap (US$'m 19/2/08)	Decline (US$'m)	Decline (%)	Capital raising?	Writedowns H2 US$'bn	Writedowns Q1 guided or DB est.	Total marks % of mkt cap
Citigroup	253,703	126,919	126,784	-50%	Yes	28,835		11%
Morgan Stanley	88,288	46,746	41,541	-47%	Yes	10,600		12%
UBS	126,469	67,638	58,832	-47%	Yes	19,569	7,500	21%
Merrill Lynch	72,562	44,071	28,491	-39%	Yes	25,625		35%
	541,022	**285,374**	**255,647**			**84,629**	**7,500**	**17%**
Group Two								
Credit Suisse	86,620	54,823	31,796	-37%	No	3,046	2,835	7%
Barclays	91,406	60,540	30,866	-34%	No	4,471	500	7%
BNP Paribas	111,327	79,578	31,748	-29%	No	1,811		2%
Lehman Brothers	40,372	29,060	11,312	-28%	No	2,530		6%
Goldman Sachs	87,926	70,634	17,292	-20%	No	2,400		3%
JP Morgan Chase	165,511	145,279	20,232	-12%	No	4,570		3%

Source: Deutsche Bank, Datastream, Stock exchange website

BarCap reported pre-tax profit of £2335m, up 5% YoY. Second half profit of £675m was down 59% HoH and 34% YoY. Net writedowns and impairments of £1.6bn were £700m better than we had forecast. Before we look at the adequacy of the writedowns, it is worth highlight two important points regarding BarCap's trading during the year: (1) A number of large revenue lines continue to perform well despite the volatile environment, esp. emerging markets, currency and rates revenues (all up more than 40% YoY); (2) Performance pay was aggressively cut (management confirmed no accounting policy or pay structure change in the year), down 88% YoY, which ought to put beyond question whether BarCap's growth bias would make the cost flexibility advertised in better times of little use in difficult ones.

Figure 5: BarCap earnings drivers (£'m)

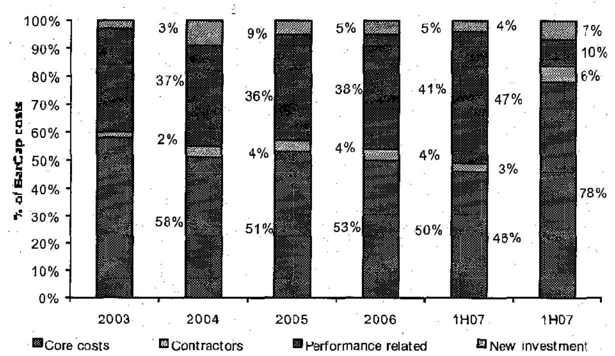
	1H05	2H05	1H06	2H06	1H07	2H07	YoY %	HoH %	FY2007	YoY %	FY08e	YoY %	FY09e	YoY %
Private Equity	79	114	151	299	101	434	45%	330%	535	19%	535	0%	535	0%
Mortgage & ABS	73	158	140	160	174	(575)	-459%	-430%	(401)	-234%	0	-100%	100	20%
Emerging Markets	104	148	256	208	324	354	70%	9%	678	46%	780	15%	897	15%
Currency Products	173	217	334	166	394	454	173%	15%	848	70%	950	12%	1045	10%
Commodities	196	228	285	465	558	364	-22%	-35%	922	23%	1014	10%	1095	8%
Equity Products	331	389	580	383	686	510	33%	-26%	1196	24%	1316	10%	1447	10%
Interest Rate Products	354	261	634	406	759	1036	155%	36%	1795	73%	1526	-15%	1678	10%
Credit Products	871	809	975	825	1157	(269)	-133%	-123%	888	-51%	577	-35%	635	10%
Net writedowns	0	0	0	0	0	658	100%	100%	658	100%	(500)	-100%	(100)	-80%
Total income	**2181**	**2324**	**3355**	**2912**	**4153**	**2966**	**2%**	**-29%**	**7119**	**14%**	**6197**	**-13%**	**7332**	**18%**
Total income ex w/o's	2181	2324	3355	2912	4153	2308	-21%	-44%	6461	3%	6697	4%	7432	11%
Core Costs	745	826	976	1029	1142	1162	13%	2%	2304	15%	2420	5%	2613	8%
Contractors	55	63	64	97	74	84	-13%	13%	159	-1%	162	2%	170	5%
Performance Related	524	602	997	647	1167	144	-78%	-88%	1311	-20%	1350	3%	1485	10%
New Investment	55	93	85	116	99	99	-14%	0%	199	-1%	189	-5%	226	20%
Total costs	**1379**	**1584**	**2121**	**1888**	**2483**	**1490**	**-21%**	**-40%**	**3973**	**-1%**	**4121**	**4%**	**4495**	**9%**
Pre-provision profit	802	740	1234	1024	1670	1476	44%	-12%	3146	39%	2076	-34%	2837	37%
Impairments	(52)	(59)	12	(54)	(10)	(836)	1448%	8260%	(846)	1914%	(500)	-41%	(100)	-80%
Trading profit	**750**	**681**	**1246**	**970**	**1660**	**640**	**-34%**	**-61%**	**2300**	**4%**	**1576**	**-31%**	**2737**	**74%**

Source: Deutsche Bank estimates, Company data

The sharp control of costs highlighted in the table above is clear when looking at the breakdown of divisional costs: performance pay was 10% of divisional costs in 2H07 from

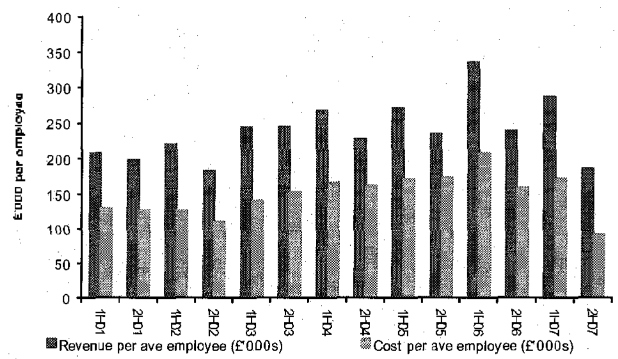
47% in 1H07 (Figure 6). This analysis is just as stark when operating costs are shown on a per capita basis: cost per average employee fell to £91k from £171k HoH (Figure 7).

Figure 6: Perf pay to 10% of costs from 47% HoH



Source: Company data

Figure 7: Cost per employee from £91k from £171k HoH



Source: Deutsche Bank

We think some of BarCap's markets will remain difficult for much of 2008 – esp Credit and Rates – but believe that the division will continue to contribute to group profits in the short term and will again provide meaningful growth in 2009 when the slowdown in UK Retail and Commercial banking is likely to be more acute than it is today.

BarCap 2: New risk asset disclosures, new fears?

Barclays expanded the disclosure of risk assets with these results, adding Alt-A (£4.9bn), monoline insurer (£1.3bn) and commercial mortgages (£12.4bn) its previous tally of CDO, subprime loan and SIV numbers. Though some of the disclosures of impairments by exposure type have been dropped, we are able to make a reasonable fist of determining the writedowns thus far. As Figure 8 shows, the CDOs have been written down most (24%in 2H07) with management stating that hedges, writedowns taken and subordination in the instruments themselves (the distance between the bond owned and the first loss piece) allowed for a 72% loss in collateral values before further writedowns are required. Leveraged loans have been written down by 2% (the LCDX is down 6%) with all non-CDO holdings written down by a total of 6% thus far.

Figure 8: Risk assets: Impairments and residual exposures

	Exposures £'m			Provisions £'m			% of Oct starting exposure			
	Dec-06	**Oct-07**	**Dec-07**	**Oct-07**	**Dec-07**	**Total**	**Oct-07**	**Dec-07**	**Total**	**Comment**
High grade ABS CDO	6,151		4,869							
Mezzanine ABS CDO	1,629		1,149							
Exposure pre-hedging	7,780		6,018							Primarily RMBS backed; 79% 2005 or earlier vintages.
Hedges	-348		-1,347							None held with monolines - DB view primarily short ABX positions.
Net ABS CDO exposure	7,432	5,000	4,671	-1,100	-312	-1,412	18%	6%	24%	Hedges, writedowns and structural subordination allow for 72% collateral losses according to management.
US sub-prime loans	6,046	5,400	5,037							£2.8bn are Equifirst loans originated by Barclays, ave LTV is 80%.
Alt-A loans	3,760	n/d	4,916							99% are performing, average LTV is 81%, 96% rated AAA or AA.
Monoline insurers	140	n/d	1,335							Debt securities held with monoline wrappers or credit enhancement, all wrapped investments are performing.
Commercial mortgages	8,282	n/d	12,399							£11.1bn are own-originated loans (54% US, 46% Europe, LTVs of 65% and 71% respectively). CMBS of £1.3bn (87% AAA or AA).
SIV-lite liquidity facilities & SIVS	1,617	900	742	-100			10%			
Leveraged loans	n/d	7,300	7,368	-60	-120	-180	1%	2%	2%	Fees and impairment of £130m and £58m netted from stated values.
Total Non-CDO exposure	19,845	13,600	31,797	-160	-721	-881	1%	5%	6%	
Own debt	n/a	n/a	n/a	400	258	658	n/a	n/a	n/a	Revaluation of Barclays own issued credit.
Total	**27,277**	**18,600**	**36,468**	**-860**	**-775**	**-1,635**	**4%**	**4%**	**8%**	

Source: Deutsche Bank estimates, Company data

Is this enough? It is certainly less than the move in the larger credit indices seen over this time (see our Barclays results preview note for movements in LCDX, iTRAXX and CDX indices over this period). At some point however, one needs to take account of the fact that indices (especially synthetic and less liquid ones which are being used by banks and other credit holders to hedge large positions) do not necessarily mimic the underlying performance of the securities concerned. We also take comfort from the clear statement during the analyst meeting that 2008 mark to market moves thus far are not material to the group share and do not require disclosure. Lastly, other for CDOs where are little skeptical, we see good reasons (LTVs mostly) to believe that the majority of the £'m's referenced in the table above are relatively well insulated from real world loss (own original commercial mortgages of £11bn and relatively fresh leveraged loans of £7bn spring to mind).

We do expect further writedowns – though are happy to be proved too pessimistic – and have included a further £1bn of writedowns into our 2008 forecasts, falling to £200m in 2009 and 2010. Net net, we expect BarCap will deliver growth and diversity to the group, which is ever more important as the UK vanilla banking markets slow. We expect more detail and colour of the risk exposures and revenue drivers of this division in an investor day to be held in 1H08.

Are cyclical pressures enough to keep investors away?

Barclays delivered results which were ahead of our and consensus expectations with UK Retail, Barclaycard and International Retail and Commercial especially noteworthy. However, all divisions did produce 2H07 pre-tax earnings which were below that of the first half. New Economic Profit targets for 2007-2011 look for 5-10% annual growth in EP, as compared with a previous range of 10-13% for 2003-2007. Is this reduction in profit growth ambition a disappointment? We think not. With Barclays on 7x earnings and offering almost an 8% dividend yield, we see these targets as vindication of the Buy case on the share. If Barclays can deliver around 8% annual growth in earnings and dividends over the next four years (and we think that it can do better) we regard the share as far, far too cheap. Our valuation approach is outlined in the section below.

Valuation, Risks

We believe that a sum-of-the-parts valuation is most appropriate for Barclays, given the significant differences in earnings growth and volatility for the businesses within the group. The valuation multiples we apply in the sum of the parts are benchmarked against pure-play competitors and adjusted for differences in expected earnings growth and volatility. We apply lower fair P/E multiples to the lower-growth domestically focused Retail and Barclaycard businesses, as well as the more volatile investment banking business within Barclays Capital. Higher multiples are applied to the higher-return, higher-growth asset management (Barclays Global Investors) and private banking (Wealth Management) divisions. Our sum-of-the-parts calculation for the group is shown in Figure 9 below. With little change to our forecasts and little shift in peer group multiples since our last publication, our target price remains 700p. With the shares trading at 7.3x 2008e EPS and with a dividend yield of 7.7% compared with the Eurobanks on 8.7 and 6.0% respectively, we remain with a Buy recommendation.

Figure 9: Barclays sum-of-the-parts valuation

Barclays SoTP	2009e PBT	2009e Earnings	2009e RoEc	P/E Multiple	Value	per share	% of valuation	% of earnings	2009 earnings growth	% of 2009 growth	P/Ec
UK Retail banking	1,424	887	25%	7.0x	6,212	97p	14%	17%	7%	5%	1.7
Barclays Commercial Bank	1,481	923	26%	7.5x	6,922	108p	15%	18%	6%	5%	1.9
Barclaycard	638	386	17%	7.0x	2,699	42p	6%	7%	9%	3%	1.2
Barclays Capital	2,772	1,780	33%	8.0x	14,240	222p	32%	34%	80%	73%	2.5
BGI	917	557	260%	14.0x	7,798	121p	17%	11%	10%	4%	35.0
Wealth Management	447	288	50%	12.0x	3,450	54p	8%	6%	21%	5%	5.7
International Banking	1,137	400	13%	9.0x	3,603	56p	8%	8%	15%	5%	1.1
Total	**6,788**	**5,221**	**28%**	**8.6x**	**44,925**	**700**	**100%**	**100%**	**26%**	**100%**	**2.3**

Source: Deutsche Bank

The key downside risks are a fall in capital markets activity and an unexpected spike in corporate and wholesale credit costs beyond those already captured in earnings forecasts.

Figure 10: Barclays group P&L, Balance Sheet (£'m)

	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	6,833	8,075	18%	9,143	13%	9,610	5%	10,165	6%	10,752	6%	11,370	6%
Net fees and commissions	4,898	5,705	16%	7,177	26%	7,708	7%	8,428	9%	9,415	12%	10,276	9%
Net trading income	1,487	2,321	56%	3,614	56%	3,759	4%	2,651	-29%	3,205	21%	3,525	10%
Net investment Income	1,048	858	-18%	962	12%	1,216	26%	1,306	7%	1,404	7%	1,509	8%
Principal transactions	2,535	3,179	25%	4,576	44%	4,975	9%	3,958	-20%	4,608	16%	5,034	9%
Net insurance premiums	1,042	872	-16%	1,060	22%	1,011	-5%	1,062	5%	1,115	5%	1,170	5%
Other	110	147	34%	214	46%	188	-12%	204	9%	214	5%	225	5%
Total Other Income	8,585	9,903	15%	13,027	32%	13,910	7%	13,651	-2%	15,352	12%	16,706	9%
Total Income	15,418	17,978	17%	22,170	23%	23,520	6%	23,816	1%	26,104	10%	28,076	8%
Net insurance claims	1,162	645	-44%	575	-11%	492	-14%	526	7%	563	7%	599	6%
Total income, net of claims	14,256	17,333	22%	21,595	25%	23,028	7%	23,290	1%	25,541	10%	27,477	8%
Impairment loss	1,093	1,571	44%	2,154	37%	2,795	30%	2,860	2%	2,751	-4%	3,049	11%
Net income	13,163	15,762	20%	19,441	23%	20,233	4%	20,429	1%	22,790	12%	24,428	7%
Staff Costs	5,227	6,318	21%	8,169	29%	8,405	3%	8,596	2%	8,967	4%	9,406	5%
Other Administrative	2,766	3,443	24%	3,548	3%	3,711	5%	3,934	6%	4,248	8%	4,588	8%
Depreciation	297	362	22%	455	26%	467	3%	486	4%	505	4%	525	4%
Other expenses	224	325	45%	345	6%	414	20%	455	10%	501	10%	551	10%
Amortisation	31	79	155%	157	99%	202	29%	212	5%	223	5%	234	5%
Operating expenses	8,545	10,527	23%	12,674	20%	13,199	4%	13,682	4%	14,444	6%	15,305	6%
Pre-exceptional profit	4,618	5,235	13%	6,767	29%	7,034	4%	6,747	-4%	8,346	24%	9,124	9%
Exceptionals	45	0	-100%	323	0%	0	-100%	0	0%	0	0%	0	0%
Associates and joint ventures	56	45	-20%	46	2%	42	-9%	42	1%	43	1%	43	1%
PBT	4,719	5,280	12%	7,136	35%	7,076	-1%	6,789	-4%	8,389	24%	9,167	9%
Taxation	-1,279	-1,439	13%	-1,941	35%	-1,981	2%	-1,969	-1%	-2,433	24%	-2,658	9%
Profit for the period	3,440	3,841	12%	5,195	35%	5,095	-2%	4,820	-5%	5,956	24%	6,508	9%
Minorities	-47	-394	738%	-624	58%	-678	9%	-722	6%	-777	8%	-830	7%
Attributable profit	3,393	3,447	2%	4,571	33%	4,417	-3%	4,098	-7%	5,179	26%	5,678	10%
Average Shares (m)	6,381	6,337	-1%	6,353	0.3%	6,410	0.9%	6,420	0.1%	6,497	1.2%	6,575	1.2%
Period End Shares (m)	6,454	6,461	0%	6,519	0.9%	6,600	1.2%	6,666	1.0%	6,732	1.0%	6,799	1.0%
EPS (Stated)	53.2p	54.4p	2%	72.0p	32.3%	68.9p	-4%	63.8p	-7%	79.7p	25%	86.4p	8%
EPS (Fully Diluted)	52.9p	52.6p	-1%	70.2p	33.7%	66.7p	-5%	61.7p	-7%	77.2p	25%	83.7p	8%
Dividend per share	24.00p	26.6p	11%	31.00p	16.5%	34.00p	10%	37.20p	9%	40.50p	9%	43.88p	8%
DB Adjusted EPS	52.8p	54.5p	3.2%	64.8p	19.0%	69.4p	7%	66.0p	-5%	81.6p	24%	88.2p	8%
DB Adjusted Cash Earnings	3,385	3,534	4.4%	4,218	19.4%	4,570	8%	4,355	-5%	5,446	25%	5,956	9%
Gross Customer Advances	209,872	272,346	29.8%	285,635	4.9%	348,899	22.1%	378,243	8.4%	412,602	9.1%	451,511	9.4%
Loan:Deposit Ratio	108%	114%		111%		118%		118%		118%		118%	
Equity	15,434	17,270	11.9%	20,056	16%	25,240	25.8%	27,246	7.9%	30,130	10.6%	33,280	10.5%
Tangible equity	10,777	9,979	-7.4%	12,749	28%	16,944	32.9%	19,162	13.1%	22,268	16.2%	25,653	15.2%
RWA (£m)	218,601	269,143	23.1%	297,833	11%	353,476	18.7%	367,426	3.9%	397,356	8.1%	430,519	8.3%
Tier 1 Capital (£m)	17,957	18,895	5.2%	23,005	21.8%	26,743	16.2%	29,310	9.6%	32,763	11.8%	36,494	11.4%
Tier 1 Ratio (%)	8.2%	7.0%		7.7%		7.6%		8.0%		8.2%		8.5%	
Core Tier 1 Ratio (%)	6.7%	4.9%		5.6%		5.1%		5.6%		5.9%		6.3%	
Total Capital Ratio (%)	12.9%	11.3%		11.7%		11.3%		11.5%		11.5%		11.5%	

Source: Deutsche Bank

Figure 11: Barclays divisional profit forecasts (GBP'm)

UK Retail Bank	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	2107	2677	27%	2765	3%	2858	3%	2964	4%	3072	4%	3245	6%
Other Income	1427	1461	2%	1616	11%	1482	-8%	1545	4%	1623	5%	1650	2%
Total Income	3534	4138	17%	4381	6%	4340	-1%	4508	4%	4695	4%	4895	4%
Insurance claims	(46)	(61)	33%	(35)	-43%	(43)	23%	(45)	5%	(47)	5%	(50)	5%
Income net of claims	3488	4077	17%	4346	7%	4297	-1%	4463	4%	4647	4%	4845	4%
Costs	(2461)	(2501)	2%	(2532)	1%	(2463)	-3%	(2491)	1%	(2533)	2%	(2592)	2%
Operating Profit	1027	1576	53%	1814	15%	1834	1%	1972	8%	2115	7%	2253	7%
Impairments	(69)	(494)	616%	(635)	29%	(559)	-12%	(626)	12%	(698)	11%	(746)	7%
PBT	958	1082	13%	1179	9%	1275	8%	1346	6%	1416	5%	1507	6%
Associates	2	(6)	-400%	2	-133%	7	250%	7	5%	8	5%	8	5%
Trading Profit	960	1076	12%	1181	10%	1282	9%	1353	6%	1424	5%	1515	6%

Barclays Commercial Bank	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	1241	1536	24%	1702	11%	1738	2%	1828	5%	1933	6%	2048	6%
Other Income	720	623	-13%	693	11%	830	20%	914	10%	982	8%	1038	6%
Total Income	1961	2159	10%	2395	11%	2568	7%	2742	7%	2916	6%	3086	6%
Costs	(761)	(825)	8%	(857)	4%	(907)	6%	(946)	4%	(991)	5%	(1034)	4%
Operating Profit	1200	1334	11%	1538	15%	1661	8%	1796	8%	1924	7%	2052	7%
Impairments	(119)	(177)	49%	(252)	42%	(290)	15%	(383)	32%	(444)	16%	(509)	15%
PBT	1081	1157	7%	1286	11%	1371	7%	1413	3%	1481	5%	1543	4%
Associates	3	3	0%	3	0%	0	-100%	0	0%	0	0%	0	0%
Trading Profit	1084	1160	7%	1289	11%	1371	6%	1413	3%	1481	5%	1543	4%

Barclaycard	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	1587	1231	-22%	1383	12%	1394	1%	1475	6%	1549	5%	1626	5%
Other Income	812	1071	32%	1139	6%	1105	-3%	1186	7%	1245	5%	1308	5%
Total Income	2399	2302	-4%	2522	10%	2499	-1%	2661	6%	2794	5%	2934	5%
Costs	(807)	(908)	13%	(981)	8%	(1101)	12%	(1118)	2%	(1160)	4%	(1203)	4%
Operating Profit	1592	1394	-12%	1541	11%	1398	-9%	1543	10%	1635	6%	1731	6%
Impairments	(761)	(753)	-1%	(1067)	42%	(838)	-21%	(928)	11%	(975)	5%	(1023)	5%
Insurance claims	(5)	(3)	-40%	(8)	167%	(13)	63%	(14)	6%	(15)	5%	(15)	5%
PBT	826	638	-23%	466	-27%	547	17%	601	10%	645	7%	692	7%
Associates	4	1	-75%	-8	-900%	-7	-13%	-7	0%	-7	0%	-7	0%
Trading Profit	830	639	-23%	458	-28%	540	18%	594	10%	638	7%	685	7%

International	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	529	1045	98%	1653	58%	1890	14%	2093	11%	2286	9%	2497	9%
Other Income	748	1077	44%	1840	71%	1930	5%	2103	9%	2295	9%	2505	9%
Total Income	1277	2122	66%	3493	65%	3820	9%	4196	10%	4581	9%	5002	9%
Insurance claims	(390)	(206)	-47%	(244)	18%	(284)	16%	(300)	6%	(317)	6%	(335)	6%
Income net of claims	887	1916	116%	3249	70%	3536	9%	3896	10%	4264	9%	4666	9%
Costs	(617)	(1336)	117%	(2162)	62%	(2356)	9%	(2472)	5%	(2615)	6%	(2787)	7%
Operating Profit	270	580	115%	1087	87%	1180	9%	1424	21%	1649	16%	1879	14%
Impairments	(31)	(33)	6%	(167)	406%	(252)	51%	(409)	62%	(519)	27%	(651)	26%
PBT	239	547	129%	920	68%	928	1%	1015	9%	1130	11%	1228	9%
Associates	49	46	-6%	49	7%	7	-86%	7	1%	7	1%	7	1%
Trading Profit	288	593	106%	969	63%	935	-4%	1022	9%	1137	11%	1235	9%

Source: Deutsche Bank estimates, Company data

Figure 12: Barclays divisional profit forecasts (GBP'm) (continued)

Barclays Capital	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	1068	1065	0%	1158	9%	1179	2%	1203	2%	1263	5%	1263	0%
Other Income	2450	3440	40%	5109	49%	5940	16%	4994	-16%	6069	22%	6792	12%
Total Income	3518	4505	28%	6267	39%	7119	14%	6197	-13%	7332	18%	8055	10%
Costs	(2270)	(2963)	31%	(4009)	35%	(3973)	-1%	(4121)	4%	(4495)	9%	(4907)	9%
Operating Profit	1248	1542	24%	2258	46%	3146	39%	2076	-34%	2837	37%	3148	11%
Impairments	(106)	(111)	5%	(42)	-62%	(846)	1914%	(500)	-41%	(100)	-80%	(100)	0%
Insurance claims	0	0	0%	0	0%	0	#DIV/0!	0	0%	0	0%	0	0%
PBT	1142	1431	25%	2216	55%	2300	4%	1576	-31%	2737	74%	3048	11%
Associates	0	0	0%	0	0%	35	#DIV/0!	35	0%	35	0%	35	0%
Trading Profit	1142	1431	25%	2216	55%	2335	5%	1611	-31%	2772	72%	3083	11%
Trading profit ex w/o's	1142	1431	25%	2216	55%	3118	41%	2076	-33%	2837	37%	3148	11%

BGI	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	5	15	200%	10	-33%	-8	-180%	0	(100%)	0	10%	0	10%
Other Income	888	1303	47%	1655	27%	1934	17%	2119	10%	2237	6%	2416	8%
Total Income	893	1318	48%	1665	26%	1926	16%	2119	10%	2237	6%	2416	8%
Costs	(556)	(779)	40%	(951)	22%	(1192)	25%	(1272)	7%	(1320)	4%	(1401)	6%
Operating Profit	337	539	60%	714	32%	734	3%	848	15%	917	8%	1015	11%
Associates	(2)	1	-150%	0	-100%	0	0%	0	0%	0	0%	0	0%
Trading Profit	335	540	61%	714	32%	734	3%	848	15%	917	8%	1015	11%

Wealth Management	FY2004	FY2005	YoY %	FY2006	YoY %	FY2007	YoY %	FY2008e	YoY %	FY2009e	YoY %	FY2010e	YoY %
Net Interest Income	301	346	15%	392	13%	431	10%	474	10%	522	10%	563	8%
Other Income	536	1063	98%	1056	-1%	1008	-5%	1109	10%	1220	10%	1317	8%
Total Income	837	1409	68%	1448	3%	1439	-1%	1583	10%	1741	10%	1880	8%
Costs	(730)	(868)	19%	(913)	5%	(973)	7%	(1029)	6%	(1097)	7%	(1147)	5%
Operating Profit	107	541	406%	535	-1%	466	-13%	554	19%	644	16%	733	14%
Impairments	1	(2)	-300%	(2)	24%	(7)	250%	(11)	50%	(13)	25%	(16)	25%
Insurance claims	0	(375)	n/m	(288)	n/m	(152)	-47%	(167)	28%	(184)	10%	(199)	9%
PBT	108	164	52%	245	49%	307	25%	376	23%	447	19%	518	16%
Associates	0	0	n/m	0	n/m	0	0%	0	n/m	0	n/m	0	n/m
Trading Profit	108	164	52%	245	49%	307	25%	376	23%	447	19%	518	16%

Source: Deutsche Bank

Appendix 1

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Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Barclays	BARC.L	480.60 (GBp) 19 Feb 08	1,2,6,7,8,14,15,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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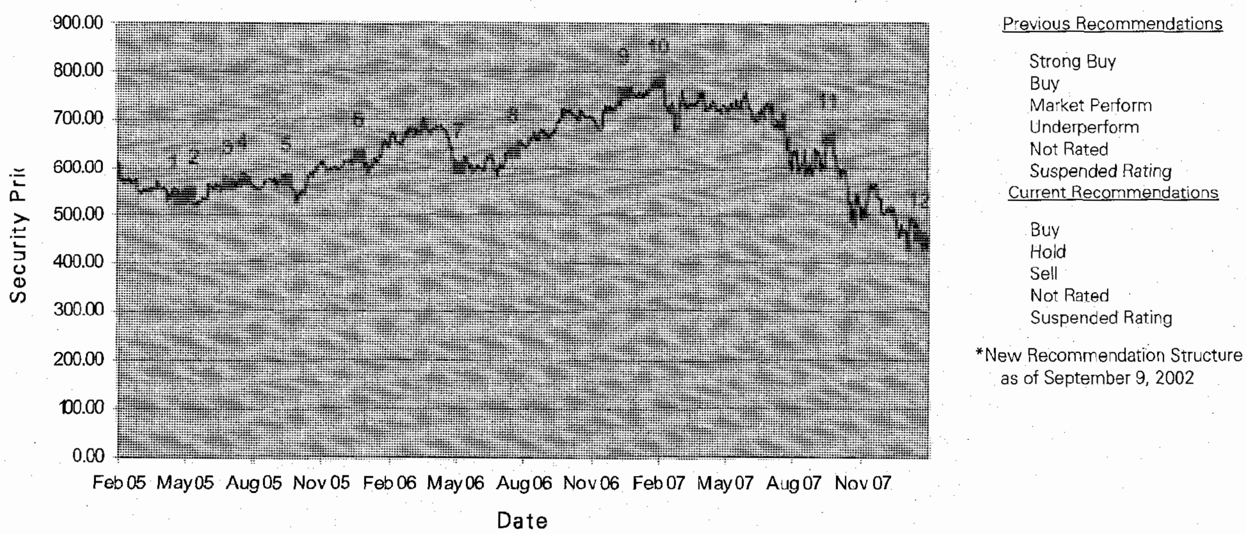
Historical recommendations and target price: Barclays (BARC.L)

(as of 2/19/2008)



1.	12/5/2005:	Hold, Target Price Change GBP600.00	7.	25/5/2006:	Buy, Target Price Change GBP710.00
2.	26/5/2005:	Hold, Target Price Change GBP560.00	8.	8/8/2006:	Buy, Target Price Change GBP750.00
3.	19/7/2005:	Hold, Target Price Change GBP600.00	9.	4/1/2007:	Buy, Target Price Change GBP850.00
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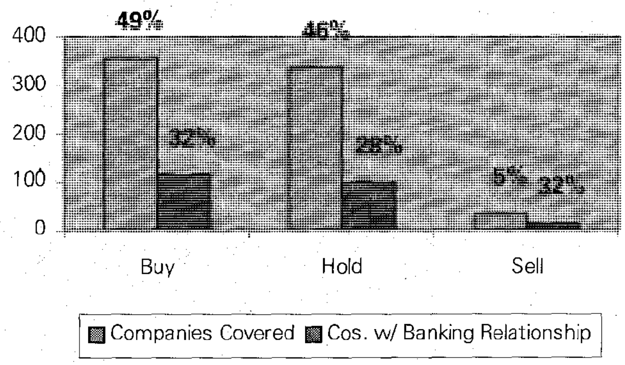

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S&P	AA-	AA	AA	AA	A	AA
Moody's	Aa2	Aa3	Aa1	Aaa	A3	Aa1
Fitch	AA	AA	AA+	AA+	A+	AA
Financial Data						
Time period	FY 2007	FY 2007	FY 2007	FY 2007	FY 2007	FY 2007
Currency	USD	USD	USD	USD	USD	USD
Net interest income	37,795	46,936	19,194	25,302	6,265	22,527
Total Income	87,601	81,698	45,938	62,146	11,067	39,876
Impairment charge	(17,242)	(18,509)	(5,582)	(4,430)	(761)	(5,227)
Operating Expense	(39,042)	(61,488)	(26,362)	(28,068)	(6,215)	(17,981)
Net Income	19,133	3,617	10,176	15,403	2,813	12,546
Total Assets	2,354,266	2,182,700	2,451,420	3,795,926	329,205	1,344,587
Total Loans	981,548	777,993	769,999	2,094,479	189,631	832,863
Deposits and ST funding	1,228,321	1,312,555	770,029	1,987,319	205,640	1,156,180
Equity	135,416	113,600	64,855	182,606	21,452	76,507
Ratios (%)						
Impaired Loans / Gross loans	1.80%	1.31%	3.28%	1.6%	1.5%	0.95%
Tier 1 Ratio	9.30%	7.10%	7.80%	7.3%	9.8%	7.71%
Total Capital Ratio	13.60%	10.90%	12.10%	11.2%	16.7%	12.66%
Equity to Assets	5.75%	5.20%	2.65%	4.8%	6.5%	5.69%
Return on Avg Assets (ROAA)	0.97%	0.18%	0.39%	0.56%	1.00%	1.09%
Return on Avg Equity (ROAE)	15.90%	2.90%	20.30%	16.9%	15.6%	21.90%
Cost To Income Ratio	49.40%	75.00%	57.00%	40.7%	56.0%	44.20%

Trading comps

Issuer	Issue Date	Amount ($mm)	Ratings	Dividend	Maturity	Call Lockout	Price*	Strip Yield*
Credit Suisse	03/28/08	1,400	Aa3/A+	7.900%	Perpetual	NC5	$25.00	7.900%
Wells Fargo Capital XII	03/05/08	1,575	Aa2/AA-	7.875%	03/15/68	NC5	$25.25	7.800%
DB Contingent Capital Trust III	02/12/08	1,975	Aa3/A+	7.600%	Perpetual	NC5	$24.89	7.673%
Barclays Bank plc	11/30/07	1,150	Aa3/A+	7.750%	Perpetual	NC5	$25.01	7.775%
DB Capital Funding Trust X	11/07/07	805	Aa3/A+	7.350%	Perpetual	NC5	$24.98	7.359%
Royal Bank of Scotland Group plc	09/20/07	1,600	Aa3/A	7.250%	Perpetual	NC5	$24.82	7.306%
Barclays Bank plc	09/06/07	1,375	Aa3/A+	7.100%	Perpetual	NC5	$24.80	7.162%
DB Capital Funding Trust IX	07/13/07	1,150	Aa3/A	6.625%	Perpetual	NC5	$23.50	7.090%
Royal Bank of Scotland Group plc	06/22/07	950	Aa3/A	6.600%	Perpetual	NC5	$21.98	7.510%
Barclays Bank plc	04/20/06	750	Aa3/A+	6.625%	Perpetual	NC5	$23.79	6.965%

* Source: Bloomberg

THE WALL STREET JOURNAL.

Barclays Official to Go Trans-Atlantic

By Carrick Mollenkamp
551 words
March 14, 2008
The Wall Street Journal

LONDON -- The president of Barclays PLC, one of Britain's largest banks, is planning to split his base of operations between New York and London, a move that would put a lot of Barclays Capital's senior team in the U.S.

The decision by Robert E. Diamond Jr. comes amid departures of other high-profile bankers. In New York, Thomas Gahan, one of Deutsche Bank AG's top investment bankers, is leaving to start an asset-management business after nine years with the bank, the bank said yesterday. In London, Morgan Stanley's chairman of European mergers and acquisitions, Michael Zaoui, is retiring after 21 years at the firm.

If Mr. Diamond spends more time in the U.S., Barclays puts its second-in-command away from the bulk of the operations he oversees for much of the time. Barclays Capital President Jerry del Missier is also moving to New York from London as part of a shake-up announced in January. Mr. Diamond has said the U.S. is one area of increased income for Barclays Capital.

Mr. Diamond, an American who has been at Barclays since 1996, said he would remain as president and continue to report to Chief Executive John Varley. The two executives have led what has been a grueling year in which the bank failed in its effort to buy Dutch bank ABN Amro Holding NV and then became one of the banks embroiled in the credit crisis.

The bank's stock has fallen 34% in the past year, and it faces questions about how it will shore up revenue in the wake of the credit-market downturn.

The 56-year-old Mr. Diamond is the father of three children and the move would be timed with the graduation of his youngest son, who is finishing his final year at a U.S. school in London with plans to attend Mr. Diamond's alma mater, Colby College in Maine, in the fall, Mr. Diamond said.

He has another child in college at Princeton and one who graduated from there. He has made it a long-range plan to return to the U.S., according to a person familiar with his thinking.

In an interview, Mr. Diamond said he and his wife will look for a home in the New York area, including in Greenwich, Conn., while maintaining a residence in London. "Would Jennifer and I expect to be spending more time in the states with all three kids living over there? Certainly," he said.

His somewhat contrarian strategy for Barclays Capital had led to a strong run until seven months ago, when the freezing of credit markets hurt his business.

After joining Barclays, he helped turn a unit called BZW, then a small corporate-banking business, into Barclays Capital, which last year accounted for some 30% of Barclays profit before asset disposals. Mr. Diamond eschewed going after high-priced merger-advisory business and instead focused on the debt markets and the trading and sales of interest-rate and foreign-exchange products.

In 2003, Mr. Diamond lost out to Mr. Varley for the CEO job. He said he and Mr. Varley continue to work closely.

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Dow Jones & Reuters

THE WALL STREET JOURNAL.

Credit Crunch: Barclays Weathers the Storm --- Profit Drops Slightly, But Crunch Hit Is Small; Dividend Is Cheered, Too

By Ragnhild Kjetland
878 words
February 20, 2008
The Wall Street Journal

LONDON -- Barclays PLC increased its dividend and said its write-downs increased only slightly from earlier estimates, sending its shares and the rest of the U.K. banking sector higher.

The U.K.'s third-largest bank by market capitalization said last year's net profit slipped 3.4% to GBP 4.42 billion ($8.63 billion) from GBP 4.57 billion a year earlier as it increased write-downs by a modest GBP 340 million from what it announced at the end of October.

Net write-downs for the year totaled GBP 1.64 billion, up from GBP 1.3 billion at the end of October.

NCB Stockbrokers said the bank appeared to have weathered a very difficult year well.

Barclays increased its dividend 9.7% to 34 pence from the 31 pence paid on 2006 earnings. The rise represented a slight slowdown from the 10% dividend increase a year ago.

Chief Executive John Varley said the dividend payment was in line with the bank's dividend policy, "broadly to pay in accordance with rise in earnings."

Overall, Barclays's write-downs are lower than those at many of its peers. The worst-hit in Europe are UBS AG with $18.1 billion, Credit Agricole SA with $3.7 billion, and HSBC Holdings PLC with $3.4 billion. Credit Suisse Group yesterday announced a $2.85 billion write-down tied to mismarkings and errors by traders and unfavorable market conditions.

Analysts described Barclays's results as in line with expectations. In London, its shares rose 3.7% to 477 pence. The FTSE 350 banks index rose 1.2%.

WestLB said in a note that the dividend increase is probably a good indication of Barclays's confidence in its capital position. "Whilst we believe that further credit-market related write-offs are possible during 2008, the GBP 1.6 billion taken in 2007 was manageable," it said. It also said that Barclays' Tier 1 capital ratio, a measure of a bank's ability to absorb losses, was "robust" at 7.8%.

Chief Financial Officer Chris Lucas said the final net write-down of GBP 1.64 billion had three components: GBP 1.4 billion on super-senior exposures: GBP 800 million against other credit exposures; and a positive effect of GBP 600 million, as the same spread that caused write-downs caused a "write up" of its own credit.

"One of the things we did in July and August was to ramp up our own debt, in order to get the benefit of that when credit markets turned," Barclays Capital head Bob Diamond said.

Altogether, Barclays's impairment charges rose 30% to GBP 2.8 billion. The figure includes the credit-market-related write-downs, loan-loss provisions and credit-card impairments.

Mr. Varley, the CEO, conceded that Barclays "isn't immune to movements in the markets," but he stressed that "risk isn't generic." Differences in risk management remain and this will be evident in how banks manage the market turmoil, he said.

Mr. Varley said Barclays delivered a "resilient performance," adding "the strength of our diversified businesses gives us confidence for the period ahead."

He presented a new set of targets for economic growth for 2008 to 2011, defined as profit after tax and minority interests, less capital charges. They were less ambitious than targets for the period including 2007.

In the next three years, Barclays wants compound annual growth of 5%-10%, to a cumulative total economic profit of between GBP 9.3 billion and GBP 10.6 billion by 2011.

For 2004 to 2007, the target was in the range of GBP 6.5 billion to GBP 7 billion, or a compound annual growth rate of 10% to 13%. It outperformed both, with an GBP 8.3 billion economic profit and a compound annual growth rate of 16%.

Asked about the more modest target for the next three years, Mr. Varley said it reflects the increased cost of doing business: "The cost of capital has risen over the last 12 months," risks have changed and the environment is less benign.

"Although I am confident about industry growth, and confident for Barclays's prospects, it is of course right to say that 2008 is going to be a less benign year," Mr. Varley said

At the pretax level, closely watched as a measure of underlying performance, profit fell slightly to GBP 7.08 billion from GBP 7.14 billion. Analysts had predicted pretax profit of GBP 6.99 billion.

The bank posted a 4.2% drop in earnings per share to 68.9 pence from 71.9 pence; analysts had forecast 67.7 pence.

Total income, net of insurance claims, was up 6.5% to GBP 23 billion, a slowdown from the 9% growth seen in the first six months of the year.

Barclays is the U.K.'s third-largest bank by market capitalization, behind HSBC and Royal Bank of Scotland Group PLC.

Separately, South African bank Absa Group Ltd. said it dropped plans to buy the sub-Saharan African assets of Barclays, its parent.

Related Factiva Intelligent Indexing™ ⊞

From: Trask, Richard [CMB-RISK] [/O=SALOMON/OU=NAM/CN=RECIPIENTS/CN=51387]
Sent: Friday, March 14, 2008 11:40:58 AM
To: Ciobanu, Bogdan [CMB-GBKG]; Yogaratnam, Rashmini [CMB-RISK]; Janiak, A R [GWM-INV]; Ranieri, Ken [GWM-PCIS]
CC: Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; White, Christopher K [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]
Subject: BARCLAY'S RETAIL DEAL

Bogdan,

This is an excellent e-mail briefing. Given the current turmoil in the financial markets (and with financial institutions in particular) plus the "negative" bond ratings outlook plus the "3M" on the stock, we should screen this name. My general feeling is that Barclay's is a big bank which is moving to deal with its problems and hence we should be able to participate. However, we need to fully understand the story.

Thanks and regards, RTBT

From: Ciobanu, Bogdan [CMB-GBKG]
Sent: Thursday, March 13, 2008 6:39 PM
To: Trask, Richard [CMB-RISK]; Yogaratnam, Rashmini [CMB-RISK]; Janiak, A R [GWM-INV]; Ranieri, Ken [GWM-PCIS]
Cc: Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; White, Christopher K [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Ciobanu, Bogdan [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]
Subject: Barclays - new mandate

Dick, Rashmini, Richard and Ken,

We have been mandated as a physical bookrunner for Barclays' retail preferred offering.

Securities Offered: Retail-Targeted Capital Securities
Issuer Ratings: Moody's: Aa1/Stable; S&P: AA/Negative**; Fitch: AA+/Negative**
Issue Ratings: Aa3/A+ /AA
Expected Launch: Week of April 7
Prior Transactions: (all waived by the Committee)

- Citi was a bookrunner on Barclays' US$1.15BN Retail-targeted capital securities issuance in November 2007 and the $1.375BN Retail-targeted capital securities issuance in September 2007
- Citi was a co-lead manager on several recent Barclays debt offerings, including US$1.25 BN 6.05% Fixed Rate Sub Notes due 2017 and $1.25 BN 7.434% Step-up Callable Perpetual Reserve Capital Instruments, completed in November 2007 and September 2007 respectively.

Smith Barney Equity Ratings: Citi has a 3M rating with a target stock price of £4.00 (current price: £4.51). 52wk range £3.96 - £7.74.

****Discussion of Negative outlook from S&P and Fitch:**

- On January 30, 2008, S&P revised the outlook downward for several European banks, including Barclays (others include ABN, Credit Suisse, Dresdner, Deutsche Bank, Fortis and UBS). Barclays outlook changed from Stable to Negative. The revision primarily reflects the impact of continued weakness in capital markets conditions and the fact that profitability could come under pressure in 2008 if economic and capital markets conditions deteriorate rapidly.

- On November 2007, Fitch reaffirmed Barclays' ratings and changed the outlook from stable to negative. The rating action follows the release of Barclays 3Q 2007 trading update in respect of its Barclays Capital unit. Barclays Capital recorded at that time net write-downs of £1.3bn in respect of ABS CDOs, other US sub-prime loans, SIVs and leveraged finance positions.

2007 Earnings Overview:

- Total income net of insurance claims increased 7% to £23 BN from £21.6 BN in 2006
- Impairment charges and other credit provisions increased 30% to £2.8 BN from £2.2 BN in 2006
- Profit before tax decreased 1% to £7.1 BN
- Net Income increased 4% to £20.2 BN from £19.4 BN in 2006
- Year-end tier 1 capital ratio of 7.8% compared to 7.7% at year-end 2006
- Return on average shareholders' equity of 20.3% compared to 24.7% in 2006
- Exposure to sub-prime and leverage finance is as follows:
  - ABS CDO Super Senior: £7.4 BN (06/2007) vs. £4.7 BN (12/2007)
  - Other Sub Prime: £6.0 BN (06/2007) vs. £5.0 BN (12/2007)
  - SIVs / SIV-lites: £1.6BN (06/2007) vs. £0.7 BN (12/2007)
  - Leveraged Finance: £7.3 BN (06/2007) vs. £7.4 BN (12/2007)
  - Commercial Mortgages: £8.3 BN (06/2007) vs. £12.4 BN (12/2007)
  - Alt - A: £3.8 BN (06/2007) vs. £4.9 BN (12/2007)
  - Monoline insurers: £0.1 BN (06/2007) vs. £1.4 BN (12/2007)

Please let us know how you would like to proceed with the committee.

Regards,
Bogdan

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From:	Ciobanu, Bogdan [CMB-GBKG] [bogdan.ciobanu@citi.com]
Sent:	Friday, April 04, 2008 3:33:24 PM
To:	oconnorj@sullcrom.com; vonlanthenc@sullcrom.com; david.ludwick@linklaters.com; sarah.whittington@linklaters.com
CC:	Harjani, Chandru [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Drumm, Laura [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; richard.d.johnson@barcap.com; belinda.vickery@barcap.com
Subject:	Project Rimu - Management Group Info
Attachments:	Project Rimu WPL 04-03-08.pdf

S&C and Linklaters Teams:

As a follow-up to the Barclays update call this morning/afternoon, please find below the marketing names, legal names and contacts (in that order) for the management group for the Barclays transaction (WGL attached).

- Please circulate the latest draft of the ProSupp to the Management Group (including Sr Cos, Cos and Jr Cos).
- Please circulate to the Management Group (including Sr Cos, Cos and Jr Cos) the following instructions for the business due diligence conference call playback.

____

Playback dial-in: +44 (0) 2011-010-899
Playback Passcode: 833942#

1. Once dialed in, press *3 and enter the unique code **04032008** followed by the hash (#) sign.
2. Press 1 to begin playback.

____

Thank you.
Bogdan Ciobanu
<<Project Rimu WPL 04-03-08.pdf>>
=================================

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Merrill Lynch, Pierce, Fenner & Smith Incorporated
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Wachovia Securities

Wachovia Capital Markets, LLC
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PROJECT RIMU

US Retail Tier I Offering
Working Party List

Updated: April 3, 2008

Please send all changes to Bogdan Ciobanu
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Strictly private and confidential

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BARCLAYS BANK PLC

Debt Securities
Preference Shares
American Depositary Shares

Underwriting Agreement -
Standard Provisions

From time to time Barclays Bank PLC, a public limited company organized under the laws of England and Wales (the "Bank"), proposes to enter into one or more Pricing Agreements (each a "Pricing Agreement") in the form of Annex I hereto, with such additions and deletions as the parties thereto may determine, and, subject to the terms and conditions stated herein and therein, to issue certain of the Bank's Debt Securities or Preference Shares or Preference Shares represented by American Depositary Shares ("ADSs") (as such terms are defined below) (the "Securities") specified in Schedule II to the applicable Pricing Agreement (the "Firm Securities") and to issue to the firms named in Schedule I to such Pricing Agreement (such firms constituting the "Underwriters" with respect to such Pricing Agreement and the Securities specified therein). If specified in such Pricing Agreement, the Bank may also, at the election of the Underwriters, issue additional Securities (the "Optional Securities"). The Firm Securities and the Optional Securities are herein collectively called the "Designated Securities".

The terms and rights of any particular issuance of Designated Securities shall be as specified in the Pricing Agreement relating thereto and (i) in the case of senior debt obligations ("Senior Debt Securities"), in or pursuant to the Senior Debt Securities Indenture, dated September 16, 2004 (the "Senior Debt Indenture"), entered into between the Bank and The Bank of New York, as Trustee, (ii) in the case of subordinated obligations having a stated maturity ("Dated Subordinated Debt Securities"), in or pursuant to a Dated Subordinated Debt Securities Indenture (the "Dated Subordinated Debt Indenture"), dated June 30, 1998, between the Bank and The Bank of New York, as Trustee, (iii) in the case of subordinated obligations having no stated maturity ("Undated Subordinated Debt Securities" and, collectively with the Dated Subordinated Debt Securities, the "Debt Securities"), in or pursuant to an Undated Subordinated Debt Securities Indenture (the "Undated Subordinated Debt Indenture" and, collectively with the Dated Subordinated Debt Indenture, the "Indentures"), to be entered into between the Bank and The Bank of New York, as Trustee, and (iv) in the case of any issuance of Preference Shares or ADSs, in or pursuant to a resolution or resolutions of the Board of Directors of the Bank or a duly authorized committee thereof. The Term "Indenture" when used herein, refers to the relevant indenture identified in Schedule II to the related Pricing Agreement as such Indenture may be modified, amended or supplemented from time to time in accordance with the terms thereof. Interests in certain Debt Securities represented by a global security will be represented by certificateless depositary interests issued (i) in the case of Senior Debt Securities, pursuant to the Senior Debt Securities Deposit Agreement (the "Senior Debt Securities Deposit Agreement"), to be entered into by and between the Bank, which is a party for the limited purposes referred to therein, The Bank of New York, as Book-Entry Depositary, and the owners from time to time of Book-Entry Interests therein, (ii) in the case of Dated Subordinated Debt Securities, pursuant to the Dated Subordinated Debt Securities Deposit Agreement (the "Dated Subordinated Debt Securities Deposit Agreement"), to be entered into by and between the Bank, which is a party for the limited purposes referred to therein, The Bank of New York, as Book-Entry Depositary, and the owners from time to time of Book-Entry Interests therein, and (iii) in the case of Undated Subordinated Debt Securities, pursuant to the Undated Subordinated Debt Securities Deposit Agreement (the "Undated Subordinated Debt Securities Deposit Agreement" and, collectively with the Senior Debt Securities Deposit Agreement and the Dated Subordinated Debt Securities Deposit Agreement, the "Debt Securities Deposit Agreements"), to be entered into by and between the Bank, which is a party for the limited purposes referred to therein, The Bank of New York, as Book-Entry Depositary, and the owners from time to time of Book-Entry Interests therein. The term "Debt Securities Deposit Agreement" when used herein, refers to the Debt Securities Deposit Agreement applicable to the relevant Designated Securities and the term "Book-Entry Depositary" when used herein, refers to the Book-Entry Depositary under the Debt Securities Deposit Agreement applicable to the relevant Designated Securities.

1. Particular issuances of Designated Securities may be made from time to time to the Underwriters of such Designated Securities, for whom the firms designated as representatives of the Underwriters of such Designated Securities in the Pricing Agreement relating thereto will act as representatives (the "Representatives"). The term "Representatives" also refers to a single firm acting as sole representative of the Underwriters and to Underwriters that act without any firm being designated as their representatives. This Agreement shall not be construed as an obligation of the Bank to issue any of the Securities, or as an obligation of the Underwriters to subscribe for any of the Securities. The obligation of the Bank to issue any of the Securities, and the obligation of any of the Underwriters to subscribe for any of the Securities, shall be evidenced by the Pricing Agreement relating to the Designated Securities specified therein. Each Pricing Agreement shall specify the aggregate principal amount or number of Firm Securities, the maximum aggregate principal amount or number of Optional Securities, if any, the initial public offering price of such Firm Securities and Optional Securities, if any, the subscription price to the Underwriters of such Designated Securities, the names of the Underwriters of such Designated Securities, the names of the Representatives of such Underwriters, if any, the aggregate principal amount or number of such Designated Securities to be subscribed for by each Underwriter, the commissions, if any, payable to the Underwriters with respect thereto, such other terms of the Designated Securities as are noted in such Pricing Agreement and shall set forth the date, time and manner of delivery of such Firm Securities and Optional Securities, if any, and payment therefor. Each Pricing Agreement shall also specify (in the case of Debt Securities, to the extent not set forth in the Indenture and the registration statement and prospectus with respect thereto and, in the case of Preference Shares, to the extent not set forth in the Memorandum and Articles of Association of the Bank and the registration statement and prospectus with respect thereto) the terms of such Designated Securities, including whether, in the case of Undated Subordinated Debt Securities, they are exchangeable or convertible at the option of the Company into non-cumulative U.S. dollar-denominated preference shares of the Bank (the "Preference Shares") or other securities of the Bank (such Preference Shares or other securities of the Bank being referred to herein as "Exchange Securities") and whether, if the Designated Securities or the Exchange Securities are Preference Shares, such Preference Shares shall be deposited with The Bank of New York (New York Branch), as depositary (the "ADR Depositary") pursuant to a deposit agreement, dated as of April 25, 2006 (the "ADR Deposit Agreement"), among the Bank, the ADR Depositary and the holders from time to time of American Depositary Receipts ("ADRs") to be issued thereunder by the ADR Depositary and evidencing ADSs. The term "Designated Debt Securities" when used herein refers to Designated Securities that are Debt Securities, the term "Designated Shares" when used herein refers to Designated Securities that are Preference Shares, and the term "Designated ADSs" when used herein refers to ADSs issued pursuant to the ADR Deposit Agreement upon the deposit of Designated Shares with the ADR Depositary. In the event Designated Shares are to be offered in

the form of ADRs, the term Designated Securities when used herein shall include Designated ADSs and in the event Exchange Securities are to be delivered in the form of ADRs, the term Exchange Securities when used herein shall include such ADRs. Each Pricing Agreement shall be in the form of an executed writing (which may be in counterparts), and may be evidenced by an exchange of telegraphic communications or other rapid transmission device designed to produce a written record of communications transmitted. The obligations of the Underwriters under this Agreement and each Pricing Agreement shall be several and not joint.

2. The Bank represents and warrants to, and agrees with, each of the Underwriters that to the extent applicable to the Designated Securities:

(a) An "automatic shelf registration statement" as defined under Rule 405 under the Securities Act of 1933, as amended (the "Act"), on Form F-3 (Registration No. 333-145845) relating to the Designated Securities has been filed by the Bank with the Securities and Exchange Commission (the "Commission") not earlier than three years prior to the date of the applicable Pricing Agreement; such registration statement and any post-effective amendments thereto have become effective on filing; no stop order suspending the effectiveness of such registration statement is in effect and no proceedings for such purpose are pending before or threatened by the Commission; no notice of objection of the Commission to the use of such registration statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act has been received by the Bank; and copies of such registration statement, including exhibits and all documents incorporated by reference in the prospectus included in such registration statement and any post-effective amendments thereto, have heretofore been delivered to the Representatives for each of the other Underwriters. The various parts of such registration statement, including all exhibits thereto but excluding Forms T-1 and, if applicable, including (i) any prospectus supplement relating to the Designated Securities that is filed with the Commission and deemed by virtue of Rule 430B under the Act to be part of such registration statement, each as amended at the time such part of such registration statement became effective, and (ii) the documents incorporated by reference in the prospectus contained in such registration statement on the date of the Pricing Agreement relating to any Designated Securities, each as amended on the date of the Pricing Agreement relating to any Designated Securities, are hereinafter collectively called the "Registration Statement"; any preliminary prospectus (including any preliminary prospectus supplement) relating to the Designated Securities included in the Registration Statement or filed with the Commission pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act is hereinafter called a "Preliminary Prospectus"; such final prospectus in the form first filed pursuant to Rule 424(b) under the Act is hereinafter called the "Prospectus"; "Applicable Time" shall be as specified in the relevant Pricing Agreement; "Statutory Prospectus" as of any time means the prospectus (including, for the avoidance of doubt, any preliminary prospectus supplement) relating to the Designated Securities that is included in the Registration Statement immediately prior to the Applicable Time, including any document incorporated by reference therein and any prospectus supplement deemed to be a part thereof, provided that for purposes of this definition, information contained in a form of prospectus that is deemed retroactively to be part of the Registration Statement pursuant to Rule 430B under the Act shall be considered to be included in the Statutory Prospectus as of the actual time that form of prospectus is filed with the Commission pursuant to Rule 424(b) under the Act; "Free Writing Prospectus" means any "free writing prospectus" as defined in Rule 405 under the Act; "Issuer Free Writing Prospectus" means any "issuer free writing prospectus" as defined in Rule 433 under the Act relating to the Securities; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to include the documents, if any, incorporated by reference therein pursuant to Form F-3 under the Act as of the date of such Preliminary Prospectus or the Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and so incorporated by reference; any reference to the Prospectus as amended or supplemented shall be deemed to refer to the Prospectus as amended or supplemented relating to the applicable Designated Securities in the form in which it is filed with the Commission pursuant to Rule 424 of Regulation C, including any documents incorporated by reference therein as of the date of such filing; and any reference to any amendment to the Registration Statement shall be deemed to refer to and include any documents filed or submitted under the Exchange Act after the date of the Registration Statement which are incorporated by reference therein;

(b) No order preventing or suspending the use of the Registration Statement, any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission;

(c) The Statutory Prospectus, as supplemented by the final term sheet prepared and filed pursuant to Section 7(a) hereof (collectively, the "Pricing Disclosure Package"), as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; each Issuer Free Writing Prospectus, if any, listed in Schedule III to the applicable Pricing Agreement, as supplemented by and taken together with the Pricing Disclosure Package, as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however that this representation and warranty shall not apply to statements or omissions made in the Pricing Disclosure Package in reliance upon and in conformity with information furnished in writing to the Bank by an Underwriter expressly for use therein;

(d) At the time of the filing of the Registration Statement, at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Securities Act (whether such amendment was by post effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus), and at the time the Bank or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c) under the Securities Act) made any offer relating to the Designated Securities in reliance on the exemption provided for in Rule 163 under the Securities Act, the Bank was a "well-known seasoned issuer" as defined in Rule 405 under the Act;

(e) At the earliest time that the Bank or another offering participant made a *bona fide* offer (within the meaning of Rule 164(h)(2) under the Act) of the Designated Securities the Bank was not, and the Bank is not, an "ineligible issuer," as defined in Rule 405 under the Act, including by virtue of the Bank or any subsidiary in the preceding three years having been convicted of a felony or misdemeanor or having been made the subject of a judicial or administrative decree or order as described in Rule 405 under the Act;

(f) The Annual Report on Form 20-F most recently filed by the Bank (the "Form 20-F") and any other documents incorporated by reference in the Prospectus or any Preliminary Prospectus, when such documents were filed with the Commission, conformed in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission thereunder, and none of such documents, when so filed, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any Preliminary Prospectus, when such documents are filed with the Commission, will conform in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission thereunder and will not, when so filed, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Bank by an Underwriter of Designated Securities expressly for use in the Prospectus as amended or supplemented or any Preliminary Prospectus relating to such Designated Securities;

(g) The Registration Statement, the Prospectus and the Statutory Prospectus conform, and any amendments or supplements thereto, when they become effective or are filed with the Commission, as the case may be, will conform, in all material respects to the requirements of the Act and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and the rules and regulations of the Commission thereunder, and the Registration Statement and the Prospectus did not, when they became effective (including as of the most recent effective date of the part of the Registration Statement relating to the offering of the Designated Securities as determined pursuant to Rule 430B(f)(2) under the Act) or were so filed, as the case may be, and any amendments or supplements thereto will not, when they become effective or are so filed, as the case may be, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Bank by an Underwriter of Designated Securities through the Representatives expressly for use in the Prospectus as amended or supplemented or any Preliminary Prospectus relating to such Designated Securities;

(h) A registration statement on Form F-6 (File No. 333-145829) in respect of the ADSs has been filed with the Commission; such registration statement and any post-effective amendment thereto have been declared effective by the Commission; no stop order preventing or suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (the various parts of such registration statement, including all exhibits thereto, each as amended at the time such part of the registration statement became effective, being hereinafter called the "ADS Registration Statement"); and the ADS Registration Statement when it became effective conformed, and any further amendments thereto will conform, in all material respects to the requirements of the Act and the applicable regulations of the Commission thereunder and do not and will not, as of the applicable effective date, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading;

(i) Since the respective dates as of which information is given in the Registration Statement, the Statutory Prospectus and the Prospectus as amended or supplemented, there has not been, otherwise than as set forth or contemplated in the Statutory Prospectus and the Prospectus as amended or supplemented, (i) any material change in the share capital, undated loan capital or dated loan capital of the Bank other than such changes as have been disclosed in writing to the Representatives or (ii) any material adverse change in or affecting the business, financial condition, shareholders' equity or results of operations of the Bank and its subsidiaries on a consolidated basis;

(j) The Bank and each of its principal subsidiaries, if any, have been duly incorporated or organized and are validly existing as corporations under the laws of their respective jurisdictions of incorporation or organization with corporate power and authority to own their respective properties and conduct their respective businesses as described in the Statutory Prospectus and the Prospectus, and each has in full force and effect all permits, certificates, franchises, licenses, authorizations and similar approvals necessary in connection with the operation of its business with such exceptions as do not and will not materially adversely affect the business, financial condition, shareholders' equity or results of operations of the Bank and its subsidiaries on a consolidated basis. (The term "principal subsidiary" means any subsidiary of the Bank which, together with its subsidiaries, held at the date of the latest audited financial statements included or incorporated by reference in the Prospectus more than 10% of the assets, or for the year covered by such financial statements contributed more than 10% of the revenues or net income, of the Bank and its subsidiaries on a consolidated basis);

(k) The Bank has an authorized capitalization as set forth in the Statutory Prospectus and the Prospectus; all of the issued shares of share capital of the Bank have been duly and validly authorized and issued, are fully paid and conform to the description thereof set forth in the Statutory Prospectus and the Prospectus as amended or supplemented, and all such shares of each principal subsidiary, if any, have been duly and validly authorized and issued, are fully paid and (except for directors' qualifying shares or as specified in the Statutory Prospectus and the Prospectus) are owned directly or indirectly by the Bank, free and clear of all liens, encumbrances, security interests or claims, except such (of which the Bank is aware of none) as do not materially adversely affect the value of such shares or interfere with the conduct of the business of the issuer of such shares or the Bank's control over such shares and such business;

(l) The Designated Debt Securities have been duly and validly authorized and, when the Designated Debt Securities are issued and delivered against payment therefor pursuant to this Agreement and the Pricing Agreement relating to such Designated Debt Securities, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Bank entitled to the benefits provided by the Indenture, which will be substantially in the form filed as an exhibit to the Registration Statement; the Indenture has been duly authorized by the Bank, is duly qualified under the Trust Indenture Act, has been duly executed and delivered by the Bank and, assuming due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Bank enforceable in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights generally or by general equity principles; the Indenture conforms, and the Designated Debt Securities will conform, to the descriptions thereof set forth in the Prospectus or the Statutory Prospectus and the Prospectus as amended or supplemented relating to such Designated Debt Securities;

(m) The Designated Shares, issuable upon conversion of the Designated Debt Securities, have been duly and validly authorized and when issued and delivered in accordance with the terms thereof set forth in the Statutory Prospectus and the Prospectus and the Indenture, will be duly and validly issued and fully paid;

(n) The Designated Shares (other than those issuable upon conversion of the Designated Debt Securities) have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and will conform to the description thereof set forth in the Statutory Prospectus and the Prospectus as amended or supplemented;

(o) The ADR Deposit Agreement has been duly authorized, executed and delivered by the Bank and constitutes a valid and legally binding agreement of the Bank enforceable in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights generally or by general equity principles; upon issuance by the ADR Depositary of ADRs evidencing ADSs upon the deposit of Designated Shares in respect thereof in accordance with the provisions of the ADR Deposit Agreement, such ADRs will be duly and validly issued and the persons in whose names the ADRs are registered will be entitled to the rights specified therein and in the ADR Deposit Agreement; and the ADR Deposit Agreement and the ADRs conform in all material respects to the descriptions thereof contained in the Statutory Prospectus and the Prospectus as amended or supplemented;

(p) The Debt Securities Deposit Agreement has been duly authorized by the Bank and when executed and delivered by the Bank will be duly executed and delivered by the Bank and constitute a valid and legally binding agreement of the Bank enforceable in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights generally or by general equity principles;

(q) The issue and sale of the Designated Debt Securities, the issue and sale of the Designated Shares to be issued by the Bank hereunder, the conversion or exchange, if any, of the Designated Debt Securities into Designated Shares, the issue of the Designated Shares upon such conversion or exchange, the deposit of the Designated Shares by the Bank in accordance with the terms of the ADR Deposit Agreement and the compliance by the Bank with the provisions of the Designated Debt Securities, the Designated Shares, the Designated ADSs, this Agreement, the Pricing Agreement relating to the Designated Securities, the Indenture and the ADR Deposit Agreement and the consummation of the transactions contemplated herein and therein will not (to the extent relevant to the issue and sale of the Designated Securities) (i) result in a breach or violation of any provisions of the Memorandum and Articles of Association of the Bank or (ii) result in any breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any of the property or assets of the Bank pursuant to the terms of, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Bank is a party or by which the Bank is bound or to which any of the property or assets of the Bank is subject or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Bank or any of its properties, which breach, violation, default, creation or imposition will have a material adverse effect on the Bank and its subsidiaries on a consolidated basis or have an adverse effect on the Designated Debt Securities, the Designated Shares or the Designated ADSs; and no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the issue and sale of the Designated Debt Securities, the issue and sale of the Designated Shares or the Designated ADSs, the deposit of the Designated Shares with the ADR Depositary, the conversion or exchange of the Designated Debt Securities into Designated Shares or the consummation of the other transactions contemplated by this Agreement, the Pricing Agreement relating to the

Designated Securities, the ADR Deposit Agreement, the Indenture, the Designated Debt Securities, the Designated Shares or the Designated ADSs except (A) the registration under the Act of the Debt Securities, the Preference Shares and the ADSs (B) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the subscription for and distribution of the Designated Securities by the Underwriters, (C) where applicable, the filing of approved listing particulars or an approved prospectus or other required documentation in accordance with the rules and regulations of any securities exchange and applicable law in connection with the listing of the Designated Securities on such securities exchange, (D) the qualification of the Indenture under the Trust Indenture Act and (E) such other consents, approvals, authorizations, orders, registrations or qualifications as have heretofore been, or will have been prior to each Time of Delivery (as defined in Section 5 hereof), obtained or made;

(r) There are no legal or governmental proceedings pending to which the Bank or any of its subsidiaries is a party or of which any property of the Bank or any of its subsidiaries is the subject, other than as set forth in the Statutory Prospectus and the Prospectus as amended or supplemented and other than litigation or proceedings which in each case will not have a material adverse effect on the business, financial condition, shareholders' equity or results of operations of the Bank and its subsidiaries on a consolidated basis; and, to the best of the Bank's knowledge, no such litigation or proceedings are threatened or contemplated by governmental authorities or threatened by others;

(s) PricewaterhouseCoopers LLP, who have certified certain financial statements of the Bank and its subsidiaries incorporated by reference in the Statutory Prospectus and the Prospectus, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder;

(t) The offer and sale of the Designated Securities or ADSs in the United States will not subject the Bank to registration under, or result in a violation of, the Investment Company Act of 1940, as amended (the "Investment Company Act");

(u) Other than as described or set forth in the Registration Statement or the Statutory Prospectus and the Prospectus as amended or supplemented, no stamp or other similar issuance taxes or duties are payable by or on behalf of the Underwriters in the United Kingdom in connection with the issue of the Designated Securities, the conversion of the Designated Debt Securities into the Designated Shares, the deposit of the Designated Shares under the ADR Deposit Agreement, the issue of the Designated Securities to the Underwriters by the Bank or the consummation of the other transactions contemplated hereunder; and

(v) Other than as described or set forth in the Registration Statement or the Statutory Prospectus and the Prospectus as amended or supplemented, under current law applicable in the United Kingdom, all payments by the Bank in respect of the Designated Securities may be made without withholding or deduction for or on account of any taxes, duties assessments or charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax.

3. (a) Each Underwriter of Designated Securities represents and warrants to and agrees with the Bank that, in connection with the distribution of the Designated Securities, directly or indirectly, it (i) has only communicated or caused to be communicated, and will only

communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Designated Securities in circumstances in which Section 21(1) of the FSMA would not, if the Bank was not an authorized person, apply to the Bank; and (ii) has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Designated Securities in, from or otherwise involving the United Kingdom; and

(b) Each Underwriter has represented and agreed that 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”) it has not made and will not make an offer of the Designated Securities to the public in that Relevant Member State, other than:

(i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive, save that no offer of the Designated Securities to the public shall be made in reliance on the numerical exemption otherwise available under Article 3(2)(b) of the Prospectus Directive.

provided, that no such offer of Designated Securities shall require the Underwriters or the Bank to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the Designated Securities to the public” in relation to any Designated Securities in any Relevant Member State means the communication to more than one person in any form and by any means of sufficient information on the terms of the offer and the Designated Securities to be offered so as to enable an investor to decide to purchase or subscribe the Designated Securities, 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 includes any relevant implementing measure in each Relevant Member State.

4. Upon the execution of the Pricing Agreement relating to any Designated Securities and authorization by the Representatives of the release of the Firm Securities, the several Underwriters propose to offer the Firm Securities for sale upon the terms and conditions set forth in the Statutory Prospectus and the Prospectus as amended and supplemented relating to such Designated Securities.

The Bank may specify in the Pricing Agreement relating to any Designated Securities that the Bank thereby grants to the Underwriters the right (an “Over-allotment Option”) to subscribe for at their election up to the aggregate principal amount or number of Optional Securities set forth in such Pricing Agreement, upon the terms and conditions referred to in the paragraph above, for the sole purpose of covering over-allotments in the sale of the Firm Securities. Any such election to subscribe for Optional Securities may be exercised by written notice from the Representatives to the Bank, given within a period specified in such Pricing Agreement, setting forth the aggregate principal amount or number of Optional Securities to be subscribed for and the date on which such Optional Securities are to be delivered, as determined by the Representatives but in no event earlier than the First Time of Delivery (as defined in Section 5 hereof) or, unless the Representatives and the Bank otherwise agree in writing, earlier than or later than the respective number of business days after the date of such notice set forth in such Pricing Agreement.

The principal amount or number of Optional Securities to be added to the principal amount or number of the Firm Securities to be subscribed for by each Underwriter as set forth in Schedule I to the Pricing Agreement relating to the Designated Securities shall be, in each case, the aggregate principal amount or number of Optional Securities which the Bank has been advised by the Representatives have been attributed to such Underwriter; provided that, if the Bank has not been so advised, the aggregate principal amount or number of Optional Securities to be so added shall be, in each case, that proportion of Optional Securities which the aggregate principal amount or number of the Firm Securities to be subscribed for by such Underwriter under such Pricing Agreement bears to the aggregate principal amount or total number of Firm Securities, rounded as the Representatives may determine to the nearest $1,000 or whole number in the case of Designated Shares. The total aggregate principal amount or total number of Designated Securities to be subscribed for by all the Underwriters pursuant to such Pricing Agreement shall be the aggregate principal amount or total number of Firm Securities set forth in Schedule I to such Pricing Agreement plus the aggregate principal amount or total number of the Optional Securities for which the Underwriters elect to subscribe.

5. Designated Debt Securities to be subscribed for by each Underwriter pursuant to the Pricing Agreement will be represented by a global security or securities in bearer form delivered by the Bank to the Book-Entry Depositary for deposit in accordance with the relevant Debt Securities Deposit Agreement and Designated Shares to be subscribed for by each Underwriter pursuant to such Pricing Agreement will be represented by a certificate or share warrant to bearer delivered by the Bank to the ADR Depositary for deposit in accordance with the ADR Deposit Agreement, in each case against payment by such Underwriter or on its behalf of the subscription price therefor payable to the order of the Bank in same day funds. The time, place and date of such delivery of and payment for Firm Securities and Optional Securities shall be as specified in such Pricing Agreement, or at such other time, place and date as the Representatives and the Bank may agree upon in writing. Such time and date for delivery of the Firm Securities is herein called the "First Time of Delivery", and such date and time for delivery of the Optional Securities, if not the First Time of Delivery, is herein called the "Second Time of Delivery" and each such time and date for delivery is herein called a "Time of Delivery".

6. The Bank agrees with each of the Underwriters of Designated Securities:

(a) To prepare the Prospectus, as amended or supplemented in relation to the applicable Designated Securities, in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of the Pricing Agreement relating to such Designated Securities, or, if applicable, such earlier time as may be required by Rule 424(b) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus as amended or supplemented after the date of the Pricing Agreement relating to such Designated Securities and prior to the last Time of Delivery for such Designated Securities which shall be disapproved by the Representatives for such Designated Securities promptly after reasonable notice thereof; to advise the Representatives, promptly after it receives notice thereof, of the time when the Registration Statement, or any amendment thereto, has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Representatives with copies thereof; to file promptly all reports required to be filed by the Bank with the Commission pursuant to Section 13(a), 13(c) or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or a notice in lieu of a prospectus pursuant to Rule 173(a) under the Act) is required in connection with the offering or sale of such Designated Securities, and during such period to advise the Representatives, as soon as practicable after the Bank receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or Prospectus, of any notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act relating to the Designated Securities, of the suspension of the qualification of such Designated Debt Securities, Designated Shares or Designated ADSs for offering or sale in any U.S. jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any such Preliminary Prospectus or Prospectus, or of any such notice of objection or of any such suspension of any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To pay the required Commission filing fees relating to the Designated Securities within the time required by Rule 456(b)(1) under the Act without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) under the Securities Act;

(c) Promptly from time to time to take such action as the Representatives may reasonably request to qualify such Securities for offering and sale under the securities laws of such U.S. jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of such Securities, provided that in connection therewith the Bank shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction or to take any other action which would subject it to service of process in suits other than those arising out of the offering or sale of such Securities in any U.S. jurisdiction;

(d) To furnish the Underwriters with copies of the Pricing Disclosure Package, the Prospectus as amended or supplemented and the Form 20-F and any other documents incorporated by reference in the Prospectus as amended or supplemented in such quantities as the Representatives may from time to time reasonably request, and, if the delivery of a prospectus (or a notice in lieu of a prospectus pursuant to Rule 173(a) under the Act) is required in connection with the offering or sale of such Securities at any time prior to the expiration of nine months from the date on which the offering of such Securities commenced (the "Commencement Date") and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or a notice in lieu of a prospectus pursuant to Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act, the Exchange Act or the Trust Indenture Act, to notify the Representatives and upon their request to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus (or a notice in lieu of a prospectus pursuant to Rule 173(a) under the Act) in connection with sales of any of such Securities at any time nine months or more after the Commencement Date, upon the request of the Representatives but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as the Representatives may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act; provided, however, that if after the 90th day after the Commencement Date compliance with the foregoing provisions of this Section 6(c) would, in the opinion of United States counsel for the Bank, require inclusion in the Prospectus of financial statements or portions thereof not theretofore made publicly available by the Bank, or if the staff of the Commission shall require the inclusion of such financial statements, the Bank shall not be required to amend or supplement such Prospectus on or before April 30 of the year in which the next Annual Report on Form 20-F of the Bank is required to be filed with the Commission under the Exchange Act;

(e) To make generally available to its security holders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c)), an earnings statement of the Bank and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations thereunder (including, at the option of the Bank, Rule 158);

(f) Unless otherwise specified in the Pricing Agreement, during the period beginning from the date of the applicable Pricing Agreement relating to such Designated Securities and continuing to and including the earlier of (i) the termination of trading restrictions for such Designated Securities, as notified to the Bank by the Representatives, and (ii) the Time of Delivery for such Designated Securities, not to offer, sell, contract to sell or otherwise dispose of any securities of the Bank (other than pursuant to employee stock option or incentive plans or on the conversion of convertible securities outstanding on the date of this Agreement) which are substantially similar to such Designated Securities, without the prior written consent of the Representatives; and

(g) If required by Rule 430B(h) under the Act, to prepare a form of prospectus in a form approved by the Representatives and to file such form of prospectus pursuant to Rule 424(b) under the Act not later than may be required by Rule 424(b) under the Act; and to make no further amendment or supplement to such form of prospectus which shall be disapproved by the Representatives promptly after reasonable notice thereof.

7. (a) The Bank agrees to prepare a final term sheet, containing solely a description of the Designated Securities, in a form approved by the Representatives and to file such term sheet pursuant to Rule 433(d) under the Act within the time required by such Rule.

(b) The Bank and each Underwriter agree that the Underwriters may prepare and use any Free Writing Prospectus (i) which contains only information describing the preliminary terms of the Designated Securities or their offering, (ii) which contains only information that (A) describes the final terms of the Designated Securities or their offering and (B) is included in the final term sheet described in Section 7(a) above, or (iii) that is otherwise required to be filed with the Commission.

(c) Each Underwriter represents that, other than as permitted under Section 7(b) above, it has not made and will not make any offer relating to the Designated Securities that would constitute a Free Writing Prospectus without the prior consent of the Bank and that Schedule III to the applicable Pricing Agreement is a complete list of any free writing prospectus for which the Underwriters have received such consent.

(d) The Bank represents and agrees that it has not made and will not make any offer relating to the Designated Securities that would constitute an Issuer Free Writing Prospectus without the prior consent of the Underwriters and that Schedule III to the applicable Pricing Agreement is a complete list of any Issuer Free Writing Prospectuses for which the Bank has received such consent.

(e) The Bank represents, warrants and agrees that it has complied and will comply with the requirements of Rule 433 under the Act applicable to any Issuer Free Writing Prospectus and that such Issuer Free Writing Prospectus will comply in all material respects with the requirements of the Act, including timely filing with the Commission or retention where required and legending.

(f) The Bank represents, warrants and agrees that if at any time prior to the time the Prospectus is filed with the Commission, any event occurred or occurs as a result of which the Pricing Disclosure Package conflicted or would conflict with the information contained in the Registration Statement (or any other registration statement relating to the Securities) or the Statutory Prospectus or included or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances prevailing at that subsequent time, not misleading, the Bank will give prompt notice thereof to the Representatives and, if requested by the Representatives, will prepare and furnish without charge to each Underwriter a Pricing Disclosure Package as amended or supplemented which will correct such conflict, untrue statement or omission; provided, however, that the Bank will prepare and furnish with charge to each Underwriter a Pricing Disclosure Package as amended or supplemented if such Pricing Disclosure Package was amended or supplemented solely as a result of an untrue statement or omission made in the Pricing Disclosure Package made in reliance upon and in conformity with written information furnished to the Bank by any Underwriter of Designated Securities through the Representatives expressly for use therein.

8. Except where otherwise provided in the applicable Pricing Agreement, the Bank covenants and agrees with the several Underwriters that the Bank will pay or cause to be paid the following to the extent applicable: (i) the fees, disbursements and expenses of the Bank's counsel and accountants in connection with the registration of the Securities under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, the ADS Registration Statement, any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus and (except as otherwise expressly provided in Section 6(c) hereof) amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing this Agreement, any Pricing Agreement, the Indentures, the ADR Deposit Agreement, the Debt Securities Deposit Agreements and any Blue Sky and Legal Investment Memoranda; (iii) all expenses in connection with the qualification of the Securities for offering and sale under state securities laws as provided in Section 6(b) hereof, including the reasonable fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky and legal investment surveys; (iv) any fees charged by any securities rating services for rating the Designated Securities; (v) any filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Designated Securities; (vi)

all expenses in connection with the obtaining of any approval of the Bank's shareholders to the allotment and issuance of the Designated Securities; (vii) all expenses and listing fees in connection with the listing of the Designated Securities on any securities exchange; (viii) the cost of preparing ADRs evidencing Designated ADSs and the delivery of the Designated ADSs to the Underwriters, including any capital, stamp or other similar tax or duty payable upon the issue of the Designated ADSs (but excluding any interest or penalties becoming payable as a result of the person (other than the Bank) who is accountable by applicable law to the relevant tax authority in respect of any such tax or duty failing to make timely payment of such tax or duty); (ix) the cost of preparing and authenticating certificates for the Designated Debt Securities; (x) the cost of preparing stock certificates or share warrants; (xi) the fees and expenses of the Trustee, any agent of the Trustee and the fees and disbursements for counsel of the Trustee in connection with the Designated Debt Securities and the Indentures; (xii) the costs and expenses of the deposit of the Designated Shares by the Bank under the ADR Deposit Agreement in exchange for ADRs issued thereunder, including the charges of the ADR Depositary in connection therewith and the costs and expenses of the deposit of the Designated Debt Securities by the Bank under the Debt Securities Deposit Agreement in exchange for Book-Entry Interests issued thereunder, including the charges of the Book-Entry Depositary in connection therewith; (xiii) the fees and expenses (including reasonable fees and disbursements of counsel) of the ADR Depositary, the Book-Entry Depositary and any custodian appointed under the ADR Deposit Agreement and the Debt Securities Deposit Agreement other than the fees and expenses to be paid by holders of ADRs (other than the Underwriters, in connection with the initial subscription for ADSs and the Designated Shares); (xiv) the costs and charges of any transfer agent or registrar; (xv) all stamp, registration and other similar taxes and duties payable in connection with the issue of the Designated Securities as contemplated by this Agreement; (xvi) all expenses incurred for preparing, reproducing and filing any Issuer Free Writing Prospectus; and (xvii) all other costs and expenses incident to the performance of its obligations hereunder, under the applicable Pricing Agreement and under the ADR Deposit Agreement which are not otherwise specifically provided for in this Section 8. It is understood, however, that, except as provided in this Section 8, Section 6(c), Section 10 and Section 13 hereof and in the Pricing Agreement, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, transfer taxes on sales of any of the Designated Securities by them (excluding, for the avoidance of doubt, sales contemplated by this Agreement), and any advertising expenses connected with any offers they may make.

9. The obligations of the Underwriters under the Pricing Agreement relating to such Designated Securities shall be subject, in their reasonable discretion, to the condition that all representations and warranties and other statements of the Bank herein are, at and as of such Time of Delivery, true and correct, the condition that the Bank shall have performed all of its obligations hereunder theretofore to be performed, and, except as otherwise provided in the Pricing Agreement, the following additional conditions:

(a) The final term sheet contemplated by Section 7(a) shall have been filed by the Bank with the Commission within the time period prescribed by Rule 433(d) under the Act; the Prospectus as amended or supplemented shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations of the Commission under the Act and in accordance with Section 6(a) hereof; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission and no notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act shall have been received; and all requests to the Bank for additional information on the part of the Commission shall have been complied with to the Representatives' reasonable satisfaction;

(b) United States and (if requested) English legal counsel for the Underwriters, shall have furnished to the Representatives such opinion or opinions, dated such Time of Delivery for such Designated Securities, in form and substance reasonably satisfactory to the Representatives;

(c) Sullivan & Cromwell LLP, United States legal counsel for the Bank, shall have furnished to the Representatives their written opinion, dated such Time of Delivery for such Designated Securities, in form and substance reasonably satisfactory to the Representatives;

(d) Clifford Chance LLP, English legal counsel for the Bank, shall have furnished to the Representatives their written opinion, dated the Time of Delivery for such Designated Securities, in form and substance reasonably satisfactory to the Representatives;

(e) In the event that the Designated Securities are being offered in the form of ADSs, United States counsel to the ADR Depositary shall have furnished to the Representatives their written opinion, dated the Time of Delivery for such Designated Securities, in form and substance reasonably satisfactory to the Representatives to the effect that (i) the ADR Deposit Agreement has been duly authorized, executed and delivered by the ADR Depositary and constitutes a valid and legally binding obligation of the ADR Depositary and (ii) the Designated ADSs when issued under and in accordance with the provisions of the ADR Deposit Agreement to evidence the Designated Shares will entitle the holders thereof to the rights specified therein and in the ADR Deposit Agreement;

(f) At the Applicable Time relating to such Designated Securities and also at the Time of Delivery for such Designated Securities, PricewaterhouseCoopers LLP shall have furnished to the Representatives a letter or letters, dated the date of the Applicable Time and a letter dated such Time of Delivery, respectively, in form and substance reasonably satisfactory to the Representatives to the effect set forth in Annex I to the Pricing Agreement;

(g) Since the Applicable Time relating to the Designated Securities, there shall not have been, otherwise than as set forth or contemplated in the Statutory Prospectus and the Prospectus as amended or supplemented, (i) any material change in the share capital, undated loan capital or dated loan capital of the Bank other than such changes as have been disclosed to the Representatives, or (ii) any material change in or affecting the business, financial condition, shareholders' equity or results of operations of the Bank and its subsidiaries on a consolidated basis, the effect of which in each case is, in the Representatives' judgment after consultation with the Bank, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Designated Securities, on the terms and in the manner contemplated in the Statutory Prospectus and the Prospectus as amended or supplemented;

(h) Since the Applicable Time relating to the Designated Securities, (i) no downgrading shall have occurred in the rating accorded the Bank's debt securities or preferred stock by Moody's Investors Services, Inc. or Standard & Poor's Corporation and (ii) neither such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Bank's debt securities or preferred stock;

(i) Since the Applicable Time relating to the Designated Securities

(i) neither the United States nor the United Kingdom shall have become engaged in hostilities which have resulted in the declaration of a national emergency or war, (ii) there shall not have been any generally published change or development involving a prospective change in U.S. or United Kingdom taxation directly affecting the Designated Securities or the imposition of exchange controls by the United States or the United Kingdom, (iii) there shall not have been a suspension or material limitation in trading in securities generally or in securities of the Bank on the New York Stock Exchange or the London Stock Exchange, or a general moratorium on commercial banking activities in New York declared by either U.S. federal or New York state authorities or a general moratorium on commercial banking activities in the United Kingdom declared by authorities in the United Kingdom, the effect of which in the case of (i), (ii) or (iii), in the judgment of the Representatives after consultation with the Bank, makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Designated Securities on the terms and in the manner contemplated in the Statutory Prospectus and the Prospectus as amended or supplemented;

(j) The Bank shall have furnished or caused to be furnished to the Representatives at the Time of Delivery for the Designated Securities, certificates of directors or officers of the Bank, reasonably satisfactory to the Representatives as to the accuracy of the representations and warranties of the Bank herein at and as of such Time of Delivery and as to the performance by the Bank of all its obligations hereunder to be performed at or prior to such Time of Delivery, and the Bank shall have furnished to the Representatives certificates of directors or officers of the Bank, reasonably satisfactory to the Representatives, as to the matters set forth in Section 9(a) hereof; and

(k) The Bank shall have furnished or caused to have furnished or caused to be furnished such other documents as reasonably requested by the Representatives and set forth in the Pricing Agreement.

10. (a) The Bank will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, any preliminary prospectus supplement, the Registration Statement, the ADS Registration Statement, the Statutory Prospectus, the Prospectus as amended or supplemented, the Pricing Disclosure Package, any Issuer Free Writing Prospectus, any "issuer information" (as defined in Rule 433(h)(2) under the Act) filed or required to be filed pursuant to Rule 433(d) under the Act and any other prospectus relating to the Designated Securities, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim; provided, however, that the Bank shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, any preliminary prospectus supplement, the Registration Statement, the ADS Registration Statement, the Statutory Prospectus, the Pricing Disclosure Package, the Prospectus as amended or supplemented, any Issuer Free Writing Prospectus, any other prospectus relating to the Designated Securities or any such amendment or supplement, in reliance upon and in conformity with written information furnished to the Bank by any Underwriter of Designated Securities through the Representatives expressly for use therein.

(b) Each Underwriter will indemnify and hold harmless the Bank against any losses, claims, damages or liabilities to which the Bank may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, any preliminary prospectus supplement, the Registration Statement, the Statutory Prospectus, the Pricing Disclosure Package, the Prospectus as amended or supplemented, any Issuer Free Writing Prospectus and any other prospectus relating to the Designated Securities, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, any preliminary prospectus supplement, the Registration Statement, the Statutory Prospectus, the Pricing Disclosure Package, the Prospectus, as amended or supplemented, any Issuer Free Writing Prospectus and any other prospectus relating to the Designated Securities, or any such amendment or supplement, in reliance upon and in conformity with written information furnished to the Bank by such Underwriter through the Representatives expressly for use therein; and will reimburse the Bank for any legal or other expenses reasonably incurred by the Bank in connection with investigating or defending any such action or claim.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation.

(d) If the indemnification provided for in this Section 10 is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Bank on the one hand and the Underwriters of the Designated Securities on the other from the offering of the Designated Securities to which such loss, claim, damage or liability (or action in respect thereof) relates. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Bank on the one hand and the Underwriters of the Designated Securities on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Bank on the one hand and such Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from such offering (before deducting expenses) received by the Bank bear to the total underwriting discounts and commissions received by such Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Bank on the one hand or such Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Bank and the Underwriters agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the applicable Designated Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligations of the Underwriters of Designated Securities in this subsection (d) to contribute are several in proportion to their respective underwriting obligations with respect to such Designated Securities and not joint.

(e) The obligations of the Bank under this Section 10 shall be in addition to any liability which the Bank may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 10 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Bank (including any person who, with this consent, is named in Registration Statement, as about to become a director of the Bank), to the authorized representative of the Bank in the United States and to each person, if any, who controls the Bank within the meaning of the Act.

11. (a) If any Underwriter shall default in its obligation to subscribe for the Designated Securities for which it has agreed to subscribe under the Pricing Agreement relating to the Designated Securities at a Time of Delivery, the Representatives may in their discretion arrange for themselves or another party or other parties to subscribe for such Designated Securities on the terms contained herein. If within thirty-six hours after such default by any Underwriter the Representatives do not arrange for the subscription for such Designated Securities, then the Bank shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to the Representatives to subscribe for such Designated Securities on such terms. In the event that, within the respective prescribed periods, the Representatives notify the Bank that they have so arranged for the subscription for such Designated Securities, or the Bank notifies the Representatives that it has so arranged for the

subscription for such Designated Securities, the Representatives or the Bank shall have the right to postpone such Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement, the Pricing Disclosure Package, the Statutory Prospectus or the Prospectus as amended or supplemented, or in any other documents or arrangements, and the Bank agrees to file promptly any amendments or supplements to the Registration Statement, the Pricing Disclosure Package, the Statutory Prospectus or the Prospectus which in the opinion of the Representatives may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section 11 with like effect as if such person had originally been a party to the Pricing Agreement with respect to such Designated Securities.

(b) If, after giving effect to any arrangements for the subscription for the Designated Securities of a defaulting Underwriter or Underwriters by the Representatives and the Bank as provided in subsection (a) above, the aggregate principal amount or number of such Designated Securities which remains unsubscribed for does not exceed one-eleventh of the aggregate principal amount or number of all the Designated Securities to be subscribed for at such Time of Delivery, then the Bank shall have the right to require each non-defaulting Underwriter to subscribe for the Designated Securities for which such Underwriter agreed to subscribe hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to subscribe for its pro rata share (based on the principal amount or number of Designated Securities for which such Underwriter agreed to subscribe hereunder) of the Designated Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the subscription for the Designated Securities of a defaulting Underwriter or Underwriters by the Representatives and the Bank as provided in subsection (a) above, the aggregate principal amount or number of such Designated Securities which remains unsubscribed for exceeds one-eleventh of the aggregate principal amount or number of all the Designated Securities to be subscribed for at such Time of Delivery, or if the Bank shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to subscribe for Designated Securities of a defaulting Underwriter or Underwriters, then the Pricing Agreement relating to such Designated Securities (or, with respect to the Second Time of Delivery, the obligation of the Underwriters to subscribe for and of the Bank to issue the Optional Securities) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Bank, except for the expenses to be borne by the Bank and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 10 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

12. The respective indemnities, agreements, representations, warranties and other statements of the Bank and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Bank, or any officer or director or controlling person of the Bank, and shall survive delivery of and payment for the Designated Securities.

13. If any Pricing Agreement shall be terminated pursuant to Section 11 hereof, the Bank shall not then be under any liability to any Underwriter with respect to the Designated Security covered by such Designated Securities except as provided in Section 8 and Section 10 hereof; but, if for any other reason, any Designated Securities are not delivered by or on behalf of

the Bank as provided herein, the Bank will reimburse the Underwriters through the Representatives for all out-of-pocket expenses approved in writing by the Representatives, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the subscription for, sale and delivery of the such Designated Securities not so delivered, but the Bank shall then be under no further liability to any Underwriter except as provided in Section 8 and Section 10 hereof.

14. In all dealings hereunder, the Representatives of the Underwriters of the Designated Securities shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by such Representatives jointly or by such Representatives, if any, as may be designated for such purpose in the Pricing Agreement relating to such Designated Securities.

All statements, requests, notices and agreements hereunder shall be in writing or by telegram, promptly confirmed in writing, and if to the Underwriters shall be sufficient in all respects if delivered or sent by registered mail to the address of the Representatives as set forth in the Pricing Agreement relating to the Designated Securities; and if to the Bank shall be delivered or sent by registered mail to the address of the Bank set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 10(c) hereof shall be delivered or sent by registered mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire, or telex constituting such Questionnaire, which address will be supplied to the Bank by the Representatives upon request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

15. This Agreement and each Pricing Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Bank and, to the extent provided in Sections 10 and 12 hereof, the officers and directors of the Bank and each person who controls the Bank or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement or any such Pricing Agreement. No purchaser of any of the Designated Securities from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

16. The Bank acknowledges and agrees that: (i) the issue and subscription of the Designated Securities pursuant to this Agreement and each Pricing Agreement, including the determination of the public offering price of the Designated Securities and any related discounts and commissions, is an arm's-length commercial transaction between the Bank, on the one hand, and the several Underwriters, on the other hand; (ii) in connection with each transaction contemplated hereby and the process leading to each such transaction each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of the Bank or its affiliates (other than, if applicable, itself), stockholders, creditors or employees or any other party; (iii) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Bank with respect to any of the transactions contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Bank on other matters) and no Underwriter has any obligation to the Bank with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement; (iv) the several Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Bank; and (v) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Bank has consulted its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.

17. The Bank agrees that any legal suit, action or proceeding brought by any Underwriter or by any person controlling any Underwriter, arising out of or based upon this Agreement or any Pricing Agreement may be instituted in any state or federal court in The City and State of New York, and waives any objection which it may now or hereafter have to the laying of venue of any such proceeding, and irrevocably submits to the jurisdiction of such courts in any such proceeding. The Bank hereby designates Barclays Bank PLC (New York Branch) as its authorized agent (the "Authorized Agent") upon which process may be served in any action based on this Agreement or any Pricing Agreement which may be instituted in any state or federal court in The City and State of New York by an Underwriter and expressly accepts the jurisdiction of any such court in respect of such action. Such designation shall be irrevocable. The Bank represents and warrants that it will cause Barclays Bank PLC (New York Branch) to act as said agent for service of process, and the Bank agrees to take any and all action, including the filing of any and all documents and instruments, that may be necessary to continue such designation in full force and effect as aforesaid. Service of process upon the Authorized Agent and written notice of such service to the Bank (mailed or delivered to the Bank at its respective address as aforesaid) shall be deemed, in every respect, effective service of process upon the Bank. Notwithstanding the foregoing, any action based on this Agreement or any Pricing Agreement may be instituted by any Underwriter in any competent court in England.

18. Time shall be of the essence of each Pricing Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

19. ***This Agreement and each Pricing Agreement shall be governed by, and construed in accordance, with the laws of the State of New York.***

20. Each Pricing Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

Dated as of November 30, 2007

Very truly yours,

BARCLAYS BANK PLC

Name: ROSS AUCUTT
Title: HEAD OF CAPITAL ISSUANCE
& SECURITISATION

Underwriting Agreement

ANNEX I

Pricing Agreement

From: Leigh.Meyer@barclaystreasury.com [Leigh.Meyer@barclaystreasury.com]
Sent: Wednesday, March 05, 2008 11:38:57 AM
To: laura.drumm@citi.com
Subject: RE: Project Rimu

Thanks Laura - 14:00 LDN time works well for the team this side. Participants will be Barclays Treasury, Barclays Tax, Barclays legal, PwC, BarCap and Citi and the lawyers (Linklaters, Clifford Chance and Sullivan and Cromwell). I have set up a dial in and circulated - see details below:

For internal callers,
dial 33113 and Enter Mtg ID 1552 when prompted.

To use the Barclays Capital global dial plan,
dial 87733113 and Enter Mtg ID 1552 when prompted.

For External callers,
dial +44 (0) 20 77733113 and Enter Mtg ID 1552 when prompted.

US External callers only. Local number,
dial 1-212-412-3113 Enter Mtg ID 1552 when prompted.

US External callers only. Toll Free number,
dial 1-866-905-8471 Enter Mtg ID 1552 when prompted.

Look forward to speaking to you at 14:00/09:00

Regards

Leigh

-----Original Message-----
From: Drumm, Laura [mailto:laura.drumm@citi.com]
Sent: 04 March 2008 19:44
To: Meyer, Leigh: Barclays Treasury (LDN)
Cc: Lambert, Nick: Barclays Treasury (LDN); Aucutt, Ross: Barclays Treasury (LDN); Harding, Keith: Barclays Treasury (LDN); Johnson, Richard: Legal (LDN)
Subject: RE: Project Rimu

Leigh,

Thank you for your message. We are available tomorrow morning NY time for a kickoff call - does 9.00 NY / 14.00 London work for your team?

On the issue of legal counsel, Jack McSpadden and I just spoke to Richard Johnson about the request for Linklaters to represent the underwriters on this transaction (vs. Weil/Sidley). We are comfortable with this change and defer to your preference.

Just to clarify - tomorrow's call will just be Barclays Treasury, BarCap and Citi, correct? We will update the Sycamore WPL and circulate shortly.

Regards,
Laura

-----Original Message-----
From: Leigh.Meyer@barclaystreasury.com
[mailto:Leigh.Meyer@barclaystreasury.com]
Sent: Tuesday, March 04, 2008 12:01 PM
To: Drumm, Laura [CMB-GFICC]
Cc: Nick.lambert@barclaystreasury.com; Ross.Aucutt@barclaystreasury.com;
Keith.Harding@barclaystreasury.com
Subject: Project Rimu

Dear Laura

I wanted to get in touch to see whether you could set up a kick-off call for Project Rimu, ideally for either tomorrow or Thursday, if that works for all parties. In terms of availability, we would prefer that the call not be between 4-6pm Ldn time tomorrow (Wed), but can work around this if needed. In terms of attendees, this would be as per the WPL for Sycamore (attached) (but excluding UBS and Wachovia).

In terms of legal counsel, Barclays will use Clifford Chance and Sullivan and Cromwell, as for Sycamore. With regard to bookrunners/underwriters counsel, I understand that Simon Croxford from Barcap will be contacting Citi today to discuss appropriate counsel. Once this has been agreed then relevant bookrunners/underwriters legal counsel can also be invited to join the call.

I will try and touch base with you later to discuss

Regards

Leigh

Leigh Meyer
Capital Issuance and Securitisation
Barclays Treasury
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London E14 5HP

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<<Project Sycamore WPL 11-18-07.pdf>>

From: Ciobanu, Bogdan [CMB-GBKG] [bogdan.ciobanu@citi.com]
Sent: Monday, March 17, 2008 12:33:25 PM
To: ross.aucutt@barclaysgt.com; nick.lambert@barclaysgt.com; keith.harding@barclaysgt.com; leigh.meyer@barclaysgt.com; todd.foreman@barclays.com; victoria.hardy@barclays.com; kathryn.mcleland@barcap.com; yenal.ghori@barcap.com; tanja.gihr@barcap.com; simon.croxford@barcap.com; richard.d.johnson@barcap.com; belinda.vickery@barcap.com; mark.graham@barcap.com; bret.ganis@barcap.com; richard.smith3@barcap.com; Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; White, Christopher K [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; simon.sinclair@cliffordchance.com; oconnorj@sullcrom.com; vonlanthenc@sullcrom.com; nyattai@sullcrom.com; kleinj@sullcrom.com; david.ludwick@linklaters.com; vinay.samani@linklaters.com; joost.vanamelsfort@linklaters.com; sarah.whittington@linklaters.com; jon.gray@linklaters.com
Subject: Project Rimu - Update Call today @ 10:00 AM NY/14:00 London
Attachments: Rimu - Agenda 03 17 08.pdf

Team,

Please find attached an agenda for today's update call at 10:00 AM NY/14:00 London for Project Rimu. Dial-in details below:

Date: Monday, March 17, 2008
Time: 10:00 AM NY / 14:00 London
Dial-in:
(US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477
Conference Code: 034933

Regards,
Bogdan Ciobanu
<<Rimu - Agenda 03 17 08.pdf>>

Bogdan Ciobanu
Citi Markets and Banking
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T: +1.212.816.9429 F: +1.646.291.37.2
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Project Rimu

Organizational Conference Call

Schedule: **Monday, March 17, 2008 10:00 AM NY / 14:00 London**

Dial-in: (US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477

Conference Code: 034933

1. **Key documents status update**

▪ Prospectus supplement and prospectus	Sullivan & Cromwell / Clifford Chance
▪ Underwriting and Pricing Agreements	Linklaters
▪ Deposit Agreement	Sullivan & Cromwell / Clifford Chance
▪ Deed of Covenant	Clifford Chance
▪ Agreement among Underwriters	Linklaters
▪ Form of Preference Shares	Clifford Chance / Sullivan & Cromwell
▪ NYSE listing application	Sullivan & Cromwell / Clifford Chance
▪ Legal opinions	Company / Counsels
▪ Tax opinions	Company / Counsels
▪ Officers Certificates	Company / Clifford Chance
▪ Closing memorandum	Company / Counsels

2. **Due diligence updates**
   - Questions to be distributed this week
   - Due diligence call to be scheduled for the week of March 31

3. **Comfort letter updates**

4. **Rating agency updates**

5. **Other issues**
   - NYSE listing
   - NASD filings
   - Blue Sky
   - Barclays Capital Securities issues
   - Management and underwriting group

From: Ciobanu, Bogdan [CMB-GBKG] [bogdan.ciobanu@citi.com]
Sent: Wednesday, March 19, 2008 3:33 PM
To: ross.aucutt@barclaysgt.com; nick.lambert@barclaysgt.com; keith.harding@barclaysgt.com; leigh.meyer@barclaysgt.com; todd.foreman@barclays.com; victoria.hardy@barclays.com; kathryn.mcleland@barcap.com; yenal.ghori@barcap.com; tanja.gihr@barcap.com; simon.croxford@barcap.com; richard.d.johnson@barcap.com; belinda.vickery@barcap.com; mark.graham@barcap.com; bret.ganis@barcap.com; richard.smith3@barcap.com; Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; White, Christopher K [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; simon.sinclair@cliffordchance.com; oconnorj@sullcrom.com; vonlanthenc@sullcrom.com; nyattai@sullcrom.com; kleinj@sullcrom.com; david.ludwick@linklaters.com; vinay.samani@linklaters.com; joost.vanamelsfort@linklaters.com; sarah.whittington@linklaters.com; jon.gray@linklaters.com
Subject: Project Rimu - Update Call on Thursday @ 10:00 AM NY/14:00 UK
Attachments: Rimu - Agenda 03 20 08.pdf

Team,

Attached please find an agenda for an update call on **Thursday, March 20th** at **10:00 AM NY/14:00** UK for Project Rimu. Dial-in details below:

Date: Monday, March 20, 2008
Time: 10:00 AM NY / 14:00 London
Dial-in:
(US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477
Conference Code: 034933
<<Rimu - Agenda 03 20 08.pdf>>
Regards.
Bogdan Ciobanu

Bogdan Ciobanu

Project Rimu

Organizational Conference Call

Schedule: **Thursday, March 20, 2008 10:00 AM NY / 14:00 London**

Dial-in: (US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477
Conference Code: 034933

1. Key documents status updates

Open – under consideration for update

- Substitution provision
- Risk factors

Open – format agreed

Prospectus Supplement	Sullivan & Cromwell / Clifford Chance
Pricing Agreement	Linklaters
Addendum to MAAU	Linklaters
Deed of Covenant	Clifford Chance
Form of Preference Shares	Clifford Chance / Sullivan & Cromwell
NYSE listing application	Sullivan & Cromwell / Clifford Chance
Legal opinions	Company / Counsels
Tax opinions	Company / Counsels
Officers Certificates	Company / Clifford Chance
Closing memorandum	Clifford Chance

Completed

Prospectus	Sullivan & Cromwell / Clifford Chance
Deposit Agreement	Sullivan & Cromwell / Clifford Chance
Underwriting Agreement	Linklaters
Master Agreement Among Underwriters	Linklaters

2. Due diligence updates

- Due diligence call tentatively scheduled for April 2, 2008

3. Comfort letter updates

4. Rating agency updates

5. Other issues

- Management and underwriting group

From: Ciobanu, Bogdan [CMB-GBKG] [bc55345@imcnam.ssmb.com]
Sent: Thursday, March 27, 2008 7:38:43 PM
To: ross.aucutt@barclaysgt.com; nick.lambert@barclaysgt.com; keith.harding@barclaysgt.com; leigh.meyer@barclaysgt.com; todd.foreman@barclays.com; victoria.hardy@barclays.com; kathryn.mcleland@barcap.com; yenal.ghori@barcap.com; tanja.gihr@barcap.com; simon.croxford@barcap.com; richard.d.johnson@barcap.com; belinda.vickery@barcap.com; mark.graham@barcap.com; bret.ganis@barcap.com; richard.smith3@barcap.com; Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; Bridgers, Darrell [CMB-GCO]; Pakenham, Jane [CMB-GCO]; simon.sinclair@cliffordchance.com; mabel.tay@cliffordchance.com; oconnorj@sullcrom.com; vonlanthenc@sullcrom.com; nyattai@sullcrom.com; david.ludwick@linklaters.com; vinay.samani@linklaters.com; joost.vanamelsfort@linklaters.com; sarah.whittington@linklaters.com; jon.gray@linklaters.com
Subject: Project Rimu - Update Call Friday @ 10:00 AM NY/14:00 London
Attachments: Rimu - Agenda 03 28 08.pdf

Team,

Please find attached an agenda for Friday's update call at 10:00 AM NY/14:00 London for Project Rimu. Dial-in details below:

Date: Friday, March 28, 2008
Time: 10:00 AM NY / 14:00 London
Dial-in:
(US) -1 866 376 5281
(UK) -44 (0) 207 477 2 477
Conference Code: 034933 #

Please note that we remain flexible if time needs to change.

Regards,
Bogdan

<<Rimu - Agenda 03 28 08.pdf>>

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Project Rimu

Organizational Conference Call

Schedule: **Friday, March 28, 2008 10:00 AM NY / 14:00 London**

Dial-in: (US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477

Conference Code: 034933#

1. **Key documents status updates**

Open – under consideration for update
- Regulatory par call
- Risk factors

Open – circulated for review

Prospectus Supplement	Sullivan & Cromwell / Clifford Chance
Pricing Agreement	Linklaters
Addendum to MAAU	Linklaters
Deed of Covenant	Clifford Chance
Form of Preference Shares	Clifford Chance / Sullivan & Cromwell
Agency Agreement	Clifford Chance / Sullivan & Cromwell

Open – not yet circulated

NYSE listing application	Sullivan & Cromwell / Clifford Chance
Legal opinions	Company / Counsels
Tax opinions	Company / Counsels
Officers Certificates	Company / Clifford Chance
Closing memorandum	Clifford Chance

Completed

Prospectus	Sullivan & Cromwell / Clifford Chance
Deposit Agreement	Sullivan & Cromwell / Clifford Chance
Underwriting Agreement	Linklaters
Master Agreement Among Underwriters	Linklaters

2. **Due diligence updates**
   - Due diligence call tentatively scheduled for April 2, 2008

3. **Comfort letter updates**

4. **Rating agency updates**

5. **Other issues**
   - Management and underwriting group

From: Ciobanu, Bogdan [CMB-GBKG] [bogdan.ciobanu@citi.com]
Sent: Wednesday, April 02, 2008 6:45:30 PM
To: ross.aucutt@barclaysgt.com; nick.lambert@barclaysgt.com; keith.harding@barclaysgt.com; leigh.meyer@barclaysgt.com; todd.foreman@barclays.com; victoria.hardy@barclays.com; Raj.Cheema@barclayscapital.com; Mark.Wrafter@barclayscapital.com; kathryn.mcleland@barcap.com; yenal.ghori@barcap.com; tanja.gihr@barcap.com; simon.croxford@barcap.com; richard.d.johnson@barcap.com; belinda.vickery@barcap.com; mark.graham@barcap.com; bret.ganis@barcap.com; richard.smith3@barcap.com; Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Midander, Jakob [CMB-GFICC]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; Bridgers, Darrell [CMB-GCO]; Pakenham, Jane [CMB-GCO]; simon.sinclair@cliffordchance.com; mabel.tay@cliffordchance.com; Robert.Sartor@CliffordChance.com; Jonathan.Elman@CliffordChance.com; Mark.Persoff@CliffordChance.com; oconnorj@sullcrom.com; vonlanthenc@sullcrom.com; nyattai@sullcrom.com; david.ludwick@linklaters.com; vinay.samani@linklaters.com; joost.vanamelsfort@linklaters.com; sarah.whittington@linklaters.com; jon.gray@linklaters.com
Subject: Project Rimu - Docs update call Thursday, April 3 @ 10:30 AM NY / 15:30 UK
Attachments: Rimu - Agenda 04 03 08.pdf

Team,
Please join us for a brief docs update call for Project Rimu. Thursday, April 3 at 10:30 AM NY / 15:30 UK. Please find below an agenda and dial-in information.

<u>Dial-in:</u>
Schedule: Thursday, April 3, 2008 10:30 AM NY / 15:30 UK
Dial-in: (US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477
Conference Code: 034933#
<<Rimu - Agenda 04 03 08.pdf>>
Regards,
Bogdan

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Project Rimu

Organizational Conference Call

Schedule: **Thursday, April 3, 2008 10:30 AM NY / 15:30 UK**

Dial-in: (US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477

Conference Code: 034933#

1. Key documents status updates

Open – circulated for review

▪ Prospectus Supplement	Sullivan & Cromwell / Clifford Chance
▪ Pricing Agreement	Linklaters
▪ Addendum to MAAU	Linklaters
▪ Deed of Covenant	Clifford Chance
▪ Form of Preference Shares	Clifford Chance / Sullivan & Cromwell
▪ Agency Agreement	Clifford Chance / Sullivan & Cromwell
▪ NYSE listing application	Sullivan & Cromwell / Clifford Chance
▪ Legal opinions	Company / Counsels

Open – not yet circulated

▪ Tax opinions	Company / Counsels
▪ Officers Certificates	Company / Clifford Chance
▪ Closing memorandum	Clifford Chance

Completed

▪ Prospectus	Sullivan & Cromwell / Clifford Chance
▪ Deposit Agreement	Sullivan & Cromwell / Clifford Chance
▪ Underwriting Agreement	Linklaters
▪ Master Agreement Among Underwriters	Linklaters

2. Comfort letter updates

3. Rating agency updates

4. Other issues

- Management and underwriting group

From: Ciobanu, Bogdan [CMB-GBKG] [bogdan.ciobanu@citi.com]
Sent: Thursday, April 3, 2008 11:09 PM
To: ross.aucutt@barclaysgt.com; nick.lambert@barclaysgt.com; keith.harding@barclaysgt.com; leigh.meyer@barclaysgt.com; todd.foreman@barclays.com; victoria.hardy@barclays.com; Raj.Cheema@barclayscapital.com; Mark.Wrafter@barclayscapital.com; kathryn.mcleland@barcap.com; yenal.ghori@barcap.com; tanja.gihr@barcap.com; simon.croxford@barcap.com; richard.d.johnson@barcap.com; belinda.vickery@barcap.com; mark.graham@barcap.com; bret.ganis@barcap.com; richard.smith3@barcap.com; Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Midander, Jakob [CMB-GFICC]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; Bridgers, Darrell [CMB-GCO]; Pakenham, Jane [CMB-GCO]; simon.sinclair@cliffordchance.com; mabel.tay@cliffordchance.com; Robert.Sartor@CliffordChance.com; Jonathan.Elman@CliffordChance.com; Mark.Persoff@CliffordChance.com; oconnorj@sullcrom.com; vonlanthenc@sullcrom.com; nyattai@sullcrom.com; david.ludwick@linklaters.com; vinay.samani@linklaters.com; joost.vanamelsfort@linklaters.com; sarah.whittington@linklaters.com; jon.gray@linklaters.com
Subject: Project Rimu - Status update call Friday, April 4 @ 10:30 AM NY / 15:30 UK

Team,
Please join us for a brief status update call for Project Rimu, Friday, April 4 at 10:30 AM NY / 15:30 UK.

Dial-in:
Schedule: Friday, April 4, 2008 10:30 AM NY / 15:30 UK
Dial-in: (US) +1 866 376 5281
(UK) +44 (0) 207 477 2 477
Conference Code: 034933#

Regards,
Bogdan

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From: Ciobanu, Bogdan [CMB-GBKG] [bc55345@imcnam.ssmb.com]
Sent: Tuesday, March 18, 2008 2:38 PM
To: kathryn.mcleland@barcap.com; yenal.ghori@barcap.com; tanja.gihr@barcap.com; simon.croxford@barcap.com; richard.d.johnson@barcap.com; belinda.vickery@barcap.com; mark.graham@barcap.com; bret.ganis@barcap.com; richard.smith3@barcap.com; Aherne, Peter O [CMB-GFICC]; Greve, Leo-Hendrik [CMB-GFICC]; Mason, Peter James [CMB-GFICC]; Drumm, Laura [CMB-GFICC]; White, Christopher K [CMB-GFICC]; Deese, Derrick [CMB-GFICC]; Dickey, John W [CMB-GFICC]; Mcgeary, Simon [CMB-GFICC]; Louie, Stanley [CMB-GFICC]; Keat, Deborah [CMB-GFICC]; Letina, Anastasia [CMB-GFICC]; Stephenson, Laura [CMB-GFICC]; Walker, David [CMB-GBKG]; Reid, James [CMB-GBKG]; Mcspadden, Jack D [CMB-GBKG]; Harjani, Chandru [CMB-GBKG]; Rose-Smith, Alastair [CMB-GBKG]; Siekel, Peter [CMB-GBKG]; david.ludwick@linklaters.com; vinay.samani@linklaters.com; joost.vanamelsfort@linklaters.com; sarah.whittington@linklaters.com; jon.gray@linklaters.com
Subject: RE: Project Rimu - draft Due Diligence lists
Attachments: Barclays - Business Due Diligence Mar 2007 v2.pdf; Barclays - Accounting Due Diligence Mar 2007 v2.pdf

Team,

Attached please find the draft Business and Accounting due diligence lists for Project Rimu. Please review and revert with comments, as appropriate, by close of business Wednesday (3/19). We plan on sending the due diligence lists to Barclays before the end of this week. Due diligence has been tentatively scheduled for April 2.

Regards,
Bogdan

<<Barclays - Business Due Diligence Mar 2007 v2.pdf>> <<Barclays - Accounting Due Diligence Mar 2007 v2.pdf>>

> ______________________________
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>
>

Confidential

PROJECT RIMU

ACCOUNTING DUE DILIGENCE

April 2008

Please note that, as used below, when we refer to the "Group", we mean the Bank and all its subsidiaries. When we refer to an "officer", we mean any member of the administrative, supervisory or management bodies of, as well as any other person who exercises management control over, the Bank or any subsidiary.

BACKGROUND AND RELATIONSHIP WITH THE GROUP

1. How long have you been the auditors of the Group and how long has the current audit team worked with the Group. Describe how any transition of audit team members is handled.

2. Outline the scope of review of the most recent audits and the frequency of meetings with the Bank and its subsidiaries (including officers, the audit committee (or persons serving an equivalent function) and the Board). Are there any material subsidiaries within the Group that you do not audit?

3. Does any management personnel of PricewaterhouseCoopers LLP have any prior relationship with the Bank or any of its affiliates or vice versa? Does PwC perform any non-audit services for the Bank? Has any internal audit work been outsourced to by the Company to PwC?

ACCOUNTING POLICIES AND STANDARDS AND INTERNAL CONTROLS

4. Comment on the adequacy of the accounting policies and standards, internal controls and procedures and management reporting of the Group, including any major problems identified. Please discuss the identification of the Group's critical accounting policies. Please comment on the Group's anti-money laundering procedures.

5. Compare the reporting policies and accounting principles employed by the Group with those generally utilized in the banking industry.

6. Please discuss any areas that you feel can be improved in the Group's internal accounting systems or with respect to internal controls and procedures, any proposals you have made to make such improvements and the management's response to such proposals and any weaknesses that you feel are not being given adequate management attention.

7. Please comment on the effectiveness of management's controls within the meaning of Section 404 of the Sarbanes-Oxley Act. That section requires issuers to include an internal control report in their annual reports which shall state the responsibility of management for establishing and maintaining adequate internal controls, as well as management's assessment of the effectiveness of those controls and an attestation report from a registered public accounting firm as to management's evaluation.

8. Has the implementation of IFRS materially impacted the US GAAP reconciliation process? Please comment generally on the US GAAP reconciliation process and the effect of the recent SEC announcement concerning US GAAP reconciliation.

FINANCIAL STATEMENTS

9. Describe any current or past material disagreements between the Company's auditor and the Group relating to the financial statements or accounting policies of the Group, and describe how they were resolved.

10. List any areas identified as requiring particular attention and audit issues discussed with management.

11. Discuss the amount and adequacy of the Group's reserves for litigation (including any tax disputes) and other contingent liabilities.

12. Describe any significant post FYE 2007 events which have or are likely to occur relating to the Group.

13. Please describe PwC's involvement in the preparation of the Barclays Capital FYE 2007 financials. Can you describe the methodology used in determining the amounts of the write downs (including any netting) and whether it is in accordance with IFRS and US GAAP (to the extent applicable). Have any additional write downs been taken or contemplated since the end of December 2007?

14. Please describe PwC's involvement in the preparation of the Group's Financial Statements for the FYE 2007.

15. Are there any significant issues which you have brought to the attention of the Audit Committee or the Board of Directors?

16. Describe anything which has come to the attention of PricewaterhouseCoopers LLP over the last five years or since the Bank's last financial year which materially impacts on the fairness or reliability of a previous audit report or the underlying financial information or which will affect the audit report or financial statements for the current or subsequent financial years.

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PROJECT RIMU

BUSINESS DUE DILIGENCE

April 2008

BUSINESS DUE DILIGENCE

BUSINESS ENVIRONMENT AND STRATEGY

1. Please highlight the major areas for revenue growth and business expansion in Barclays' (the "**Bank's**") medium term strategy.

2. Please discuss the Bank's business plan for 2008. Are there any business areas that management is concentrating on, or expects will perform strongly.

3. Has Barclays any plans for significant changes in management, operating or legal structure of the Group in addition to those already disclosed?

4. Please discuss any significant acquisitions or dispositions the Bank has made in the preceding 12 months.

OPERATING RESULTS

5. Referring to the recently announced 2007 full year results please advise whether such results were below, in-line or above management's budget expectations. Were there any businesses/divisions that performed materially below or above management's planned projections for 2007?

6. Please comment briefly on the trading performance for the first two months of 2008. When compared to the same period in 2007, are such results above or below the comparative 2007 result. Please comment on any specific line items in the P&L and balance sheet that experienced material movements. Please comment on your outlook for 1H 2008 and full year 2008 results.

PROFITABILITY

7. Can Barclays comment on steps the Bank has taken to mitigate the effects of a serious economic downturn?

8. Please comment on the Bank's 2007 results by business segment with respect to:

   - Earnings and profitability (ROAA, ROAE, NIM)
   - Operating expenses and operating leverage
   - Special charges if any
   - Any trends of note observed within any business segment?

   Are the results in line with internal targets/market expectations?

9. Is the Bank concerned about the sustainability of Barclays Capital's profitability, given the current interest rate outlook, European and US corporate deleveraging environment or a higher reliance on dealing profits?

10. Please comment on the current valuation of the pension scheme, any shortfall and the impact of the scheme on future profitability.

ASSET VALUATION / ASSET MIX QUALITY

11. Please discuss the current state/quality of the consolidated fixed-income securities portfolio. How is the portfolio valued, marked-to-market and/or marked-to-model? Please provide the split between the two valuation methods. Please comment on the level of writedowns in 2007, and any expectation for further writedowns in 2008.

12. Does this portfolio capture the Bank's entire exposure to CDOs, CLOs, SIVs, conduits, ABS, sub-prime mortgage assets and other structured credit products? Would all of these be located on-balance sheet? If not, how much is located off-balance sheet. Are there any off-balance sheet vehicles (e.g., SIVs) that the Bank is contemplating moving on to the balance sheet?

13. In the near-term, does management anticipate the need to make any further writedowns for any of the other above products?

14. Please discuss the Group's exposure to leveraged loans and whether any further writedowns are expected.

15. Please discuss the Group's exposure to the fixed rate auction securities market, and impact, if any, that may be expected on the Group's financial statements.

16. Please discuss the Group's exposure to monolines, either direct or indirect.

17. Please discuss the breakdown of the loan book. Is this likely to change materially from FYE 2007?

18. Please discuss any concentrations in the loan book. What is the largest industry sector and how much does it account for in the total loan portfolio?

19. Please discuss the current credit quality of the loan portfolio. What is the current level of non-performing loans? Does management expect any deterioration in the loan portfolio during 2008?

20. Are there any loans that represent more than 10% of the Group's equity base? If so, how many? Are any of these loans non-performing or on a "watch list"?

RISK, CAPITAL, LIQUIDITY AND FUNDING

21. Please discuss the state of the Bank's risk management process and procedures. Did management make any significant changes to the way the Bank manages, calculates or reports risk in 2007. Are they considering making any changes in 2008?

22. Please discuss the Bank's current BIS ratios (Tier 1 and Total Capital).

23. Please provide an outline of the capital requirements of the Bank.

24. Please comment on Barclays' asset and liability management procedures and any significant mis-matching and management of such.

25. Please comment on recent changes if any in funding sources.

26. How is the overall balance sheet positioned for interest rate movements? What is your outlook for margins for 2008?

27. Please describe how you manage your overall currency exposure. How has/will the fall of the dollar impacted earnings?

28. Please discuss the intended use of proceeds from the Issue.

29. Please comment on the Group's implementation of Basel II. What is the expected impact on capital and ratios for its implementation?

LEGAL, REGULATORY, ACCOUNTING AND RATING AGENCY ISSUES

30. Are there any material regulatory changes that the Group is experiencing difficulty implementing?

31. Are there any other actions (legal, regulatory, tax or accounting) or issues not yet discussed which could have a material impact on the Bank or Group's financial performance or condition?

32. Are you aware of any legislative or regulatory changes, planned or proposed and that are likely to be implemented, that could have a material effect on the Bank or the Group?

33. Is there any outstanding, pending or, to the knowledge of management, threatened material litigation or regulatory action involving Barclays or any of its subsidiaries or its directors or officers? If so, please provide details and the potential material impact, if any, on the Bank's financial position and ability to conduct its business. Has Barclays entered into any settlement agreement that could have a material impact on its financial condition or business?

34. Are there any outstanding material judgements, decrees or orders affecting the Group's operations?

35. Any issues we should discuss regarding Anti-Money Laundering, regulatory sanctions compliance or the Foreign Corrupt Practices Act?

36. Please provide an update regarding recent discussions with, and any reports issued by, the rating agencies with respect to Barclays (including those in connection with the Barclays Capital Trading Statement of November 15, 2007).

GENERAL

37. Please discuss any other risks or concerns to which Barclays is, or may be, exposed in the future that have not otherwise been addressed in the above questions.

38. Please discuss whether Barclays has begun the process of complying with SFAS 157, in particular whether Barclays have identified the split between level 1, level 2 and level 3.

39. Please discuss your risk management experience in the past six months in Barclays Capital.

    What improvements would you make, if any?

40. Does the Prospectus contain all information which is necessary to enable investors to make an informed assessment of the assets, liabilities, financial position, profit and loss and prospects of the Issuer?

41. Please discuss any other material information that the management would like to highlight in the context of the contemplated offering.