# Barclays Capital Securities Limited
# REPORT AND FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2009



REGISTERED NUMBER: 1929333

# Barclays Capital Securities Limited
# Year ended 31 December 2009
# Directors' Report and Financial Statements

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# Barclays Capital Securities Limited (Registered No. 1929333)
# Year ended 31 December 2009
# Directors' Report

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2009

## 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 There were no significant changes in these activities during the year apart from the commencement of the cash equities business during the year The Company is authorised and regulated by the Financial Services Authority (FSA) No significant changes in the Company's activities are expected

## Business Performance

The results of the Company show a pre-tax profit of £347,542,000 (2008 Pre-tax loss of £47,837,000) for the year and total income of £583,379,000 (2008 £123,154,000) Net cash outflow from operating activities for 2009 was £422,123,000 (2008 £397,302,000)

The Company has three overseas branches located in South Korea, China and Taiwan and is registered as a foreign company in Australia

## Business environment

The principal markets that the Company operates in are highly competitive, with competition from both incumbent players and new market entrants The Company's activities are regulated by the FSA

## Strategy

The Company's overriding objective is to continue to provide its clients with well constructed and appropriate solutions according to their requirements The main elements of the Company's strategy are as follows

- To continue to offer and build on existing range of both vanilla and more complex equity derivative products,
- To continue to offer and build on existing Prime Services capabilities offered,
- To continue to offer and expand on cash equities products and capabilities

## Future outlook

The Company continues to see strong business opportunities across all its activities in the equity markets Together with the equities expansion activities, the client base of the Company has increased and the business volume is expected to grow

## Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The key business risks affecting the Company are set out below

- Competition

  The Company operates in a number of highly competitive business environments and competes with a wide range of financial services companies In order to mitigate this risk there is continuous focus on the range of products and services offered in order to meet the requirements of the Company's clients

Principal risks and uncertainties (continued)

- Market risk

  The most significant market risks the Company faces are equity price, interest rate, credit spread and foreign exchange risks The performance of financial markets may cause changes in the value of the Company's trading portfolios and the amount of revenues generated thereon Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised Changes in currency rates, particularly in the Sterling-Dollar and Sterling-Euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies

  The Company has implemented risk management methods to mitigate and control these and other market risks to which the Company is exposed However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Company's financial performance

- Credit risk

  Credit risk is the risk that counterparties to the Company's financial assets may default The Company employs a range of policies and practices to mitigate credit risk The majority of the Company's loans and receivables are with other Barclays entities The Company has master netting agreements in place which significantly reduces the exposure of derivative balances

- Liquidity risk

  Liquidity risk is 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

- Operational risk

  The Company's business is dependant on the ability to process a large number of transactions efficiently and accurately The Company has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures

Key performance indicators

The Company has made progress during the year on its objectives and business strategy The board of directors monitors progress on the overall strategy by reference to profit before tax which was £347,542,000 and net assets which were £845,729,000

Results and Dividends

During the year the Company made a profit after taxation of £241,957,000 (2008 Loss of £76,222,000) An interim dividend of £45,000,000 was paid out of current year earnings on 30 June 2009

# Barclays Capital Securities Limited (Registered No. 1929333)
# Year ended 31 December 2009
# Directors' Report

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

| | |
|---|---|
| P A Clackson | |
| B S Bagary | |
| S H Morse | |
| P J Copson | |
| Kyung-Geol Lee | (resigned on 1 June 2009) |
| D G Spiteri | |
| D Han | (appointed on 7 September 2009) |
| M Merson | (appointed on 20 July 2009) |

Directors' Third Party Indemnity provisions

Qualifying third-party indemnity provisions were in force during the course of the financial year ended 31 December 2009 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditor's Report set out on pages 6-7, 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 2006 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 have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board They are also in accordance with IFRSs as adopted by the European Union

The Directors consider that in preparing the financial statements on pages 8 to 57

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates,

- 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 2006

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

# Barclays Capital Securities Limited (Registered No. 1929333)
# Year ended 31 December 2009
# Directors' Report

Financial Instruments

Barclays financial risk management objectives and policies, which are followed by the Company, including the policy for hedging the exposure to credit risk, liquidity risk, interest rate risk, currency risk and price risk are set out in pages 37 - 56

Auditors

PricewaterhouseCoopers LLP will continue to hold office in accordance with Section 487 of the Companies Act 2006

So far as the Directors are aware, there is no relevant audit information of which the Company's Auditors are unaware The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

By order of the Board

Balwinder Singh Bagary
Director

19 March 2010

# Barclays Capital Securities Limited
# Year ended 31 December 2009
# Independent Auditor's report

### 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 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes on pages 12 to 57 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

**Opinion on financial statements**
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

# Barclays Capital Securities Limited
# Year ended 31 December 2009
# Independent Auditor's report

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Antony Eldridge (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 March 2010

# Barclays Capital Securities Limited
# Year ended 31 December 2009
# Statement of Comprehensive Income

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| Interest income | | 538,814 | 622,991 |
| Interest expense | | (504,814) | (631,544) |
| Net interest income/(expense) | 3(d) | 34,000 | (8,553) |
| Net trading income | 3(e) | 549,379 | 131,707 |
| Total income | | 583,379 | 123,154 |
| Administrative expenses | | (235,837) | (170,991) |
| Profit/(Loss) before taxation | 4 | 347,542 | (47,837) |
| Taxation | 6 | (105,585) | (28,385) |
| Profit/(Loss) after taxation | | 241,957 | (76,222) |
| Profit/(Loss) attributable to equity holders | | 241,957 | (76,222) |
| Total comprehensive income for the year | | 241,957 | (76,222) |

All recognised gains and losses are included in the Statement of Comprehensive Income

The accompanying notes form an integral part of the accounts

# Barclays Capital Securities Limited
# Year ended 31 December 2009
# Balance Sheet

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 214,301 | 636,735 |
| Trading portfolio assets | 7 | 7,793,383 | 8,922,965 |
| Derivative financial instruments | 8 | 18,057,047 | 32,950,498 |
| Financial assets designated at fair value | | 1,281 | 35 |
| Loans and receivables | 9 | 23,478,782 | 30,982,521 |
| Trade and other receivables | 10 | 167,559 | 346,422 |
| Current tax receivable | 17 | - | 30,006 |
| Total current assets | | 49,712,353 | 73,869,182 |
| | | | |
| Non-current assets | | | |
| Financial assets designated at fair value | | 81,285 | 18,158 |
| Loans and receivables | 9 | 1,107,251 | 670,528 |
| Deferred tax assets | 11 | 12,727 | 13,445 |
| Property, plant and equipment | 12 | 361 | 199 |
| Investments in subsidiaries | 13 | 12 | 12 |
| Total non-current assets | | 1,201,636 | 702,342 |
| | | | |
| Total assets | | 50,913,989 | 74,571,524 |
| | | | |
| LIABILTIES | | | |
| Current liabilities | | | |
| Trading portfolio liabilities | 7 | 2,482,472 | 3,323,910 |
| Derivative financial instruments | 8 | 18,019,436 | 29,757,353 |
| Borrowings | 14 | 27,288,238 | 37,880,082 |
| Financial liabilities designated at fair value | 15 | 175,429 | 796,025 |
| Trade and other payables | 16 | 301,863 | 366,727 |
| Current tax payable | 17 | 1,994 | - |
| Total current liabilities | | 48,269,432 | 72,124,097 |
| | | | |
| Non-current liabilities | | | |
| Borrowings | 14 | 267,770 | 161,923 |
| Financial liabilities designated at fair value | 15 | 1,531,058 | 1,681,732 |
| Total non-current liabilities | | 1,798,828 | 1,843,655 |
| | | | |
| Total liabilities | | 50,068,260 | 73,967,752 |
| Net assets | | 845,729 | 603,772 |
| | | | |
| SHAREHOLDERS' EQUITY | | | |
| Called up share capital – Equity | 18 | 178,500 | 133,500 |
| – Preference Shares | 18 | 490,001 | 490,001 |
| Other capital | 19 | 2,570 | 2,570 |
| | | 671,071 | 626,071 |
| Accumulated earnings / (deficit) | | 174,658 | (22,299) |
| Total shareholders' equity | | 845,729 | 603,772 |

The accompanying notes form an integral part of the accounts
The financial statements were approved by the Board of Directors and authorised for issue on 19 March 2010
They were signed on its behalf by

Balwinder Singh Bagary
Director
19 March 2010

# Barclays Capital Securities Limited
# Year ended 31 December 2009
# Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2009

| | Note | Equity shares £'000 | Preference shares £'000 | Other capital £'000 | Accumulated (deficit) / earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2009 brought forward | 18 | 133,500 | 490,001 | 2,570 | (22,299) | 603,772 |
| Issue of shares | 18 | 45,000 | - | - | - | 45,000 |
| Dividends | 18 | - | - | - | (45,000) | (45,000) |
| Profit for the financial year | | - | - | - | 241,957 | 241,957 |
| **Balance at 31 December 2009** carried forward | | **178,500** | **490,001** | **2,570** | **174,658** | **845,729** |

YEAR ENDED 31 DECEMBER 2008

| | Note | Equity shares £'000 | Preference shares £'000 | Other capital £'000 | Accumulated earnings / (deficit) £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2008 brought forward | 18 | 88,500 | 490,001 | 2,570 | 98,923 | 679,994 |
| Issue of shares | 18 | 45,000 | - | - | - | 45,000 |
| Dividends | 18 | - | - | - | (45,000) | (45,000) |
| (Loss) for the financial year | | - | - | - | (76,222) | (76,222) |
| **Balance at 31 December 2008** carried forward | | **133,500** | **490,001** | **2,570** | **(22,299)** | **603,772** |

The accompanying notes form an integral part of the accounts

# Barclays Capital Securities Limited
# Year Ended 31 December 2009
# Cash Flow Statement

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Net cash flow used in operating activities** | | | |
| Cash used in operating activities | 20 | **(456,123)** | (388,749) |
| Interest received | | **538,814** | 622,991 |
| Interest paid | | **(504,814)** | (631,544) |
| **Net cash used in operating activities** | | **(422,123)** | (397,302) |
| **Cash flows used in investing activities** | | | |
| Purchase of property, plant and equipment | 12 | **(311)** | (82) |
| **Net cash used in investing activities** | | **(311)** | (82) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 18 | **(45,000)** | (45,000) |
| Proceeds from issuance of ordinary shares | 18 | **45,000** | 45,000 |
| **Net cash from financing activities** | | **-** | - |
| **Decrease in cash and cash equivalents** | | **(422,434)** | (397,384) |
| Cash and cash equivalents at beginning of year | | **636,735** | 1,034,119 |
| Cash and cash equivalents at end of year | | **214,301** | 636,735 |

Cash and cash equivalents comprise of cash at bank

The accompanying notes form an integral part of the accounts

# Barclays Capital Securities Limited
# Year Ended 31 December 2009
# Notes to the Financial Statements

## 1 Reporting entity

These financial statements are prepared for Barclays Capital Securities Limited (the "Company") and 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 International Financial Reporting Standards ('IFRS'), 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 IFRS, adopted for use in the European Union, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

The adoption of IAS 1 (revised) has resulted in the reformatting of the statement of recognised gains and losses into a statement of comprehensive income and the addition of a statement of changes in equity The adoption of IAS 1 (revised) does not change the recognition, measurement or disclosure of specific transactions and events required by other standards

## 3 Summary of significant accounting policies

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

### 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 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 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 such as fair valuation of financial instruments (note 21)

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(a) Standards, amendments and interpretations effective on or after 1 January 2009

| Standard / Interpretation | Content | Applicable for financial years beginning on / after |
|---|---|---|
| IFRS 7 | Improving disclosures about financial instruments | 1 January 2009 |
| IAS 1 | Presentation of financial statements | 1 January 2009 |
| IAS 23 | Borrowings costs | 1 January 2009 |

Amendments to IFRS 7, 'Financial instruments Disclosures'
The IASB published amendments to IFRS 7 in March 2009 The amendment requires enhanced disclosures about fair value measurements and liquidity risk In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Company

IAS 1 (revised), 'Presentation of financial statements'
A revised version of IAS 1 was issued in September 2007 It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income Comparative information has been re-presented so that it also conforms with the revised standard According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings

IAS 23, 'Borrowing costs'
A revised version of IAS 23 was issued in March 2007 It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use The application of the IAS 23 amendment does not have a material impact on the result or items of the statement of financial position

(b) Standards, amendments and interpretations effective on and after 1 January 2009 but not relevant

| Standard / Interpretation | Content | Applicable for financial years beginning on / after |
|---|---|---|
| IFRS 2 | Share-based payment – Vesting conditions and cancellations | 1 January 2009 |
| IFRS 8 | Operating segments | 1 January 2009 |
| IAS 32 and IAS 1 | Puttable financial instruments and obligations arising on liquidation | 1 January 2009 |
| IFRIC 13 | Customer loyalty programme | 1 July 2009 |
| IFRIC 16 | Hedges of a net investment in a foreign operation | 1 October 2008 |

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(b) Standards, amendments and interpretations effective on and after 1 January 2009 but not relevant (continued)

IFRS 2, 'Share-based payment' – Vesting conditions and cancellations
The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008 The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company These changes clarify that vesting conditions are solely service and performance conditions As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled IFRS 2 is not relevant to the Company as it does not have any share-based payment

IFRS 8, 'Operating segments'
IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Company's accounting period beginning on 1 January 2009 The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments Under the requirements of the revised standard, the Company's external segment reporting will be based on the internal reporting to the group executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments IFRS 8 is only relevant for listed entities

IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidation'
The IASB amended IAS 32 in February 2008 It now requires some financial instruments that meet the definition of a financial liability to be classified as equity Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation This is not relevant to the Company as it only applies to entities on liquidation

IFRIC 16, 'Hedges of a net investment in a foreign operation'
This interpretation clarifies the accounting treatment in respect of net investment hedging This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Company This is not relevant to the Company as it does not hedge its net investment

IFRIC 13, 'Customer loyalty programmes'
IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programmes

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(c) Standards and interpretations issued but not yet effective

| Standard / Interpretation | Content | Applicable for financial years beginning on / after |
|---|---|---|
| IFRS 1 and IAS 27 | Cost of an investment in a subsidiary, jointly-controlled entity or associate | 1 July 2009 |
| IAS 39 | Financial instruments Recognition and measurement – eligible hedged items | 1 July 2009 |
| IFRIC 17 | Distribution of non-cash assets to owners | 1 July 2009 |
| IFRS 9 | Financial instruments part 1 Classification and measurement | 1 January 2013 |

IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'
The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor

IAS 39, 'Financial instruments Recognition and measurement – Eligible hedged items'
The amendment 'Eligible hedged items' was issued in July 2008 It provides guidance for two situations On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective The designation of inflation as a hedged risk or portion is not permitted unless in particular situations This will not give rise to any changes to the Company's financial statements

IFRIC 17, 'Distribution to non-cash assets to owners'
IFRIC 17 was issued in November 2008 It addresses how the non-cash dividends distributed to the shareholders should be measured A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity This dividend obligation should be recognised at the fair value of the net assets to be distributed The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation The application of IFRIC 17 has no impact on the financial statements of the Company

IFRS 9, 'Financial instruments part 1 Classification and measurement'
IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets Key features are as follows

• Financial assets are required to be classified into two measurement categories those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument

• An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the Company's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features') All other debt instruments are to be measured at fair value through profit or loss

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(c) Standards and interpretations issued but not yet effective (continued)

IFRS 9, 'Financial instruments part 1 Classification and measurement' (continued)

• All equity instruments are to be measured subsequently at fair value Equity instruments that are held for trading will be measured at fair value through profit or loss For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss There is to be no recycling of fair value gains and losses to profit or loss This election may be made on an instrument-by-instrument basis Dividends are to be presented in profit or loss, as long as they represent a return on investment

• While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted

Improvements to IFRS

Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed) They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted No material changes to accounting policies are expected as a result of these amendments

(d) Interest

Interest is recognised in interest income and interest expense in the statement of comprehensive income for all interest bearing financial instruments classified as held to maturity, available for sale or loans and receivables 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 (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment

(e) Net 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 statement of comprehensive income when the related services are performed and when considered recoverable

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(f) Financial assets and liabilities

The Company recognises financial instruments from the trade 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 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, when they are financial derivative contracts, or at management's option in certain circumstances Once designated, the assets are held at fair value and gains and losses are taken to the statement of comprehensive income

Regular way purchases and sale of financial instruments held for trading or designated under the fair value option and financial derivative contracts are recognised on trade date, being the date on which the Company commits to purchases or sell the asset

The fair value option is used in the following circumstances

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

(ii) financial assets, loans to customers, financial liabilities and structured notes are designated at fair value through profit or loss where they contain substantive embedded derivatives or where doing so significantly reduces measurement inconsistencies that would arise if the related economic hedging derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.

(iii) financial assets and financial liabilities that are managed, and evaluated on a fair value basis in accordance with a documented risk management or investment strategy to key management personnel are designated at fair value through profit or loss

Derivatives are measured at fair value on initial recognition and subsequently the resulting gains and losses are taken to the statement of comprehensive income 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 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 They are subsequently valued at amortised cost, using effective interest method They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(f) Financial assets and liabilities (continued)

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

*Financial liabilities*

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost, except trading liabilities and liabilities designated at fair value (see above), which are held at fair value through profit or loss Financial liabilities are derecognised when extinguished

*Determining fair value*

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid 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 of financial assets*

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets carried at amortised cost is impaired 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 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 The recoverable amount is calculated by reference to the expected cash flows from its discounted at the original effective interest rate for the asset

(g) 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 when cash consideration is received

Similarly where 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 when cash consideration is paid, and the securities are not included in the balance sheet

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(g) Stock borrowing and lending (continued)

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

(h) 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

*Collateral*

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

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 These items are assigned to deposits received from bank or other counterparties Any interest payable or receivable arising is recorded as interest expense or interest income respectively except for funding costs relating to trading activities which are recorded in net trading income

*Netting*

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

(i) 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 statement of comprehensive income

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 or loss, are reported as part of the fair value gain or loss

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(j) 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

| | |
|---|---|
| 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

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

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

(k) Investments in subsidiaries

Investments in subsidiaries are stated at cost, less impairment if any

(l) Company accounts

The Company has elected to utilise the exemption provided in paragraph 42 of the IAS 27 'Consolidated and Separate Financial Statements' and the exemption in Section 400 of the Companies Act, 2006, 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 29)

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises 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

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(n) Current and deferred tax

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 differences arising from differences between tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled

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

(o) Share capital and dividends

*Share issue costs*

Incremental costs directly attributable to the issue of new shares or options or the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds

*Dividends on ordinary shares*

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Company's shareholder

## 4 Profit/(Loss) before taxation

The following items have been credited/(charged) in arriving at profit/(loss) before taxation

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Staff costs (note 5) | (2,226) | (1,297) |
| Depreciation of tangible fixed assets (note 12) | (141) | (100) |
| Auditor's remuneration | | |
| - audit of the Company's annual accounts | (65) | (65) |
| Gains/(losses) on financial instruments at fair value through profit or loss | | |
| - designated at fair value upon initial recognition | 32,304 | 107,593 |
| - held for trading | 546,195 | 3,194 |
| Fees and commissions | (30,312) | 23,856 |
| Impairment charges on loans and receivables | - | (10,200) |

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 £232,129,000 (2008 £158,548,000)

Impairment losses detailed above have been charged in administrative expenses

No key management personnel or directors receive any emoluments in respect of their services to the Company during the year (2008 nil)

During the year, one director exercised options under the Barclays PLC Sharesave Scheme and Long Term Incentives Schemes (2008 nil)

Auditor's remuneration for the supply of other services is not disclosed because the financial statements of the Company's parent Barclays Bank PLC are required to disclose such fees in the consolidated financial statements

## 5 Staff costs

Staff costs comprise the followings

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Wages and salaries | 1,968 | 1,093 |
| Social security costs | 134 | 76 |
| Pension contributions | 124 | 128 |
| Total | 2,226 | 1,297 |

The average number of persons, employed during the year, excluding agency staff was 16 (2008 14) All staff fall within a single structure overseas The majority of services are provided by staff employed by other companies and recharged by way of management charges

# Barclays Capital Securities Limited
# Year Ended 31 December 2009
# Notes to the Financial Statements

## 6 Taxation

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| **Current tax** | | |
| United Kingdom - current year | **54,510** | (30,159) |
| United Kingdom - prior year | **7,488** | 4,613 |
| Overseas - current year | **42,198** | 54,485 |
| Overseas - prior year | **671** | 3,406 |
| Total | **104,867** | 32,345 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **718** | 736 |
| Adjustment for prior years | **-** | (4,696) |
| Total | **718** | (3,960) |
| | | |
| Total charge | **105,585** | 28,385 |

Available overseas tax credits of £42,163,000 (2008 nil) have been applied to reduce UK tax in accordance with UK legislation

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

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| Profit/ (Loss) before tax | **347,542** | (47,837) |
| | | |
| Tax charge at average UK corporation tax rate of 28% (2008 28 5%) | **97,312** | (13,633) |
| Adjustments for prior years | **8,159** | 3,322 |
| Non-creditable overseas tax | **35** | - |
| Overseas tax expensed | **-** | (14,592) |
| Overseas tax charged | **-** | 54,485 |
| Non-taxable (income)/expense | **79** | (1,197) |
| Total tax charge for the year | **105,585** | 28,385 |
| | | |
| Effective tax rate % | **30 38%** | N A |

## 7 Trading portfolio

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| **Trading Portfolio Assets** | | |
| Equity securities | 6,895,414 | 8,154,796 |
| Debt securities | 897,969 | 768,169 |
| Total | 7,793,383 | 8,922,965 |
| **Trading Portfolio Liabilities** | | |
| Equity securities | 2,092,987 | 3,154,736 |
| Debt securities | 389,485 | 169,174 |
| Total | 2,482,472 | 3,323,910 |

An analysis of these securities and the valuation methodology applied is detailed in note 21

# Barclays Capital Securities Limited
# Year Ended 31 December 2009
# Notes to the Financial Statements

## 8 Derivative financial instruments

Information relating to financial risks is in note 22

**31 December 2009**

| | Notional Contract Amount | Fair Value Assets | Fair Value Liabilities |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Foreign exchange derivatives** | | | |
| Currency swaps | 6,950,055 | 130,750 | 187,538 |
| OTC options bought and sold | 1,434,826 | 22,295 | 2,943 |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 204,509,494 | 5,131,880 | 3,862,586 |
| Exchange traded futures – bought and sold | 10,879,879 | - | - |
| **Equity and stock index derivatives** | | | |
| Equity options bought and sold | 128,131,028 | 11,433,267 | 13,112,135 |
| Equity swaps and forwards | 29,457,489 | 1,143,011 | 657,400 |
| Exchange traded futures – bought and sold | 29,711 | - | - |
| Exchange traded options – bought and sold | 388,903 | - | - |
| **Credit derivatives** | | | |
| Swaps | 7,125,780 | 195,844 | 196,834 |
| Total | **388,907,165** | **18,057,047** | **18,019,436** |

**31 December 2008**

| | Notional Contract Amount | Fair Value Assets | Fair Value Liabilities |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Foreign exchange derivatives** | | | |
| Currency swaps | 5,398,762 | 415,602 | 454,749 |
| OTC options bought and sold | 1,394,487 | 50,349 | 29,587 |
| **Interest rate derivatives** | | | |
| Interest rate swaps | 241,340,590 | 4,875,983 | 4,019,598 |
| Exchange traded futures – bought and sold | 36,006,171 | - | - |
| **Equity and stock index derivatives** | | | |
| Equity options bought and sold | 228,075,582 | 26,919,609 | 24,588,453 |
| Equity swaps and forwards | 20,177,357 | 229,971 | 328,281 |
| Exchange traded futures – bought and sold | 41,450 | - | - |
| Exchange traded options – bought and sold | 498,853 | - | - |
| **Credit derivatives** | | | |
| Swaps | 5,224,193 | 458,984 | 336,685 |
| Total | 538,157,445 | 32,950,498 | 29,757,353 |

## 9 Loans and receivables

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Reverse repurchase agreements and cash collateral on securities borrowed | 4,762,095 | 9,224,453 |
| Settlement balances | 3,670,098 | 3,107,892 |
| Other loans and receivables | 16,153,840 | 19,320,704 |
| Total | 24,586,033 | 31,653,049 |

Loans and receivables include £604,094,000 (2008 £680,465,000) held by the Company in a segregated client account with the intermediate parent undertaking

See note 25 for details of contractual maturity

## 10 Trade and other receivables

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Trade receivables | 164,472 | 346,384 |
| Other debtors | 3,087 | 38 |
| Total | 167,559 | 346,422 |

The contractual maturity of trade and other receivables is not more than three months

## 11 Deferred tax assets

The components of and the movements on the deferred tax account during the year was as follows

| | 1 January 2009 £'000 | Adjustment to prior year £'000 | (Charged)/ credited to income statement £'000 | 31 December 2009 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Accelerated capital allowances | 68 | - | (2) | 66 |
| First time adoption of IFRS | 5,169 | - | (738) | 4,431 |
| Short term timing differences | 321 | - | 22 | 343 |
| Pension cost | 1 | - | - | 1 |
| Capital losses | 7,886 | - | - | 7,886 |
| Net deferred tax asset | 13,445 | - | (718) | 12,727 |
| Falling due in one year | | | | 8,624 |
| Falling due after one year | | | | 4,103 |

| | 1 January 2008 £'000 | Adjustment to prior year £'000 | (Charged)/ credited to income statement £'000 | 31 December 2008 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Accelerated capital allowances | 75 | 2 | (9) | 68 |
| First time adoption of IFRS | 5,908 | - | (739) | 5,169 |
| Short term timing differences | 331 | (21) | 11 | 321 |
| Pension cost | - | 1 | - | 1 |
| Capital losses | 3,171 | 4,715 | - | 7,886 |
| Net deferred tax asset | 9,485 | 4,697 | (737) | 13,445 |
| Falling due in one year | | | | **736** |
| Falling due after one year | | | | **12,709** |

Deferred taxes are provided in full on temporary differences under the liability method using a principal tax rate of 28% (2008 28%)

Deferred tax on the first time adoption of IFRS relates to adjustments to restate the fair value of certain trading derivatives to eliminate any profits recognised that were not evidenced by reference to data from observable markets

## 12 Property, plant and equipment

Movements in, and details of the Company's property and equipment is as follows

| | Property, office equipment, fixtures & fittings £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2009 | 850 | 850 |
| Exchange movement | (31) | (31) |
| Additions | 311 | 311 |
| Disposals | (81) | (81) |
| At 31 December 2009 | 1,049 | 1,049 |
| **Accumulated depreciation** | | |
| At 1 January 2009 | (651) | (651) |
| Exchange movement | 23 | 23 |
| Charge for the year (Note 4) | (141) | (141) |
| Disposals | 81 | 81 |
| At 31 December 2009 | (688) | (688) |
| **Net book value** | | |
| 31 December 2009 | **361** | **361** |

| | Property, office equipment, fixtures & fittings £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2008 | 758 | 758 |
| Exchange movement | 20 | 20 |
| Additions | 82 | 82 |
| Disposals | (10) | (10) |
| At 31 December 2008 | 850 | 850 |
| **Accumulated depreciation** | | |
| At 1 January 2008 | (547) | (547) |
| Exchange movement | (14) | (14) |
| Charge for the year (Note 4) | (100) | (100) |
| Disposals | 10 | 10 |
| At 31 December 2008 | (651) | (651) |
| **Net book value** | | |
| 31 December 2008 | 199 | 199 |

## 13 Investments in subsidiaries

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

| | £'000 |
|---|---|
| At 1 January 2009 and at 31 December 2009 | 12 |

Particulars of the Company's principal subsidiaries on 31 December 2009 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 |
|---|---|---|---|---|---|
| Great Britain | Exshelfco (DZBC) | Dormant | 100% | £15,194 | Dormant |
| Great Britain | Barclays Capital Nominees (No 2) Limited | Dormant | 100% | £100 | Dormant |

Consolidated financial statements have not been prepared See Note 1

## 14 Borrowings

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Bank loans and overdrafts | **8,576,508** | 22,259,898 |
| Repurchase agreements and cash collateral on securities lent | **6,691,359** | 5,292,336 |
| Settlement balances | **3,538,947** | 2,444,672 |
| Other borrowings | **8,749,194** | 8,045,099 |
| Total | **27,556,008** | 38,042,005 |

The fair value of borrowings have been set out in Note 21

## 15 Financial liabilities designated at fair value

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Fair value £'000 | Contractual amount due on maturity £'000 | Fair value £'000 | Contractual amount due on maturity £'000 |
| Financial liabilities designated at fair value | 1,706,487 | 1,932,042 | 2,477,757 | 2,776,580 |

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 2009 and 2008

## 16 Trade and other payables

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Trade payables | 177,650 | 299,041 |
| Other payables | 124,213 | 67,686 |
| Total | 301,863 | 366,727 |

The Directors considers that the carrying amount of trade and other payables approximates their fair value

## 17 Current tax payable/(receivable)

Current tax payable/(receivable) were as follows

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| UK corporation tax payable/(receivable) | 1,994 | (30,006) |

## 18 Called up share capital

| | Ordinary Shares | |
|---|---|---|
| | Number of shares '000 | Amount £'000 |
| **Authorised** | | |
| As at 1 January 2009 | 150,000 | 150,000 |
| Increase in authorised share capital during the year | 350,000 | 350,000 |
| As at 31 December 2009 | **500,000** | **500,000** |
| As at 1 January 2008 | 88,500 | 88,500 |
| Increase in authorised share capital during the year | 61,500 | 61,500 |
| As at 31 December 2008 | 150,000 | 150,000 |
| **Allotted and fully paid** | | |
| As at 1 January 2009 | 133,500 | 133,500 |
| Capital injection during the year | 45,000 | 45,000 |
| As at 31 December 2009 | **178,500** | **178,500** |
| As at 1 January 2008 | 88,500 | 88,500 |
| Capital injection during the year | 45,000 | 45,000 |
| As at 31 December 2008 | 133,500 | 133,500 |

| | Irredeemable Non Cumulative Preference Shares | | Redeemable Non Cumulative Preference Shares | | Total |
|---|---|---|---|---|---|
| | Number of shares '000 | Amount £'000 | Number of shares '000 | Amount £'000 | Amount £'000 |
| **Authorised** | | | | | |
| As at 1 January 2009 and 31 December 2009 | 1 | 1 | 661,499 | 661,499 | 661,500 |
| **Allotted and fully paid** | | | | | |
| As at 1 January 2009 and 31 December 2009 | 1 | 1 | 490,000 | 490,000 | 490,001 |

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

An interim dividend payment of £45,000,000 was paid on 30 June 2009 out of current year income There was an increase in authorised share capital of £350,000,000 The Company allotted 45,000,000 shares of £1 00 to Barclays Group Holdings Limited as nominee for Barclays Bank PLC on the 30 June 2009

## 19 Other capital

| | £'000 |
|---|---|
| At 1 January 2009 and 31 December 2009 | 2,570 |

Other capital represents the capital contribution from Barclays Bank PLC of the Korean Branch to support the expansion of business activities conducted in South Korea These funds would only be remitted back to Barclays Bank PLC in the event that the Branch ceased to carry out securities business in South Korea

## 20 Reconciliation of profit before taxation to net cash flow from operating activities

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Profit before taxation | 347,542 | (47,837) |
| Depreciation | 141 | 100 |
| Non cash foreign exchange movement | 8 | (7) |
| Interest income | (538,814) | (622,991) |
| Interest expense | 504,814 | 631,544 |
| Net decrease in trading assets | 1,129,582 | 2,604,186 |
| Net decrease/(increase) in derivative financial instrument assets | 14,893,451 | (17,266,265) |
| Net (increase)/decrease in assets at fair value | (64,373) | 561,908 |
| Net decrease in loans and receivables | 7,067,016 | 12,001,937 |
| Net decrease in trade and other receivables | 178,863 | 205,396 |
| Net (decrease) in borrowings | (10,485,997) | (7,816,001) |
| Net (decrease) in trading liabilities | (841,438) | (1,923,533) |
| Net (decrease)/increase in derivative financial instrument liabilities | (11,737,917) | 10,872,198 |
| Net (decrease)/increase in liabilities at fair value | (771,270) | 443,657 |
| Net (decrease)/increase in trade and other payables | (64,864) | 5,710 |
| Other non-cash movement | (72,867) | (38,751) |
| Net cash outflow from operating activities | (456,123) | (388,749) |

## 21 Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled, in an arms-length transaction between knowledgeable willing parties

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

The fair value for loans and receivables, and other lending (including reverse repurchase agreements and cash collateral on securities borrowed) is estimated using discounted cash flows, applying either market rates where practicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placing with similar characteristics In many cases the fair value approximates carrying value because the instruments are short term in nature or have interest rates that reprice frequently

The fair value of deposits and other borrowings (including repurchase agreements and cash collateral on securities lent) is estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Company for deposits of similar remaining maturities

### Valuation inputs

During the year, the Company adopted the requirements of IFRS 7 – Financial Instruments Disclosures This requires an entity to classify its financial assets and liabilities held at fair value according to a hierarchy that reflects the significance of observable market inputs The classification of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety The three levels of the fair value hierarchy are defined below

*Quoted market process – Level 1*

Financial instruments, the valuation of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis

This category includes highly liquid government bonds, active listed equities and actively exchange-traded derivatives

*Valuation technique using observable inputs - Level 2*

Financial instruments that have been valued using inputs other than quoted process as described for level 1 but which are observable for the asset or liability, either directly or indirectly

This category includes most investment grade and liquid high yield bonds, less liquid listed equities, certain OTC derivatives, and most fund units

*Valuation technique using significant unobservable inputs - Level 3*

Financial instruments, the valuation of which incorporates significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques

This category includes certain OTC derivatives requiring complex and unobservable inputs such as correlations and long dated volatilities

## 21. Fair value of financial instruments (continued)

The following table shows the Company's financial assets and liabilities that are recognised and measured at fair value analysed by level within the fair value hierarchy

| 31 December 2009 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Trading portfolio assets | 6,040,644 | 1,752,660 | 79 | 7,793,383 |
| Derivative financial instruments | 8 | 16,952,771 | 1,104,268 | 18,057,047 |
| Financial assets designated at fair value | - | 82,566 | - | 82,566 |
| **Total assets** | **6,040,652** | **18,787,997** | **1,104,347** | **25,932,996** |
| Financial liabilities | | | | |
| Trading portfolio liabilities | 1,219,923 | 1,262,549 | - | 2,482,472 |
| Derivative financial instruments | 12 | 16,340,232 | 1,679,192 | 18,019,436 |
| Financial liabilities designated at fair value | - | 1,706,487 | - | 1,706,487 |
| Total liabilities | 1,219,935 | 19,309,268 | 1,679,192 | 22,208,395 |

Level 3 Movement Analysis

The following table summarises the movements in the level 3 balance during the year ended 31 December 2009 The table shows gains and losses and includes amounts for all financial assets and liabilities transferred to level 3 during the year The table does not reflect gains and losses for level 3 financial assets and liabilities that were transferred out during the year Transfers have been reflected as if they had taken place at the beginning of the year

| | Trading portfolio assets £'000 | Net derivative financial instruments £'000 | Total £'000 |
|---|---|---|---|
| As at 1 January 2009 | - | (565,330) | (565,330) |
| Purchases | - | 567,012 | 567,012 |
| Sales | - | - | - |
| Issues* | - | (644,156) | (644,156) |
| Settlements | - | (32,501) | (32,501) |
| Transfers in / transfers out | 79 | 115,729 | 115,808 |
| Total gains and losses in the period | - | - | - |
| Recognised in the statement of comprehensive income | | | |
| - trading income | - | (15,678) | (15,678) |
| As at 31 December 2009 | 79 | (574,924) | (574,845) |

* Issuances relate to premiums received from written options

The significant transfers in the level 3 positions during the year ended 31 December 2009 are explained below

- Transfers into level 3 are due to inputs on specific derivatives becoming unobservable during the period
- Transfers out of level 3 are due to inputs on specific derivatives becoming observable during the period

There were no significant transfers between level 1 and level 2

21 Fair value of financial instruments (continued)

Valuation techniques

Valuations based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable

Valuation models are reviewed at least annually for model performance and calibration Current year valuation methodologies were consistent with the prior year unless otherwise noted below These methodologies are commonly used by market participants

The main products whose valuation includes unobservable inputs are described below

*Equity products*

This category includes listed equities, exchange traded derivatives, OTC equity derivatives and contracts for difference Within this population, valuation inputs for certain OTC equity derivatives are unobservable

OTC equity derivatives valuations are determined using industry standard models The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and correlations In general, input parameters are deemed observable up to liquid maturities which are determined separately for each parameter and underlying instrument Unobservable model inputs are set by referencing liquid market instruments and applying extrapolation techniques to match the risk profile of the trading portfolio These are validated against consensus market data services for the same or similar underlying instrument Models are calibrated daily based on liquid market instrument prices

Unrecognised gains as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in income that relates to the difference between the transaction price (the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, was as follows

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| At 1 January | **14,828** | 24,329 |
| Additions in year | **20,219** | 7,294 |
| Releases in the year | **(1,844)** | (9,207) |
| Amortisations in the year | **(4,612)** | (7,588) |
| At 31 December | **28,591** | 14,828 |

21 Fair value of financial instruments (continued)

Sensitivity analysis of valuations using unobservable inputs

The process of calculating fair value on level 3 instruments may require estimation of certain pricing parameters, assumptions or model characteristics These estimates are calibrated against industry standards, economic models and observed transaction prices Changes to assumptions or estimated levels can potentially impact the fair value of an instrument as reported The effect of changing these assumptions, for those financial instruments for which the fair values were measured using valuation techniques that are determined in full or in part on assumptions that are not supported by observable market prices, to a range of reasonably possible alternative assumptions, would be to increase the fair value by up to £5,243,000 or to decrease the fair value by up to £5,243,000

These variations in the assumptions have been estimated on a product by product basis and form part of the Bank's internal control processes over the determination of fair value

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

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

The interest rate risk for the majority of the financial assets and liabilities is monitored via Daily Value at Risk (DVaR) (Note 23) The remaining financial assets and liabilities, including settlement balances, bank loans and overdrafts, repurchase agreements and reverse repurchase agreements, are short term in nature and the effects of changes in interest rates and subsequently, on net interest income, are not expected to be material

## 22 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

- Currency risk, due to the extent of its foreign currency assets not matched by foreign currency borrowings in the same currency See Note 23 (Market risk management)

- 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 23 (Market risk management)

- Credit risk, the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company See Note 24 (Credit risk)

- 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 See Note 25 (Liquidity risk)

- Price risk, the risk that market prices for the Company's securities measured at fair value may fall

The Company is required to follow the requirements of the Barclays company risk management policies, which includes specific guidelines on the management of foreign exchange, interest rate and credit risks, and advice on the use of financial instruments to manage them

## 23 Market risk

### Market risk management

Market risk is the risk that the Company'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, equity prices and foreign exchange rates Most market risk arises from trading activities

The measurement techniques used to measure and control market risk includes Daily Value at Risk (DVaR)

### Daily Value at Risk (DVaR)

DVaR is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 99%

DVaR is an important market risk measurement and control tool for the Company DVaR is calculated using the historical simulation method with a historical sample of two years

### DVaR Back-testing

The DVaR model is regularly assessed The main approach employed is the technique known as back-testing which counts the number of days when trading losses exceed the corresponding DVaR estimate

### Analysis of trading market risk exposures

The table below shows the DVaR statistics for the Company's trading activities DVaR is the main measure for risk management within the Company

| | 12 months to 31 December 2009 | | | 12 months to 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | Average £'000 | High £'000 | Low £'000 | Average £'000 | High £'000 | Low £'000 |
| Interest rate risk | 1,390 | 3,010 | 820 | 1,670 | 3,210 | 940 |
| Credit spread risk | 50 | 260 | - | 650 | 2,580 | - |
| Equities risk | 17,290 | 41,680 | 9,640 | 12,580 | 21,760 | 7,990 |
| Foreign exchange risk | 2,020 | 7,960 | 550 | 870 | 4,270 | 280 |
| Diversification effect | (2,210) | (10,610) | (2,820) | (2,880) | (11,920) | (1,330) |
| Total DVaR | 18,540 | 42,300 | 8,190 | 12,890 | 19,900 | 7,880 |

### Interest rate risk

Interest rate risk is the extent to which changes in interest rate will result in higher financing costs for the Company

Interest rate sensitivity analysis is not performed as it does not have a material impact on the financial position of the Company

23 Market risk (continued)

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 2009, the Company had net US Dollar liabilities of £36,929,000 (2008 £98,501,000 assets), net Canadian Dollar liabilities of £890,000 (2008 £55,174,000 liabilities), net Euro assets of £18,405,000 (2008 £104,844,000 assets), and net other currency assets of £109,423,000 (2008 £190,250,000 assets)

Transactional currency risk is minimised by the use of foreign currency derivative financial instruments to hedge open net exposures and a P&L sell-off process These amounts do not include any of the notional amounts of such foreign currency derivative instruments

## 24 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 are with other Barclays entities The Company has master netting agreements in place which significantly reduces the exposure in respect of derivative balances

There were no financial assets that were impaired for the year ended 31 December 2009 (2008 nil)

24 Credit risk (continued)

Credit risk concentrations by geographical sector

The geographical analysis is based on the location of the customer to which the lending is made

| | 2009 | | | | |
|---|---|---|---|---|---|
| | United Kingdom £'000 | Other EU £'000 | United States £'000 | Rest of World £'000 | Total £'000 |
| On balance sheet | | | | | |
| Cash and cash equivalents | 19,389 | 64,819 | 2,104 | 127,989 | 214,301 |
| Trading portfolio assets (debt) | 185,452 | 252,732 | 26,517 | 433,268 | 897,969 |
| Derivative financial instruments | 17,613,718 | 249,540 | 119,582 | 74,207 | 18,057,047 |
| Financial assets designated at fair value | 80,570 | - | - | 1,996 | 82,566 |
| Settlement balances and other loans and receivables | 11,470,433 | 1,097,016 | 5,864,647 | 1,391,842 | 19,823,938 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 1,279,599 | 446,222 | 2,736,686 | 299,588 | 4,762,095 |
| Trade and other receivables | 40,207 | 51,547 | 62,678 | 13,127 | 167,559 |
| Other assets | 12,727 | - | - | 373 | 13,100 |
| Total on balance sheet | 30,702,095 | 2,161,876 | 8,812,214 | 2,342,390 | 44,018,575 |

| | 2008 | | | | |
|---|---|---|---|---|---|
| | United Kingdom £'000 | Other EU £'000 | United States £'000 | Rest of World £'000 | Total £'000 |
| On balance sheet | | | | | |
| Cash and cash equivalents | 311,059 | 83,365 | 3,095 | 239,216 | 636,735 |
| Trading portfolio assets (debt) | 49,416 | 140,411 | 213,994 | 364,348 | 768,169 |
| Derivative financial instruments | 31,656,808 | 691,599 | 300,124 | 301,967 | 32,950,498 |
| Financial assets designated at fair value | 18,193 | - | - | - | 18,193 |
| Settlement balances and other loans and receivables | 13,812,294 | 431,890 | 4,762,215 | 3,422,197 | 22,428,596 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 5,979,879 | 751,341 | 2,356,438 | 136,795 | 9,224,453 |
| Trade and other receivables | 329,535 | 1,003 | 2,226 | 13,658 | 346,422 |
| Other assets | 13,445 | - | - | 211 | 13,656 |
| Total on balance sheet | 52,170,629 | 2,099,609 | 7,638,092 | 4,478,392 | 66,386,722 |

24 Credit risk (continued)

Credit risk concentration by industrial sector

| | 2009 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Government £'000 | Financial Institutions £'000 | Agriculture, Forestry & Fishing £'000 | Manufacturing £'000 | Construction £'000 | Property £'000 | Energy Water £'000 | Wholesale and Retail Dist £'000 | Transport £'000 | Postal & Communications £'000 | Business and other services £'000 | Total £'000 |
| On balance sheet | | | | | | | | | | | | |
| Cash and cash equivalents | - | 214,301 | - | - | - | - | - | - | - | - | - | 214,301 |
| Trading portfolio assets (debt) | 90,385 | 217,298 | - | 376,511 | 11,044 | 42,823 | 20,978 | 52,685 | 16,880 | 12,278 | 57,087 | 897,969 |
| Derivative financial instruments | - | 18,057,047 | - | - | - | - | - | - | - | - | - | 18,057,047 |
| Financial assets designated at fair value | - | 82,566 | - | - | - | - | - | - | - | - | - | 82,566 |
| Settlement balances and other loans and receivables | - | 19,823,924 | - | 8 | - | - | - | 6 | - | - | - | 19,823,938 |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | 4,762,095 | - | - | - | - | - | - | - | - | - | 4,762,095 |
| Trade and other receivables | - | 167,559 | - | - | - | - | - | - | - | - | - | 167,559 |
| Other assets | 12,727 | 373 | - | - | - | - | - | - | - | - | - | 13,100 |
| Total on balance sheet | 103,112 | 43,325,163 | - | 376,519 | 11,044 | 42,823 | 20,978 | 52,691 | 16,880 | 12,278 | 57,087 | 44,018,575 |

24 Credit risk (continued)

Credit risk concentration by industrial sector (continued)

| | 2008 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Government £'000 | Financial Institutions £'000 | Agriculture, Forestry & Fishing £'000 | Manufacturing £'000 | Construction £'000 | Property £'000 | Energy Water £'000 | Wholesale and Retail Dist £'000 | Transport £'000 | Postal & Communications £'000 | Business and other services £'000 | Total £'000 |
| On balance sheet | | | | | | | | | | | | |
| Cash and cash equivalents | - | 636,735 | - | - | - | - | - | - | - | - | - | 636,735 |
| Trading portfolio assets (debt) | 51 | 195,664 | - | 312,302 | 9,035 | 52,981 | 45,461 | 64,582 | 11,594 | 20,780 | 55,719 | 768,169 |
| Derivative financial instruments | - | 32,950,347 | - | 64 | - | - | - | - | - | - | 87 | 32,950,498 |
| Financial assets designated at fair value | - | 18,193 | - | - | - | - | - | - | - | - | - | 18,193 |
| Settlement balances and other loans and receivables | - | 22,428,345 | - | - | - | - | - | - | - | - | 251 | 22,428,596 |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | 9,224,453 | - | - | - | - | - | - | - | - | - | 9,224,453 |
| Trade and other receivables | - | 346,422 | - | - | - | - | - | - | - | - | - | 346,422 |
| Other assets | 13,445 | 211 | - | - | - | - | - | - | - | - | - | 13,656 |
| Total on balance sheet | 13,496 | 65,800,370 | - | 312,366 | 9,035 | 52,981 | 45,461 | 64,582 | 11,594 | 20,780 | 56,057 | 66,386,722 |

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24 Credit risk (continued)

Trading portfolio assets/financial assets designated at fair value – The Company's practice is to take into account credit risk when valuing these assets The Company therefore expects little additional credit risk on these instruments, other than the credit risk component of trading market risk on these instruments The trading market risk is monitored through the Daily Value at Risk (DVaR) methodology

In addition, many of the trading portfolios held are of very high quality, and include, for example, treasury bills and government bonds

Derivative financial instruments – In addition to including the credit risk on these instruments in the DVaR methodology, the Company also uses a number of other techniques to reduce its exposure to credit risk on these instruments These techniques include master netting agreements, which do not qualify for offset under IAS 32 but which give a legally enforceable right to net receivables and payables with the same counterparty, and the obtaining of cash collateral from counterparties who have a net exposure to the Company through Collateral Service Agreements

Loans and receivables – Loans and advances are well spread across both geographical regions, industry sectors, maturity and individual counterparties Loans and advances amounted to £24,586,033,000 (2008 £31,653,049,000) Analyses by geography, industry and maturity, based on the location of customers, may be found on pages 39 to 42 and 44 to 49 respectively The Company actively seeks to manage credit risk by ensuring diversification of its lending across clients, regions and industries

Reverse repurchase agreements and cash collateral on securities borrowed – By their nature these balances have a low credit risk, as they are largely secured by obtaining collateral from counterparties The Company's policy is to seek collateral at the outset equal to 100% to 105% of the loan amount, with further collateral calls made as required The Company manages its credit exposure by counterparty exposure which may be spread across one or more of the line items described above

## 24 Credit risk (continued)

Financial assets subject to credit risk

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash and cash equivalents £'000 | Trading portfolio assets (Debt) £'000 | Derivative financial instruments £'000 | Financial assets designated at fair value £'000 | Settlement balances and other loans and receivables £'000 | Reverse Repurchase agreements and cash collateral on securities borrowed £'000 | Trade and other receivables £'000 | Total £'000 |
| As at 31 December 2009 | | | | | | | | |
| Neither past due nor impaired | 214,301 | 897,969 | 18,057,047 | 82,566 | 19,518,559 | 4,762,095 | 158,204 | 43,690,741 |
| Past due but not impaired | - | - | - | - | 305,379 | - | 9,355 | 314,734 |
| Total on balance sheet | 214,301 | 897,969 | 18,057,047 | 82,566 | 19,823,938 | 4,762,095 | 167,559 | 44,005,475 |

24 Credit risk (continued)

Financial assets subject to credit risk (continued)

| | 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash and cash equivalents £'000 | Trading portfolio assets (Debt) £'000 | Derivative financial instruments £'000 | Financial assets designated at fair value £'000 | Settlement balances and other loans and receivables £'000 | Reverse Repurchase agreements and cash collateral on securities borrowed £'000 | Trade and other receivables £'000 | Total £'000 |
| As at 31 December 2008 | | | | | | | | |
| Neither past due nor impaired | 636,735 | 768,169 | 32,950,498 | 18,193 | 20,834,929 | 9,224,453 | 346,422 | 64,779,399 |
| Past due but not impaired | - | - | - | - | 1,593,667 | - | - | 1,593,667 |
| Total on balance sheet | 636,735 | 768,169 | 32,950,498 | 18,193 | 22,428,596 | 9,224,453 | 346,422 | 66,373,066 |

## 24 Credit risk (continued)

### (a) Financial assets that are neither past due nor impaired

| | 2009 | | | |
|---|---|---|---|---|
| | Investment Grade £'000 | Non-Investment Grade £'000 | Special mention/ Sub-standard £'000 | Total £'000 |
| Cash & cash equivalents | 194,853 | 19,448 | - | 214,301 |
| Trading portfolio assets (Debt) | 365,936 | 511,292 | 20,741 | 897,969 |
| Derivative financial instruments | 17,966,861 | 90,186 | - | 18,057,047 |
| Financial assets designated at fair value | 80,249 | 2,317 | - | 82,566 |
| Settlement balances and other loans and receivables | 14,043,699 | 5,474,853 | 7 | 19,518,559 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 4,627,953 | 134,110 | 32 | 4,762,095 |
| Trade and other receivables | 71,542 | 86,651 | 11 | 158,204 |
| Total financial assets subject to credit risk neither past due nor impaired | 37,351,093 | 6,318,857 | 20,791 | 43,690,741 |

24 Credit risk (continued)

(a) Financial assets that are neither past due nor impaired (continued)

| | 2008 | | | |
|---|---|---|---|---|
| | Investment Grade £'000 | Non-Investment Grade £'000 | Special mention/ Sub-standard £'000 | Total £'000 |
| Cash & cash equivalents | 612,742 | 23,993 | - | 636,735 |
| Trading portfolio assets (Debt) | 245,591 | 481,221 | 41,357 | 768,169 |
| Derivative financial instruments | 32,592,685 | 357,813 | - | 32,950,498 |
| Financial assets designated at fair value | 17,956 | 237 | - | 18,193 |
| Settlement balances and other loans and receivables | 17,552,199 | 3,194,174 | 88,556 | 20,834,929 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 8,876,923 | 345,664 | 1,866 | 9,224,453 |
| Trade and other receivables | 5,947 | 327,726 | 12,749 | 346,422 |
| Total financial assets subject to credit risk neither past due nor impaired | 59,904,043 | 4,730,828 | 144,528 | 64,779,399 |

Settlement balances and other loans and receivables in the above table have been reanalysed between "Investment Grade" Non Investment Grade" and "Special Mention

24 Credit risk (continued)

(b) Financial assets that are past due but not impaired

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Past due one month £'000 | Past due one to two months £'000 | Past due two to three months £'000 | Past due three to six months and over £'000 | Past due six months and over £'000 | Total £'000 |
| Loans and advances | 301,332 | 1,435 | 392 | 1,785 | 435 | 305,379 |
| Trade and other receivables | 9,331 | 4 | 20 | - | - | 9,355 |
| Total financial assets subject to credit risk past due but not impaired | 310,663 | 1,439 | 412 | 1,785 | 435 | 314,734 |

24 Credit risk (continued)

(b) Financial assets that are past due but not impaired (continued)

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Past due one month £'000 | Past due one to two months £'000 | Past due two to three months £'000 | Past due three to six months and over £'000 | Past due six months and over £'000 | Total £'000 |
| Loans and advances | 1,591,650 | 1,085 | 11 | 94 | 827 | 1,593,667 |
| Total financial assets subject to credit risk past due but not impaired | 1,591,650 | 1,085 | 11 | 94 | 827 | 1,593,667 |

## 25 Liquidity risk

### Liquidity Risk Management

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due or to replace funds when they are withdrawn

Barclays PLC has a comprehensive Liquidity Risk Management Framework (the Liquidity Framework) for managing Group's liquidity risk The Company has adopted the Liquidity Framework, the Barclays Group Liquidity Policy and the Barclays Group's Contingency Funding plan and relies on Barclays Group systems and controls to ensure compliance with the FSA's Liquidity Standards

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

25 Liquidity risk (continued)

Contractual maturity of financial assets and liabilities

The table below provides detail on the contractual maturity of all financial instruments and other assets and liabilities

| As at 31 December 2009 | On demand £'000 | Not more than three months £'000 | Over three months but not more than six months £'000 | Over six months but not more than one year £'000 | Over one year but not more than three years £'000 | Over three year but not more than five years £'000 | Over five year but not more than ten years £'000 | Over ten years £'000 | Trading derivatives £'000 | Discount £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | | |
| Cash and cash equivalents | 214,301 | - | - | - | - | - | - | - | - | - | 214,301 |
| Trading portfolio assets | 7,793,383 | - | - | - | - | - | - | - | - | - | 7,793,383 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 18,057,047 | - | 18,057,047 |
| Financial assets designated at fair value | - | 737 | - | 544 | 33,491 | 42,729 | 5,065 | - | - | - | 82,566 |
| Settlement balances and other loans and receivables | 10,011,060 | 8,940,717 | 72,945 | 206 | 90,467 | 382,774 | 325,769 | - | - | - | 19,823,938 |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | 4,449,403 | - | 4,451 | 59,477 | 171,904 | 65,619 | 11,241 | - | - | 4,762,095 |
| TOTAL FINANCIAL ASSETS | 18,018,744 | 13,390,857 | 72,945 | 5,201 | 183,435 | 597,407 | 396,453 | 11,241 | 18,057,047 | - | 50,733,330 |

25 Liquidity risk (continued)

Contractual maturity of financial assets and liabilities (continued)

| As at 31 December 2009 | On demand £'000 | Not more than three months £'000 | Over three months but not more than six months £'000 | Over six months but not more than one year £'000 | Over one year but not more than three years £'000 | Over three year but not more than five years £'000 | Over five year but not more than ten years £'000 | Over ten years £'000 | Trading derivatives £'000 | Discount £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | | | | | | |
| Bank loans and overdrafts, settlement balances and other borrowings | (10,670,197) | (9,788,686) | (67,352) | (70,644) | (30,998) | (56,796) | (179,976) | - | - | - | (20,864,649) |
| Repurchase agreements and cash collateral on securities lent | - | (6,691,359) | - | - | - | - | - | - | - | - | (6,691,359) |
| Trading portfolio liabilities | (2,482,472) | - | - | - | - | - | - | - | - | - | (2,482,472) |
| Derivative financial instruments | - | - | - | - | - | - | - | - | (18,019,436) | - | (18,019,436) |
| Financial liabilities designated at fair value | - | (778) | (1,842) | (174,068) | (796,266) | (276,794) | (673,553) | (8,741) | - | 225,555 | (1,706,487) |
| TOTAL FINANCIAL LIABILITIES | (13,152,669) | (16,480,823) | (69,194) | (244,712) | (827,264) | (333,590) | (853,529) | (8,741) | (18,019,436) | 225,555 | (49,764,403) |
| Liquidity gap | 4,866,075 | (3,089,966) | 3,751 | (239,511) | (643,829) | 263,817 | (457,076) | 2,500 | 37,611 | 225,555 | 968,927 |
| Cumulative liquidity gap | 4,866,075 | 1,776,109 | 1,779,860 | 1,540,349 | 896,520 | 1,160,337 | 703,261 | 705,761 | 743,372 | 968,927 | |

25 Liquidity risk (continued)

Contractual maturity of financial assets and liabilities (continued)

| As at 31 December 2008 | On demand £'000 | Not more than three months £'000 | Over three months but not more than six months £'000 | Over six months but not more than one year £'000 | Over one year but not more than three years £'000 | Over three year but not more than five years £'000 | Over five year but not more than ten years £'000 | Over ten years £'000 | Trading derivatives £'000 | Discount £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | | |
| Cash and cash equivalents | 636,735 | - | - | - | - | - | - | - | - | - | 636,735 |
| Trading portfolio assets | 8,922,965 | - | - | - | - | - | - | - | - | - | 8,922,965 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 32,950,498 | - | 32,950,498 |
| Financial assets designated at fair value | - | - | - | 35 | 629 | 17,502 | 27 | - | - | - | 18,193 |
| Settlement balances and other loans and receivables | 6,416,181 | 14,475,584 | 28,524 | 837,779 | 229,961 | 187,774 | 252,793 | - | - | - | 22,428,596 |
| Reverse repurchase agreements and cash collateral on securities borrowed | - | 9,224,453 | - | - | - | - | - | - | - | - | 9,224,453 |
| TOTAL FINANCIAL ASSETS | 15,975,881 | 23,700,037 | 28,524 | 837,814 | 230,590 | 205,276 | 252,820 | - | 32,950,498 | - | 74,181,440 |

25 Liquidity risk (continued)

Contractual maturity of financial assets and liabilities (continued)

| As at 31 December 2008 | On demand £'000 | Not more than three months £'000 | Over three months but not more than six months £'000 | Over six months but not more than one year £'000 | Over one year but not more than three years £'000 | Over three year but not more than five years £'000 | Over five year but not more than ten years £'000 | Over ten years £'000 | Trading derivatives £'000 | Discount £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | | | | | | |
| Bank loans and overdrafts, settlement balances and other borrowings | (8,572,701) | (23,619,622) | (222,267) | (173,156) | (142,680) | (11,828) | (2,525) | (4,890) | - | - | (32,749,669) |
| Repurchase agreements and cash collateral on securities lent | - | (5,292,336) | - | - | - | - | - | - | - | - | (5,292,336) |
| Trading portfolio liabilities | (3,323,910) | - | - | - | - | - | - | - | - | - | (3,323,910) |
| Derivative financial instruments | - | - | - | - | - | - | - | - | (29,757,353) | - | (29,757,353) |
| Financial liabilities designated at fair value | - | (29,885) | (35,977) | (730,163) | (487,404) | (233,791) | (1,236,153) | (23,207) | - | 298,823 | (2,477,757) |
| TOTAL FINANCIAL LIABILITIES | (11,896,611) | (28,941,843) | (258,244) | (903,319) | (630,084) | (245,619) | (1,238,678) | (28,097) | (29,757,353) | 298,823 | (73,601,025) |
| Liquidity gap | 4,079,270 | (5,241,806) | (229,720) | (65,505) | (399,494) | (40,343) | (985,858) | (28,097) | 3,193,145 | 298,823 | 580,415 |
| Cumulative liquidity gap | 4,079,270 | (1,162,536) | (1,392,256) | (1,457,761) | (1,857,255) | (1,897,598) | (2,883,456) | (2,911,553) | 281,592 | 580,415 | |

Bank loans and overdrafts settlement balances and other borrowings in the above table have been reanalysed between Not more than three months" and "On demand"

## 26 Collateral

The carrying amount of financial assets pledged as collateral for liabilities as at 31 December 2009 is £1,983,505,000 (2008 £764,470,000)

The Company has accepted collateral that it is permitted to sell or re-pledge in the absence of default by the owner of the collateral The fair value of collateral accepted as at 31 December 2009 is £42,359,987,000 (2008 £17,436,626,000) The fair value of such collateral where the securities have been sold or re-pledged and the entity has an obligation to return this collateral is £28,432,585 (2008 £11,017,163,000)

## 27 Capital management

The Company's capital management strategy is to continue to maximize shareholder value through optimizing both the level and mix of capital resources Decisions on the allocation of capital resources are conducted as part of the strategic planning review

The Company's capital management objectives are to

- Maintain sufficient capital resources to support the Company's risk appetite and economic capital requirements
- Maintain sufficient capital resources to meet the Financial Services Authority's (FSA) minimum regulatory capital requirements

### External Regulatory Capital Requirements

The Company is subject to minimum capital requirements imposed by the FSA, following guidelines developed by the Basel Committee on Banking Supervision (the Basel Committee) and implemented in the UK via European Union Directives

Minimum requirements under FSA's Basel rules are expressed as a ratio of capital resources to risk weighted assets (Risk Asset Ratio) Risk weighted assets are a function of risk weights applied to Company's assets using calculations developed by the Basel Committee on Banking Supervision

Under Basel II, effective from 1 January 2008, the Company has been granted approval by the FSA to adopt the advanced approaches to credit and operational risk management Pillar 1 risk weighted assets will be generated using the Company's risk models Pillar 1 minimum capital requirements under Basel II are Pillar 1 risk weighted assets multiplied by 8%, the internationally agreed minimum ratio

### Regulatory Capital Ratios

The table below provides details of the Company's capital ratios and risk weighted assets at 31 December 2009 and 2008 under Basel II

| | **2009**<br>**£'000** | 2008<br>£'000 |
|---|---|---|
| Total risk weighted assets | **6,122,553** | 6,435,419 |
| Capital adequacy ratio | **168%** | 114% |

## 27 Capital management (continued)

The table below provides details of the regulatory capital resources managed by the Company

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Total qualifying Tier 1 capital | **845,729** | 603,654 |
| Total deductions | **(22,593)** | (15,438) |
| Total net capital resources | **823,136** | 588,216 |

## 28 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions, or one other party controls both

Related parties comprise mainly of branches and subsidiaries of Barclays Bank PLC

The following transactions took place between the Company and related parties at terms agreed between the parties

| | Branches £'000 | Subsidiaries £'000 | Total £'000 |
|---|---|---|---|
| **Income statement for the year ended 31 December 2009** | | | |
| Transactions | | | |
| Interest Income | (158,324) | (104) | (158,428) |
| Interest Expenses | 1,677 | 145,207 | 146,884 |
| Net Trading Income | 11,078 | 137,814 | 148,892 |
| Administrative expenses | 248 | 232,340 | 232,588 |
| Total | **(145,321)** | **515,257** | **369,936** |
| | | | |
| **Balance sheet as at 31 December 2009** | | | |
| Assets | | | |
| Cash and cash equivalents | 18,526 | 22 | 18,548 |
| Derivative financial instruments | 17,221,572 | 304,563 | 17,526,135 |
| Financial assets designated at fair value | 80,159 | - | 80,159 |
| Loans and receivables | 9,594,860 | 3,769,644 | 13,364,504 |
| Trade and other receivables | 6,210 | 510 | 6,720 |
| Investments in Subsidiaries | - | 12 | 12 |
| Total | **26,921,327** | **4,074,751** | **30,996,078** |
| | | | |
| Liabilities | | | |
| Borrowings | (8,631,337) | (1,495,557) | (10,126,894) |
| Derivative financial instruments | (16,820,530) | (140,040) | (16,960,570) |
| Financial liabilities designated at fair value | (1,579,522) | (8,741) | (1,588,263) |
| Trade and other payables | (9,830) | (66,095) | (75,925) |
| Total | **(27,041,219)** | **(1,710,433)** | **(28,751,652)** |

## 28 Related party transactions (continued)

| | Branches £'000 | Subsidiaries £'000 | Total £'000 |
|---|---|---|---|
| **Income statement for the year ended 31 December 2008** | | | |
| Transactions | | | |
| Interest Income | (176,081) | (5,669) | (181,750) |
| Interest Expenses | 3,648 | 169,350 | 172,998 |
| Net Trading Income/(expense) | 9,207 | (55,913) | (46,706) |
| Administrative expenses | 173 | 158,375 | 158,548 |
| Total | (163,053) | 266,143 | 103,090 |

| | Branches £'000 | Subsidiaries £'000 | Total £'000 |
|---|---|---|---|
| **Balance sheet as at 31 December 2008** | | | |
| Assets | | | |
| Cash and cash equivalents | 308,247 | 54 | 308,301 |
| Derivative financial instruments | 30,718,158 | 458,110 | 31,176,268 |
| Financial assets designated at fair value | 17,929 | - | 17,929 |
| Loans and receivables | 17,768,718 | 3,114,466 | 20,883,184 |
| Trade and other receivables | - | 2,111 | 2,111 |
| Investments in Subsidiaries | - | 12 | 12 |
| Total | 48,813,052 | 3,574,753 | 52,387,805 |
| Liabilities | | | |
| Borrowings | (21,325,071) | (2,385,130) | (23,710,201) |
| Derivative financial instruments | (26,635,854) | (1,318,338) | (27,954,192) |
| Financial liabilities designated at fair value | (2,348,483) | (4,475) | (2,352,958) |
| Trade and other payables | (6,710) | (34,222) | (40,932) |
| Total | (50,316,118) | (3,742,165) | (54,058,283) |

## 29 Ultimate parent company

The parent undertaking of the smallest company that presents consolidated financial statements is Barclays Bank PLC The ultimate holding Company and the parent Company of the largest group that presents consolidated financial statements is Barclays PLC Both companies are incorporated in Great Britain and registered in England Barclays Bank PLC's and Barclays PLC's statutory financial statements are available from Barclays Corporate Secretariat, 1 Churchill Place London E14 5HP