**Barclays Capital Securities Limited**

# REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

REGISTERED IN ENGLAND NO. 1929333

**Barclays Capital Securities Limited**
**Year ended 31 December 2005**
***Directors' Report and Financial Statements***

**CONTENTS**

**Directors' Report**

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2005.

**Principal Activity and Review of Business**

During the year the principal activity of the Company was the provision of prime services, equity derivative and convertible bond trading and agency execution services. The Company is authorised and regulated by the Financial Services Authority. No significant changes in the Company's activities are expected.

The financial statements have been prepared in accordance with International Financial Reporting Standards, adopted by the European Union, for the first time. Previously the Company followed UK GAAP.

**Overseas Branches**

The Company has three overseas branches located in Korea, Shanghai and Taiwan.

**Results and Dividends**

During the year the Company made a profit after taxation of £55,677,000 (2004: £35,403,000). The Directors do not recommend the payment of a dividend (2004: nil)

**Directors**

The Directors of the Company who served during the year, together with their dates of appointment and resignation, where appropriate, are as shown below:

| | |
|---|---|
| Barometers Limited | Resigned 17 March 2005 |
| Barcosec Limited | Resigned 17 March 2005 |
| P A Clackson | |
| J-Sool Joo | |
| E J G Harkness | |
| J A Whittaker | Resigned 29 June 2005 |
| S W M Leathes | |
| M Blackburn | Resigned 20 April 2005 |
| P Sherwood | Resigned 16 August 2005 |
| B S Bagary | Appointed 5 May 2005 |
| R J Place | Appointed 5 May 2005 |
| H C Shields | Appointed 2 November 2005 |

**Directors' Interests in Shares (as defined by section 325 in the Companies Act 1985)**

The Directors have no interests in the shares of the Company. The Directors of the Company are also directors of Barclays Directors Limited and their interests in the ordinary shares of Barclays PLC, the ultimate holding company, are disclosed in the financial statements of that company.

**Statement of Directors' Responsibilities**

The following statement, which should be read in conjunction with the Auditors' Report set out on page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 4 to 29:

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and

- that the financial statements have been prepared on a going concern basis.

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

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

**Creditors' Payment Policy**

Given the principal activity of the Company is the provision of financial services, it does not have trade creditors and as such the disclosure of a creditors' payment policy is not applicable.

**Financial Instruments**

Barclays financial risk management objectives and policies, including the policy for hedging the exposure to credit risk, liquidity risk, interest rate risk, price risk and cash flow risk are set out in notes 24-27.

**Auditors**

On 26 April 1991 an Elective Resolution was passed by the shareholders of the Company pursuant to Section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

**BY ORDER OF THE BOARD**

H C Shields
Director

17 March 2006

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARCLAYS CAPITAL SECURITIES LIMITED

We have audited the financial statements of Barclays Capital Securities Limited for the year ended 31 December 2005 which comprise the Income Statement, the Statement of Changes in Shareholders' Equity, the Balance Sheet, the Cash Flow Statement and the related notes on pages 8 to 29. These financial statements have been prepared under the accounting policies set out in note 3.

**Respective responsibilities of directors and auditors**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

***Basis of audit opinion***

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

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
23 March 2006

**Barclays Capital Securities Limited**
***Year ended 31 December 2005***
**Income Statement**

| | Note | **2005** | 2004(1) |
|---|---|---|---|
| | | **£'000** | £'000 |
| Interest income | | 296,403 | 113,840 |
| Interest expense | | (283,471) | (101,892) |
| Net interest income | 3(a) | 12,932 | 11,948 |
| Net trading income | 3(b) | 192,594 | 152,303 |
| Total income | | 205,526 | 164,251 |
| Administrative expenses | 4 | (126,054) | (110,565) |
| **Profit before taxation** | | 79,472 | 53,686 |
| Taxation | 6 | (23,795) | (18,283) |
| **Profit after taxation** | | 55,677 | 35,403 |
| **Profit attributable to equity holders** | | 55,677 | 35,403 |

All recognised gains and losses are included in the income statement.



(1) 2004 comparatives have not been restated for the effects of IAS 32 or IAS 39. Financial instruments have been presented in accordance with UK GAAP.

**YEAR ENDED 31 DECEMBER 2005**

| | Note | Equity Shares | Preference Shares | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2005 brought forward | | 88,500 | 490,001 | (164,250) | 414,251 |
| First time adoption of IAS 32 and IAS 39 | 32 | | | (18,499) | (18,499) |
| Profit for the financial year | | | | 55,677 | 55,677 |
| Balance at 31 December 2005 carried forward | | 88,500 | 490,001 | (127,072) | 451,429 |

**YEAR ENDED 31 DECEMBER 2004**

| | Equity Shares | Preference Shares | Accumulated Deficit | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2004 brought forward | 88,500 | 490,001 | (199,653) | 378,848 |
| Profit for the financial year | | | 35,403 | 35,403 |
| Balance at 31 December 2004 carried forward | 88,500 | 490,001 | (164,250) | 414,251 |



(1) 2004 comparatives have not been restated for the effects of IAS 32 or IAS 39. Financial instruments have been presented in accordance with UK GAAP.

**Barclays Capital Securities Limited**
***Year ended 31 December 2005***
**Balance sheet**

| | Note | **2005** **£'000** | 2004(1) £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 1,302,888 | 1,419,877 |
| Financial assets | | | |
| - held for trading | 7 | 8,174,837 | n/a |
| - derivative financial instruments | 8 | 22,453,545 | n/a |
| Long positions in securities | 9 | n/a | 9,237,217 |
| Loans and receivables | 10 | 34,761,873 | 20,450,196 |
| Trade and other receivables | 11 | 181,567 | 624,314 |
| Deferred tax assets | 12 | 8,277 | 35 |
| Property, plant and equipment | 13 | 274 | 260 |
| Investments in subsidiaries | 14 | 12 | 12 |
| **Total assets** | | 66,883,273 | 31,731,911 |
| **Liabilities** | | | |
| Borrowings | 15 | 37,270,975 | 28,580,119 |
| Financial liabilities | | | |
| - held for trading | 7 | 2,570,501 | n/a |
| - derivative financial instruments | 8 | 26,372,414 | n/a |
| - liabilities at fair value | 16 | 53,815 | n/a |
| Short positions in securities | 17 | n/a | 831,265 |
| Trade and other payables | 18 | 160,080 | 1,905,700 |
| Current tax | 19 | 4,059 | 576 |
| **Total liabilities** | | 66,431,844 | 31,317,660 |
| **Shareholders' equity** | | | |
| *Called up share capital - Equity* | | 88,500 | 88,500 |
| - Preference Shares | | 490,001 | 490,001 |
| | 20 | 578,501 | 578,501 |
| Accumulated deficit | | (127,072) | (164,250) |
| **Total shareholders' equity** | | 451,429 | 414,251 |
| **Total liabilities and shareholders equity** | | 66,883,273 | 31,731,911 |

The financial statements on pages 4 to 29 were approved by the Board of Directors and authorised for issue on 17 March 2006.

They were signed on its behalf by:

.................. H C Shields (Director)



(1) 2004 comparatives have not been restated for the effects of IAS 32 or IAS 39. Financial instruments have been presented in accordance with UK GAAP.

**Barclays Capital Securities Limited**
**Year ended 31 December 2005**
**Cash flow statement**

| | Note | 2005 £'000 | 2004 £'000 |
|---|---|---|---|
| **Net cash flow from operating activities** | 21 | | |
| Cash (used in)/received from operating activities | | (162,113) | 1,314,247 |
| Interest received | | 307,893 | 107,574 |
| Interest paid | | (262,639) | (101,325) |
| **Net cash from operating activities** | | (116,859) | 1,320,496 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (135) | (79) |
| Proceeds from sale of property, plant and equipment | | 5 | 62 |
| | | (130) | (17) |
| **Decrease in cash and cash equivalents** | | (116,989) | 1,320,479 |
| **Cash and cash equivalents at beginning of year** | | 1,419,877 | 99,398 |
| **Cash and cash equivalents at end of year** | | 1,302,888 | 1,419,877 |

Cash and cash equivalents comprises of cash at bank



2004 comparatives have not been restated for the effects of IAS 32 or IAS 39. Financial instruments have been presented in accordance with UK GAAP.

## 1. Reporting entity

These financial statements are prepared for Barclays Capital Securities Limited (the Company), which is engaged in the provision of prime services, equity derivative, convertible bond and agency execution services. The financial statements are prepared for the Company only. The Company is a wholly owned subsidiary of Barclays Bank PLC and its ultimate parent Company is Barclays PLC, both of which prepare consolidated financial statements in accordance with IFRS as adopted by the EU, and accordingly consolidated financial statements have not been prepared.

The Company is a private limited company, incorporated in Great Britain. The registered office of the Company is 1 Churchill Place, London E14 5HP.

## 2. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), adopted by the European Union. In all respects, this is also in accordance with IFRS, including the interpretations issued by the International Financial Reporting Interpretations Committee.

## 3. Accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied, except for the first time application of IFRS relating to financial instruments for which the 2004 comparatives have been prepared in accordance with UK GAAP, in accordance with IFRS as adopted by the EU, as is described in more detail in the relevant accounting policies. UK GAAP comprises UK accounting standards issued by the UK Accounting Standards Board and the pronouncements of its Urgent Issues Task Force, and the Companies Act, 1985.

### Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the fair valuation of certain financial instruments to the extent required or permitted under IAS 39, 'Financial Instruments, recognition and measurement' as set out in the relevant accounting policies, in accordance with the Companies Act, 1985 Schedule 226(2)b. They are stated in thousands of pounds sterling, (£'000), the currency of the country in which the Company is incorporated.

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial statements.

### First time adoption of IFRS

The Company has applied IFRS in its financial reporting with effect from 1st January 2004, in accordance with the transitional provisions set out in IFRS 1, 'First-time Adoption of International Financial Reporting Standards'. The Company has used the provisions of IFRS 1 in arriving at appropriate opening balances for the purposes of these financial statements, as follows:

***Property, Plant and Equipment***
The Company has adopted the carrying values of all items of property, plant and equipment on the date of transition under UK GAAP as their deemed cost rather than either reverting to historical cost or carrying out a valuation as at the date of transition as permitted by IFRS 1.

***Derecognition of financial assets and liabilities***
The Company has elected not to re-recognise financial assets and liabilities derecognised before 1 January 2004.

### First time application of IFRS relating to Financial Instruments

In addition to the options described above, IFRS 1 also includes specific transitional provisions for International Accounting Standard 32, 'Financial Instruments, Disclosure and Presentation' and International

Accounting Standard 39, 'Financial Instruments – Recognition and Measurement'. The Company has decided to take advantage of these provisions and therefore not applied these standards to 2004 comparatives. The impact of these standards is reflected through adjustments to shareholders' equity as at 1st January 2005. In the 2004 comparatives, financial instruments are included using the measurement bases and the disclosure requirements of UK GAAP relating to financial instruments.

**Effect of transition to IFRS**

A description of the differences between UK GAAP and IFRS accounting policies is set out on pages 26 to 29. A reconciliation of the amount of shareholders' equity at 1st January 2005, before and after the application of IAS 32 and IAS 39, and an explanation of the effects of their application on the opening 2005 balance sheet, is presented on page 29. There were no differences in accounting policy that had a material impact on shareholders' equity as at 1 January 2004 and 31 December 2004 and as such no reconciliation is required.

The Company's accounting policies set out below, insofar as they relate to financial instruments, describe the policy applied both before and after the application of these standards on 1 January 2005.

**(a) Interest receivable and payable**

Interest income is recognised in the Income Statement for all interest-bearing financial assets classified as loans and receivables, and on financial liabilities, using the effective interest method.

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

The amounts shown under these headings exclude amounts directly attributable to dealing activities which are included within trading income. Trading income includes interest and dividends receivable on trading positions less interest payable on the associated funding.

**(b) Trading income**

Trading income arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. Trading positions in financial instruments are valued on a fair value basis. The resulting income is included in trading income along with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Trading income also includes fees and commissions receivable in respect of services provided, and are recognised in the income statement when the related services are performed and when considered recoverable.

**(c) Financial assets and liabilities**

The Company recognises financial instruments from the contract date, and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

***Financial assets***

Financial assets are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

*Financial instruments at fair value through profit or loss*

Assets and liabilities are so designated when they are held for trading or when they are financial derivative contracts.

Derivatives are measured at fair value on initial recognition and subsequently the resulting gains and losses are taken to the income statement. The fair value of derivatives is generally determined by reference to open market prices or by calculating the expected cash flows under the terms of each specific contract, discounted back to their present value using an appropriate market based pricing model.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They include trade receivables. Loans and receivables are stated at amortised cost using the effective interest method. They are initially recognised at fair value including direct and incremental transaction costs.

***Financial liabilities***

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

*Determining fair value*

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

*Impairment*

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets, including trade receivables, is impaired. The factors that the Company takes into account include significant financial difficulties of the debtor or the issuer, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the issuer's financial difficulties.

The Company also considers observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, arising from adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults on assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists individually for individually significant financial assets and then collectively assesses remaining financial assets that are not individually significant. In addition, portfolios of financial assets with similar credit risk characteristics are also collectively assessed.

Impairment allowances are calculated, based on the difference between the carrying amount of the asset and its estimated recoverable amount, calculated by reference to the expected cash flows from it discounted at the original effective interest rate for the asset.

*Prior to 1 January 2005*

Financial assets, excluding long and short positions in securities and derivative financial instruments, were accounted for at cost, less provisions for doubtful debts or otherwise recoverability, where appropriate.

Long and short positions resulting from securities dealing activities were valued at market value. Derivatives, including swaps, futures, options and combinations of these instruments, were valued at market value, including an allowance for credit risk, and the resultant profits and losses are included in turnover, along with interest and dividends arising from long and short positions and funding costs. Assets and liabilities resulting from gains or losses on derivatives were reported gross in debtors or creditors, reduced by the effects of qualifying netting agreements with counterparties. The Company established provisions for credit risk to the extent that the credit risk is not embedded in the fair value measurement prior to impairment. Associated costs of dealing were recognised when incurred. Where the market price may not be achievable, as a result of significant positions held or operating in illiquid markets, appropriate adjustments to the market value were made.

### (d) Stock borrowing and lending

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

Similarly the Company borrows or purchases securities subject to a commitment to resell them (stock borrowing arrangement) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

### (e) Collateral and netting

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case with master agreements and the related assets and liabilities are presented gross in the balance sheet.

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

The Company also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability or asset. These items are assigned to trade and other payables in the case of collateral received, and to loans and receivables in the case of cash collateral paid away.

*Prior to 1 January 2005*

In accounting periods prior to 1 January 2005, financial assets and liabilities were offset where there was the legal ability to do so.

### (f) Foreign currency translation

The financial statements are presented in sterling, which is the functional currency of the company.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Balances denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Exchange differences on equities and similar non-monetary items that are held at fair value through profit and loss, are reported as part of the fair value gain or loss.

**(g) Property, plant and equipment**

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

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

The Company uses the following annual rates in calculating depreciation:

| | |
|---|---|
| Motor vehicles | 25% |
| Office equipment, fixtures and fittings | 20% |

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

**(h) Investment in subsidiaries**

Investments in subsidiaries are stated at cost, less impairment where necessary.

**(i) Group accounts**

The Company has elected to utilise the exemption provided in paragraph 41 of the International Accounting Standard 27 and the exemption in Companies Act, 1985, Section 228 and has not prepared group accounts. The financial statements of Barclays Capital Securities Limited and its subsidiary undertakings are consolidated in the financial statements of Barclays PLC, a company registered in England and Wales and these financial statements are publicly available (see note 31).

**(j) Cash and cash equivalents**

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

**(k) Taxation**

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

Deferred tax is provided in full, using the liability method, on temporary timing differences arising from differences between tax bases or assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only off set when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 4. ADMINISTRATIVE EXPENSES

Administration expenses include the following:

| | **2005** | 2004 |
|---|---|---|
| | **£'000** | £'000 |
| Staff costs (note 5) | 1,429 | 1,381 |
| Depreciation of tangible fixed assets | 158 | 116 |
| Auditors remuneration – statutory audit services | 50 | 46 |
| Auditors remuneration – audit related regulatory reporting | 40 | 39 |

The majority of operating expenses of the Company, including staff costs and audit fees, have been borne by fellow subsidiary undertakings, and recharged by way of management charges of £123,653,000 (2004: £108,209,000).

The Directors did not receive any emoluments in respect of their services to the Company during the year, but are remunerated by another group undertaking for their services (2004: nil).

During the year 1 (2004:3) Directors exercised options under the Barclays PLC Sharesave Scheme and Long Term Incentives Schemes.

## 5. EMPLOYEES

Staff costs comprise the following:

| | **2005** | 2004 |
|---|---|---|
| | **£'000** | £'000 |
| Wages and salaries | 1,301 | 1,241 |
| Social security costs | 80 | 87 |
| Pension contributions | 48 | 53 |
| | 1,429 | 1,381 |

The average number of persons, employed during the year, excluding agency staff was 15 (2004: 14). All staff fall within a single structure.

## 6. TAXATION

| | **2005** | 2004 |
|---|---|---|
| | **£'000** | £'000 |
| **Current tax:** | | |
| United Kingdom corporation tax: current year | 3,483 | - |
| United Kingdom corporation tax: prior year | - | (181) |
| Overseas tax: current year | 20,368 | 18,438 |
| Overseas tax: prior year | - | (64) |
| **Total** | 23,851 | 18,193 |
| **Deferred tax:** | | |
| Origination and reversal of temporary differences | 26 | (27) |
| Adjustment for prior years | (82) | 117 |
| **Total** | (56) | 90 |
| **Total charge** | 23,795 | 18,283 |

Available overseas tax credits of £20,368,000 (2004: £16,155,000) have been applied to reduce UK tax in accordance with UK legislation.

An analysis of the tax charge / (credit) on items charged directly to equity is as follows:-

| | **2005 £'000** | 2004 £'000 |
|---|---|---|
| Short term timing differences | (254) | - |
| Deferred tax on first time adoption of IFRS | (7,932) | - |
| **Total credit to equity** | (8,186) | - |

A numerical reconciliation of the applicable tax rate and the effective tax rate is as follows:-

| | **2005 £'000** | 2004 £'000 |
|---|---|---|
| Profit before tax | 79,472 | 53,686 |
| Tax charge at average UK corporation tax rate of 30% (2004: 30%) | (23,842) | (16,106) |
| Adjustments for prior years | 82 | 128 |
| Effect of non-allowable write-downs, depreciation and amortisation | (2) | (3) |
| Other non-allowable expenses | (24) | (22) |
| Double tax relief restriction | - | (2,283) |
| Other items | (9) | 3 |
| Current tax (charge) for the year | (23,795) | (18,283) |
| Effective tax rate % | 29.9% | 34.1% |

## 7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Pre 1st January 2005 financial assets and liabilities held for trading were classified as long and short positions in securities. See Notes 9 and 17.

| | **2005** | | |
|---|---|---|---|
| | **Equity £'000** | **Debt £'000** | **Total £'000** |
| **Assets** | | | |
| Listed on a recognised UK Investment Exchange | 916,984 | 44,328 | 961,312 |
| Listed elsewhere | 6,010,358 | 14,080 | 6,024,438 |
| Unlisted | 558,928 | 630,159 | 1,189,087 |
| | 7,486,270 | 688,567 | 8,174,837 |
| ***Liabilities*** | | | |
| Short positions in listed instruments on a recognised UK Investment Exchange | 732,458 | 97,052 | 829,510 |
| Short positions in instruments listed elsewhere | 1,601,286 | 61,389 | 1,662,675 |
| Short positions in unlisted instruments | 14,089 | 64,227 | 78,316 |
| | 2,347,833 | 222,668 | 2,570,501 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Motor Vehicles | Property, Office Equipment, Fixtures & Fittings | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost** | | | |
| At 1 January 2005 | 23 | 560 | 583 |
| Exchange movement | - | 89 | 89 |
| Additions | - | 135 | 135 |
| Disposals | - | (19) | (19) |
| At 31 December 2005 | 23 | 765 | 788 |
| **Accumulated depreciation** | | | |
| At 1 January 2005 | 23 | 300 | 323 |
| Exchange movement | - | 47 | 47 |
| Charge for the year | - | 158 | 158 |
| Disposals | - | (14) | (14) |
| At 31 December 2005 | 23 | 491 | 514 |
| **Net book value** | | | |
| **31 December 2005** | **-** | **274** | **274** |

| | Motor Vehicles | Office Equipment, Fixtures & Fittings | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost** | | | |
| At 1 January 2004 | 23 | 554 | 577 |
| Exchange movement | - | 31 | 31 |
| Additions | - | 79 | 79 |
| Disposals | - | (104) | (104) |
| At 31 December 2004 | 23 | 560 | 583 |
| **Accumulated depreciation** | | | |
| At 1 January 2004 | 23 | 214 | 237 |
| Exchange movement | - | 12 | 12 |
| Charge for the year | - | 116 | 116 |
| Disposals | | (42) | (42) |
| At 31 December 2004 | 23 | 300 | 323 |
| **Net book value** | | | |
| **31 December 2004** | **-** | **260** | **260** |

See note 22 for details of expected maturity.

## 11. TRADE AND OTHER RECEIVABLES

| | **2005** | 2004 |
|---|---|---|
| | **£'000** | £'000 |
| Trade receivables | 169,726 | 241,644 |
| Balances arising from off-balance sheet instruments | n/a | 382,269 |
| Other debtors | 11,841 | 401 |
| | 181,567 | 624,314 |

See note 22 for details of expected maturity.

## 12. DEFERRED TAX

The components of and the movement on the deferred income tax account during the year was as follows:

| | Note | **1 January 2005** | **Charged / (credited to income statement)** | **Charged / (credited to equity** | **31 December 2005** |
|---|---|---|---|---|---|
| | | **£'000** | **£'000** | **£'000** | **£'000** |
| **Assets** | | | | | |
| Accelerated capital allowances | | 11 | 31 | - | 42 |
| First time adoption of IFRS | 32 | - | - | 7,932 | 7,932 |
| Short term timing differences | | 24 | 25 | 254 | 303 |
| **Net deferred tax asset** | | 35 | 56 | 8,186 | 8,277 |
| Falling due in one year | | - | - | 1,047 | 1,047 |
| Falling due after one year | | 35 | 56 | 7,139 | 7,230 |

Deferred income taxes are provided in full on temporary differences under the liability method using a principal tax rate of 30% (2004: 30%).

Deferred income tax assets have not been recognised on tax losses to the extent that they are not regarded as recoverable in the foreseeable future. An unrecognised asset of £40,000 (2004: £40,000) would be regarded as recoverable to the extent that, on the bases of all evidence, it was more likely than not that there would be suitable taxable profits from which the tax profits could be deducted. The tax losses do not expire under current legislation.

## 8. FINANCIAL ASSETS AND LIABILITIES - DERIVATIVE FINANCIAL INSTRUMENTS

Pre 1st January 2005 derivative financial instruments were classified as trade debtors and trade creditors. See Notes 11 and 18.

| | 2005 | | |
|---|---|---|---|
| | | Fair value | |
| | Notional contract amount | Assets | Liabilities |
| | £'000 | £'000 | £'000 |
| ***Assets*** | | | |
| **Foreign exchange derivatives** | | | |
| Currency swaps | 316,986 | 26,518 | 1,357 |
| OTC derivatives | 361,500 | 2,013 | 2,052 |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 76,488,365 | 1,777,331 | 1,545,011 |
| OTC derivatives | 342,008 | 6,302 | 6,296 |
| **Equity and stock index derivatives** | | | |
| OTC equity options bought and sold | 167,560,558 | 19,663,064 | 23,519,405 |
| Equity swaps and forwards | 9,031,027 | 870,962 | 1,011,895 |
| OTC derivatives | 1,451,953 | 105,781 | 264,124 |
| **Credit derivatives** | | | |
| Swaps | 732,111 | 1,574 | 22,274 |
| | 256,284,508 | 22,453,545 | 26,372,414 |

## 9. LONG POSITIONS IN SECURITIES

From 1st January 2005 long positions in securities have been classified and measured in accordance with IAS 39 and classified as held for trading. See Note 7.

| | 2004 |
|---|---|
| | £'000 |
| Listed on a recognised UK Investment Exchange | 469,530 |
| Listed elsewhere | 8,004,615 |
| Unlisted | 763,072 |
| | 9,237,217 |

## 10. LOANS AND RECEIVABLES

| | 2005 | 2004 |
|---|---|---|
| | £'000 | £'000 |
| Amounts receivable under reverse repurchase, buy/sell agreements and stock borrowing | 14,148,871 | 14,399,510 |
| Settlement balances | 13,535,817 | 1,058,779 |
| Other loans and receivables | 7,077,185 | 4,991,907 |
| | 34,761,873 | 20,450,196 |

Loans and receivables include £118,215,000 (2004: £35,836,000) held by the Company in a segregated client account with the intermediate parent undertaking.

## 14. INVESTMENTS IN SUBSIDIARIES

Movements in, and details of, the Company's long term investments in subsidiaries are as follows:

| | £'000 |
|---|---|
| At 1 January 2005 | 12 |
| **At 31 December 2005** | **12** |

Particulars of the Company's principal subsidiaries on 31 December 2005 were as follows:

| **Country of incorporation** | **Company name** | **Nature of business** | **Percentage of equity share capital held** | **Aggregate capital and reserves** | **Profit/loss for the financial year** |
|---|---|---|---|---|---|
| United Kingdom | Exshelfco (DZBC) | Dormant | 100% | £15,194 | Dormant |
| United Kingdom | Barclays Capital Nominees (No.2) Limited | Dormant | 100% | £100 | Dormant |

Consolidated statements have not been prepared. See Note 1.

## 15. BORROWINGS

| | **2005** **£'000** | 2004 £'000 |
|---|---|---|
| Bank loans and overdrafts | 16,154,142 | 22,335,353 |
| Amounts due against repurchase, sell/buy agreements and stock loan agreements | 4,722,939 | 4,570,783 |
| Settlement balances | 12,068,828 | 1,673,983 |
| Other borrowings | 4,325,066 | - |
| | 37,270,975 | 28,580,119 |

## 16. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

| | **2005** | |
|---|---|---|
| | ***Fair value*** **£'000** | ***Contractual amount due on maturity*** **£'000** |
| Financial liabilities designated at fair value | 53,815 | 46,791 |

Financial liabilities designated at fair value includes certain financial instruments that pay out the higher of a guaranteed amount or a notional plus a performance related amount. For these financial instruments the contractual amount due on maturity has been calculated using the guaranteed amount.

There were no significant gains or losses attributable to changes in own credit risk for financial liabilities designated at fair value in 2005 (2004: n/a).

## 17. SHORT POSITIONS IN SECURITIES

From 1st January 2005 short positions in securities have been classified and measured in accordance with IAS 39 and classified as held for trading. See Note 7.

| | 2004 £'000 |
|---|---|
| Listed on a recognised UK Investment Exchange | 231,050 |
| Listed elsewhere | 438,027 |
| Unlisted | 162,188 |
| | 831,265 |

## 18. TRADE AND OTHER PAYABLES

| | **2005 £'000** | 2004 £'000 |
|---|---|---|
| Trade payables | 91,177 | 184,639 |
| Balances arising from off-balance sheet instruments | n/a | 1,688,876 |
| Other payables | 68,903 | 32,185 |
| | 160,080 | 1,905,700 |

## 19. CURRENT TAX LIABILITIES

Current tax liabilities were as follows:

| | **2005 £'000** | 2004 £'000 |
|---|---|---|
| UK corporation tax payable | 4,059 | 576 |

## 20. CALLED UP SHARE CAPITAL

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares | | |
| 88,500,000 ordinary shares of £1 each | 88,500 | 88,500 |
| Preference shares | | |
| 1,000 Irredeemable Non Cumulative Preference Shares of £1 each | 1 | 1 |
| 661,499,000 Redeemable Non Cumulative Preference Shares of £1 each | 661,499 | 661,499 |
| | 750,000 | 750,000 |
| Allotted and fully paid: | | |
| Ordinary shares | | |
| 88,500,000 ordinary shares of £1 each | 88,500 | 88,500 |
| Preference shares | | |
| 1,000 Irredeemable Non Cumulative Preference Shares of £1 each | 1 | 1 |
| 490,000,000 Redeemable Non Cumulative Preference Shares of £1 each | 490,000 | 490,000 |
| | 578,501 | 578,501 |

Both classes of preference shares have priority over the ordinary shares in the payment of dividends or in the event of a winding up.

The ordinary shareholders are entitled to vote at any general meeting of the Company, whereas the preference shareholders have no voting rights. Subject to regulatory approval the redeemable preference shares can be redeemed at par, at any time by the Company by giving seven days notice in writing to the holders of such Redeemable Preference Shares.

## 21. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | 2005 £'000 | 2004 £'000 |
|---|---|---|
| Profit from operations | 79,472 | 53,686 |
| Depreciation | 158 | 116 |
| Interest income | (296,403) | (113,840) |
| Interest expense | 283,471 | 101,892 |
| Net decrease/(increase) in trading assets | 1,062,380 | (4,241,050) |
| Net increase in derivative financial instrument assets | (22,453,545) | - |
| Net increase in loans and receivables | (14,299,477) | (7,018,787) |
| Net decrease in trade and other receivables | 419,058 | 286,424 |
| Net increase in borrowings | 8,690,855 | 13,375,387 |
| Net increase in trading liabilities | 1,739,236 | 399,257 |
| Net increase in derivative financial instrument liabilities | 26,372,414 | - |
| Net increase in liabilities at fair value | 53,815 | - |
| Net decrease in trade and other payables | (1,766,452) | (1,512,568) |
| Other non-cash movements | (47,095) | (16,270) |
| Net cash (outflow)/inflow from operating activities | (162,113) | 1,314,247 |

## 22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

| | 2005 Not more than twelve months £'000 | Greater than twelve months £'000 | Total £'000 |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | 1,302,888 | | 1,302,888 |
| Financial assets | | | |
| - held for trading | 3,472,163 | 4,702,674 | 8,174,837 |
| - derivative financial instruments | 6,219,968 | 16,233,577 | 22,453,545 |
| Loans and receivables | 32,688,013 | 2,073,860 | 34,761,873 |
| Trade and other receivables | 181,567 | | 181,567 |
| Deferred tax assets | 1,047 | 7,230 | 8,277 |
| Property, plant and equipment | | 274 | 274 |
| Investments in subsidiaries | | 12 | 12 |
| | 43,865,646 | 23,017,627 | 66,883,273 |
| **Liabilities:** | | | |
| Borrowings | 36,715,290 | 555,685 | 37,270,975 |
| Financial liabilities | | | |
| - held for trading | 1,207,861 | 1,362,640 | 2,570,501 |
| - derivative financial instruments | 13,437,256 | 12,935,158 | 26,372,414 |
| - liabilities at fair value | 6,270 | 47,545 | 53,815 |
| Trade and other payables | 160,080 | - | 160,080 |
| Current tax | 4,059 | - | 4,059 |
| | 51,530,816 | 14,901,028 | 66,431,844 |

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

There is no difference between the carrying amount and the fair value of the Company's financial assets and liabilities.

Financial instruments at fair value (including those held for trading, designated at fair value, derivatives and available for sale) are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices. Changes to assumptions or estimated levels can potentially impact the fair value of an instrument as reported.

The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model, market data and assumptions or estimates in these are all subject to internal review and approval procedures and consistent application between accounting periods.

Taking the change in fair value of only those financial instruments where the fair values were estimated using valuation techniques which are based in full or in part on assumptions that are not supported by observable market prices, net assets decreased by £563,859,000 for the year ended 31 December 2005. In many cases these changes in fair values were offset by changes in fair values of other financial instruments, which were priced in active markets or valued by using a valuation technique which is supported by observable market prices or rates, or by transactions which have been realised.

## 24. FINANCIAL RISKS

Financial Instruments are fundamental to the Company's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Company's balance sheet. These risks and the Company's policies and objectives for managing such risks are outlined below:

- Foreign exchange risk, due to the extent of its foreign currency assets not matched by foreign currency borrowings in the same currency. See Note 27.
- Interest rate risk, the possibility that changes in interest rates will result in higher financing charges and/or reduced income from the Company's interest bearing financial assets and liabilities. See Note 26.
- Credit risk – the risk that counterparties to the Company's financial assets may default. See Note 25.
- Liquidity risk – the risk that the Company's cash and committed facilities may be insufficient to meet its debts as they fall due. The Company maintains a mixture of long term and short term committed facilities, including financial support from the parent, Barclays PLC, that are designed to ensure the Company has sufficient available funds for operations and planned expansion.
- Price risk – the risk that market prices for the Company's securities measured at fair value may fall.

The Company's Directors are required to follow the requirements of the Barclays Group risk management policies, which includes specific guidelines on the management of foreign exchange, interest rate and credit risks, and advises on the use of financial instruments to manage them.

## 25. CREDIT RISK

Credit risk is the risk that the Company's customers, clients or counterparties will not be able or willing to pay interest, repay capital or otherwise fulfil their contractual obligations under loan agreements or other credit facilities. Credit risk also arises through downgrading of counterparties whose credit instruments the Company may be holding, causing the value of those assets to fall. Furthermore, credit risk is manifested as country risk where difficulties experienced by the country in which the exposure is domiciled may impede payment or reduce the value of the asset or where the counterparty may be the country itself. Settlement risk is another special form of credit risk which is the possibility that the Company may pay a counterparty – for example, a bank in a foreign exchange transaction – and fail to receive the corresponding settlement in return.

The Company employs a range of policies and practices to mitigate credit risk. The majority of the Company's loans and receivables are secured by collateral in the form of securities and is with other Barclays entities. The Company has master netting agreements in place which significantly reduces the exposure in respect of derivative balances.

## 26. INTEREST RATE RISK

Interest rate risk is the extent to which changes in interest rates will result in higher financing costs for the Company. The exposure of the Company to interest rate changes and the effective interest rates as at 31 December 2005 were as follows. Given the nature of the Company's contractual agreements the maturity date and the next interest rate repricing date will be the same.

| | Weighted average effective interest rate | Not more than three months | Over three months but not more than six months | Over six months but not more than one year | Over one year but not more than two years | Over three years but not more than five years | Over five years but not more than ten years | Over ten years | Trading derivatives | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | | 1,302,888 | | | | | | | | | 1,302,888 |
| Financial assets | | | | | | | | | | | |
| - held for trading | | | | | | | | | | 8,174,837 | 8,174,837 |
| - derivative financial instruments | | | | | | | | | 22,453,545 | | 22,453,545 |
| Loans and receivables | 3.26 | 19,104,995 | 2,651 | 231,216 | 1,702,718 | 16,483 | 97,972 | 22,820 | | 13,583,018 | 34,761,873 |
| Trade and other receivables | | | | | | | | | | 181,567 | 181,567 |
| Deferred tax assets | | | | | | | | | | 8,277 | 8,277 |
| Property, plant and equipment | | | | | | | | | | 274 | 274 |
| Investments in subsidiaries | | | | | | | | | | 12 | 12 |
| **Total assets** | | 20,407,883 | 2,651 | 231,216 | 1,702,718 | 16,483 | 97,972 | 22,820 | 22,453,545 | 21,947,985 | 66,883,273 |
| **Liabilities** | | | | | | | | | | | |
| Borrowings | 3.26 | 24,423,265 | 1,461 | 221,737 | 380,480 | 93,473 | 81,732 | | | 12,068,827 | 37,270,975 |
| Financial liabilities | | | | | | | | | | | |
| - held for trading | | | | | | | | | | 2,570,501 | 2,570,501 |
| - derivative financial instruments | | | | | | | | | 26,372,414 | | 26,372,414 |
| - *liabilities at fair value* | | | | | | | | | | 53,815 | 53,815 |
| Trade and other payables | | | | | | | | | | 160,080 | 160,080 |
| Current tax | | | | | | | | | | 4,059 | 4,059 |
| **Total liabilities** | | 24,423,265 | 1,461 | 221,737 | 380,480 | 93,473 | 81,732 | - | 26,372,414 | 14,857,282 | 66,431,844 |

## 27. CURRENCY RISK

Currency risk is the extent to which the Company's foreign currency assets are not matched by foreign currency borrowings in the same currency. As at 31 December 2005 the Company had net US Dollar assets of £273,075,000, net Japanese yen assets of £34,471,000, net euro liabilities of £21,650,000, net GBP liabilities of £477,631,000 and net other currency assets of £191,735,000. These amounts do not include any of the notional amounts of foreign currency derivative financial instruments that the Company has used to hedge these exposures.

## 28. ASSETS SECURED BY CHARGES

The Company has, in the ordinary course of business, created a floating charge over the following:

(i) cash and securities in connection with transactions settled within the Euroclear and Clearstream systems; and

(ii) securities settled through the CREST settlement system.

## 29. COLLATERAL

The carrying amount of financial assets pledged as collateral for liabilities as at 31 December is £2,381,791,000.

The company has accepted collateral that is permitted to sell or repledge in the absence of default by the owner of the collateral

The fair value of collateral accepted as at 31 December 2005 is £17,486,511,000. The fair value of such collateral if sold or repledged where the entity has an obligation to return this collateral is £9,587,836,829.

## 30. RELATED PARTY TRANSACTIONS

| | | 2005 | |
|---|---|---|---|
| | **Parent Company** | **Fellow Subsidiaries** | **Total** |
| | **£'000** | **£'000** | **£'000** |
| **Transactions:** | | | |
| Interest income | | 22,302 | 22,302 |
| Interest expense | | 22,410 | 22,410 |
| Net trading income | (554,182) | 380,362 | (173,820) |
| Administrative expenses | | 123,653 | 123,653 |
| **Balances:** | | | |
| **Assets** | | | |
| Cash and cash equivalents | 1,038,823 | | 1,038,823 |
| Financial assets | | | |
| - derivative financial instruments | 19,391,264 | 124,278 | 19,515,543 |
| Loans and receivables | 17,352,864 | 11,271,793 | 28,624,657 |
| Investments in subsidiaries | | 12 | 12 |
| | 37,782,951 | 11,396,083 | 49,179,035 |
| **Liabilities:** | | | |
| Borrowings | 26,959,889 | 2,587,934 | 29,547,823 |
| Financial liabilities | | | |
| - derivative financial instruments | 22,973,106 | 105,664 | 23,078,770 |
| Trade and other payables | | 61,102 | 61,102 |
| | 49,932,996 | 2,754,699 | 52,687,695 |

| | 2004 | | |
|---|---|---|---|
| | **Parent Company** | **Fellow Subsidiaries** | **Total** |
| | **£'000** | **£'000** | **£'000** |
| **Transactions:** | | | |
| Interest income | | 3,964 | 3,964 |
| Interest expense | | 5,266 | 5,266 |
| Net trading income | (278,308) | (201,710) | (480,018) |
| Administrative expenses | | 108,209 | 108,209 |
| **Balances:** | | | |
| **Assets** | | | |
| Cash and cash equivalents | 1,737,810 | | 1,737,810 |
| Loans and receivables | 1,510,413 | 13,246,359 | 14,756,772 |
| Trade and other receivables | 174,532 | 267 | 174,799 |
| Investments in subsidiaries | | 12 | 12 |
| | 3,422,755 | 13,246,638 | 16,669,393 |
| **Liabilities:** | | | |
| Borrowings | 21,820,541 | 423,508 | 22,244,049 |
| Trade and other payables | 2,268,059 | 41,853 | 2,309,912 |
| | 24,088,600 | 465,361 | 24,553,961 |

Administrative expenses include £7,793,000 (2004: £4,650,000) recharged in respect of compensation paid to key management personnel.

## 31. ULTIMATE PARENT COMPANY

The parent undertaking of the smallest group that presents group accounts is Barclays Bank PLC. The ultimate parent company and controlling party is Barclays PLC which is the parent company of the largest group that presents group accounts. Both companies are incorporated in Great Britain and registered in England and Wales. Barclays Bank PLC's and Barclays PLC's statutory accounts are available from the Barclays Corporate Secretariat at 1 Churchill Place, London E14 5HP.

## 32. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has adopted the requirements of International Financial Reporting Standards and International Accounting Standards (together, 'IFRS') for the first time for the purpose of preparing the financial statements for the year ended 31 December 2005. This has had led to a number of significant changes from the measurement bases and disclosures made in the financial statements prepared in accordance with the requirements of the UK Companies Act 1985 and UK Statements of Standard Accounting Practice and Financial Reporting Standards (collectively, 'UK GAAP').

In order for the Financial Statements for the year ended 31 December 2005 to comply with the requirement for comparative figures in accordance with IFRS as adopted by the EU, it was necessary to restate the balance sheet on 1 January 2004. This is the date of first time adoption for all purposes. Amounts previously presented under UK GAAP for the year ended 31 December 2004 have been represented in accordance with the International Accounting Standards and International Financial Reporting Standards applicable on that date, together with the continuing UK GAAP requirements regarding the disclosure and measurement of financial instruments.

There were no differences between UK GAAP and IFRS accounting policies which had a material impact on Balance Sheets prepared under UK GAAP and IFRS at 1 January 2004 (first time adoption) and 31 December 2004, and the income statement (profit and loss account) prepared in accordance with UK GAAP and that prepared in accordance with IFRS for the year ended 31 December 2004.

### Application of IAS 32, 'Financial Instruments, Disclosure and Presentation' and IAS 39 'Financial Instruments: Presentation and Measurement'

IAS 32, 'Financial Instruments, Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prescribe the manner of disclosure and measurement of financial instruments.

IAS 32 and IAS 39 have been applied from 1 January 2005 only. The results and balance sheet amounts for comparative purposes, at 31 December 2004 for items measured in accordance with these standards have been presented and disclosed on the basis of UK GAAP. In this regard, it must be noted, that FRS 13 (previous UK GAAP) relating to disclosure of financial instruments did not apply to Barclays Capital Securities Limited, as its capital instruments were not listed or publicly traded, and as such 2004 financial instruments disclosures are not applicable.

Opening shareholders' equity at 1 January 2005 has been restated for the effects of applying IAS 32 and IAS 39 at that date. A reconciliation of the effects on equity of applying these standards on 1 January 2005 is presented below.

### Differences between UK GAAP and IFRS

The only difference in accounting policy that has had a material impact on the Company's financial position as at 1 January 2004 and 31 December 2004 is the reclassification of cash balances between cash and cash equivalents and loans and receivables. There were no differences in accounting policy that had a material impact on the results for 2004 (excluding IAS 32 and IAS 39).

### Effects of the application of IAS 32 and IAS 39

The significant differences between the Group's UK GAAP accounting policies and IFRS accounting policies applied to the treatment of financial instruments and insurance contracts, which have been incorporated into the opening balance sheet as at 1st January 2005, are as follows:

<table>
<tr><th>Previous UK GAAP</th><th>IFRS</th></tr>
<tr><td colspan="2">(a) Classification and measurement of financial instruments</td></tr>
<tr><td>Financial instruments are trading which are carried at fair value.</td><td>IAS 39 requires all financial assets to be classified at initial acquisition and subsequently measured in accordance with the classification:<br><br><table><tr><td>Classification</td><td>Measurement basis</td></tr><tr><td>Loan or receivable</td><td>Amortised cost less impairment</td></tr><tr><td>Fair value through profit or loss</td><td>Fair value – gains and losses included in the income statement</td></tr></table><br>Financial liabilities are classified as held for trading or are carried at amortised cost.<br><br>In addition, in certain circumstances financial assets and liabilities may be designated at fair value through profit and loss at initial acquisition in certain circumstances.<br><br>The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transitions in the same instrument or is based on a valuation technique whose variables include only data from observable markets.<br><br>At 1st January 2005, financial instruments have been classified and measured in accordance with IAS 39. In general, financial instruments included in the trading book under UK GAAP have been classified as held for trading, banking book loans and receivables have been classified as loans or receivables.<br><br>In addition, the fair value of certain trading derivatives has been restated to eliminate any profits recognised that are not evidenced by reference to data from observable markets.</td></tr>
<tr><td colspan="2">(b) Netting</td></tr>
<tr><td>Under FRS 5, items are aggregated into a single item where there is the right to insist on net settlement and the debit balance matures no later than the credit balance.</td><td>Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is currently a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis at all times, or to realise an asset and settle the liability simultaneously.<br><br>The application of IFRS has resulted in certain transactions that qualified for netting under UK GAAP, being represented on a gross basis from 1st January 2005. The primary differences include derivative assets and liabilities relating to master netting agreements, repurchase contracts and cash collateral balances.</td></tr>
</table>

## Balance Sheet

The following table explains the transition adjustments for each balance sheet line item in the table on the following pages, with narrative notes provided for only those transition adjustments, which are of a material nature.

| | 31 December 2004 | 1 January 2005 | | |
|---|---|---|---|---|
| | UK GAAP & IFRS (except IAS 32/39) [(a)] | Effect of transition to IFRS | | IFRS |
| | | Reclassification | Restatement | |
| | £'000 | £'000 | £'000 | £'000 |
| **Assets** | | | | |
| Cash and cash equivalents | 1,419,877 | | | 1,419,877 |
| Financial assets | | | | |
| - held for trading | n/a | 9,237,217 | | 9,237,217 |
| - derivative financial instruments | n/a | 382,269 | 12,566,943 | 12,949,212 |
| Long positions in securities | 9,237,217 | (9,237,217) | | n/a |
| Loans and receivables | 20,450,196 | (382,269) | 19,521,461 | 39,589,388 |
| Trade and other receivables | 624,314 | | | 624,314 |
| Deferred tax assets | 35 | | 7,932 | 7,967 |
| Property, Plant and Equipment | 260 | | | 260 |
| Investments in Subsidiaries | 12 | | | 12 |
| **Total Assets** | **31,731,911** | | **32,096,336** | **63,828,247** |
| **Liabilities** | | | | |
| Borrowings | 28,580,119 | | 19,521,518 | 48,101,637 |
| Financial liabilities | | | | |
| - held for trading | n/a | 831,265 | | 831,265 |
| - derivative financial instruments | n/a | 1,688,876 | 12,593,317 | 14,282,193 |
| - liabilities at fair value | n/a | 23,644 | | 23,644 |
| Short positions in securities | 831,265 | (831,265) | | n/a |
| Trade and other payables | 1,905,700 | (1,712,520) | | 193,180 |
| Current tax liabilities | 576 | | | 576 |
| **Total Liabilities** | **31,317,660** | | **32,114,835** | **63,432,495** |
| **Shareholders' Equity** | | | | |
| Called up share capital | 578,501 | | | 578,501 |
| Retained earnings | (164,250) | | (18,499) | (182,749) |
| ***Total Shareholders' Equity*** | **414,251** | | **(18,499)** | **395,752** |
| **Total Liabilities and Shareholders' Equity** | **31,731,911** | | **32,096,336** | **63,828,247** |

(a) At 1 January 2004 £528,001,000 and 31 December 2004 £492,000,000 was reclassified from cash and cash equivalents to Loans and receivables.

## Notes to the balance sheet reconciliation

The increase in total assets and total liabilities is due to the requirements under IFRS for financial assets and liabilities to be stated on a gross basis unless the Group has the ability and the intention to settle them net. Under master netting agreements, the Group has the ability, but not the intention to settle net.

The adjustment to retained earnings is a result of the restatement of the fair value of certain trading derivatives to eliminate any profits recognised that are not evidenced by reference to data from observable markets.

**Income Statement**

There were no material impacts of the transition to IFRS on the Income Statement for the year ended 31 December 2004.