

Barclays PLC

Annual report 1998

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Barclays PLC and Barclays Bank PLC
Annual report on Form 20-F 1998

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Registered No. 48839

This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act 1995 with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements, certain statements in the Financial review with regard to management objectives, trends in results of operations, margins, risk management, competition and to the Year 2000 issue are forward-looking in nature. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in economic conditions in individual countries in which the Group conducts its business and internationally, fiscal or other policies adopted by various governments and regulatory authorities of the United Kingdom and other jurisdictions, levels of competition from other banks and financial services companies, future exchange and interest rates, as well as with respect to the Year 2000 issue, the factors discussed under the caption, Year 2000 readiness disclosure.

This document comprises the 1998 Annual report of Barclays PLC and the 1998 Annual report on Form 20-F to the US Securities and Exchange Commission for Barclays PLC and Barclays Bank PLC. It contains the Directors' report and accounts of Barclays PLC, together with the Auditors' report thereon, as required by the UK Companies Act 1985. The 1998 Annual review and summary financial statement of Barclays PLC is published as a separate document.

The accounts of Barclays Bank PLC included in this document do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts of Barclays Bank PLC, which contain an unqualified audit report and do not contain any statement under Section 237(2) or (3) of that Act, will be delivered to the Registrar of Companies in accordance with Section 242 of the Act and are published as a separate document.

Barclays PLC and Barclays Bank PLC are public limited companies, organised under the laws of England, and all of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC. The report has therefore been prepared as a joint annual report on Form 20-F for Barclays PLC and Barclays Bank PLC and it also contains the consolidated accounts of and other information relating to Barclays Bank PLC. Except where otherwise indicated, the information given is identical with respect to both Barclays PLC and Barclays Bank PLC.

The consolidated accounts of Barclays PLC and its subsidiary undertakings are set out on pages 95 to 103 along with the accounts of Barclays PLC itself on page 104. The consolidated accounts of Barclays Bank PLC and its subsidiary undertakings are set out on pages 155 to 162. The accounting policies on pages 95 to 97 and the notes commencing on page 105 apply equally to both sets of accounts unless otherwise stated. The financial data contained in this document reflects changes in the Group's management structure which took place in 1998 and are explained on page 8. The relevant comparative data has been restated.

The term 'Barclays PLC Group' means Barclays PLC together with its subsidiary undertakings and the term 'Barclays Bank PLC Group' refers to Barclays Bank PLC together with its subsidiary undertakings. 'Barclays' and 'Group' are terms which are used to refer to either of the preceding groups when the subject matter is identical. The term 'Company' refers to Barclays PLC and the term 'Bank' refers to Barclays Bank PLC.

In this report, the abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling respectively and the abbreviations '\$m' and '\$bn' represent millions and thousands of millions of US dollars respectively.

References to operating results 'before the impact of the Finance Act' exclude the impact of taxation changes arising from the Finance (No. 2) Act 1997 and the Finance Act 1998.

Profit before tax (£m)



Post-tax return on average shareholders' funds (%)



Earnings per share (pence)



Dividends per share (pence)



Consolidated profit and loss account summary (a)

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Interest receivable	9,952	9,204	8,730	9,209	8,526
Interest payable	5,600	5,091	4,821	5,427	4,833
Write-down of leases	(40)	(77)	-	-	-
Profit/(loss) on redemption/repurchase of loan capital	3	2	32	-	(60)
Net interest income	4,315	4,038	3,941	3,782	3,633
Fees and commissions receivable	3,008	3,197	3,168	2,969	2,986
Less: fees and commissions payable	(229)	(218)	(223)	(202)	(196)
Dealing profits	(33)	374	414	404	288
Other operating income	324	228	248	232	191
Life-fund charge	-	(28)	-	-	-
Operating income	7,385	7,591	7,548	7,185	6,902
Administration expenses - staff costs	2,811	3,035	2,980	2,907	2,680
Administration expenses - other	1,810	1,896	1,807	1,765	1,655
Depreciation and amortisation	275	269	301	335	241
Operating expenses	4,896	5,200	5,088	5,007	4,576
Operating profit before provisions	2,489	2,391	2,460	2,178	2,326
Provisions for bad and doubtful debts	492	227	215	396	602
Provisions for contingent liabilities and commitments	76	4	9	3	-
Provisions	568	231	224	399	602
Operating profit	1,921	2,160	2,236	1,779	1,724
Loss on sale or restructuring of BZW	(3)	(469)	-	-	-
Profit on disposal of other Group undertakings	4	44	70	238	107
Write-down of fixed asset investments	(4)	(19)	-	-	-
Profit on ordinary activities before tax	1,918	1,716	2,306	2,017	1,831
Tax on profit on ordinary activities	538	542	620	610	580
Profit on ordinary activities after tax	1,380	1,174	1,686	1,407	1,251
Profit attributable to minority interests	(45)	(44)	(47)	(43)	(72)
Profit for the financial year attributable to the members of Barclays PLC	1,335	1,130	1,639	1,364	1,179
Dividends	(646)	(563)	(479)	(421)	(343)
Profit retained for the financial year	689	567	1,160	943	836

Selected financial statistics

Earnings per ordinary share	88.4p	74.4p	104.2p	83.6p	72.4p
Dividends per ordinary share	43.0p	37.0p	31.5p	26.0p	21.0p
Dividends cover (times)	2.1	2.0	3.4	3.2	3.4
Attributable profit before tax as a percentage of average shareholders' funds	23.7%	22.1%	31.3%	29.8%	30.7%
Attributable profit after tax as a percentage of average shareholders' funds	17.0%	15.0%	22.8%	20.7%	20.7%
average total assets (note (b))	0.6%	0.5%	0.9%	0.8%	0.7%
Average US dollar exchange rate used in preparing the accounts	1.66	1.64	1.56	1.58	1.53

Consolidated balance sheet summary (a)

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Assets					
Loans and advances to banks and customers	132,722	136,707	118,441	111,280	112,705
Other assets	77,402	87,499	59,480	50,543	44,488
	210,124	224,206	177,921	161,823	157,193
Infrastructure	2,285	2,264	2,400	2,361	2,170
	212,409	226,470	180,321	164,184	159,363
Retail life-fund assets attributable to policyholders	7,085	5,959	4,840	4,642	3,040
Total assets	219,494	232,429	185,161	168,826	162,403
Liabilities					
Deposits by banks, customer accounts and debt securities in issue	161,049	173,283	142,554	125,361	125,165
Other liabilities	39,389	42,314	27,093	27,802	24,046
	200,438	215,597	169,647	153,163	149,211
Capital resources					
Undated loan capital	1,742	1,657	1,635	1,989	1,979
Dated loan capital	1,992	1,211	1,396	1,571	1,562
Other subordinated liabilities	-	59	56	91	121
Minority interests	314	326	320	343	329
Shareholders' funds	7,923	7,620	7,267	7,027	6,161
	11,971	10,873	10,674	11,021	10,152
	212,409	226,470	180,321	164,184	159,363
Retail life-fund liabilities attributable to policyholders	7,085	5,959	4,840	4,642	3,040
Total liabilities and shareholders' funds	219,494	232,429	185,161	168,826	162,403

Weighted risk assets and capital ratios

Weighted risk assets	109,781	108,327	98,391	93,261	93,238
Tier 1 ratio	7.4%	7.3%	7.6%	7.7%	7.0%
Risk asset ratio	10.7%	10.0%	10.4%	10.9%	10.4%

Selected financial statistics

Average shareholders' funds as a percentage of average total assets (note (b))	3.2%	3.5%	4.0%	4.0%	3.5%
Net asset value per ordinary share	525p	498p	472p	433p	377p
Year-end US dollar exchange rates used in preparing the accounts	1.66	1.65	1.71	1.55	1.56

Notes

- (a) The financial information on pages 4 and 5 is extracted from the published accounts for the last five years, restated where appropriate to accord with the current accounting policies of the Group (see page 95). This information should be read together with, and is qualified by reference to, the accounts and notes included in this report.
- (b) For the purposes of this summary, the retail life-fund assets attributable to policyholders have been excluded from average total assets.

Introduction

Barclays is a UK-based financial services group engaged primarily in the banking and investment banking businesses. In terms of assets employed, Barclays is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is one of the leading providers of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres.

With effect from 1st April 1998 the Group's operations were reorganised into four key business groupings described below.

The results for Barclays for 1998 are reported separately for the following: Retail Financial Services, Corporate Banking, Barclays Capital, Barclays Global Investors, Businesses in Transition, Other Operations and Head office functions.

The results for Retail Financial Services and Corporate Banking are reported separately after allocating the costs of the support functions, the UK branch network and other common infrastructure.

Retail Financial Services

Retail Financial Services brings together all of the Group's retail interests around the world. Its purpose is to serve customers by understanding their needs as individuals and by offering services and products that anticipate and satisfy their requirements. Retail Financial Services is organised for reporting purposes into four major business groupings.

UK Retail Banking

This business provides a wide range of services and products to personal and small business customers through its UK branch network, ATMs, Barclaycall (the telephone banking service), and internet and PC banking.

Barclaycard

Barclaycard is the largest credit card business in Europe. It offers a full range of credit card services to individual customers, together with card payment facilities to retailers and other businesses.

International Premier, Private, Savings and Investment

The businesses in Spain, France, Germany, Greece and Portugal serve the medium and high net worth personal markets. Barclays Private Banking offers an integrated asset management service from offices around the world to private clients. Barclays Offshore Services, with offices in the Channel Islands, Isle of Man and London, provides specialist banking services for personal customers and companies which are non-UK based but require banking services in a sterling territory. This business also includes Barclays Life, Barclays Stockbrokers, Barclays Funds and b2, which provide pensions, life assurance, retail stockbroking services, and fund management and mutual funds.

Business description

Africa and Caribbean

The African and Caribbean banking operations serve both the personal and business markets. In the Caribbean, the business comprises domestic island operations and a growing offshore business. In Africa, the major businesses are in Kenya and Zimbabwe.

Corporate Banking

Corporate Banking provides relationship banking to the Group's medium sized and large business customers. The business has an extensive network of specialist business centres in the United Kingdom as well as offices in continental Europe, the United States and the Middle East serving both corporate and institutional customers. In addition, an office in Miami provides trade finance and correspondent banking services to the Group's Latin America customers. As well as a full range of conventional banking services, Corporate Banking provides foreign exchange and hedging products, factoring and invoice discounting, asset backed financing and contract hire. Corporate Banking began opening euro current and savings accounts for its customers in July 1998 and is now able to provide a wide range of euro products such as cash management, factoring, leasing and treasury management.

The emphasis within Corporate Banking is on harnessing this wide product range to develop bespoke financial solutions for customers, based on their individual needs. Corporate Banking also works closely with Barclays Capital to provide customers with integrated access to investment banking products.

Barclays Capital

Barclays Capital conducts the Group's international investment banking business. The business focuses on areas where it has a competitive advantage and which are integral to the Group's broader business strategy. Barclays Capital serves as the Group's principal point of access to the wholesale markets and also deals in these markets with governments, supranational organisations, corporates, banks, insurance companies and other institutional investors.

The activities of Barclays Capital are grouped in two principal areas: Rates which include sales, trading and research relating to government bonds, money markets, foreign exchange, commodities, and their related derivative instruments and Credit which includes origination, sales, trading and research relating to loans, securitised assets, bonds and their related derivative instruments and private equity investment and equity derivatives.

Barclays Capital is an important component of the overall Group, providing a variety of complementary services and products including foreign exchange and interest rate hedging instruments to all of the Group's businesses and their customers. It also provides a counterbalance to disintermediation of the traditional corporate lending businesses.

Barclays Global Investors

Barclays Global Investors (BGI) offers advanced active and indexed asset management services for institutional clients. The objective of advanced active management is to outperform market benchmarks by the application of disciplined investment processes. The objective of indexed management is to replicate the performance of market benchmarks. In addition, BGI is a major lender of securities. These activities are carried out from thirteen offices located in seven countries.

Businesses in Transition

Businesses in Transition comprises lendings and other assets that are unlikely to be of long-term interest to the Group or that require significant restructuring. It also included the former BZW businesses which, following the announcement in October 1997 of the decision to withdraw from the equities, equity capital markets and mergers and acquisitions advisory businesses, have now either been sold or closed.

Other operations

Barclays Group Property Services is responsible for the management of the Group's operational premises and property related services.

Central services includes a variety of activities which support the operating businesses such as information technology, the central administration of certain operational property costs and other central Group costs.

Management of Group capital is the balance of earnings on the Group's capital remaining after allocations to business groups, based generally on weighted risk assets. The Group maintains hedges with respect to its capital and its current account balances, which are designed both to reduce the impact of short-term interest rate fluctuations on profits and to increase profitability over the interest rate cycle. The hedges depress profitability when average short-term interest rates are higher than average medium-term interest rates.

Head office functions

Head office functions comprise the Group's central executive, Group finance, corporate communications, human resources, internal audit operations and the Group credit policy unit. Group finance includes Group general counsel's office, the Group secretary's office and the treasury, risk management, financial control, corporate planning, economics and taxation functions.

Competition

The Group continues to face significant competition in all of its major markets. In national markets, banks and financial services companies are offering innovative products and improved services, including new forms of direct and electronic banking, and new competitors are entering the markets. Internationally, many large financial services groups compete to provide increasingly sophisticated banking and investment services to corporate and institutional customers in the world's financial centres.

Management believes that the Group continues to be well placed to meet such competitive challenges.

Changes in reporting of Group structure in 1998

On 1st April 1998 the Group was reorganised into four main business groupings consisting of Retail Financial Services, Corporate Banking, Barclays Capital and Barclays Global Investors. Comparative figures have been restated to reflect the new structure.

Business description

Changes in accounting presentation

Within the classification Other operating income, Income from the long-term assurance business now includes amounts previously reported within Other income (1997 £14m, 1996 £15m).

Following a reassessment, certain BGI managed funds previously reported within life-fund assets attributable to policyholders are now more appropriately classified as funds under management. Accordingly these funds, and their related liabilities, have been excluded from the consolidated balance sheet.

Comparative numbers have been restated for the impact of these changes. Total operating income and operating profit are not affected.

Recent developments

On 7th January 1999, Barclays announced that it had agreed to make a contribution of £116m to the Administrators of British & Commonwealth Holdings PLC (B&C) as part of the overall settlement of £150m of the Atlantic litigation. It is expected that some £40m of this contribution will be offset by insurance cover. The contribution and insurance offset have been incorporated in the 1998 accounts.

This settlement brings to an end Barclays exposure in the litigation which arose in connection with B&C's acquisition of Atlantic in 1988.

Profit/(loss) before tax

	1998 £m	1997 £m	1996 £m
Retail Financial Services - before impact of Finance Act	1,519	1,287	1,147
- life-fund charge	-	(28)	-
	1,519	1,259	1,147
Corporate Banking - before impact of Finance Act	972	921	788
- write-down of leases	(40)	(77)	-
	932	844	788
Barclays Capital	(265)	252	207
Barclays Global Investors	52	51	43
Businesses in Transition - former BZW businesses	(33)	(219)	(11)
- other	48	93	64
Other operations	(184)	(56)	65
Head office functions	(60)	(52)	(54)
Goodwill amortisation	(12)	(12)	(13)
Provision for litigation settlement*	(76)	-	-
Operating profit	1,921	2,160	2,236
Loss on sale or restructuring of BZW	(3)	(469)	-
Profit on disposal of other Group undertakings	4	44	70
Write-down of fixed asset investments	(4)	(19)	-
	1,918	1,716	2,306

Total assets

	1998 £m	1997 £m	1996 £m
Retail Financial Services	46,150	41,698	40,835
Corporate Banking	42,853	36,505	34,292
Barclays Capital	117,194	134,680	90,491
Barclays Global Investors	183	161	105
Businesses in Transition - former BZW businesses	-	8,477	7,521
- other	554	771	2,028
Other operations and head office functions	5,475	4,178	5,049
Retail life-fund assets attributable to policyholders	7,085	5,959	4,840
	219,494	232,429	185,161

Weighted risk assets

	1998 £m	1997 £m	1996 £m
Retail Financial Services	31,493	28,514	27,696
Corporate Banking	41,679	35,286	32,589
Barclays Capital	31,172	34,942	28,747
Barclays Global Investors	207	141	90
Businesses in Transition - former BZW businesses	-	4,078	3,107
- other	594	801	1,578
Other operations**	4,636	4,565	4,584
	109,781	108,327	98,391

*The 1998 provision relates to the settlement of the Atlantic litigation.

**Including supervisory adjustments.

Summary profit and loss account

	1998 £m	1997 £m	1996 £m
Operating income*	7,425	7,696	7,548
Impact of Finance Act	(40)	(105)	-
Operating income	7,385	7,591	7,548
Operating expenses	4,896	5,200	5,088
Operating profit before provisions	2,489	2,391	2,460
Provisions for bad and doubtful debts	(492)	(227)	(215)
Provisions for contingent liabilities and commitments	(76)	(4)	(9)
Operating profit	1,921	2,160	2,236
Loss on sale or restructuring of BZW	(3)	(469)	-
Profit on disposal of other Group undertakings	4	44	70
Write-down of fixed asset investments	(4)	(19)	-
Profit on ordinary activities before tax	1,918	1,716	2,306

*Before the impact of the Finance Act.

Introduction

Group profit before tax increased by 12% to £1,918m (1997 £1,716m, including a charge of £469m in respect of the loss on sale or restructuring of BZW). Earnings per share rose by 19% from 74.4p to 88.4p. Operating profit at £1,921m was £239m lower than in 1997 as a result of losses in Barclays Capital and a provision of £76m relating to the contribution to the settlement of litigation brought by the Administrators of British & Commonwealth Holdings PLC.

Strong performances were achieved in the Group's two largest businesses with Retail Financial Services operating profits increasing by 18% to £1,519m (1997 £1,287m) and Corporate Banking profits improving by 6% to £972m (1997 £921m). These results were before the impact of the Finance Act.

Barclays Capital recorded an operating loss of £265m (1997 £252m profit) as a result of turmoil in the global markets. Barclays Global Investors profits improved slightly to £52m (1997 £51m). The contribution from Transition businesses (excluding former BZW businesses) fell to £48m (1997 £93m) reflecting lower levels of releases and recoveries. Operating losses of former BZW businesses, prior to their disposal, were £33m (1997 £219m). The result of the Group's Other operations was adversely affected by the reduction in the net contribution from the central management of Group capital.

Provision for bad and doubtful debts increased by £265m to £492m, mainly as a result of a £153m provision in respect of exposure to Russian counterparties. The overall level of non-performing lendings remained of a similar level to last year, although the coverage of non-performing loans and potential problem loans increased from 56.3% to 59.4%.

Shareholders' funds increased by a net £303m to £7,923m. After a 16% increase in dividends per share, profit retentions (excluding goodwill write-backs) were £699m. Share repurchases, including costs, of £501m were made during the year. Risk weighted assets increased by some 1% to £109.8bn.

The Group's Tier 1 ratio increased from 7.3% to 7.4% and the risk asset ratio rose to 10.7% from 10.0%. Total assets fell from £232.4bn to £219.5bn as a result of a reduction in the Barclays Capital balance sheet. This was partly offset by growth in both Corporate Banking and Retail Financial Services.

Analysis of results by business

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

Retail Financial Services

	1998 £m	1997 £m	1996 £m
Net interest income	2,821	2,592	2,432
Net fees and commissions	1,777	1,730	1,627
Income from long-term assurance business	109	61	76
Other operating income	76	62	71
Total income	4,783	4,445	4,206
Total costs	(2,874)	(2,786)	(2,738)
Provisions for bad and doubtful debts	(391)	(387)	(339)
	1,518	1,272	1,129
Problem country debt management	1	15	18
Operating profit before impact of Finance Act	1,519	1,287	1,147
Life-fund charge	-	(28)	-
Operating profit	1,519	1,259	1,147

Retail Financial Services performed strongly with an increased operating profit of £1,519m. This represents growth of 18% before the one-off life-fund charge, or an increase of 21% after this adjustment.

Net interest income grew by £229m, or 9%, to £2,821m primarily as a result of an improved contribution in home finance and strong volume growth in UK consumer lending and extended credit balances at Barclaycard. Overall lending and deposit margins in UK Retail Banking were maintained. Some competitive pressure in UK consumer lending and Barclaycard margins was offset by an improvement in the mortgage margin, partly as a result of the lower cost of incentives.

Fees and commissions grew by 3% to £1,777m, benefiting from volume growth in the debit and credit card businesses, particularly in the second half of the year, and good performances in the continental European operations and Barclays Private Banking.

Customers' funds, which include assets under management and deposits, grew by 14% to £112bn (31st December 1997 £98bn), of which £10bn was attributable to net new business and £4bn to market movements. At 31st December 1998, loans to customers stood at £37bn, up 9% over 1997.

Total costs rose by 3% to £2,874m reflecting the continued investment in both branch-based and emerging delivery channels (including telephone, internet and PC banking). By the year end around 850,000 customers were using our telephone banking service and over 200,000 had subscribed to the PC and internet banking offering. Technology spend also increased as a result of Year 2000 compliance and in preparation for the introduction of the euro. Other initiatives designed to improve customer service, enhance sales performance and streamline risk assessment were progressed during the year. Marketing expenditure grew as a result of increased national television advertising and cinema campaigns in support of new business development.

Financial review

Staff costs increased by 4% partly as a result of rationalisation costs of £15m at Barclaycard. Within UK Retail Banking, staff numbers have remained broadly unchanged. The cost impact of growth in business volumes and the expansion of delivery channels was offset by efficiency savings including further centralisation initiatives.

Provisions rose by 1% to £391m, as a result of volume growth in UK consumer lending and extended credit within Barclaycard offset by the absence in 1998 of an additional general provision in Barclaycard, which in 1997 was £43m. When adjusting for this additional general provision in Barclaycard, the increase in provision is 14%. Provisions in Africa, the Caribbean and continental Europe remained at low levels.

Profit in Retail Financial Services in 1997, prior to the impact of the Finance Act, was 12% higher than in 1996, primarily due to income growth in UK Retail Banking. Barclaycard recorded volume growth in both the card issuing and merchant acquiring businesses which enhanced net fees and commissions. Provisions increased by a net £48m with increased general provision in consumer lending (within UK Retail Banking) and Barclaycard, reflecting both volume growth and a more cautious economic outlook.

Retail Financial Services is organised for reporting purposes into four major business groupings. The operating profit for these groupings is shown below:

Analysis of Retail Financial Services operating profit

	1998 £m	1997 £m	1996 £m
UK Retail Banking	757	672	506
Barclaycard	338	253	284
International Premier, Private, Savings and Investment	317	221	238
Africa and Caribbean*	107	113	119
Operating profit	1,519	1,259	1,147

* Includes contribution of problem country debt of £1m (1997 £15m, 1996 £18m).

UK Retail Banking

Profit in UK Retail Banking increased by 13% to £757m. Total income rose by 7%, with particularly strong performances from consumer lending and home finance. Current accounts, retail savings and the insurance businesses also achieved good income growth.

Consumer lending maintained strong volume growth with average balances increasing by 15%. At the year end outstanding balances exceeded £5.5bn. Consumer lending margins reduced slightly, primarily reflecting competitive pressure. Growth in the centrally managed Barclayloan product was particularly buoyant, supported by strong advertising and better understanding of risk.

Home finance benefited from a 4% growth in average balances and achieved a further reduction in the cost of incentives to £17m (1997 £48m), which are expensed as incurred. Gross new lending of £3.5bn in the year was another record level for the business. This reflects the success of ongoing initiatives which focus on simplifying the mortgage sanctioning process and creating new value-added features such as the launch of pre-approved mortgage limits. Home finance continued to generate sales of complementary products, such as life assurance, pensions and household insurance in other parts of Retail Financial Services. The proportion of fixed rate mortgages rose further and accounted for in excess of 65% of new business.

The current account business performed well with recruitment up by 9%. This was helped by a successful student campaign and the launch of instant banking, which allows customers to drawdown against uncleared funds and make immediate transfers between accounts. Fee income benefited from the continued success of the fee based current account, Barclays Additions, where the total numbers of accounts rose to around 645,000 by the end of the year (1997 490,000).

Average retail savings balances grew by 10%, benefiting from a competitive product range and a focus on providing the most appropriate portfolio of products for the customer in order both to retain and grow balances. Net interest income on savings products increased by 5% despite some deterioration in margins as a result of a change in the portfolio mix and strong competitive pressure.

Barclays Insurance increased overall profitability by 8% largely as a result of high volumes in associated retail lending products.

Small business income was at similar levels to 1997. Current accounts and deposits grew by 10%, while lending volumes reduced slightly because of lower demand. Money transmission income remained at similar levels to 1997. Provisions have grown from the low levels experienced in 1997, largely reflecting the gradual deterioration in economic conditions and lower levels of releases and recoveries. However, the strong liquidity levels of our customers dampened the overall effect.

Barclaycard

Barclaycard profits increased by 34% to £338m or by 14% excluding the additional £43m general provision in 1997. Net interest income and commissions were higher, primarily driven by an 18% increase in average extended credit balances in the card issuing business. This reflected the good response by nearly 50% of customers to new product packages. These included the introduction of new pricing strategies incorporating lower minimum payments, volume based discounts and payment holidays and the availability of new added value services in association with Cellnet and Eastern Electricity and Natural Gas. In continental Europe, Barclaycard continued to develop its German business and launched a new business in France.

The overall interest margin was maintained reflecting strong growth in interest earning balances relative to non-interest earning balances. The interest spread reduced slightly as a result of the impact of the volume based pricing policy. The weakening in spreads is expected to continue in 1999.

Total costs in Barclaycard increased by 4% predominantly as a result of restructuring costs of £15m associated with the change programme announced in September. This will result in the loss of 1,100 jobs during the course of the next three years and a step reduction in operating costs.

Adjusting for the additional general provision charge of £43m in 1997, provisions for bad and doubtful debts increased by 13%, which reflected volume growth in extended credit balances and slight deterioration in the economic environment. The credit quality of outstanding balances has been maintained through a combination of robust initial assessment and ongoing credit management.

International Premier, Private, Savings and Investment

Operating profit in these businesses rose in aggregate by 43% to £317m. When adjusted for the £28m life-fund charge in the first half of 1997, profits rose by 27%. There was a £25m provision in 1997 for the possible cost of redress to personal pension customers for non-priority cases. Strong income growth in Barclays Offshore Services and Barclays Private Banking was partly offset by the continued investment in front-office customer servicing capability in these businesses and the costs incurred in the launch of the new brand, b2.

Sales of Barclays Life investment, life and pensions products grew by 25% over 1997 with demand for investment products being particularly strong, up 44%. Cumulative provisions totalling £120m for the cost of redress to personal pension customers were made up to 31st December 1997, of which approximately 50% has been paid. The requirements for non-priority cases have been considered and it is not felt necessary to make any further provisions at this time.

European Retail Banking saw significant growth in assets under management, up 22%, reflecting the favourable market conditions in the first half of the year and the introduction of enhanced customer behaviour analysis. Fees and commissions increased by 15% reflecting the continued focus on expanding the high net worth business. Despite increased investment expenditure on the conversion of the European retail network for the introduction of the euro, costs were held below 1997 levels.

Barclays Offshore Services increased profits by 13% mainly as a result of improved sales performance and continued steady growth in deposits throughout the year. The business continues to invest in improved services to customers through the development of initiatives such as telephone banking. Assets under management increased by 13% during the year to £12bn.

Barclays Private Banking performed well with strong growth in business volumes in respect of both new and existing clients. Customers' funds were in excess of £20bn at 31st December 1998, an increase of 18% compared to last year.

Barclays Stockbrokers' operating profit grew 25% as a result of high volumes in retail stockbroking and despite reduced demutualisation activity and uncertainty in the equity markets. This growth was assisted by an increased client base following the acquisition of Fidelity Brokerage Service customers in the first half of 1998 and a strong increase in new investment management clients.

Africa and Caribbean

Excluding the contribution from problem country debt management, Africa and Caribbean profits increased by 8%, or £8m, to £106m.

The African businesses continued to make good progress with a 3% improvement in profits as a result of strong income growth and tight cost controls and despite turbulent conditions in some local markets. Profit for the Caribbean operations increased by 26%. Both the domestic and offshore operations benefited from an expanding deposit base and growing lending portfolio.

Corporate Banking

	1998 £m	1997 £m	1996 £m
Net interest income	1,212	1,132	1,041
Net fees and commissions	599	564	584
Other operating income	24	14	34
Total income	1,835	1,710	1,659
Total costs	(866)	(832)	(827)
Provisions for bad and doubtful debts	(17)	30	(84)
	952	908	748
Problem country debt management	20	13	40
Operating profit before impact of Finance Act	972	921	788
Write-down of leases	(40)	(77)	-
Operating profit	932	844	788

Corporate Banking profits rose by 6%, or £51m, to £972m, before the impact of a write-down of lease receivables of £40m (1997 £77m).

Net interest income increased by 7% reflecting strong volume growth in both assets and liabilities.

Total assets increased by 17% to £43bn in 1998. Average UK lendings rose by 7% year on year. There was strong growth in acquisition related finance together with a high demand for large corporate lending partly as a result of adverse conditions in the debt capital markets. Given the increased liquidity within the bond markets towards the end of the year and an anticipated reduction in acquisition finance and capital project activity, growth in the large corporate market is not expected to continue at the same level in 1999. There was good growth in middle market lending throughout the year. The restructuring of the front line sales teams and streamlining of the risk management process has been a main factor in this growth, with increased customer utilisation of agreed lending lines and take up of new or extended facilities by existing customers.

Total assets in the international business increased by 16% to £7bn during the year, particularly in respect of short-term facilities to banks and other financial institutions, reflecting the widening of credit spreads in the corporate bond market. The Latin America operation, which focuses on providing finance to top tier banks and financial institutions, performed well reflecting the switch to traditional bank lending from debt capital raisings.

Stronger overall growth in high quality, low margin business has resulted in a reduction in the overall lending margin. Risk adjusted lending margins, which take account of expected credit losses, have been maintained within each of the businesses.

Average UK deposit volumes rose by 15%, benefiting from increased corporate liquidity in the first half of the year. Deposit volumes were particularly buoyant in treasury deposits, although the changing portfolio mix resulted in a slight reduction in the overall deposit margin.

Net interest income included a £20m realisation from two debts previously written off, which was in addition to a £31m specific provision recovery in respect of these customers. In 1997, there was a benefit from a £13m adjustment to lease charges.

Financial review

Net fees and commissions improved by 6% to £599m. Higher risk related commissions reflected increased lending activity. Customer related foreign exchange income improved strongly benefiting from a new pricing policy. This competitive product package also resulted in greater transaction volumes. Overall money transmission income was maintained although it remains under competitive pressure. It benefited from continued good growth in electronic based banking products. International payment volumes also experienced strong growth. This is expected to continue as a result of opportunities following the introduction of the euro.

Costs grew by 4%, or £34m, to £866m mainly as a result of the preparation for the introduction of the euro and Year 2000 expenditure and continued investment in key electronic delivery initiatives. Staff numbers increased slightly, which together with the pay award, accounted for an increase in staff costs.

Provisions for bad and doubtful debts of £17m (1997 net credit £30m) benefited from low levels of new and increased specific provisions and high levels of releases and recoveries during the first half of the year. New and increased provisions included a charge of £23m in respect of Russian counterparty exposure. In 1998 credit risk releases and recoveries remained at high levels of £155m (1997 £177m including a £44m release in respect of Imry) although they slowed in the second half of the year and are expected to continue to reduce in 1999.

Prior to the impact of the Finance Act, profit in 1997 was 17% higher than in 1996. The increase was due to a rise in net income mainly from higher deposit volumes reflecting the strength of corporate liquidity and a net provision credit which reflected the benign phase in the economic cycle, improved asset quality and risk control procedures and a release of general provision following the disposal of part of Barclays Mercantile Business Finance's commercial mortgage portfolio.

Barclays Capital

	1998	1997	1996
	£m	£m	£m
Net fees and commissions	159	148	158
Dealing profits	(29)	349	276
Net interest income	428	337	311
Other operating income	44	50	31
Total income	602	884	776
Total costs	(708)	(633)	(567)
Provisions for bad and doubtful debts	(159)	1	(2)
Operating profit	(265)	252	207

Barclays Capital reported an operating loss of £265m compared to an operating profit of £252m last year. The loss for the year was a result of the Russian economic crisis and the associated difficulties within other emerging markets, which led to an increase in credit risk premia across all markets and the tightening of liquidity, which in turn led to a search by investors for higher quality assets. The losses were primarily incurred between August and October and as market conditions stabilised in November the overall operating performance returned to profitability. Within these poor overall results, a number of core businesses, such as structured capital markets and private equity, achieved record profitability.

Dealing losses were £29m during 1998 (1997 dealing profits of £349m). The fall in dealing income reflected proprietary trading losses incurred as a result of the Russian government default on its domestic debt obligations, together with the consequent widening of spreads in all segments of the corporate bond market, dislocation in the equity markets and a reduction in general business volumes. This was partially offset by strong dealing profits within interest rate derivatives and the government bond business.

Overall dealing losses within non-customer related proprietary trading (including Russia) for the full year totalled £205m, the bulk of which were incurred in August. In addition, the provisions for bad and doubtful debts by Russian counterparties on currency forward contracts and repurchase agreements was £130m out of a total charge of £159m for the year. The country transfer risk provision charge was £10m.

In response to the deterioration in market conditions experienced during late summer and early autumn management took a number of steps to improve business performance. The non-customer related proprietary trading businesses were closed in October and secondary market corporate bond inventory was substantially reduced during the last three months of the year. This overall reduction in risk appetite has resulted in a fall in weighted risk assets and total assets in the second half of the year of 18% to £31bn and 23% to £117bn respectively.

Significant progress has been made in the core businesses. Primary market activity has extended the franchise both in terms of product and currency. As well as maintaining the number one position in sterling bond issuance, the business has become a leading player in Deutschmarks and euro currency issues. The business is well positioned to take advantage of the opportunities the introduction of the euro should offer.

Net interest income increased by 27% to £428m as a result of improved performances in money markets, structured capital markets and corporate lending activities. The corporate, project finance and other traditional lending portfolios accounted for 32% or £10bn of weighted risk assets at the year end.

Overall fees and commissions increased by 7% to £159m as result of increased lending activity. This offset a beneficial change in the income composition of the structured capital markets business in the second half of 1997.

Other operating income was at a similar level to 1997, reflecting a strong performance from the private equity business as a result of a number of realisations from investments.

Costs rose by 12%. The increase mainly reflected the transfer and restructuring of the former BZW equity derivatives business from the beginning of 1998 to complement the interest rate derivative business. There was also further investment in upgrading technology, including euro preparations and Year 2000 compliance, and the absorption of certain fixed costs previously allocated to the former BZW businesses. This was partly offset by the absence of one-off costs of £20m incurred in 1997 in respect of the relocation to Canary Wharf and by a significantly lower level of performance related pay in 1998.

Financial review

In 1997, Barclays Capital's operating profit was 22% up on 1996. Income growth was primarily due to the turnaround in foreign exchange, improved performance in the derivatives businesses and a higher level of realisations from investments within Private Equity. The increase in costs included the £20m (1996 £7m) relating to Barclays Capital's relocation to Canary Wharf.

Barclays Global Investors

	1998	1997	1996
	£m	£m	£m
Net fees and commission	277	258	239
Net interest income	9	7	4
Other operating income	2	2	4
Total income	288	267	247
Total costs	(236)	(216)	(204)
Operating profit	52	51	43

Underlying operating profit increased by 15% after adjusting for the sales of MasterWorks and a part of the Hong Kong fund management business. These businesses were sold in August 1997 and June 1998 respectively. The operating results of these businesses were a combined profit of £5m in 1997 and a loss of £1m in 1998.

Adjusting for these business disposals, fees and commissions increased 20% to £275m (1997 £230m), benefiting from favourable market conditions in the early part of the year and new business growth in assets under management throughout the year. BGI's funds performed well despite the market turmoil in the second half of the year, in line with most index funds and as a result fees and commissions were only partially affected. The overall fee income margin was maintained as a result of increased asset levels, which generated increased crossing opportunities and securities lending levels.

Total assets under management grew to £370bn from £308bn at 31st December 1997; £21bn of the increase is attributable to net new business and £41bn is attributable to market movements. Assets under management consist of £286bn of indexed funds and £84bn under advanced active management.

BGI's business units continued their strong performance from 1997. North America, Japan and Europe won a record amount of new business mandates during the year. The volume of new requests for proposals for investment management services continues to be robust.

Underlying operating expenses increased 9% in line with total costs. This increase was as a result of a rise in costs to support the increase in future growth, product development and growth in assets under management. BGI has continued the integration and infrastructure investment that reflects the global development of the business.

The acquisition of the LongView Group, Inc. was successfully completed in the second half of the year. LongView specialises in the creation of software to support institutional portfolio management and trading. In addition, the capital markets group within BGI recently entered the securities lending market in Japan, becoming the first non-custodial agent to lend securities in Japan. These activities further strengthen BGI's position as one of the top global investment management firms in the market place.

In 1997, Barclays Global Investors' profit increased by 19%. An increase in revenue of 8% was partly offset by increased costs from integration expenditure and infrastructure investment reflecting the global development of the business.

Businesses in Transition

	1998 £m	1997 £m	1996 £m
France in Transition	18	16	(80)
United States Transition	19	62	85
Other Businesses in Transition	11	15	59
	48	93	64
Former BZW businesses	(33)	(219)	(11)
Operating profit/(loss)	15	(126)	53

France in Transition principally comprises part of the French corporate banking operations and an impaired property lending portfolio. The 1998 result reflects continued releases and recoveries of bad debt provisions.

The surplus in United States Transition is attributable to further releases and recoveries of bad debt provisions.

Other Businesses in Transition are primarily in Europe and Asia. The 1998 result reflects a £16m recovery of amounts previously written off following the settlement of the Atlantic litigation.

The asset portfolios have now been managed down to low levels and are unlikely to result in significant releases and recoveries in the future.

The operating loss of the former BZW businesses represents the trading activities of the European, Australasian and Asian businesses in 1998 prior to their sale or closure. The operating loss of £219m in 1997 (1996 £11m loss) was attributable to poor trading results caused by market conditions, the uncertainties surrounding the sale announcement and the impact of the significant additional costs incurred to retain key staff during the sale process.

The surplus recorded by France in Transition, United States Transition and Other Businesses in Transition in 1997 largely reflected provision releases and recoveries. The reorganisation costs experienced by France in Transition in 1996 were not repeated.

Other operations

	1998 £m	1997 £m	1996 £m
Barclays Group Property Services	50	62	30
Central Services	(136)	(94)	(81)
Management of Group capital	(98)	(24)	116
Operating (loss)/profit	(184)	(56)	65

The decrease in the Barclays Group Property Services result is attributable to reduced profits on the disposal of properties of £16m (1997 £29m) and restructuring costs of £11m (1997 nil), offset by a reduction in funding costs.

The increase in Central services costs reflected continued investment in upgrading technology (including Year 2000 compliance), restructuring costs and a number of other one-off items. Operational costs in respect of surplus properties included £13m of costs arising as a result of vacant space at Canary Wharf following the disposal of the former BZW businesses. 1997 included £14m of costs associated with the sub-lease of Ebbgate House, the previous headquarters of BZW.

The increase in the deficit from the central management of Group capital is mainly attributable to increased interest allocations to business groups, reflecting higher short-term interest rates and increased usage of regulatory capital by individual businesses. This basis of allocation to the businesses remains in line with previous years. Lower medium-term rates have also had an adverse effect on the earnings from capital balances as have the costs of share buy-backs.

The improvement in Barclays Group Property Services in 1997 compared with 1996 was principally attributable to the profit on disposal of properties.

The 1997 deficit for Management of Group capital, compared with the surplus in 1996, was mainly attributable to a fall in gross interest income as a result of lower medium-term rates and increased allocations to business groups, largely reflecting higher usage of regulatory capital. Lower one-off gains on redemption of loan capital also affected the result.

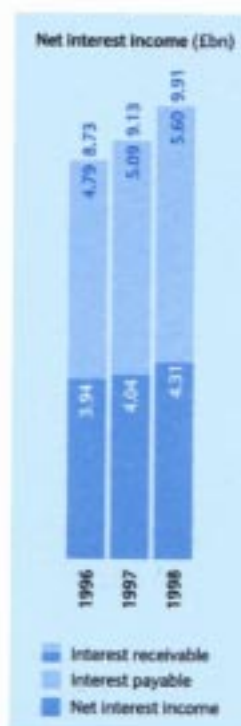
Head office functions

	1998 £m	1997 £m	1996 £m
Operating costs	(60)	(52)	(54)

The increase is primarily the result of our brand building programme, a comprehensive Group wide initiative designed to improve our customers' experience with Barclays.

Results by nature of income and expense

In the tables below, income and cost totals excluding former BZW businesses are shown to assist in the analysis of the ongoing business performance. For most of 1997, BZW comprised the businesses that reported as Barclays Capital and the former BZW businesses, operating as an integrated business with significant levels of shared costs and infrastructure. Accordingly, the amounts separately attributed to Barclays Capital and the former BZW businesses in 1997 include estimates and allocations. Under these circumstances, it is not meaningful to provide any more detailed analysis of income and costs.



Net interest income

	1998 £m	1997 £m	1996 £m
Interest receivable	9,952	9,204	8,730
Interest payable	(5,600)	(5,091)	(4,821)
Profit on redemption/repurchase of loan capital	3	2	32
	4,355	4,115	3,941
Write-down of leases	(40)	(77)	-
	4,315	4,038	3,941
Excluding former BZW businesses and write-down of leases	4,357	4,107	3,943

Net interest income rose by £250m or 6%, excluding the contribution from former BZW businesses and the write-down of leases following a further reduction in the rate of Corporation Tax. Adjusting for these, the loss of interest resulting from share buy-backs and other business disposals, underlying net interest income increased by 7%.

Retail Financial Services net interest income grew by 9% to £2,821m, benefiting from an improved contribution in home finance and strong volume growth in UK consumer loans and extended credit card balances. Average balances in Consumer lending increased by 15% with outstanding balances exceeding £5.5bn by the year end. Barclaycard increased average interest earning lendings by 18% and maintained its overall interest margin. There was also an increased contribution from current account and savings products. Average savings balances increased by 10% in the year. However strong growth in lower margin products, as part of a policy to grow and retain balances, and competitive pressure resulted in a slight fall in the overall savings margin.

Corporate Banking net interest income increased by 7% reflecting strong volume growth in both assets and liabilities. Lendings to large corporates and financial institutions in the United Kingdom and overseas grew significantly benefiting from the rising cost of raising funds in corporate bond markets. There was also good growth in middle market lending, with the majority of the increase resulting from increased customer utilisation of agreed lending lines and new and extended facilities to existing customers. A change in the portfolio mix, as a result of strong growth in large corporate lending, has resulted in a reduction in the overall corporate lending margin.

Overall banking business margins were maintained at 3.42%. An increased contribution from the spread, particularly in the second half of the year reflecting changes in both the portfolio and funding mix, was offset by a fall in the benefit of free funds to 0.73% (1997 0.75%).

The net deficit arising from the central management of Group capital rose to £98m (1997 deficit £24m), mainly as a result of increased interest allocations to businesses reflecting higher short-term interest rates and increased levels of regulatory capital employed by individual businesses. A narrowing of the gap between the managed medium-term market rate and short-term market rates of interest during the first half of the year eliminated the contribution to the net margin from the central management of Group interest rate exposure for the year (1997 0.11%).

In 1997 net interest income rose by £204m or 5% before one-off profits on redemption/repurchase of loan capital and the write-down of leases following the Finance Act. Adjusting for these, the loss of interest resulting from share repurchases, the impact of exchange movements and business disposals, underlying net interest income increased by 9%.

Prevailing average interest rates

	1998	1997	1996
	%	%	%
United Kingdom:			
Barclays Bank PLC base rate	7.2	6.6	6.0
London Inter-Bank Offered Rate (LIBOR):			
three month sterling	7.4	6.8	6.1
three month eurodollar	4.9	5.7	5.4
United States prime rate	8.4	8.4	8.3

Average interest earning assets and liabilities – banking business

	1998	1997	1996
	£m	£m	£m
Average interest earning assets:			
Group	127,396	120,407	117,518
Domestic	82,095	79,697	74,254
International	45,301	40,710	43,264
Average interest bearing liabilities:			
Group	109,225	102,408	100,728
Domestic	66,492	62,444	57,751
International	42,733	39,964	42,977

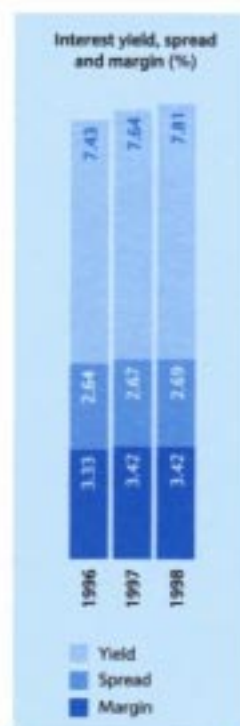
Yields, spreads and margins – banking business

	1998	1997	1996
	%	%	%
Gross yield (a)			
Group	7.81	7.64	7.43
Domestic	8.90	8.36	7.97
International	5.84	6.24	6.50
Interest spread (b)			
Group	2.69	2.67	2.64
Domestic	3.40	3.41	3.29
International	1.30	1.24	1.57
Interest margin (c)			
Group	3.42	3.42	3.33
Domestic	4.44	4.48	4.33
International	1.55	1.34	1.61

Notes

- (a) Gross yield is the interest rate earned on average interest earning assets.
 (b) Interest spread is the difference between the interest rate earned on average interest earning assets and the interest rate paid on average interest bearing liabilities.
 (c) Interest margin is net interest income as a percentage of average interest earning assets.

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



The yields, spreads and margins shown above have been computed on this basis, which generally reflects the domicile of the borrower. They exclude profits and losses on the redemption and repurchase of loan capital and the one-off write-down of leases.

The net interest income and average balances of the trading business are shown separately on the average balance sheet on pages 32 and 33.

Net fees and commissions

	1998 £m	1997 £m	1996 £m
Fees and commissions receivable	3,008	3,197	3,168
Less: fees and commissions payable	(229)	(218)	(223)
	2,779	2,979	2,945
Excluding former BZW businesses	2,771	2,652	2,604

Excluding the contribution from the former BZW businesses and the impact of other disposals, net fees and commissions rose by some 7% overall, with strong performances by Corporate Banking and Barclays Global Investors.

In Corporate Banking commissions rose by 6% with strong growth in customer related foreign exchange income and lending and arrangement fees, particularly for large corporates. Money transmission income was maintained and benefited from continued good growth in electronic banking products.

Excluding the impact of disposals, Barclays Global Investors increased its income by 20% over 1997 benefiting from favourable market conditions in the first half of the year and continued new business growth in assets under management in all its major markets.

Retail Financial Services' fees and commissions grew by 3% reflecting increased contributions in European Retail Banking and Barclays Private Banking as a result of new business levels and favourable market conditions, and volume growth in the debit and credit card businesses in the second half of the year. This more than offset the lower contribution from Barclays Insurance, following the move to in-house underwriting of all payment protection insurance. Premiums on insurance business written in-house are now reported in Other operating income.

Retail Financial Services and Corporate Banking fees and commissions include £81m (1997 £71m) in respect of foreign exchange income on customer transactions with Barclays Capital.

Increased lending activity, particularly in structured finance, contributed to a £11m improvement in fees and commissions at Barclays Capital.

Excluding the impact of exchange rate movements and the contribution from former BZW businesses, fees and commissions grew by some 5% in 1997. Growth in retail banking, credit card and asset management commissions in both the United Kingdom and overseas compensated for lower levels of commission elsewhere.

Dealing profits

	1998 £m	1997 £m	1996 £m
Interest rate related	(132)	199	202
Foreign exchange and commodities	100	132	71
Equities and other	(1)	43	141
	(33)	374	414
Excluding former BZW businesses	(27)	342	288

Almost all the Group's dealing profits arise in Barclays Capital. The fall in interest rate related dealing profits reflects proprietary trading losses incurred as a result of the Russian government default on its domestic debt obligations, together with the consequent widening of spreads in all segments of the corporate bond market and a reduction in general business volumes. This was partially offset by strong dealing profits within interest rate derivatives and the government bond business.

Foreign exchange performed well, albeit profits were lower than the high levels achieved in 1997. There were also substantially lower revenues in the commodities business as prices weakened throughout the year.

Equity and other dealing profits primarily arises in the equity derivatives business. Equity related dealing profits fell in the second half of the year mainly as a result of the dislocation in the equity markets. In 1997, equities and other dealing profits predominantly related to the former BZW businesses.

Dealing profits in 1997, excluding the contribution from former BZW businesses, increased by 19% over those for 1996. Barclays Capital dealing profits increased by 26%, primarily as a result of a strong performance in foreign exchange, together with improved results from derivatives and sterling fixed income.

Other operating income

	1998 £m	1997 £m	1996 £m
Income from associated undertakings and joint ventures	22	16	23
Dividend income from equity shares	14	20	20
Profits on disposal of investment securities	49	46	29
Income from the long-term assurance business	109	61	76
Property rentals	44	39	36
Other income	86	46	64
	324	228	248
Life-fund charge	-	(28)	-
	324	200	248
Excluding former BZW businesses	319	194	234

Income from associated undertakings and joint ventures benefited from the inclusion from 1st January 1998 of profits on an equity accounted basis from the Group's Brazilian associate, Banco Barclays e Galicia SA.

Profits on disposal of investment securities arose largely from realisations by the private equity business within Barclays Capital in the ordinary course of business.

In 1997, income from the long-term insurance business was reduced by a further £25m provision for the cost of redress for personal pension customers (non-priority cases).



The higher level of other income in 1998 reflected £31m of premium income on insurance underwriting activities, the first stage of which commenced in the second half of 1997, and an increase of £7m, to £20m, in respect of profits on disposal of properties.

In 1997 increased profits on disposal of investment securities were recorded. The increased profits were outweighed by the £25m provision for the cost of redress for personal pension customers and a one-off charge of £28m arising from changes in economic assumptions relating to the long-term assurance fund as a result of the Finance Act. The higher level of Other income in 1996 was attributable to Camden Motors, the motor trading business, which was sold in that year.

Administrative expenses – staff costs

	1998 £m	1997 £m	1996 £m
Salaries and accrued incentive payments	2,211	2,380	2,274
Social security costs	173	200	214
Pension costs	37	65	80
Post-retirement health care	17	23	18
UK profit sharing	88	101	96
Other staff costs	285	266	298
	2,811	3,035	2,980
Staff reduction and relocation costs included above	86	66	105
Staff costs excluding former BZW businesses	2,789	2,633	2,633
Staff numbers (period end)*	78,600	83,200	85,200

*Excluding 2,300 (1997 2,200, 1996 2,000) Barclays Life advisers and field sales managers and administrative staff whose costs are borne within the long-term assurance fund.

Excluding costs incurred by the former BZW businesses, staff costs rose by 6% in 1998 mainly reflecting the impact of the 1998 annual pay award to UK staff and increased resource (including temporary staff) in key areas of the business.

In Retail Financial Services, staff costs increased by 4%. This was partly the result of rationalisation costs of £15m at Barclaycard, where in September a reduction of 1,100 staff over the next three years was announced. Within UK Retail Banking, the cost impact of growth in business volumes and expansion of delivery channels was offset by efficiency savings and the continued centralisation of the network. There was also increased investment in front-office customer servicing capability in Barclays Offshore and Barclays Private Banking.

Higher staff costs in Barclays Global Investors, Corporate Banking and Other operations reflected the investment in resources to support new products and customer service enhancements, as well as Year 2000 and euro preparations.

Reductions in Barclays Capital staff costs resulted from lower levels of performance related pay. This was offset by the transfer of staff from the former BZW equity derivatives business at the beginning of 1998.

The fall in pension costs reflected the reduction in the contribution rate to the Group's main UK scheme from 2.5% of pensionable salary in 1997 to nil with effect from 1st January 1998.

Staff numbers (000s)



Financial review

Staff numbers fell by 4,600, primarily because of the sale of former BZW businesses. In Retail Financial Services, there were reductions in Africa and the Caribbean and to a lesser extent in Barclaycard. These were partly offset by the creation of new customer service and product delivery roles in UK Retail Banking and International Premier, Private, Savings and Investment.

In 1997 staff costs, as adjusted for exchange rates, rose by 5% largely because of increased salaries and accrued incentive payments in Barclays Capital and former BZW businesses, reflecting additional staff retention costs arising from the sale announcement of certain BZW businesses and also the full year's impact of staff recruitment in certain areas made in 1996.

Administrative expenses – other

	1998	1997	1996
	£m	£m	£m
Property and equipment expenses			
Hire of equipment	28	35	28
Property rentals	176	217	199
Other property and equipment expenses	638	619	612
	842	871	839
Other administrative expenses			
Stationery, postage and telephones	230	245	221
Advertising and market promotion	225	215	201
Travel, accommodation and entertainment	113	133	140
Subscriptions and publications	43	37	34
Securities clearing and other operational expenses	49	74	67
Sundry losses, provisions and write-offs	53	78	74
Statutory and regulatory audit and accountancy fees	6	6	8
Consultancy fees	126	103	80
Professional fees	91	99	96
Other expenses	32	35	47
	1,810	1,896	1,807
Excluding former BZW businesses	1,793	1,719	1,677

Administrative expenses rose by 4%, excluding costs of former BZW businesses. This reflected continued investment across the Group on upgrading technology and customer orientated and other initiatives (including euro preparation and Year 2000 compliance).

In Retail Financial Services and Corporate Banking other administrative expenses included expenditure on existing and emerging delivery channels (including telephone, internet and PC banking), new product development and other customer based service initiatives. Marketing expenditure grew as a result of increased television and cinema advertising in support of new business development.

Barclays Capital's other administrative expenses included increased expenditure on upgrading technology as well as higher levels of allocated fixed costs previously attributed to the former BZW businesses. In 1997 property and equipment costs increased as a result of the one-off impact of the relocation to Canary Wharf.

The increase in consultancy fees reflected higher levels of expenditure on technology initiatives, Year 2000 compliance and preparations for the introduction of the euro, together with costs relating to the restructuring of Group Property Services and other central functions.

In 1997 property and equipment expenses rose by £32m and other administrative expenses by £57m, reflecting in part increased business volumes and higher levels of IT and other project costs.

Depreciation and amortisation

	1998 £m	1997 £m	1996 £m
Property depreciation	88	106	107
Equipment depreciation	172	170	175
Goodwill amortisation	12	12	13
Loss on sale of equipment	5	3	6
Write-back of surplus properties	(2)	(22)	-
	275	269	301
Excluding former BZW businesses	276	256	288

The reduction in the property depreciation charge primarily resulted from one-off adaptation charges in 1997, and a £7m charge in respect of the local head office in Paris in the same year.

The write-back of surplus properties represents the recovery of amounts previously written off against certain City of London properties which have now been sold. Other gains on property disposals totalling £20m (1997 £13m) have been included in Other operating income.

Provisions for bad and doubtful debts

	1998 £m	1997 £m	1996 £m
Credit risk provision charge/(release)			
specific	505	274	337
general	(20)	(65)	(60)
Country risk provision charge/(release)			
specific	(13)	(27)	(62)
general	20	45	-
	492	227	215

The £265m increase in the net charge was mainly as a result of a £153m provision in the second half of 1998 in respect of exposure to Russian counterparties (primarily in respect of currency forward contracts and repurchase agreements). Net releases and recoveries of specific and general credit risk provisions reduced by £85m to £331m.

Excluding the impact of Russia, gross new and increased specific credit risk provisions rose by £38m compared to last year. There were increased charges in UK consumer lending and Barclaycard, largely because of higher volumes.

Releases and recoveries continued to decline in the transition businesses in the United States and France as the portfolios were managed down to low levels. Releases and recoveries in Corporate Banking slowed in the second half of the year and are expected to reduce further in 1999.

The country risk general provision was raised by a further £20m to £65m in the second half of the year to cover increased transfer risks arising from continuing uncertainty in emerging markets.

The net provisions charge for the year as a percentage of average loans and advances was 0.49%, compared with 0.23% in 1997.

Based upon the composition of the lending portfolio as at 31st December 1998, the underlying level of annual credit losses or Risk Tendency, as described on page 44, averaged across the economic cycle, is estimated at £700m (1997 £670m).

Provisions for contingent liabilities and commitments

	1998	1997	1996
	£m	£m	£m
	76	4	9

The charge for the year represents a contribution of some £116m to the Administrators of British & Commonwealth Holdings PLC (B&C) in relation to the overall settlement of proceedings which arose in connection with B&C's acquisition of Atlantic Computers Plc in 1988, adjusted for expected insurance cover of £40m.

Loss on sale or restructuring of BZW

	1998	1997	1996
	£m	£m	£m
Profit/(loss) on sale of business assets	8	(57)	-
Staff reductions, property and equipment costs, and other costs*	-	(283)	-
	8	(340)	-
Goodwill written off	(11)	(129)	-
	(3)	(469)	-

*Expenditure of £245m has been incurred to 31st December 1998 in respect of the restructuring of BZW, for which a provision of £283m was raised in 1997.

The sales of the former BZW businesses in respect of the equities, equity capital markets and mergers and acquisitions advisory businesses in the United Kingdom, Europe and Asia were completed in 1998 at a loss of £57m (before goodwill written off). This was provided for in 1997. A further loss of £3m (after goodwill written off) arose in 1998 in respect of the disposal of the Australasian investment banking business.

Profit on disposal of other Group undertakings

	1998	1997	1996
	£m	£m	£m
	4	44	70

The net profit on disposal of other Group undertakings includes goodwill written off of £1m. It represents gains of £14m (including a final £11m realisation in respect of the sale of the Custody business in 1997) offset by losses of £10m.

The profit on disposal of other Group undertakings in 1997 was primarily accounted for by a £42m gain on the disposal of the Group's remaining investment in 3i Group plc.

Profits on disposal in 1996 primarily reflected earlier disposals of part of the investment in 3i Group plc and the disposal of the Cyprus onshore banking business.

Write-down of fixed asset investments

	1998	1997	1996
	£m	£m	£m
	(4)	(19)	-

The charge in 1997 was primarily in respect of the write-down of the cost of investments in certain Asian banking associates.

Tax

	1998 £m	1997 £m	1996 £m
The overall tax charge is explained in the following table:			
Tax charge at average UK corporation tax rate of 31% (1997: 31.5% 1996 33%)	594	541	761
Deferred tax adjustments for the leasing business	(18)	(32)	(43)
Prior year adjustments	18	(12)	-
Effect of change in non-allowable general provisions	-	(6)	(21)
Effect of non-allowable property write-downs and depreciation	9	22	25
Net effect of differing tax rates overseas	(21)	1	1
Net effect of overseas losses not available for relief in the UK	(16)	8	5
Franked investment income	(1)	(11)	(37)
Other non-allowable expenses	11	11	6
Gains covered by capital losses brought forward	(4)	(16)	(23)
Tax free gain on loan stock redemption	-	-	(10)
Other items	(34)	(32)	(44)
	538	474	620
Loss on sale or restructuring of BZW (including goodwill)	-	68	-
Overall tax charge	538	542	620
Effective tax rate %	28.1	31.6	26.9

The reduction in the effective rate to 28.1% from 31.6% in 1997 is mainly attributable to relief not being available in 1997 on the whole of the disposal costs of the former BZW businesses.

US GAAP net income

	1998 £m	1997 £m	1996 £m
Barclays PLC Group			
UK GAAP attributable profit (net income)	1,335	1,130	1,639
Approximate US GAAP net income	1,370	1,274	1,545

Barclays Bank PLC Group figures under US GAAP differ from those of Barclays PLC Group because of dividends payable on preference shares.

Note 60 to the accounts provides a reconciliation of net profit and shareholders' funds between the amounts calculated under UK GAAP and US GAAP.

Total assets and liabilities

Adjusting for the impact of the disposal of former BZW businesses, assets decreased by 2% in 1998 compared with growth of 26% in 1997. The decline in 1998 was the result of a reduction in the Barclays Capital balance sheet in the second half of the year, partly offset by strong growth in both Corporate Banking and Retail Financial Services.

The Barclays Capital balance sheet contracted by 23% in the second half of the year following management decisions to reduce risk across the business. As a result, there were major decreases, particularly in reverse repo balances and debt securities. At 31st December 1998, weighted risk assets in Barclays Capital were equally distributed between the Rates and Credit businesses. In the Credit business, corporate, project finance and other traditional lending portfolios accounted for £10bn of weighted risk assets at the year end.

Within Corporate Banking, assets grew by 17% in the year, largely driven by increased demand for traditional bank-based (as opposed to capital market) financing. This was especially apparent in large corporate banking, with growth in debt finance resulting from increased acquisition activity, and in the international business, which has seen increases in advances, as high quality borrowers turned to banks rather than the capital markets. The middle market corporate sector increased both volumes and market share during 1998.

Within Retail Financial Services, assets grew by 8% in the second half of 1998 compared with 2% in the first half. Consumer lending volumes benefited from buoyant demand and the mortgage business was supported by a combination of new product offerings and a relatively strong housing market. Asset growth in European Retail Banking was helped by falls in interest rates and the prevailing stable economic environment. Barclaycard has continued to achieve strong volume growth partly as a result of product enhancements.

Asset growth has largely been funded by growth in deposits within Corporate Banking and Retail Financial Services.

Repo transactions

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

The following amounts were included in the balance sheet for repos and reverse repos:

	1998	1997	1996
	£m	£m	£m
Reverse repos (assets)			
Loans and advances to banks	13,922	13,627	11,933
Loans and advances to customers	11,665	23,014	12,429
	25,587	36,641	24,362
Repos (liabilities)			
Deposits by banks	6,512	13,453	10,949
Customer accounts	11,200	15,227	5,919
	17,712	28,680	16,868

The fall in reverse repo and repo levels at 31st December 1998 reflected reductions at Barclays Capital (see Total assets and liabilities above).

The average and maximum amount of reverse repos for 1998 were £39,174m and £62,913m (1997 £39,977m and £56,300m, 1996 £21,687m and £28,448m) respectively. The average and maximum amount of repos for 1998 were £32,181m and £55,274m (1997 £24,195m and £39,775m, 1996 £14,963m and £22,472m) respectively.



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

	1998 Average balance £m	1998 Interest £m	1998 Average rate %	1997 Average balance £m	1997 Interest £m	1997 Average rate %	1996 Average balance £m	1996 Interest £m	1996 Average rate %
Assets									
Treasury bills and other eligible bills:									
in offices in the UK	2,445	154	6.3	2,393	154	6.4	4,439	247	5.6
in offices outside the UK	1,697	146	8.6	1,458	134	9.2	1,875	171	9.1
Loans and advances to banks:									
in offices in the UK	10,561	605	5.7	11,137	642	5.8	12,238	601	4.9
in offices outside the UK	11,138	535	4.8	11,148	550	4.9	10,269	622	6.1
Loans and advances to customers:									
in offices in the UK	62,304	5,757	9.2	57,280	5,051	8.8	54,680	4,567	8.4
in offices outside the UK	11,596	863	7.4	10,706	830	7.8	12,513	1,040	8.3
Lease receivables:									
in offices in the UK	5,499	452	8.2	6,088	497	8.2	5,736	459	8.0
in offices outside the UK	240	21	8.8	297	30	10.1	463	45	9.7
Debt securities:									
in offices in the UK	13,804	910	6.6	12,676	837	6.6	11,413	740	6.5
in offices outside the UK	8,112	509	6.3	7,224	479	6.6	3,892	238	6.1
Average assets of banking business	127,396	9,952	7.8	120,407	9,204	7.6	117,518	8,730	7.4
Average assets of trading business	77,599	3,809	4.9	56,958	3,263	5.7	41,488	2,038	4.9
Total average interest earning assets	204,995	13,761	6.7	177,365	12,467	7.0	159,006	10,768	6.8
Provisions	(1,847)			(1,929)			(2,518)		
Non-interest earning assets	39,957			38,845			25,062		
Total average assets and interest income	243,105	13,761	5.7	214,281	12,467	5.8	181,550	10,768	5.9
Percentage of total average assets									
in offices outside the UK	29.6			26.7			24.4		
Average interest earning assets and net interest income:									
Banking business	127,396	4,352	3.4	120,407	4,113	3.4	117,518	3,909	3.3
Trading business	77,599	(25)	-	56,958	(154)	(0.3)	41,488	35	0.1
Write-down of leases	-	(40)	-	-	(77)	-	-	-	-
Profit on redemption/repurchase of loan capital	-	3	-	-	2	-	-	32	-
Total average interest earning assets and net interest income	204,995	4,290	2.1	177,365	3,884	2.2	159,006	3,976	2.5
Total average interest earning assets related to:									
Interest income		13,761	6.7		12,467	7.0		10,768	6.8
Interest expense		(9,434)	(4.6)		(8,508)	(4.8)		(6,824)	(4.3)
Write-down of leases		(40)	-		(77)	-		-	-
Profit on redemption/repurchase of loan capital		3	-		2	-		32	-
		4,290	2.1		3,884	2.2		3,976	2.5

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

	1998 Average balance £m	1998 Interest £m	1998 Average rate %	1997 Average balance £m	1997 Interest £m	1997 Average rate %	1996 Average balance £m	1996 Interest £m	1996 Average rate %
Liabilities and shareholders' funds									
Deposits by banks:									
in offices in the UK	17,911	719	4.0	13,058	628	4.8	14,131	625	4.4
in offices outside the UK	11,726	505	4.3	11,621	575	4.9	11,567	627	5.4
Customer accounts - demand accounts:									
in offices in the UK	11,072	201	1.8	10,439	163	1.6	8,745	132	1.5
in offices outside the UK	2,088	44	2.1	1,708	39	2.3	1,897	59	3.1
Customer accounts - savings accounts:									
in offices in the UK	22,635	1,110	4.9	21,728	918	4.2	22,009	813	3.7
in offices outside the UK	1,120	63	5.6	1,069	63	5.9	1,018	66	6.5
Customer accounts - other time deposits - retail:									
in offices in the UK	22,703	1,574	6.9	19,118	1,182	6.2	14,592	784	5.4
in offices outside the UK	5,262	266	5.1	5,547	292	5.3	6,014	381	6.3
Customer accounts - other time deposits - wholesale:									
in offices in the UK	17,379	890	5.1	12,115	591	4.9	14,709	887	6.0
in offices outside the UK	5,904	307	5.2	5,768	233	4.0	4,243	209	4.9
Debt securities in issue:									
in offices in the UK	14,554	913	6.3	8,931	554	6.2	7,066	392	5.5
in offices outside the UK	6,181	340	5.5	5,563	322	5.8	2,932	148	5.0
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK									
	3,372	244	7.2	3,343	265	7.9	3,313	268	8.1
Internal funding of trading business	(32,682)	(1,576)	4.8	(17,600)	(734)	4.2	(11,508)	(570)	5.0
Average liabilities of banking business	109,225	5,600	5.1	102,408	5,091	5.0	100,728	4,821	4.8
Average liabilities of trading business	79,513	3,834	4.8	62,085	3,417	5.5	42,335	2,003	4.7
Total average interest bearing liabilities	188,738	9,434	5.0	164,493	8,508	5.2	143,063	6,824	4.8
Interest free customer deposits:									
in offices in the UK	8,333			7,632			6,917		
in offices outside the UK	1,278			1,521			1,500		
Other non-interest bearing liabilities	36,583			32,778			22,538		
Minority interests and shareholders' funds	8,173			7,857			7,532		
Total average liabilities, shareholders' funds and interest expense	243,105	9,434	3.9	214,281	8,508	4.0	181,550	6,824	3.8
Percentage of total average non-capital liabilities in offices outside the UK									
	30.0			28.7			25.3		

Notes

- (a) Loans and advances to customers and banks include all doubtful lendings, including non-accrual lendings. Interest receivable on such lendings has been included to the extent to which either cash payments have been received or interest has been accrued in accordance with the income recognition policy of the Group.
- (b) Average balances are based upon daily averages for most UK banking operations and monthly averages elsewhere.
- (c) The average balance sheet does not include the retail life-fund assets attributable to policyholders nor the related liabilities.

Changes in net interest income – volume and rate analysis

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

	Total change	1998/1997 Change due to increase/(decrease) in:		Total change	1997/1996 Change due to increase/(decrease) in:	
		Volume	Rate		Volume	Rate
	£m	£m	£m	£m	£m	£m
Interest receivable						
Treasury bills and other eligible bills:						
in offices in the UK	-	3	(3)	(93)	(127)	34
in offices outside the UK	12	21	(9)	(37)	(38)	1
	12	24	(12)	(130)	(165)	35
Loans and advances to banks:						
in offices in the UK	(37)	(33)	(4)	41	(57)	98
in offices outside the UK	(15)	-	(15)	(72)	50	(122)
	(52)	(33)	(19)	(31)	(7)	(24)
Loans and advances to customers:						
in offices in the UK	706	457	249	484	223	261
in offices outside the UK	33	67	(34)	(210)	(143)	(67)
	739	524	215	274	80	194
Lease receivables:						
in offices in the UK	(45)	(48)	3	38	29	9
in offices outside the UK	(9)	(6)	(3)	(15)	(17)	2
	(54)	(54)	-	23	12	11
Debt securities:						
in offices in the UK	73	74	(1)	97	83	14
in offices outside the UK	30	57	(27)	241	219	22
	103	131	(28)	338	302	36
Total banking business interest receivable:						
in offices in the UK	697	453	244	567	151	416
in offices outside the UK	51	139	(88)	(93)	71	(164)
	748	592	156	474	222	252
Total trading business interest receivable	546	1,061	(515)	1,225	847	378
Total interest receivable	1,294	1,653	(359)	1,699	1,069	630

Changes in net interest income – volume and rate analysis

	Total change	1998/1997 Change due to		Total change	1997/1996 Change due to	
		increase/(decrease) in: Volume	Rate		increase/(decrease) in: Volume	Rate
	£m	£m	£m	£m	£m	£m
Interest payable						
Deposits by banks:						
in offices in the UK	91	207	(116)	3	(49)	52
in offices outside the UK	(70)	5	(75)	(52)	3	(55)
	21	212	(191)	(49)	(46)	(3)
Customer accounts - demand deposits:						
in offices in the UK	38	10	28	31	26	5
in offices outside the UK	5	8	(3)	(20)	(5)	(15)
	43	18	25	11	21	(10)
Customer accounts - savings deposits:						
in offices in the UK	192	40	152	105	(11)	116
in offices outside the UK	-	3	(3)	(3)	3	(6)
	192	43	149	102	(8)	110
Customer accounts - other time deposits - retail:						
in offices in the UK	392	238	154	398	268	130
in offices outside the UK	(26)	(15)	(11)	(89)	(28)	(61)
	366	223	143	309	240	69
Customer accounts - other time deposits - wholesale:						
in offices in the UK	299	268	31	(296)	(142)	(154)
in offices outside the UK	74	5	69	24	66	(42)
	373	273	100	(272)	(76)	(196)
Debt securities in issue:						
in offices in the UK	359	353	6	162	112	50
in offices outside the UK	18	35	(17)	174	150	24
	377	388	(11)	336	262	74
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	(21)	2	(23)	(3)	2	(5)
Internal funding of trading businesses	(842)	(712)	(130)	(164)	(265)	101
Total banking business interest payable:						
in offices in the UK	508	406	102	236	(90)	326
in offices outside the UK	1	41	(40)	34	183	(149)
	509	447	62	270	93	177
Total trading business interest payable	417	877	(460)	1,414	1,047	367
Total interest payable	926	1,324	(398)	1,684	1,140	544

Movement In net interest income

Increase/(decrease) in interest receivable	1,294	1,653	(359)	1,699	1,069	630
(Increase)/decrease in interest payable	(926)	(1,324)	398	(1,684)	(1,140)	(544)
	368	329	39	15	(71)	86
Movement in write-down of leases	37			(77)		
Movement in profit on redemption/repurchase of loan capital	1			(30)		
	406			(92)		

Capital resources

	1998 £m	1997 £m	1996 £m
Barclays PLC Group			
Shareholders' funds	7,923	7,620	7,267
Minority interests	314	326	320
	8,237	7,946	7,587
Undated loan capital	1,742	1,657	1,635
Dated loan capital	1,992	1,211	1,396
Other subordinated liabilities	-	59	56
Total capital resources	11,971	10,873	10,674
Barclays Bank PLC Group			
Shareholders' funds	8,186	7,885	7,522
Minority interests	51	61	65
	8,237	7,946	7,587
Undated loan capital	1,742	1,657	1,635
Dated loan capital	1,992	1,211	1,396
Other subordinated liabilities	-	59	56
Total capital resources	11,971	10,873	10,674

The Group continues to manage actively both its debt and equity capital. Total capital resources increased in the year by £989m before exchange rate translation differences of £109m.

Shareholders' funds increased by £271m before favourable exchange differences of £32m. Profit retentions (excluding goodwill write-backs) of £699m were offset by share buy-backs, including costs, of £501m.

Loan capital and other subordinated liabilities rose by £807m. Capital raisings of £962m, including £335m of tier 3 capital and exchange movement of £88m, exceeded repayments and redemptions of £243m.

Capital ratios

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

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

The concept of risk weighting, as applied to banking activities, assumes that such activities generally involve some risk of loss. For risk weighting purposes, commercial lendings are taken as a benchmark to which a risk weighting of 100% is ascribed. Other transactions, which are considered to generate lower levels of risk than commercial lending, may qualify for reduced weightings. Off-balance sheet items are converted to credit risk equivalents by applying credit conversion factors laid down by the Basle Committee. The resultant amounts are then risk weighted according to the nature of the counterparty.

The EC Capital Adequacy Directive lays down common minimum capital requirements for banks and investment firms for market and other trading risks. This measure disaggregates the various risks associated with transactions and applies capital requirements to each type of risk separately (the 'building block' approach).

In December 1995, the Basle Committee announced a proposed amendment to its original guidelines to take account of market risk. The amendment includes a standardised building block approach similar to that permitted under the Capital Adequacy Directive. In addition, it allows banks, under certain conditions, to make greater use of internal models to calculate capital requirements for market risk. The EC amended the Capital Adequacy Directive to bring it in line with the Basle Amendments. The FSA has implemented this amendment in the United Kingdom.

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

The following table analyses capital resources at 31st December 1998, as defined for regulatory purposes:

Capital adequacy data

	1998 Barclays PLC Group £m	1998 Barclays Bank PLC Group £m	1997 Barclays PLC Group £m	1997 Barclays Bank PLC Group £m
Tier 1				
Shareholders' funds (as defined for regulatory purposes)	7,696	7,959	7,429	7,694
Minority interests in tier 1	416	153	444	179
Total tier 1 capital	8,112	8,112	7,873	7,873
Tier 2				
		£m	£m	
Fixed asset revaluation reserves		38	39	
Qualifying undated and dated loan capital (a)		3,388	2,811	
		3,426	2,850	
General allowances for bad and doubtful debts		728	728	
Total tier 2 capital		4,154	3,578	
Tier 3				
Short-term subordinated loans		330	-	
Total tier 3 capital		330	-	
Gross capital resources		12,596	11,451	
Less: supervisory deductions (b)		(830)	(647)	
Total net capital resources		11,766	10,804	

Notes

- (a) Dated and undated subordinated debt is included in supplementary capital, subject to limits laid down in the supervisory requirements. Barclays retains significant capacity to raise additional capital within these limits.
- (b) Includes £530m (1997 £460m) of shareholders' interest in the retail life-fund.



Capital adequacy data (continued)

Capital ratios

Tier 1 ratio

Risk asset ratio

	1998	1998	1997	1997
	Barclays	Barclays	Barclays	Barclays
	PLC	Bank PLC	PLC	Bank PLC
	Group	Group	Group	Group
	%	%	%	%
Tier 1 ratio	7.4	7.4	7.3	7.3
Risk asset ratio	10.7	10.7	10.0	10.0

Weighted risk assets

Banking book

on-balance sheet

off-balance sheet

associated undertakings

Total banking book

Trading book

market risks

counterparty and settlement risks

Total trading book

Total risk weighted assets

£m

£m

on-balance sheet	78,558	72,677
off-balance sheet	14,194	12,691
associated undertakings	2,623	2,624
Total banking book	95,375	87,992
Trading book		
market risks	8,060	13,091
counterparty and settlement risks	6,346	7,244
Total trading book	14,406	20,335
Total risk weighted assets	109,781	108,327

The overall risk asset ratio increased by 0.7% in the year, mainly as a result of net raisings of tier 2 and 3 capital in the period. Weighted risk assets were some 1% higher than at 31st December 1997, with increases in banking book assets in Retail Financial Services and Corporate Banking being offset by reductions in the Barclays Capital banking and trading books.

Deposits

	Average: year ended 31st December		
	1998 £m	1997 £m	1996 £m
Deposits by banks			
Offices in the UK	17,911	13,058	14,131
Offices outside the UK:			
Other European Union	4,913	6,680	6,417
United States	3,500	2,487	2,551
Rest of the World	3,313	2,454	2,599
	29,637	24,679	25,698
Customer accounts			
Offices in the UK	82,122	71,032	66,972
Offices outside the UK:			
Other European Union	5,392	5,890	6,723
United States	2,720	3,493	2,686
Rest of the World	7,540	6,230	5,263
	97,774	86,645	81,644

Average deposits (excluding trading balances) are analysed by type in the average balance sheet on page 33 and are based on the location of the office in which the deposits are recorded.

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

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

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

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

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

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

Short-term borrowings

Short-term borrowings include Deposits by banks as reported in 'Deposits' on the previous page.

Deposits by banks (excluding trading business)

	Year ended 31st December		
	1998 £m	1997 £m	1996 £m
Year-end balance	25,951	30,511	21,636
Average balance	29,637	24,679	25,698
Maximum balance	35,092	35,228	34,253
Average interest rate during year	4.1%	4.9%	4.9%
Year-end interest rate	4.4%	4.4%	4.7%

Commercial paper

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

	Year ended 31st December		
	1998 £m	1997 £m	1996 £m
Year-end balance	1,098	1,411	1,202
Average balance	913	1,411	976
Maximum balance	1,546	1,412	1,386
Average interest rate during year	5.2%	4.9%	5.4%
Year-end interest rate	5.3%	5.9%	5.4%

Negotiable certificates of deposit

	Year ended 31st December		
	1998 £m	1997 £m	1996 £m
Year-end balance	14,764	17,027	9,771
Average balance	17,971	11,290	7,893
Maximum balance	20,573	18,007	10,195
Average interest rate during year	6.2%	6.3%	5.6%
Year-end interest rate	6.4%	6.3%	6.0%

Securities

The following table analyses the book value and valuation of securities.

	1998 Book value £m	1998 Valuation £m	1997 Book value £m	1997 Valuation £m	1996 Book value £m	1996 Valuation £m
Investment securities						
Debt securities:						
UK government	1,730	1,775	5,537	5,615	3,023	3,035
other government	5,937	6,053	8,223	8,313	4,239	4,395
other public bodies	87	89	178	181	326	335
other issuers	6,548	6,595	4,357	4,407	3,128	3,171
Equity shares	336	379	116	170	164	296
	14,638	14,891	18,411	18,686	10,880	11,232
Other securities						
Debt securities:						
UK government	3,621	3,621	1,190	1,190	1,762	1,762
other government	10,377	10,377	13,301	13,301	5,469	5,469
other public bodies	775	775	784	784	133	133
bank and building society certificates of deposit	8,677	8,677	9,384	9,384	8,067	8,067
other issuers	7,428	7,428	10,222	10,222	5,220	5,220
Equity shares	4,552	4,552	2,664	2,664	2,649	2,649
	50,068	50,321	55,956	56,231	34,180	34,532

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

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

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

A further analysis of the book value and valuation of securities is given in notes 20 and 21 to the accounts.

In addition to UK government securities shown above, at 31st December 1998 and 1997 the Group held the following government securities which exceeded 10% of shareholders' funds:

	1998 Book value £m	1998 Valuation £m	1997 Book value £m	1997 Valuation £m
US government securities	7,891	7,875	9,035	9,035
German government securities	2,669	2,669	3,707	3,730
French government securities	1,733	1,804	2,029	2,029
Spanish government securities	1,173	1,212	1,640	1,640
Italian government securities*	-	-	1,569	1,649
Japanese government securities*	-	-	1,319	1,319

*Holdings did not exceed 10% of shareholders' funds at 31st December 1998.

Maturities and weighted average yields of investment debt securities

At 31st December 1998	Maturing within one year:		Maturing after one but within five years:		Maturing after five but within ten years:		Maturing after ten years:		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	£m	%	£m	%	£m	%	£m	%	£m	%
Government	893	5.9	5,410	5.7	907	3.7	457	5.0	7,667	5.4
Other public bodies	39	5.1	35	4.7	5	4.9	8	6.0	87	5.0
Other issuers	3,615	4.7	1,827	6.4	876	4.7	230	7.0	6,548	5.3
Total book value	4,547	4.9	7,272	5.9	1,788	4.2	695	5.6	14,302	5.3
Total valuation	4,563		7,694		1,535		720		14,512	

The weighted average yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 1998 by the book value of securities held at that date. Yields on certain US securities, which are exempt from tax, have been calculated using interest income adjusted to reflect a taxable equivalent basis.

Risk management

In the ordinary course of business, Barclays manages a variety of risks, with operational, legal, market, liquidity and credit risks (all discussed below) being the most significant. These risks are identified, measured and monitored through various control mechanisms across the Group in order to price facilities and products on a risk adjusted basis and to highlight risk concentrations which require management attention.

The Group Risk Management Committee is chaired by the Finance Director and comprises senior risk management including the Director, Group Credit Policy and the Group Treasurer. It reviews risk policy issues delegated to it by the Executive Committee. It oversees the Barclays Group's total portfolio of risk and approves policy objectives for credit, market and operational risk.

Operational risk management

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

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

The Group manages this risk under an overall strategy determined by a Group Risk Management Committee supported by the Group Operational Risk function. This strategy is implemented by accountable executives in each business grouping, and monitored at Group level. Within this structure, potential risk exposures are assessed to determine the appropriate type of controls to be applied.

It is recognised that such risks can never be entirely eliminated. Accordingly, the Group continues to invest in risk mitigation such as contingency planning and incident management. Where appropriate this is supported by risk transfer mechanisms such as insurance. In reinforcement of the implementation of the Group's operational risk strategy by the business groupings, independent checks on operational risk issues are undertaken by the internal audit function.

Legal risk management

Legal risk is the risk resulting from the legal consequences of a situation, action or investment causing material unexpected negative results. It includes risk arising from inadequate documentation, legal or regulatory incapacity or insufficient authority of a counterparty and the uncertain validity and enforceability of a contract in bankruptcy or insolvency. Barclays seeks to identify and manage legal risk through the effective use of and consultation with its internal and external legal counsel to ensure that legal advice is appropriately taken and implemented across the Group in accordance with established guidelines.

Market risk management

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

The Group uses a daily 'value at risk' (DVAR) measure as the primary mechanism for controlling market risk. DVAR is described on pages 60 and 61. The Group Risk Management Committee allocates a total DVAR limit for the Group and delegates the day to day control and monitoring of market risk to the Group Treasurer, who sets limits for each business area.

The Group's policy is that exposure to market risk arising from trading activities is concentrated in Barclays Capital. Trading activities are discussed further on page 59. The Group's banking businesses are also subject to market risk, which arises in relation to non-trading positions, such as capital balances, demand deposits and customer originated transactions and flows. The management of market risk in this context is discussed further under Treasury asset and liability management on page 63.

Liquidity risk management

The management of liquidity in Barclays is primarily designed to ensure that funding requirements can be met including, for example, the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings.

The distribution of sources and maturities of deposits is managed actively in order to ensure access to funds and to avoid a concentration of funding needs at any one time or from any one source. Important factors in assuring liquidity are competitive rates and the maintenance of depositors' confidence. Such confidence is based on reputation, the strength of earnings and the Group's financial position.

A substantial portion of Barclays assets in the United Kingdom, and in certain other retail banking areas, is funded with 'core deposits'. These important sources of liquidity are mainly current accounts and savings deposits. Although current accounts are repayable on demand and savings accounts are repayable at short notice, the spread by number and type of depositor helps to ensure against unexpected fluctuations and such accounts form a stable deposit base for the Group's operations and liquidity needs.

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

The responsibility for liquidity rests with local treasury management at each location, subject to overall control by and regular reporting to Group Treasury. Depending on the size and complexity of the treasury operation, the management of liquidity is also reviewed by a local asset and liability management committee comprised of senior executives.

Monitoring and reporting take the form of a cash flow measurement based on principles agreed by the FSA. Each operation is required to maintain sufficient access to funds, in terms of maturing assets and proven capacity to borrow in the money markets. Special attention is paid to cash flow projections for the next day, the next week and the next month as these are key maturity periods in liquidity management. A sufficient reserve of liquid assets is maintained to protect against unforeseen cash flow volatility. These positions are scrutinised daily to prevent problems developing in the future. Additional emphasis is placed on the need to monitor unmatched medium-term loans and the level and type of commitments.

Credit risk management

The Group Risk Management Committee is supported by the Group Credit Policy Unit which has day to day responsibility for portfolio management and risk concentration issues, including country exposure, sector exposure, product risk and credit grading. Country exposures are controlled by a grading structure according to the perception of risk and the Group's willingness to accept future exposure.

The Group also uses a corporate grading structure which shows the probability of future default by the borrower. This, together with similar risk calibration of categories of personal sector lendings, is used to estimate levels of annualised future credit losses from the overall lending portfolio averaged across the economic cycle (termed Risk Tendency). Risk Tendency estimates assist in portfolio management decisions, such as exposure limits to any single counterparty or borrower, the desired aggregate exposure levels to individual sectors and pricing policy, and also provide a guide to changes in the underlying credit quality of the lending portfolio over time.

Financial review

The Group Credit Committee is responsible for sanctioning large credit exposures to all customers and counterparties arising from lending, trading activities, derivative instruments and settlement risks. The Group Credit Committee is supported by risk management departments (RMDs) in all of the major business groups, each headed by a senior executive. Each RMD analyses large credit exposures for sanction by the Group Credit Committee, business line executives or the RMDs' own executives. Group Treasury is responsible for the monitoring and regulatory reporting of intra-group exposures under the EC Large Exposures Directive.

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

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

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

The Group enters into master agreements whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Concentrations of credit risk, which arise through the Group's trading and non-trading activities, are presented in note 63 to the accounts.

Analysis of loans and advances

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

Loans and advances to banks

The majority of loans and advances to banks are placings, including reverse repo transactions, which amounted to £32,787m at 31st December 1998 (1997 £31,048m, 1996 £23,882m). Also included are loans to banks and building societies, balances with central banks (excluding those balances which can be withdrawn on demand), inter-bank settlement accounts and federal funds sold.

Loans and advances to banks

	1998 £m	1997 £m	1996 £m
Banking business:			
United Kingdom	4,037	8,751	6,799
Other European Union	3,847	4,268	3,484
United States	2,230	4,349	2,477
Rest of the World	10,243	4,383	3,386
Total banking business	20,357	21,751	16,146
Total trading business	16,296	15,155	12,898
	36,653	36,906	29,044

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

Barclays is an active participant in the major inter-bank markets. At 31st December 1998, placings with branches and offices of Japanese banks represented some 2% of the Group total (1997 some 13%, 1996 some 17%).

In comparison with 1997, placings with commercial banks were £6,926m lower and placings with G7 central banks rose by £8,665m

Maturity analysis of loans and advances to banks

At 31st December 1998	On demand	Not more than three months	Over three months but not more than one year	Over one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m	£m
Banking business:						
United Kingdom	327	2,407	550	591	162	4,037
Other European Union	428	2,530	737	103	49	3,847
United States	47	761	1,031	391	-	2,230
Rest of the World	230	9,796	157	52	8	10,243
Total banking business	1,032	15,494	2,475	1,137	219	20,357
Total trading business	142	14,008	2,146	-	-	16,296
	1,174	29,502	4,621	1,137	219	36,653

At 31st December 1997	On demand	Not more than three months	Over three months but not more than one year	Over one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m	£m
Banking business:						
United Kingdom	370	4,738	2,726	726	191	8,751
Other European Union	337	2,742	1,029	120	40	4,268
United States	32	2,436	1,662	219	-	4,349
Rest of the World	169	3,066	1,121	7	20	4,383
Total banking business	908	12,982	6,538	1,072	251	21,751
Total trading business	-	15,153	2	-	-	15,155
	908	28,135	6,540	1,072	251	36,906

Interest rate sensitivity of loans and advances to banks

At 31st December 1998	Fixed rate	Variable rate	Total
	£m	£m	£m
Banking business:			
United Kingdom	2,778	1,259	4,037
Other European Union	3,618	229	3,847
United States	2,222	8	2,230
Rest of the World	10,000	243	10,243
Total banking business	18,618	1,739	20,357
Total trading business	13,723	2,573	16,296
	32,341	4,312	36,653

Loans and advances to customers

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

Maturity analysis of loans and advances to customers

At 31st December 1998	On demand (a)	Not more than three months	Over three months but not more than one year	Over one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m	£m
Banking business:						
United Kingdom						
Property and construction	698	606	477	1,369	1,282	4,432
Other corporate lending	5,188	5,232	2,577	8,224	5,490	26,711
Other lending from UK offices (b)	1,702	4,653	4,004	8,380	20,552	39,291
Total United Kingdom	7,588	10,491	7,058	17,973	27,324	70,434
Other European Union	812	1,110	1,270	1,768	979	5,939
United States	127	602	717	1,836	882	4,164
Rest of the World	551	747	408	712	493	2,911
Total banking business	9,078	12,950	9,453	22,289	29,678	83,448
Total trading business	2	13,797	809	33	-	14,641
	9,080	26,747	10,262	22,322	29,678	98,089

At 31st December 1997	On demand (a)	Not more than three months	Over three months but not more than one year	Over one year but not more than five years	Over five years	Total
	£m	£m	£m	£m	£m	£m
Banking business:						
United Kingdom:						
Property and construction	761	522	296	1,145	1,249	3,973
Other corporate lending	6,228	4,960	1,628	4,841	5,750	23,407
Other lending from UK offices (b)	1,268	6,063	3,456	6,650	19,959	37,396
Total United Kingdom	8,257	11,545	5,380	12,636	26,958	64,776
Other European Union	598	1,519	1,043	1,156	761	5,077
United States	45	582	704	1,188	643	3,162
Rest of the World	673	1,032	249	503	552	3,009
Total banking business	9,573	14,678	7,376	15,483	28,914	76,024
Total trading business	-	25,712	-	-	-	25,712
	9,573	40,390	7,376	15,483	28,914	101,736

Notes

- (a) Overdrafts are included in the 'on demand' category
(b) Other lending from UK offices includes finance lease receivables.

Interest rate sensitivity of loans and advances to customers

At 31st December 1998	Fixed rate £m	Variable rate £m	Total £m
Banking business:			
United Kingdom	20,584	49,850	70,434
Other European Union	3,432	2,507	5,939
United States	1,061	3,103	4,164
Rest of the World	1,119	1,792	2,911
Total banking business	26,196	57,252	83,448
Total trading business	9,884	4,757	14,641
	36,080	62,009	98,089

**Loans and advances to customers in offices in the United Kingdom –
Banking business**

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Financial institutions	1,839	2,258	2,388	864	2,300
Agriculture, forestry and fishing	1,612	1,726	1,768	1,587	1,588
Manufacturing	6,840	5,556	5,976	5,412	5,185
Construction	1,227	1,046	1,242	1,429	1,545
Property	3,205	2,927	3,619	3,867	4,457
Energy and water	668	586	863	1,107	517
Wholesale and retail distribution and leisure	6,778	5,895	5,553	5,551	5,989
Transport	1,164	875	1,320	1,179	1,093
Postal and communication	261	86	101	239	51
Business and other services	7,549	6,425	6,178	6,275	4,841
Home loans	16,580	15,937	14,958	14,794	14,074
Other personal	14,376	12,403	11,315	10,321	9,611
Overseas customers	3,056	3,421	2,561	2,617	3,673
	65,155	59,141	57,842	55,242	54,924
Finance lease receivables	5,279	5,635	5,825	4,890	4,570
	70,434	64,776	63,667	60,132	59,494

**Loans and advances to customers in offices in Other European Union countries –
Banking business**

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Financial institutions	220	215	437	532	559
Agriculture, forestry and fishing	109	19	14	74	69
Manufacturing	975	964	966	1,296	1,363
Construction	148	164	246	310	339
Property	182	237	296	513	571
Energy and water	114	114	81	174	195
Wholesale and retail distribution and leisure	323	378	349	577	653
Transport	133	184	461	612	856
Postal and communication	9	11	39	205	4
Business and other services	1,433	980	864	1,173	1,036
Home loans	932	670	796	964	872
Other personal	500	352	313	446	655
Overseas customers	358	304	314	541	847
	5,436	4,592	5,176	7,417	8,019
Finance lease receivables	503	485	497	709	407
	5,939	5,077	5,673	8,126	8,426

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

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Financial institutions	527	350	190	447	524
Agriculture, forestry and fishing	1	1	4	2	23
Manufacturing	592	325	337	350	1,317
Construction	12	5	27	28	48
Property	80	195	412	660	1,021
Energy and water	645	647	510	396	516
Wholesale and retail distribution and leisure	323	76	97	141	590
Transport	53	98	129	155	261
Postal and communication	383	240	115	222	374
Business and other services	1,471	1,138	929	573	426
Home loans	1	3	12	4	146
Other personal	7	25	69	13	20
Overseas customers	27	15	24	58	12
	4,122	3,118	2,855	3,049	5,278
Finance lease receivables	42	44	42	58	61
	4,164	3,162	2,897	3,107	5,339

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

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Loans and advances	2,883	2,980	2,951	3,948	4,374
Finance lease receivables	28	29	28	85	99
	2,911	3,009	2,979	4,033	4,473

Total loans and advances to customers

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Banking business	83,448	76,024	75,216	75,398	77,732
Trading business	14,641	25,712	16,441	9,884	9,293
	98,089	101,736	91,657	85,282	87,025

Total loans and advances to customers

Barclays lendings are widely dispersed over customer categories within the United Kingdom, the main area of operation, and are also well spread geographically outside the United Kingdom. No one concentration of lendings, with the exception of home loans and other personal lendings in the United Kingdom, accounts for more than 10% of total Group lendings. Other than the United Kingdom, no individual country accounts for more than 5% of total Group lendings.

Loans and advances in offices in the United Kingdom

Loans and advances within banking business activities increased by 9% to £70,434m, with increases seen across the board. Buoyant demand led to strong growth in consumer lending businesses, the mortgage business benefited from a relatively strong housing market and there was a high demand for large corporate lending as a result of adverse conditions in the debt capital markets.

Loans and advances in offices in Other European Union countries

Loans in France, Spain and Germany account for some 80% of the total banking business. The overall increase of 17% in the year was attributable to increased lendings across the region together with exchange rate movements.

Loans and advances in offices in the United States

Increased lendings to corporate customers accounted for the 32% increase in the banking business loans and advances in the year.

Exposure to countries subject to International Monetary Fund liquidity support programmes

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

	31.12.98 £bn	31.12.97 £bn
Asia		
Indonesia	0.1	0.3
South Korea	0.5	0.6
Thailand	0.1	0.3
	0.7	1.2
Latin America		
Brazil	0.9	0.8
Eastern Europe		
Russia	0.0	0.1
	1.6	2.1

Of the total of £1.6bn, £1.0bn (1997 £1.5bn) was related to banks, £0.4bn (1997 £0.4bn) to governments and £0.2bn (1997 £0.2bn) to other corporate bodies including project finance companies, and was mainly in respect of loans, off-balance sheet financial instruments and debt securities. Off-balance sheet financial instruments and debt securities are marked to market.

The Group has a Brazilian associate, Banco Barclays e Galicia SA, which is equity accounted. At 31st December 1998 the 50% holding was included in the balance sheet at a value of £47m (included in the figures above).

Of the above net exposures £35m (1997 £10m) were non-performing (interest not being accrued) as at 31st December 1998. During the year the Group raised a general provision of £20m in respect of country transfer risk arising from its business world wide, including exposure in these countries, bringing the total of such provisions to £65m at 31st December 1998. This is in addition to £663m of general provision held against credit risk.

Provisions for bad and doubtful debts

Provisioning policy

Risk managers continually review the quality of exposures for which they are responsible and, after an assessment of all the relevant information, take a decision on whether a specific provision should be raised.

It is Barclays policy to establish, through charges against profit, a sufficient specific provision to cover the estimated loss as soon as the recovery of an exposure, including counterparty receivables, is identified as doubtful. General provisions are raised to cover losses which are judged to be present in loans and advances at the balance sheet date, but which have not been specifically identified as such. These provisions are adjusted at least half-yearly by an appropriate charge or release of general provision, based on a statistical analysis of internal credit gradings allocated to borrowing customers, refined to reflect the economic climate in the markets in which the Group operates. Since 1997, the general provision has included a specifically identified element to cover country transfer risk calculated on a basis consistent with the overall general provision calculation. The aggregate provisions which are made during the year, less amounts released and recoveries of bad debts previously written off, are charged against operating profit. Impaired lendings are written off in part, or in whole, when the extent of the loss incurred has been confirmed, the decision to do so being a matter of banking judgement.

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

Analysis of provisions for bad and doubtful debts

	31st December				
	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Specific - credit risk*					
United Kingdom	928	765	834	963	1,112
Other European Union	213	245	353	502	488
United States	23	27	59	121	258
Rest of the World	35	41	48	115	113
	1,199	1,078	1,294	1,701	1,971
Specific - country risk	16	44	80	174	371
Total specific provisions	1,215	1,122	1,374	1,875	2,342
General provisions - credit risk	663	683	756	853	850
General provisions - country risk	65	45	-	-	-
	1,943	1,850	2,130	2,728	3,192
Average loans and advances for the year (excluding trading business)	101,338	96,656	95,899	95,725	100,019
(including trading business)	145,749	136,581	122,503	113,773	121,573

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

Ratios

	31st December				
	1998 %	1997 %	1996 %	1995 %	1994 %
Provisions at end of year as a percentage of loans and advances at end of year (excluding trading business):					
Specific provision for credit risk	1.16	1.10	1.41	1.73	1.96
General provision for credit risk	0.64	0.70	0.83	0.87	0.84
	1.80	1.80	2.24	2.60	2.80
Specific provision for country risk	0.01	0.04	0.09	0.18	0.37
General provision for country risk	0.06	0.05	-	-	-
	1.87	1.89	2.33	2.78	3.17
Provisions at end of year as a percentage of loans and advances at end of year (including trading business):					
Specific provision for credit risk	0.89	0.78	1.07	1.49	1.70
General provision for credit risk	0.49	0.49	0.63	0.75	0.73
	1.38	1.27	1.70	2.24	2.43
Specific provision for country risk	0.01	0.03	0.07	0.15	0.32
General provision for country risk	0.05	0.03	-	-	-
	1.44	1.33	1.77	2.39	2.75
	Year ended 31st December				
	1998 %	1997 %	1996 %	1995 %	1994 %
Provisions as a percentage of average loans and advances for the year (excluding trading business):					
Specific provisions for credit risk	0.50	0.28	0.35	0.47	0.59
General provisions for credit risk	(0.02)	(0.07)	(0.06)	(0.01)	0.07
	0.48	0.21	0.29	0.46	0.66
Specific provisions for country risk	(0.01)	(0.03)	(0.06)	(0.05)	(0.06)
General provisions for country risk	0.02	0.05	-	-	-
	0.49	0.23	0.23	0.41	0.60
Amounts written off (net of recoveries)	0.40	0.47	0.71	0.92	1.12
Provisions as a percentage of average loans and advances for the year (including trading business):					
Specific provisions for credit risk	0.35	0.20	0.28	0.39	0.49
General provisions for credit risk	(0.01)	(0.05)	(0.05)	-	0.06
	0.34	0.15	0.23	0.39	0.55
Specific provisions for country risk	(0.01)	(0.02)	(0.05)	(0.04)	(0.05)
General provisions for country risk	0.01	0.03	-	-	-
	0.34	0.16	0.18	0.35	0.50
Amounts written off (net of recoveries)	0.28	0.33	0.55	0.77	0.92

Movements in provisions for bad and doubtful debts

	Year ended 31st December				
	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Provisions for credit risk					
Provision at beginning of year	1,761	2,050	2,554	2,821	3,230
Exchange and other adjustments	5	(53)	(124)	17	(68)
Amounts written off:					
United Kingdom	(506)	(441)	(593)	(680)	(821)
Other European Union	(43)	(93)	(138)	(148)	(87)
United States	(7)	(23)	(30)	(69)	(205)
Rest of the World	(9)	(14)	(61)	(26)	(37)
	(565)	(571)	(822)	(923)	(1,150)
Recoveries (analysed below)	176	126	165	198	146
Sub total	1,377	1,552	1,773	2,113	2,158
Provisions charged against profit					
New and increased specific provisions:					
United Kingdom	751	536	623	684	791
Other European Union	31	49	123	169	189
United States	11	12	21	28	97
Rest of the World	23	28	26	51	50
	816	625	793	932	1,127
Releases of specific provisions:					
United Kingdom	(81)	(143)	(164)	(151)	(253)
Other European Union	(31)	(34)	(66)	(44)	(44)
United States	(8)	(33)	(45)	(71)	(79)
Rest of the World	(15)	(15)	(16)	(22)	(16)
	(135)	(225)	(291)	(288)	(392)
Recoveries:					
United Kingdom	(156)	(111)	(140)	(176)	(108)
Other European Union	(4)	(6)	(8)	(8)	(3)
United States	(13)	(4)	(12)	(7)	(30)
Rest of the World	(3)	(5)	(5)	(7)	(5)
	(176)	(126)	(165)	(198)	(146)
Net specific provisions charge	505	274	337	446	589
General provision (releases)/charges*	(20)	(65)	(60)	(5)	74
Net credit risk charge to profit	485	209	277	441	663
Provisions at end of year	1,862	1,761	2,050	2,554	2,821
Provisions for country risk					
Provision at beginning of year	89	80	174	371	534
Exchange and other adjustments	1	1	(12)	3	17
Amounts written off (net of recoveries)	(16)	(10)	(20)	(155)	(119)
Net specific credit:					
Provisions charges	3	7	3	13	56
Releases	(16)	(34)	(63)	(58)	(106)
Recoveries	-	-	(2)	-	(11)
Net specific releases	(13)	(27)	(62)	(45)	(61)
General provision charge*	20	45	-	-	-
Provision at end of year	81	89	80	174	371
Total provisions for bad and doubtful debts	1,943	1,850	2,130	2,728	3,192

* An analysis of the movement in general provisions is shown in note 19 to the accounts.

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

Credit risk provisions

	1998	Net specific provision for the year				1994	1998	Specific provisions for credit risk at 31st December			
		1997	1996	1995	1994			1997	1996	1995	1994
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
United Kingdom:											
Banks and other financial institutions	11	(3)	6	(32)	(5)	14	5	6	7	5	
Agriculture, forestry and fishing	(5)	-	1	3	11	4	5	6	9	16	
Manufacturing	15	25	6	14	67	41	51	39	43	74	
Construction	(7)	5	9	25	40	10	26	28	45	53	
Property	(20)	(66)	15	(2)	47	12	29	92	109	147	
Energy and water	-	3	6	3	-	2	2	6	3	2	
Wholesale and retail distribution and leisure	(10)	12	13	51	121	18	10	50	88	129	
Transport	(1)	3	4	48	(9)	2	5	63	68	37	
Postal and communication	1	-	-	-	1	1	-	-	-	1	
Business and other services	(7)	4	17	17	16	43	61	69	97	154	
Home loans	(4)	8	7	49	34	35	44	50	59	82	
Other personal	376	281	237	182	112	664	522	414	421	397	
Overseas residents*	165	10	(10)	(4)	(19)	79	2	3	4	6	
Finance lease receivables	-	-	8	3	14	3	3	8	10	9	
	514	282	319	357	430	928	765	834	963	1,112	
Foreign	(9)	(8)	18	89	159	271	313	460	738	859	
	505	274	337	446	589	1,199	1,078	1,294	1,701	1,971	

Analysis of amounts written off and recovered – credit risk

	1998	Amounts written off for the year				1994	Recoveries of amounts previously written off		
		1997	1996	1995	1994		1998	1997	1996
	£m	£m	£m	£m	£m	£m	£m	£m	
United Kingdom:									
Banks and other financial institutions	16	1	10	2	4	12	3	3	
Agriculture, forestry and fishing	2	4	5	10	12	7	3	-	
Manufacturing	28	20	22	33	83	12	7	13	
Construction	12	12	38	47	76	5	7	16	
Property	17	28	61	107	110	22	31	29	
Energy and water	-	8	3	5	1	-	-	1	
Wholesale and retail distribution and leisure	25	48	74	102	203	45	15	22	
Transport	2	63	17	22	7	1	3	3	
Postal and communication	-	-	-	1	2	-	-	-	
Business and other services	36	32	79	88	132	27	16	21	
Home loans	8	19	21	34	18	4	4	4	
Other personal	254	193	260	226	146	21	20	21	
Overseas residents*	106	11	-	2	19	-	-	5	
Finance lease receivables	-	2	3	1	8	-	2	2	
	506	441	593	680	821	156	111	140	
Foreign	59	130	229	243	329	20	15	25	
	565	571	822	923	1,150	176	126	165	

*Include amounts in respect of Russian counterparties recorded in the United Kingdom.



Potential credit risk lendings

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

- 1 US banks may write off problem lendings more quickly than is the practice in the United Kingdom. As a result, Barclays may report a somewhat higher level of lendings than if it had followed such US practice and also a higher level of potential credit risk lendings.
- 2 US banks typically stop accruing interest when loans are overdue by 90 days or more, or when recovery is doubtful. In accordance with the UK Statement of Recommended Practice on Advances, Barclays continues to charge interest to a doubtful customer's account for collection purposes, but the interest is suspended and excluded from interest income in the profit and loss account. This addition of interest continues until such time as its recovery is considered to be unlikely. While such practice does not affect net income in comparison with that followed in the United States, it again has the effect of increasing the reported level of potential credit risk lendings. The amount of this difference at 31st December 1998 was £77m (1997 £85m).

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

Non-performing lendings

	1998	1997	1996	1995	1994
	£m	£m	£m	£m	£m
Non-accrual lendings:					
United Kingdom	985	911	1,084	1,498	1,990
Foreign - credit risk	282	309	455	723	896
Accruing lendings where interest is being suspended:					
United Kingdom	266	234	358	396	327
Foreign - credit risk	118	153	170	337	382
Other accruing lendings against which provisions have been made:					
United Kingdom	457	408	492	976	1,258
Foreign - credit risk	134	117	232	419	544
Sub totals:					
United Kingdom	1,708	1,553	1,934	2,870	3,575
Foreign - credit risk	534	579	857	1,479	1,822
Accruing lendings 90 days overdue, against which no provisions have been made:					
United Kingdom	309	388	473	534	470
Foreign - credit risk	19	14	20	47	110
Reduced rate lendings:					
United Kingdom	7	37	38	60	46
Foreign - credit risk	-	-	-	3	8
Total non-performing lendings:					
United Kingdom	2,024	1,978	2,445	3,464	4,091
Foreign - credit risk	553	593	877	1,529	1,940
	2,577	2,571	3,322	4,993	6,031

UK non-performing lendings increased by £46m including exposures to Russian counterparties. A further reduction in businesses in transition balances was primarily responsible for the fall in overseas balances.

Potential problem lendings

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

	1998	1997	1996	1995	1994
	£bn	£bn	£bn	£bn	£bn
United Kingdom	0.6	0.6	0.9	1.2	1.5
Foreign	0.1	0.1	0.1	0.2	0.3
	0.7	0.7	1.0	1.4	1.8
Total provision coverage of:	%	%	%	%	%
credit risk non-performing lendings	75.2	71.8	65.6	54.6	49.1
total potential credit risk lendings	59.4	56.3	50.4	42.5	37.7

Interest forgone on non-performing lendings

	1998	1997	1996
	£m	£m	£m
Interest income that would have been recognised under original contractual terms	182	218	215
Interest income included in profit	(63)	(71)	(48)
Interest forgone	119	147	167



Cross-border outstandings

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

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

At 31st December 1998, the countries where Barclays cross-border outstandings exceeded 1% of assets were the United States, Germany, France, the Netherlands and Japan and consisted substantially of placings with banks due within one year. In this context, assets comprise total assets, as presented in the consolidated balance sheet, and include acceptances. On this basis, assets amounted to £220,564m at 31st December 1998 (1997 £233,901m, 1996 £185,669m).

Cross-border outstandings exceeding 1% of assets

	As % of assets	Total	Banks and other financial institutions	Governments and official institutions	Commercial industrial and other private sector
	%	£m	£m	£m	£m
At 31st December 1998					
United States	3.3	7,211	2,864	54	4,293
Germany	1.4	3,142	2,932	6	204
France	1.4	3,094	2,784	8	302
Netherlands	1.3	2,772	1,395	5	1,372
Japan	1.1	2,420	1,720	1	699
At 31st December 1997					
Japan	2.7	6,224	5,877	45	302
United States	2.0	4,680	2,408	62	2,210
France	1.9	4,546	3,890	72	584
Germany	1.6	3,835	3,627	56	152
At 31st December 1996					
Japan	3.0	5,542	5,129	143	270
United States	2.3	4,280	2,599	419	1,262
Germany	1.9	3,499	3,273	21	205
France	1.7	3,139	2,446	434	259

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

At 31st December 1998, Barclays had no countries with cross-border outstandings of between 0.75% and 1% of total Group assets. At 31st December 1997, the aggregate outstandings in this category were £6,057m and related to the Netherlands, Switzerland and Canada. At 31st December 1996, the corresponding aggregate outstandings reported were £1,495m and related to Switzerland.

Trading activities

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

In anticipation of future customer demand, the Group maintains access to market liquidity by quoting bid and offer prices with other market makers and carries an inventory of capital market and treasury instruments including a broad range of cash securities and derivatives. Trading positions and any offsetting hedges are established as appropriate to accommodate customer or Group requirements. Barclays Capital also takes its own positions in the interest rate, foreign exchange, debt, equity and commodity markets based on expectations of customer demand or a change in market conditions. Following the significant market volatility experienced during the second half of 1998, Barclays Capital closed the business units which were engaged solely in trading on the firm's account and not related to client activity.

Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. For a description of the nature of derivative instruments, see page 61.

Dealing profits

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. On- and off-balance sheet trading positions are valued on a mark to market basis. The resulting income is included in dealing profits along with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Market risk

The Group's policy is that exposure to market risk arising from trading activities is concentrated in Barclays Capital. Market risk arising in businesses other than Barclays Capital is discussed under Treasury asset and liability management on page 63.

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

The Group Treasurer allocates market risk limits to Barclays Capital, which in turn sets market risk limits for each trading business area, subject to endorsement by the Group Treasurer and Barclays Capital Risk Management Committee. Daily risk utilisation reports are produced across four main risk categories, namely interest, currency, equity and commodity risk.

The Group uses a 'value at risk' measure as the primary mechanism for controlling market risk. Daily Value at Risk (DVAR) is an estimate, with a confidence level of 98%, of the potential loss which might arise if the current positions were to be held unchanged for one business day. Daily losses exceeding the DVAR figure are likely to occur, on average, only twice in every one hundred business days. The effectiveness of DVAR is assessed by a technique known as back-testing, which counts the number of days when trading related losses are bigger than the estimated DVAR figure. For Barclays Capital, this occurred on four days in 1998 - a frequency of 1.6% compared to the theoretical frequency of 2%.

The Group generally uses a variance/covariance model for calculating DVAR. However, for some portfolios, primarily those containing options, a historical simulation model is used. When aggregating across risk and product groups, the DVAR calculations take into account the effect of diversification and correlation on a consistent basis. In the calculation of DVAR, estimates of volatilities and correlations of rates and prices are revised daily by Barclays Capital using a method of estimation which gives greater weight to more recent observations. Where the statistically estimated volatilities are considered to be imprudently low, for example in the case of pegged currencies, they are replaced by subjectively estimated volatilities based on option prices where available.

Since DVAR provides only an indication of the frequency and not the potential size of losses that could arise in extreme conditions, Barclays Capital uses a number of complementary techniques for controlling market risk. For all options portfolios, the DVAR measure is supplemented by other techniques including sensitivity analysis and option stress tests based on scenario matrices. For other portfolios, position and concentration limits are applied. In addition, daily stress tests, based on both historical and hypothetical movements of market prices, are conducted at both firm-wide and business unit level to assess the potential losses that could arise in the event of extreme market movements. The results of stress tests are discussed by the senior management of Barclays Capital at a weekly risk meeting chaired by the Barclays Capital Chief Executive.

As in 1997, volatilities reached high levels in 1998 as a result of market turbulence, leading to occasional sharp rises in DVAR. The peak DVAR of £43.3m occurred in July following a significant increase in the estimated volatilities relating to Russian government debt. In reaction to this increased market turbulence, the non-client related proprietary businesses in Barclays Capital were closed in October and secondary market corporate bond inventory was substantially reduced during the last quarter of 1998.

This reduction in risk contributed to a decrease in overall DVAR from £22.8m at 30th June 1998 to £12.2m at 31st December 1998 (1997 £17.3m). During 1999 it is intended that Barclays Capital will continue to operate in its current markets and pursue market opportunities as appropriate.

DVAR

	Twelve months to 31st December 1998			Twelve months to 31st December 1997		
	Average £m	High* £m	Low* £m	Average £m	High* £m	Low* £m
Interest rate risk	15.1	36.6	9.5	10.2	18.4	4.7
Foreign exchange risk	5.8	13.9	1.2	5.4	21.9	0.7
Equities risk	3.0	7.9	1.3	2.3	3.4	1.5
Commodities risk	1.2	2.9	0.6	1.4	2.9	0.4
Diversification effect	(4.2)			(3.6)		
Total DVAR	20.9	43.3	12.2	15.7	35.1	7.0

*The high (and low) DVAR figures reported for each category did not necessarily occur on the same day as the high (and low) DVAR reported as a whole. A corresponding diversification effect cannot be calculated and is therefore omitted from the above table.

The above figures for 1997 include market risk taken by the former BZW businesses that have been sold or closed. The calculation of the market risk relating to Barclays Capital and the former BZW businesses cannot be precisely separated, but based on reasonable assumptions, it can be estimated that the DVAR in Barclays Capital businesses would have accounted for the substantial majority of the total DVAR for the combined businesses as detailed above.

Derivatives

The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities. These instruments are also used to manage the Group's own exposure to fluctuations in interest and exchange rates as part of its asset and liability management activities. Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group's net interest income, dealing profits, commissions received and other assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet.

The Group participates both in exchange traded and OTC derivatives markets.

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

OTC traded derivatives The Group buys and sells financial instruments that are traded 'over-the-counter', rather than on a recognised exchange. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers, although the majority conform to normal market practice. In many cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where a counterparty is in default, including the ability to net outstanding balances where the rules of offset are legally enforceable. For further explanation of the Group's policies on netting, see page 96.

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

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

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

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

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

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

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

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

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

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

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

Treasury asset and liability management

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

Interest rate exposure

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

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

Financial review

Treasury asset and liability management (continued)

The total Group exposure, excluding Barclays Capital trading risk, is summarised in the form of an interest rate repricing table, reproduced below. This summarises the repricing profile of the Group's assets, liabilities and off-balance sheet exposures at 31st December 1998 and also reflects the non-trading hedges referred to above. This table can be used as the basis for the assessment of the sensitivity of the Group's earnings to interest rate movements, although allowance is also made for other factors such as anticipated early repayment profiles for loan portfolios. It is estimated that as at 31st December 1998, the Group's earnings in 1999 would not be significantly affected either by a hypothetical immediate and sustained increase of 1% in interest rates or by a similar decrease in interest rates. The asset positions referred to above are likely to be less effective in eliminating interest sensitivity over subsequent years as maturing assets are replaced.

Interest rate repricing

	Not more than three months	Over three months but not more than six months	Over six months but not more than one year	Over one year but not more than three years	Over three years but not more than five years	Over five years but not more than ten years	Over ten years	Non- interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets:									
Treasury bills and other eligible bills	4,345	178	142	83	-	-	-	-	4,748
Loans & advances to banks	35,385	521	399	23	26	-	-	258	36,612
Loans & advances to customers	73,328	2,211	2,593	7,479	5,781	3,269	821	628	96,110
Debt securities & equity shares	44,455	149	54	1,673	2,040	1,167	176	354	50,068
Other assets	738	3	4	15	-	-	-	24,111	24,871
Total assets	158,251	3,062	3,192	9,273	7,847	4,436	997	25,351	212,409
Liabilities:									
Deposits by banks	32,041	157	963	224	71	406	134	424	34,420
Customer accounts	94,708	1,693	1,502	890	220	21	102	9,669	108,805
Debt securities in issue	16,264	16	182	158	4	1,200	-	-	17,824
Other liabilities	13,681	-	-	-	-	-	-	25,708	39,389
Loan capital & other subordinated liabilities	1,573	53	-	308	287	607	906	-	3,734
Minority interests & shareholders' funds	-	-	-	-	-	-	-	8,237	8,237
Total liabilities	158,267	1,919	2,647	1,580	582	2,234	1,142	44,038	212,409
Off-balance sheet items	(1,377)	(865)	3,377	89	(2,356)	926	206	-	-
Interest rate repricing gap	(1,393)	278	3,922	7,782	4,909	3,128	61	(18,687)	-

Total assets and liabilities exclude retail life-fund assets and liabilities. These are not relevant in considering the interest rate risk management of the Group. The 'Not more than three months' period includes those Barclays Capital positions where the risk is being managed by the DVAR measure.

Foreign exchange exposure

The corporate and retail banking businesses incur foreign exchange risk in the course of providing services to their customers. The part of this risk that arises in UK operations is transferred to and managed by Barclays Capital. In the case of the international operations, Group Treasury allocates modest foreign exchange open position limits or, where more appropriate, value at risk limits, to facilitate the management of customer oriented flows. Exposures are reported daily to Group Treasury, Corporate Banking and Retail Financial Services treasuries, as appropriate, in London and regular contact is maintained on risk management and control issues. As at 31st December 1998, aggregate DVAR of these businesses for foreign exchange rate risk was £0.2m (1997 £0.2m).

Management of foreign currency investments

Non-trading positions in foreign currencies arise from the currency investments which the Group makes in its overseas businesses. The Group's policy is to manage the currency balance of the funding, financing these investments so as to limit the effect of exchange rate movements on the Group's risk asset ratios (see page 38). Management of the funding of investments in overseas branches and subsidiary and associated undertakings is carried out by Group Treasury, where the operation of the funding policy is frequently reviewed. Regular reports are made to Group Treasury Committee.

These positions, together with the currency composition of tier 2 and tier 3 capital and minority interests in tier 1 capital, ensure that movements in exchange rates have little impact on the Group's risk asset ratios. Such movements have an impact on reserves (see exchange rate translation differences on page 102). With the positions in place at the 31st December 1998, a hypothetical increase of 10% in the value of sterling against all currencies would lead to a fall of some £160m in reserves.

Hedging

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

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

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

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

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

For interest rate swaps and cross currency interest rate swaps that are used in the management of the non-trading exposures, the weighted average pay fixed rates and receive fixed rates by maturity date and nominal amount at 31st December 1998 were as follows:

Maturity date:	Sterling denominated contracts				Non-sterling denominated contracts			
	Pay fixed		Receive fixed		Pay fixed		Receive fixed	
	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %
Not more than three months	8,399	6.34	9,643	7.26	1,635	6.47	2,024	5.53
Over three months but not more than six months	1,354	6.09	5,262	6.71	91	5.62	812	5.32
Over six months but not more than one year	1,614	6.18	7,876	6.52	114	6.44	1,379	6.30
Over one year but not more than five years	12,456	7.15	11,721	6.86	4,044	5.63	1,632	5.62
Over five years	2,427	7.46	2,587	6.84	797	6.04	1,322	5.13
	26,250	6.81	37,089	6.87	6,681	5.90	7,169	5.60

The weighted average receive variable and pay variable rates by reset maturity date and nominal amount at 31st December 1998 were as follows.

Reset maturity date:	Sterling denominated contracts				Non-sterling denominated contracts			
	Receive variable		Pay variable		Receive variable		Pay variable	
	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %	Nominal amount £m	Average rate %
Not more than three months	25,897	6.40	35,699	6.69	6,748	4.42	6,317	4.67
Over three months but not more than six months	4,150	7.18	5,186	7.31	982	5.30	1,902	5.47
	30,047	6.50	40,885	6.77	7,730	4.53	8,219	4.86

The nominal amounts above include £3,797m and £1,049m, in respect of sterling and non-sterling basis swaps respectively. Basis swaps are swaps where both payable and receivable legs are variable.

In managing the non-trading exposures relating to capital balances and demand deposits, both on-balance sheet and derivative positions are held. The net effect of the derivative positions, in isolation, on net interest income resulted in a credit of £103m (1997 £37m). This included credits of £8m (1997 debit £45m) and £95m (1997 credit £82m) for interest rate and exchange rate derivatives respectively.

Deferred profits and losses on hedging activities

Derivative instruments used to manage risk on transactions which are superseded, cease to be effective, or are terminated prior to the end of the life of the asset, liability, position or cashflow being hedged, are measured at fair value. Any profit or loss arising is deferred and amortised into interest income or expense over the remaining life of the item previously being hedged. The table below summarises the deferred profits and losses, all of which are in respect of interest rate derivatives, at 31st December 1998:

	Under one year £m	One to five years £m	Over five years £m	Total £m
Deferred profits being amortised	7	12	8	27
Deferred losses being amortised	4	-	-	4

Economic and monetary environment

European Economic and Monetary Union (EMU)

The Group's preparations for EMU and the introduction of the euro on 1st January 1999, required the effective management across the Group of a wide range of changes and upgrades to systems, processes and procedures. This culminated in the successful completion of its conversion weekend activity on 3rd January 1999. Over the conversion weekend a complex sequence of events had to be managed, such as the redenomination of Government bonds, changing price sources, converting cash accounts and reconciliations with the clearing and settlement systems. In addition, it was essential to ensure our continental European branches were ready to open for business with the euro. The successful conclusion to this activity enabled Barclays to move smoothly into the new euro environment. Barclays is now trading in the new euro markets supported by an effective operational framework and effective payment and settlement systems.

Preparations during 1998 were centred on establishing customer focused euro product offerings for 1999. In addition to the prime objective of helping our customers understand the implications of the euro, Barclays preparations had to take into account industry developments, the associated infrastructure changes, and make the most of the business opportunities created.

The original cost estimate for the Group's work on achieving euro compliance, on the assumption that the United Kingdom did not participate, was some £150m. Throughout 1998 efforts were concentrated on providing the most benefit to our customers. As the markets and payment/settlements infrastructure changes became more clearly defined and more robust implementation plans were developed, the contingency planning requirements were reduced. The estimated total cost reduced to £120m at 30th June 1998, and is now expected to be £90m, of which some £75m has been spent to date (£55m in 1998).

Further expenditure of £15m includes anticipated costs in respect of the introduction of euro banknotes and coins in the Group's continental European operations and further systems development within Corporate Banking.

Barclays has taken the opportunity to review its business activities in the light of the euro. The business opportunities identified by Barclays Capital have been factored into business strategies and are designed to strengthen its position in the European capital markets. Activities in its Rates business have been reorganised to trading by maturity rather than by currency and index-linked and strips products have been developed. The Credit business is expected to benefit from the anticipated growth of the corporate bond market in Europe.

Corporate Banking has restructured its business to accommodate a wider European focus. In support of this aim it has created an upgraded systems platform and operational infrastructure. For example, investment to accommodate the various European payment mechanisms has enabled better management of the resulting flows of funds for the benefit of our customers. Corporate Banking has also created a new management team responsible for the implementation of the strategic objectives.

Within Barclays retail operations in continental Europe, investment was required to prepare systems and operations to handle the two denominations, the euro and the national currency unit in each location.

In Barclays Global Investors new euro products have been developed which are designed to enable Barclays Global Investors' clients to take full advantage of emergent benchmarks.

United Kingdom entry to EMU

Barclays is continuing to monitor developments around the possibility of the United Kingdom joining EMU. Planning has been undertaken in 1998 to identify what further work would be required should the United Kingdom decide to join EMU. In the meanwhile only limited preparations to UK systems have been made and no significant expenditure will be incurred until there is more certainty over a decision to enter.

Supervision and regulation

United Kingdom

The UK government is implementing a major overhaul of the UK financial regulatory system aimed at creating a new single statutory regulator, the Financial Services Authority (FSA), for the full range of financial business, including deposit-taking business, securities and other investment business and insurance business.

As part of the first stage of this reform programme, the Bank of England Act 1998 (the 1998 Act) came into force on 1st June 1998. Under the 1998 Act, responsibility for banking supervision in the United Kingdom was transferred from the Bank of England to the FSA. The Bank of England retains its monetary policy role and responsibility for the overall stability of the financial system. The primary objective of the FSA (in its role as a bank supervisor) is to fulfil the responsibilities relating to the safety and soundness of banks placed on it by the Banking Act 1987 (the 1987 Act) with the aim of strengthening, but not ensuring, the protection of depositors. Barclays Bank PLC is an authorised institution under the 1987 Act and is subject to consolidated supervision by the FSA under that Act.

The FSA's continuing supervision of banks authorised by it is conducted through the collection of information from statistical and prudential returns, reports obtained from banks' reporting accountants at the FSA's request, visits to banks and regular meetings with management to discuss issues such as performance, risk management and strategy. Under the new risk-based approach rolled out for all banks in 1998 - RATE - the starting point for the FSA's supervision of all banks is based on a systematic analysis of the risk profile of each bank. The FSA also promulgates requirements that it expects banks (and groups containing banks which are subject to consolidated supervision) to meet on matters such as capital adequacy (see Capital resources on page 36), limits on large exposures to individual entities and groups of closely connected entities, and liquidity.

UK banks are required to be members of, and to contribute to, a deposit protection scheme. This entitles depositors with a failed institution to receive 90% of their protected deposits, subject to a maximum payment to any depositor of £18,000 (or €20,000 if greater).

Other information

Most deposits made with branches of Barclays Bank PLC within the European Economic Area (EEA) which are denominated in sterling or other EEA currencies (including the euro) are covered by the scheme.

Securities and other investment business is currently regulated in the United Kingdom under the Financial Services Act 1986 (the 1986 Act). Barclays Bank PLC and certain other subsidiaries are authorised to conduct investment business in the United Kingdom through their membership of self-regulating organisations (SROs) which are recognised by the FSA (in its role as the regulatory body with oversight responsibilities under the 1986 Act). As part of the reform programme, the FSA, under service contracts, now carries out monitoring on behalf of the SROs and provides them with support services to enable them to fulfil their functions. The SROs regulate the conduct of investment business by their members, although to avoid duplication they do not generally impose separate capital adequacy requirements on members such as banks where the FSA acts as the lead regulator. Firms authorised to conduct investment business are also required to participate in and contribute to an investors compensation scheme to provide protection to private investors against the default of a participating firm up to a limit of £48,000 per investor.

The United Kingdom has now largely implemented the minimum requirements imposed by European Community Directives on such matters as capital adequacy and deposit and investor compensation schemes. These form part of the European single market programme, an important feature of which is the framework for mutual recognition. This is designed to enable a bank or investment firm authorised in one European Union member state to conduct banking or securities and investment business through branches or cross-border in other member states without the need for additional local authorisation.

The next step in the UK government's reform programme is the enactment of new legislation to replace the existing legislation (including the 1986 and 1987 Acts) and to put the FSA's role as the new single regulator (replacing other regulators, such as the SROs) on a statutory basis. The government published a draft of its proposed Financial Services and Markets Bill in the summer of 1998 and it is currently expected that this will be enacted and come into force in 2000.

Rest of the World

In the United States, Barclays PLC, Barclays Bank PLC and certain US subsidiary undertakings, branches and agencies of the Bank are subject to a comprehensive regulatory structure involving numerous statutes, rules and regulations, including the International Banking Act of 1978, the Bank Holding Company Act of 1956, as amended, and the Foreign Bank Supervision Enhancement Act of 1991. Such laws and regulations impose limitations on the types of businesses, and the ways in which they may be conducted, in the United States and on the location and expansion of banking business there. The securities and investment management activities conducted in the United States are also subject to a comprehensive scheme of regulation under the US federal securities laws.

Barclays operates in many other countries and its overseas offices and subsidiary and associated undertakings are subject to reserve and reporting requirements and controls imposed by the relevant central banks and regulatory authorities.

Year 2000 readiness disclosure

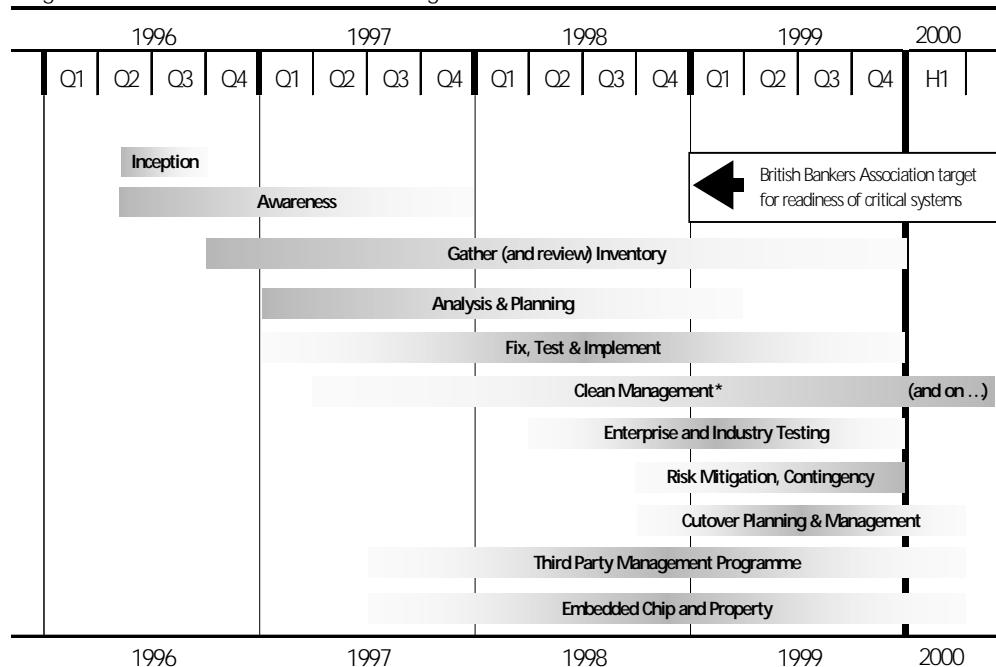
Barclays, in common with all other financial services institutions and many other businesses, is working to ensure that its systems can deal satisfactorily with the Year 2000. In the past it was widespread practice in the development of computer software to represent and manipulate the year as two digits rather than four. If not corrected, systems may confuse the year 2000 with the year 1900. Since the year 2000 is a leap year, there could also be business disruption as a result of the inability of some computer systems to recognise 29th February 2000. As well as impacting computer software, embedded micro-chips in, for example, alarm systems and office equipment may also malfunction.

All areas in the Barclays Group use information technology and may be affected, including wholesale and retail banking operations, ATMs and office systems. Barclays may also be affected by failures in business partners' systems or banking industry networks.

The Barclays Group Year 2000 Programme was initiated in early 1996 and is responsible for ensuring that Year 2000 projects are in place across the whole Group world wide. A Programme Board of executives from across the Group is chaired by the Director, Planning, Operations and Technology, who reports directly to the Group Deputy Chairman and Chief Executive.

The Group has given priority to its mission critical IT systems (those which would have an immediate and observable impact on the Group's customers and therefore its ability to continue to operate effectively). Over 90% of such systems were tested as Year 2000 ready as at 31st December 1998, and this is forecast to rise to 98% by the end of March 1999. The aim is to have all mission critical systems, including embedded systems, corrected and implemented by the end of June 1999.

A consistent approach is being employed by all Barclays Group businesses and the key stages are summarised in the following table:-



*Clean management is a management process by which the Group seeks to prevent the Year 2000 problem being reintroduced to a computer system or other equipment after it has been made Year 2000 ready.

Other information

State of readiness

Each Barclays business Year 2000 Programme reports its progress every month to the Barclays Year 2000 Programme Board. Progress and issues are also reported regularly to the Barclays Group Executive Committee and Barclays Group Audit Committee.

Management and operation of the Year 2000 Programme is assessed by the Group's Assurance function, which undertakes regular reviews and process assurance procedures. In addition, Group Internal Audit reviews Year 2000 activities where applicable.

Inventory, analysis and planning, fixing and testing

Although over 90% of the Group's mission critical IT systems have been tested as Year 2000 ready, the table below gives the approximate percentage completion figures for all IT systems, desktop-PCs and embedded chip systems as at 31st December 1998.

Phases	IT systems	Desktop PCs	Embedded chip
Inventory, analysis and planning	100%	95%	98%
Fixing	100%	85%	67%
Testing/completed	82%	73%	69%

The remaining systems are due to be completed in 1999 and have not yet been completed primarily due to third party dependencies, the effect of euro conversion (which in certain countries took a higher profile than Year 2000 during the closing months of 1998), or for business reasons, e.g. introduction of a new system. Progress in relation to these systems is reported to the Programme Board monthly and monitored closely.

Industry testing

Together with other banks and external network providers Barclays has successfully tested the following key industry infrastructures:-

- * SWIFT - the international financial payments network
- * CHAPS (Sterling and Euro) - the UK automated payments network
- * BACS - the UK automated bulk payment service
- * CREST/CGO - the UK Equities and Gilts settlement services

The Group is on schedule to meet all dates for testing with other UK infrastructure services.

Where appropriate, the Group is also participating in similar joint testing with banks and clearing/settlement services in countries in which we operate outside the United Kingdom.

Third Party Management Programme

This programme monitors the readiness of major suppliers of IT products and other services upon which the Group has a critical dependency. As a result of working closely with these key suppliers we assess approximately 80% by number as having achieved satisfactory progress towards Year 2000 readiness as at 31st December 1998.

The Group is progressing its dialogue with the remaining key suppliers in the expectation that satisfactory progress towards readiness will be established for the majority by the end of March 1999. To cover the possibility that a small number of key suppliers may not achieve satisfactory progress towards readiness by that date it is intended that the affected Barclays business will draw up appropriate contingency plans.

Barclays also has significant exposure to, and reliance on, financial institutions worldwide as counterparties, customers and suppliers. The Year 2000 readiness of approximately 750 of the most critical is being assessed centrally. Rigorous procedures are in place to ensure the Group's credit exposure is managed with Year 2000 readiness in mind and that appropriate risk mitigation strategies can be implemented.

Costs

The total cost of the Year 2000 Programme is estimated not to exceed £250m (including £20m of capitalised costs) for the four year period ending December 2000. The total amount spent on the Year 2000 Programme to date is about £145m (including £15m of capitalised costs) of which £105m was incurred in 1998. Year 2000 costs include correction, testing, third party assurance and contingency planning.

Risk mitigation and contingency planning

The Group has an ongoing project to collate and analyse information on specific aspects of the preparedness of countries in which it operates. The information is obtained from a variety of sources, including external information providers, the Internet, national and international Year 2000 organisations in which we participate and also from our own businesses in those countries. The Group is also in the process of evaluating all significant potential Year 2000 impacts on its funding capability in order to incorporate any such risks into the capital and liquidity plans.

In the United Kingdom, significant resources have been committed to running an awareness campaign targeted at corporate customers. Those customers managed from the United Kingdom have also been sent a self-assessment questionnaire to help them evaluate their own Year 2000 preparations. A similar initiative is also being undertaken for corporate customers in other areas of the world, including Europe, Latin America, Africa and the Middle East.

The information gathered as a result of the awareness campaigns, results of our surveys and other internal initiatives has allowed the Group to evaluate the preparedness of the corporate customer base and this information has been used to inform the Group's risk management activities.

Other information

Work has begun on a 'cutover plan' which defines how the Barclays Group will operate across the change from 1999 into 2000. This work will build on the lessons learned from the launch of the euro and will be continuously developed during 1999. The Group will continue to develop its contingency plans, including continuity and cutover plans, to enable it to approach the Year 2000 with confidence in its readiness.

Cautionary statement

Certain of the statements contained in the foregoing Year 2000 section are forward looking statements within the meaning of the United States Private Securities Litigation Reform Act 1995 and should be read in conjunction with the following cautionary statements and those included on page 1.

Barclays expectations about completion of its Year 2000 remediation and testing efforts, the anticipated costs to complete the project and anticipated business, operational and financial risks to the Group are subject to a number of uncertainties. Barclays estimates of the cost of preparing for the Year 2000 are based on numerous assumptions regarding future events including, among others, expectations of third party modification plans and the nature and amount of fixing and testing which may be required as well as continued availability of trained personnel. For example, if the Group is affected by the inability of suppliers, service providers, counterparties, customers, payment and settlement networks or market exchanges to deal satisfactorily with the Year 2000 plans and to continue operations, or the Group is unsuccessful in identifying or finding all Year 2000 problems in its critical operations, or if the Group is unable to retain the staff or third party consultants necessary to implement its Year 2000 plans at currently projected costs and timetables, the Group's operations or financial results could be materially impacted.

Directors and officers of Barclays PLC and Barclays Bank PLC

Chairman

Andrew Robert Fowell Buxton (age 59) was appointed Chairman in January 1993. He joined Barclays in 1963 and was appointed to the Board in 1984. He became Chief Executive in May 1992. He is a member of the Court of the Bank of England and President of the British Bankers' Association. He is Chairman of the Nominations Committee.

Deputy Chairman and Chief Executive

Sir Peter Middleton GCB (age 64) was appointed Deputy Chairman and Chief Executive on 26th November 1998. He joined the Board in 1991 as Deputy Chairman and Chairman of BZW, becoming Chairman of Barclays Capital following the reorganisation of BZW in October 1997. From 1st May 1998, when he relinquished his executive responsibilities as Deputy Chairman and Chairman of Barclays Capital, until 26th November 1998 he was a non-executive Director. Prior to joining Barclays, he was Permanent Secretary to HM Treasury. He is a non-executive director of Bass PLC and United Utilities PLC and is a member of the Financial Reporting Council.

Finance Director

Oliver Henry James Stocken (age 57) joined Barclays Merchant Bank in 1979 and held a number of senior positions in BZW before joining the Board in 1993 as Finance Director. He is a non-executive director of MEPC plc, Pilkington PLC, The Rank Group plc and Bunzl plc.

Chief Executive, Retail Financial Services

John Silvester Varley (age 42) joined the Board on 5th June 1998. He joined Barclays Merchant Bank in 1982 and has been Chief Executive of Retail Financial Services since April 1998, having previously been Chairman of the Asset Management division since 1995.

Chief Executive, Corporate Banking

Christopher John Lendrum (age 52) joined the Board on 5th June 1998. He joined Barclays Bank in 1969 and has been Chief Executive of Corporate Banking since April 1998, having held a number of senior positions in the Group prior to that date.

Non-executive Directors

Deputy Chairman

* **Sir Andrew Large** (age 56) joined the Board on 1st May 1998 as Deputy Chairman. He was previously Chairman of The Securities and Investments Board from 1992 to 1997. From 1980 to 1990 he was at Swiss Bank Corporation (Board Member 1988 - 1990). He has served as a member of the Council of the Stock Exchange and on the Takeover Panel, and as a non-executive director of several PLCs. He is Chairman of Euroclear Clearance System PLC and a Board Member of the European Institute of Business Administration (INSEAD). He is a member of the Audit Committee.

* **Thomas David Guy Arculus** (age 52) joined the Board in 1997. He is the Chairman of Severn Trent plc and IPC Group Limited. His previous positions include Group Managing Director of EMAP plc and director of United News and Media plc. He is a member of the Remuneration and Nominations Committees.

* **Mary Elizabeth Baker** (age 62) joined the Board in 1988, having served on the Board of Barclays Bank U.K. Limited since 1983. She is a non-executive director of MFI Furniture Group Plc and a former Chairman of the London Tourist Board. She is a member of the Audit Committee and is on the board of Barclays Pension Funds Trustees Limited.

* **Hilary Mary Cropper** (age 58) joined the Board on 1st June 1998. She is Chief Executive and Deputy Chairman of F.I. Group PLC, a leading supplier of business enabling technology services. She is a non-executive director of London First, a governor of the University of Hertfordshire and a member of the Financial Reporting Council. She is a member of the Remuneration and Nominations Committees.

* **Peter Jack Jarvis CBE** (age 57) joined the Board in 1995. He is Chairman of Debenhams PLC and was Deputy Chairman of Burton Group plc until January 1998. He is a non-executive director of The Rank Group plc and was chief executive of Whitbread PLC from 1985 to 1997. He is Chairman of the Remuneration Committee and a member of the Nominations Committee.

Directors and officers

* **Sir Nigel Mobbs JP** (age 61) joined the Board in 1979. He is Chairman of Slough Estates PLC, and his other directorships include Aims of Industry, Charterhouse Holdings Inc (USA), Bovis Homes Group PLC and Howard de Walden Estates. He is Lord-Lieutenant of Buckinghamshire. He is Chairman of the Audit Committee and also a member of the Remuneration and Nominations Committees.

* **Sir Nigel Rudd DL** (age 52) joined the Board in 1996. He is Chairman of Williams PLC and non-executive Chairman of Pilkington PLC and Pendragon PLC. He is a member of the Audit Committee.

* Barclays considers that its non-executive directors are independent in the sense that they neither represent a major shareholder group nor have any significant involvement in the day to day management of the Group.

Recent changes

On 11th February 1999, Barclays announced the appointment of Michael O'Neill as Chief Executive and as a Director of Barclays PLC and Barclays Bank PLC with effect from 26th March 1999. Sir Peter Middleton will step down as Chief Executive when Michael O'Neill joins Barclays. Sir Peter Middleton will continue as a Deputy Chairman until he succeeds Andrew Buxton when he retires as Chairman immediately following the annual general meeting on 23rd April 1999.

Executive Committee members

Appointed

Sir Peter Middleton - Deputy Chairman and Chief Executive	1998
Oliver Stocken - Finance Director	1993
John Varley - Chief Executive, Retail Financial Services	1996
Chris Lendrum - Chief Executive, Corporate Banking	1996
Sally Bott - Director, Group Human Resources	1997
Bob Diamond - Chief Executive, Barclays Capital	1997
Patricia Dunn - Chairman, Barclays Global Investors	1998
Graham Pimlott - Director, Planning, Operations and Technology	1994

Officers

Geoffrey Mitchell - Chief Accountant	1996
Howard Trust - Group General Counsel and Group Secretary	1995

Profit attributable

The profit attributable to shareholders for the year amounted to £1,335 million, compared with £1,130 million in 1997.

Second interim dividends

Second interim dividends for the year ended 31st December 1998 of 27.5p per ordinary share and of 10p per staff share have been declared by the Directors. The second interim dividends will be paid on 30th April 1999 in respect of the ordinary shares registered at the close of business on 26th February 1999 and in respect of the staff shares so registered on 31st December 1998.

With the first interim dividends of 15.5p per ordinary share and of 7p per staff share that were paid on 7th October 1998, the total distribution for 1998 is 43.0p (1997 37.0p) per ordinary share and 17p (1997 14p) per staff share. The dividends for the year absorb a total of £646 million (1997 £563 million).

Dividend Reinvestment Plan

Shareholders may have their dividends reinvested in Barclays PLC shares by participating in the Dividend Reinvestment Plan. The plan is available to all shareholders provided that they do not live in or are subject to the jurisdiction of any country where their participation in the plan would require Barclays or the plan administrator to take action to comply with local government or regulatory procedures or any similar formalities. Any shareholder wishing to obtain details of the plan and a mandate form should contact The Plan Administrator to Barclays, PO Box 82, Caxton House, Redcliffe Way, Bristol, BS99 7FA. Those wishing to participate for the first time in the plan should send their completed mandate form to the plan administrator before 9th April 1999 for it to be applicable to the payment of the second interim dividend on 30th April 1999. Existing participants should take no action unless they wish to alter their current mandate instructions, in which case they should contact the plan administrator.

Share capital

During the year, Barclays PLC purchased in the market for cancellation 29,299,135 of its £1 ordinary shares at a total cost of £501 million as part of its programme of returning excess capital to shareholders. These transactions represented some 2% of the issued ordinary share capital at 1st January 1998. As at 15th February 1999, the Company has an unexpired authority to repurchase further shares up to a maximum of 195,700,865 ordinary shares.

Ordinary share capital was increased by 10,111,169 shares during the year as a result of the exercise of options under the SAYE and Executive Share Option Schemes, and at 31st December 1998 totalled 1,509,955,805 shares.

Barclays PLC acquired 10,500,000 new £1 ordinary shares in Barclays Bank PLC during 1998 at a cost of £110 million.

Group Share Schemes

The trustees of the Group's share schemes may make purchases of Barclays PLC ordinary shares in the market following the announcement of the Group's results in February 1999 for the purposes of those schemes' current and future requirements. The total number of ordinary shares purchased would not be material in relation to the issued share capital of Barclays PLC.

Substantial shareholdings

The following substantial shareholdings were notified to the Company as at 15th February 1999: the Prudential Corporation plc group's interest in 57,978,508 ordinary shares (3.84% of the issued ordinary shares) and Barclays Pension Funds Trustees Limited's non-beneficial interest, as trustee of the Group's main pension fund, in 822,750 staff shares (94.02% of the issued staff shares).

Board membership

The membership of the Boards of Directors of Barclays PLC and Barclays Bank PLC is identical, and is set out on pages 74 and 75.

Sir Andrew Large was appointed as Deputy Chairman on 1st May 1998. Hilary Cropper was appointed a non-executive Director on 1st June 1998. Chris Lendrum and John Varley were appointed Directors on 5th June 1998.

Lord Lawson of Blaby PC, Jan Peelen and Bill Gordon resigned from the Board on 30th April 1998, 31st August 1998 and 30th September 1998 respectively.

Martin Taylor resigned as a Director and Chief Executive on 26th November 1998.

Sir Peter Middleton assumed Mr Taylor's executive responsibilities and was also appointed a deputy chairman.

On 11th February 1999, Barclays announced the appointment of Michael O'Neill as Chief Executive and as a Director with effect from 26th March 1999. Sir Peter Middleton will step down as Chief Executive when Michael O'Neill joins Barclays. Sir Peter Middleton will continue as a Deputy Chairman until he succeeds Andrew Buxton when he retires as Chairman immediately following the annual general meeting on 23rd April 1999.

Additionally, Oliver Stocken, who had previously announced his intention to retire as an executive Director at the end of 1998, has agreed to remain in that role until the annual general meeting in April 1999.

Retirement and re-election of Directors

One-third (or the nearest whole number below one-third) of the Directors of Barclays PLC are required to retire by rotation at each annual general meeting, together with Directors appointed by the Board since the previous annual general meeting. The retiring Directors are eligible to stand for re-election. The Directors retiring at the 1999 annual general meeting are Andrew Buxton and Sir Peter Middleton. Sir Peter Middleton will be offering himself for re-election. In addition, Sir Andrew Large, Hilary Cropper, Chris Lendrum, John Varley and Michael O'Neill, who were appointed as Directors since the last annual general meeting, will be offering themselves for re-election at the 1999 annual general meeting in accordance with Article 103 of the Company.

Directors' interests

Directors' interests in the shares of the Group on 31st December 1998, according to the register maintained under the Companies Act 1985, are shown in note 57 to the accounts. The register is available for inspection during business hours at the Group's Head Office and will be available for inspection at the 1999 annual general meeting. At no time during the year did any Director of the Company have an interest in a contract entered into by a Group company which was significant to the Group's business.

Directors' emoluments and options

Information on emoluments and options of Directors of Barclays PLC, in accordance with the Companies Act 1985 and London Stock Exchange requirements, is given in the section on Corporate governance by the Board on pages 81 to 92 and in notes 56 and 57 to the accounts.

For US disclosure purposes, the aggregate emoluments of all Directors and officers of Barclays PLC (1998 27 persons, 1997 24 persons) for the year ended 31st December 1998 amounted to £15,204,000 (1997 £12,884,000). In addition, the aggregate amount set aside, for the year ended 31st December 1998, to provide pension benefits for the Directors and officers amounted to £378,000 (1997 £782,000). The aggregate emoluments of all Directors and officers of Barclays Bank PLC (1998 28 persons, 1997 24 persons) for the year ended 31st December 1998 amounted to £15,045,000 (1997 £12,695,000). In addition, the aggregate amount set aside by the Bank and its subsidiary undertakings, for the year ended 31st December 1998, to provide pension benefits for the Directors and officers amounted to £380,000 (1997 £782,000).

Activities

The activities of the Group are described on pages 6 to 8 and the developments of the Group's business during the year are analysed in the Financial review on pages 10 to 66.

Community involvement

The Group's community support totalled £19.0 million (1997 £15.1 million). This includes £4.7 million in respect of secondments to the community (1997 £3.3 million). Of the total £19 million, Barclays gave £17.3 million in support of the community in the United Kingdom (1997 £13.5 million) and £1.7 million internationally (1997 £1.6 million). UK community support includes £5.1 million of charitable donations (1997 £4.4 million). The Group made no political donations in the United Kingdom during 1998.

Employee involvement

Employees share in the success of the Group through the profit sharing and Save As You Earn share option schemes, as well as through profit related pay. 80% of eligible staff participate in the Save As You Earn share option scheme.

Communication and consultation with employees is extremely important. In the United Kingdom, there are regular exchanges through staff consultative committees and an annual staff meeting where there is an opportunity for staff to discuss issues of concern to them with central management.

Additionally, the Barclays Group European Forum allows staff from all parts of the Group in the United Kingdom and other European Union countries to be represented in meetings with central management to discuss important cross-border issues of concern to them.

Creditors' payment policy

Barclays policy follows the DTI's Better Payment Practice Code which states that a company should have a clear, consistent policy, adhered to by the finance and purchasing departments, that bills are settled in accordance with payment terms agreed with suppliers, that complaints are dealt with quickly and that suppliers are advised of disputes. Barclays values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, promptly. Normal policy is to pay all small business purchases within 30 days. Creditor payment days are carefully monitored in the Group, using the systems which record the actual payment purchases and payments. Barclays estimate that for all UK supplies to Barclays Bank PLC average creditor payment days in 1998 were 31 days.

Paragraph 12(3) of Schedule 7 to the Companies Act 1985 requires disclosure of trade creditor payment days. Disclosure is required by the Company, rather than the Group. The Group's principal trading subsidiary in the United Kingdom is Barclays Bank PLC, the accounts for which are prepared under Schedule 9 of the Companies Act 1985. The components for the trade creditor calculation are not easily identified in Schedule 9. However, by identifying as closely as possible the components required by the Schedule, the trade creditor payment days for Barclays Bank PLC for 1998 were 18 days (1997 24 days). This is an arithmetical calculation which includes property rentals and payments, and does not necessarily reflect our practice, which is described above, nor the experience of any individual creditor.

Year 2000 compliance

A formal Barclays Group Year 2000 programme was initiated in early 1996 with compliance projects in place across the Group world wide. Further details on the programme are set out in pages 70 to 73.

Equal opportunities

The Group continues to develop progressive policies and practices to demonstrate its commitment to equal opportunities for all staff and reflect changing social values. It supports the 'Opportunity 2000' initiative which aims to improve the quantity and quality of opportunities for women in the workplace and the 'Race for Opportunity' campaign which encourages businesses to invest in the diversity of Britain's ethnic minority communities.

Barclays actively supports the Department of Education and Employment's 'two tick' campaign, and is a core sponsor and active member of the Employers' Forum on Disability which promotes, advises and shares information across industry and commerce on the best ways of providing equality of opportunity for people with disabilities.

The auditors

Price Waterhouse merged with Coopers & Lybrand on 1st July 1998 to form a new firm, PricewaterhouseCoopers. Price Waterhouse resigned as auditors and PricewaterhouseCoopers were appointed in their place. PricewaterhouseCoopers have signified their willingness to continue in office and a resolution to approve their appointment as auditors and authorising the Directors to determine their remuneration will be proposed at the annual general meeting. Special notice of the intention to propose this resolution was received by the Company on 10th February 1999 in accordance with section 379(1) of the Companies Act 1985.

The annual general meeting

The annual general meeting will be held at The Queen Elizabeth II Conference Centre on 23rd April 1999 and a notice convening the meeting and form of proxy will be included in a separate letter to shareholders. In addition to the regular business concerning the annual accounts, the re-election of directors and the appointment of the auditors, there will be one item of special business, the renewal of the Company's authority to purchase its own shares.

By order of the Board
Howard Trust Group Secretary
15th February 1999

Introduction

Corporate governance, the system by which companies are managed and controlled, is a topic of increasing importance, both to the directors of a company and its shareholders. Over the last few years, guidelines and codes have been developed by the Cadbury, Greenbury and Hampel Committees. This process culminated in the publication in June 1998 of the Combined Code - Principles of Good Governance and Code of Best Practice, which has brought together the work of those committees.

The Company has complied with the provisions of the Combined Code for the full accounting period ended on 31st December 1998 save for the formal appointment of a senior independent director for the reason set out below. This section describes the way in which the Principles of Good Governance are applied by the Company. The internal control statement it contains has been prepared on the same basis as in previous years.

The Barclays Board is committed to business integrity and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the development of best practice. In July 1998, Barclays adopted its own internal corporate governance guidelines which are available from the Group Secretary. These address the responsibilities of the Board and how they are met, the composition of the Board and selection procedures for new directors and relationships with stakeholders.

The Board and Board committees

The Board is balanced between executive and non-executive Directors and comprises seven non-executive Directors and five executive Directors. Their details appear on pages 74 and 75. Executive Directors generally have responsibility for making and implementing operational decisions and running the Group's businesses. The non-executive Directors support the skills and experience of the executive Directors, contributing to the formulation of policy and decision-making through their knowledge and experience of other businesses and sectors.

The Board meets regularly and has a formal schedule of matters reserved to it. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice of the Group Secretary and independent professional advice is available to Directors in appropriate circumstances at the Company's expense.

The roles of Chairman and Chief Executive are separate with responsibilities divided between them. Both the chairmen of the Remuneration and Audit Committees are senior non-executive Directors and the Board believes that it is therefore not necessary to nominate one individual to assume the role of senior independent Director.

Following the appointment of new Directors to the Board an induction programme is arranged, including visits to the Group's businesses and meetings with senior management as appropriate, to facilitate their understanding of the Group.

At each annual general meeting one-third of the Directors retire and offer themselves for re-election. In practice, over the last several years, this has meant that every Director has stood for re-election at least once every three years.

Board committees

Specific responsibilities have been delegated to the Board committees. The three principal Board committees are:-

Audit committee

Sir Nigel Mobbs, Chairman

Mary Baker

Sir Andrew Large

Sir Nigel Rudd DL

The Audit Committee meets at least four times a year with the Group's senior management, the internal audit team and the external auditors to review, inter alia, the Group's annual and interim financial statements, internal audit and compliance reports and reviews the effectiveness of the Group's systems of internal control. Periodically, it also approves and reviews the appointment and retirement of the external Auditors, as well as their relationship with the Group.

Remuneration Committee

Peter Jarvis CBE, Chairman

David Arculus

Hilary Cropper

Sir Nigel Mobbs

The Remuneration Committee usually meets at least four times a year. Its role is described further in the section on Remuneration policy and Directors' remuneration.

Nominations Committee

Andrew Buxton, Chairman

David Arculus

Hilary Cropper

Peter Jarvis CBE

Sir Nigel Mobbs

The Nominations Committee is chaired by the Group Chairman; its other members are non-executive Directors. The committee considers and makes recommendations to the Board on all new Board appointments.

Remuneration policy and Directors' remuneration

The Group's remuneration policy is based on the following principles:

- * to deliver improved shareholder value by ensuring that individual performance and reward reflect and reinforce the business objectives of the Group;
- * to support the recruitment, motivation and retention of high quality senior executives;
- * to ensure that performance is the key factor in determining individual reward taking into account internal relativities and market data of external comparator groups; and
- * to communicate the reward structure clearly and effectively to executives and shareholders.

Corporate governance

The Remuneration Committee regularly takes advice from external consultants acknowledged as experts in their fields. The committee's authority to make recommendations to the Board, as set out in its terms of reference, encompasses:

- * remuneration policy for executive Directors;
- * specific remuneration packages (including pension rights and any compensation packages) for executive Directors;
- * remuneration policy and specific packages for certain senior executives; and
- * employee benefits and long term incentive schemes.

The Committee is not responsible for setting the level of the remuneration of non-executive Directors, which is determined by the Board.

During 1998 the Board and the Remuneration Committee reviewed and confirmed they were satisfied that the following aspects of the Group's existing remuneration policy continued to be appropriate:

- * the purpose of longer term executive share schemes (details of which are given on page 84) in which Directors participate - namely the Barclays Group Performance Share Plan (PSP), the Executive Share Option Scheme (ESOS) and the Executive Share Award Scheme (ESAS) - is to align senior executives' interests more closely with the longer term interests of shareholders;
- * the Group's performance should be the key factor in determining the level of actual remuneration which is achieved in part by the automatic deferral of at least 40% of annual bonus into shares through ESAS in addition to awards under PSP; and
- * PSP is the preferred longer term incentive vehicle for Directors; the upper limit of 100% of base salary remains competitive and the comparator group of the FT-SE 100 continues to be appropriate, although these may be reviewed in future years.

A number of changes to the remuneration policy were also endorsed, namely:

- * a recommendation for senior executives to hold Barclays shares to at least the value of their salary by the end of 1999;
- * capping profit sharing at £8,000 (the current Inland Revenue limit for Approved Profit Sharing Schemes);
- * making an additional provision in ESAS which permits annual bonuses from 1998 onwards to be voluntarily deferred on a similar basis to the automatic deferral; and
- * recognising that in certain circumstances, particularly in recruitment, the Group may be inappropriately constrained by restricting participation for Directors and senior executives to either PSP or ESOS and therefore may make an award of both in the same year.

Annual bonus scheme and Executive Share Award Scheme (ESAS) Eligible executives qualify for an annual award of cash and shares, generally up to 50% of basic salary or up to 100% of basic salary for exceptional performance. Normally, 60% of any award is paid as cash and the balance as a provisional allocation of shares under ESAS. This allocation does not give rise to any entitlement. The proportion of the award under ESAS takes into account factors including current levels of deferred award and years remaining to retirement. For awards made since March 1998, in normal circumstances the trustee will permit the executive to call for the shares from the end of the third year by granting a right to acquire shares exercisable for two years.

If the right is not exercised, the trustee may at the end of the fifth year release all of the shares, including bonus shares equal to 30% of the basic award. (No consideration is payable for the release of the shares). If the right is exercised, an eligible executive may lose the opportunity of receiving one-third of the bonus shares.

Barclays Group Performance Share Plan (PSP) This plan, introduced in 1996, links the number of shares received by participants to Barclays total shareholder return (TSR). TSR represents share price growth plus dividends. Annual awards made under the plan have a maximum value of 100% of the executive's salary at the time of the grant.

Executives participating in the plan are awarded rights (exercisable three years after the date of grant) to acquire a number of shares. The proportion of these shares which executives may actually purchase is based on Barclays TSR relative to other companies in the FT-SE 100 index over a three year performance period and is as follows:

- *100% of shares if Barclays is ranked in the top 25 positions;
- *from 100% to 20% of shares if ranked between 25th and 60th positions; and
- *no shares if below 60th position.

Shares acquired under PSP must normally be held for a further year.

In 1998, 41 executives were awarded rights to shares under this plan. The performance measurement period for PSP awards granted in 1998 is three years from 30th June 1998.

The performance period for the 1996 plan ends on 30th June 1999. For awards made during 1996, Barclays TSR for the 30 months to 31st December 1998 was +94.60% ranking it 21st within its comparator group.

Executive Share Option Scheme (ESOS) ESOS was introduced in 1986 and renewed by shareholders at the 1990 annual general meeting and emphasises the importance of Group performance through a link to Barclays share price. It is based on the recognition that individuals can contribute to the Group's performance via the achievement of common goals, and is aimed at high achievers and high potential individuals within the Group.

Participants in ESOS are granted options at the market price at the time of grant, with no discount. These options are exercisable between three and ten years from the date of grant. Options granted under ESOS from 1996 are exercisable only if the growth in the Company's earnings per share over the relevant three-year period exceeds the growth in the Retail Prices Index over the same period by at least two percentage points per annum. The performance criterion for the 1996 award under ESOS has been met.

Other long-term incentive plans The Group operates other long-term incentive plans for other businesses in the Group, including Barclays Capital and Barclays Global Investors, which are designed to align the interests of executives within these businesses more closely with those of shareholders. No executive Director currently participates in any of these plans.

SAYE Share Option Scheme In common with other eligible UK employees, executive Directors may participate in the SAYE Share Option Scheme. Under this scheme, employees may enter into contracts to save up to £250 each month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings to purchase Barclays shares at a discount calculated in accordance with the rules of the scheme. The discount offered under this scheme is 10% of the market price at the time options are granted, and the current participation rate is approximately 80% of eligible employees.

UK profit sharing schemes Directors on Barclays Bank PLC service contracts participate in the UK profit sharing schemes, as described on page 106, on the same terms as other eligible UK employees.

Service contracts The Group currently has service contracts with its executive Directors and senior executives. None of those contracts relating to Directors are for a specific term but they provide, other than in the case of Michael O'Neill, for a notice period from the Group of one year and normally for retirement on the sixtieth birthday of the individual. Mr O'Neill, who was appointed as Chief Executive and a Director with effect from 26th March 1999, has a service contract which provides for a notice period from the Group of two years during the first two years and thereafter of one year.

The Committee has also considered the extent to which executive Directors' service contracts should include remuneration commitments in the event of early termination of the contract. In such an event, the Committee would review all the relevant circumstances, including any commitments made in a Director's service contract and the length of the notice period, when it makes its decision based on the information then available.

Non-executive Directors do not have service contracts with the Group, except in the case of Sir Andrew Large who has a service contract until 30th April 1999. Their fees are determined by the Board and reflect their individual responsibilities, including membership of Board committees. Appointments of non-executive Directors are made for an initial term of no more than five years, normally with a six months' notice period on either side, subject to re-election, at intervals of no more than three years, at annual general meetings. Non-executive Director appointments are reviewed regularly and may continue for a maximum of 10 years, subject to an extension for a further period at the Board's discretion. Non-executive Directors are normally required to retire at the first annual general meeting following their sixty-fifth birthday.

During 1998 the Board approved a new plan whereby non-executive Directors receive a portion of their fees in the form of the Group's shares. These shares are retained on behalf of the non-executive Directors until they retire from the Board, with dividends reinvested.

1998 Directors' emoluments

	Salary & fees £000	Benefits & other (b) £000	Annual cash bonus £000	Profit share £000	1998 Total £000	1997 Total £000	Executive Share Award Scheme ESAS (f)	
							1998 £000	1997 £000
Executive								
ARF Buxton	407	8	100	8	523	579	-	-
Sir Andrew Large (c)	193	5	100	5	303	-	-	-
CJ Lendrum (d)	143	4	90	8	245	-	78	-
Sir Peter Middleton (e), (g)	221	4	175	8	408	455	-	-
OHJ Stocken	330	6	170	8	514	431	-	-
JS Varley (d)	200	3	180	8	391	-	156	-
Non-executive (g)								
TDG Arculus	36	-	-	-	36	26	-	-
ME Baker	39	-	-	-	39	37	-	-
HM Cropper (c)	21	-	-	-	21	-	-	-
PJ Jarvis	42	-	-	-	42	36	-	-
Sir Nigel Mobbs	53	-	-	-	53	48	-	-
Sir Nigel Rudd	35	-	-	-	35	31	-	-
Former Directors								
WJ Gordon (c)	268	10	75	8	361	375	-	-
Lord Lawson (c)	11	-	-	-	11	36	-	-
J Peelen (c)	23	-	-	-	23	31	-	-
JM Taylor (h)	568	12	369	8	957	738	-	309

Notes

- (a) Emoluments include amounts, if any, payable by subsidiary undertakings and by other companies where services are undertaken in the interests of the Group.
- (b) Executive Directors receive benefits in kind, which may include the use of a company owned vehicle, medical health insurance and beneficial loans, on similar terms to other senior executives.
- (c) Sir Andrew Large was appointed a Director on 1st May 1998 and Mrs Cropper was appointed a non-executive Director on 1st June 1998. Lord Lawson and Mr Peelen retired from the Board on 30th April 1998 and 31st August 1998 respectively. Mr Gordon retired from the Board on 30th September 1998 and will retire as an employee on 23rd April 1999.
- (d) Mr Lendrum's and Mr Varley's salary and benefits are the amounts paid since their appointment as Directors on 5th June 1998.
- (e) Sir Peter Middleton ceased to be an executive Director on 30th April 1998, and from 1st May 1998 until 26th November 1998 he was a non-executive Director. Following the resignation of Mr Taylor on 26th November 1998, Sir Peter Middleton was appointed Deputy Chairman and Chief Executive. His fees whilst a non-executive Director are included within his executive remuneration.
- (f) The amounts shown for ESAS in 1998 represent payments which are expected to be made to the trustee to fund the provisional allocation of shares in 1999 including the 30% bonus share element. Please refer to page 84 for a description of ESAS and to pages 87 and 90 for a summary of all awards under ESAS.
- (g) Fees include an amount of not less than £5,000 which, after tax, is used to buy shares in the Company for each non-executive Director. The amount is pro-rated if a Director did not hold office as a non-executive Director for a full year. These shares are included in the Directors' interests in note 57.
- (h) In November 1998 the Group agreed with Mr Taylor that he would resign with effect from 31st December. The terms of that agreement reflected Mr Taylor's contractual entitlements, the financial effects of which are described here. Mr Taylor received compensation of £1,588,000 in respect of salary, bonus, pension and incentive arrangements for 1999. Provided Mr Taylor complies with his obligations under the agreement, a recommendation will be made to the trustees to release, or the Company will agree to the exercise as appropriate, of his previous awards under PSP, ESAS and ESOS in accordance with their rules.

Directors: details of provisional allocations under the Executive Share Award

Scheme

	Number of shares awarded	
	March 1998 (a)	February 1999 (b)
Executive		
CJ Lendrum	-	4,705
JS Varley	-	9,409
Former Directors		
JM Taylor	16,805	-

Notes

- (a) Not applicable to Mr Lendrum and Mr Varley who were appointed Directors on 5th June 1998.
- (b) The shares awarded represent shares purchased by the trustee of ESAS at £16.58 each in respect of a recommendation by the Company of an award, including the 30% bonus shares, of £78,000 to Mr Lendrum and £156,000 to Mr Varley.
- (c) The number of shares shown as awarded in March 1998 and February 1999 relate to awards made in respect of 1997 and 1998 respectively.
- (d) A description of ESAS is set out on page 84.

Pension arrangements

Annual pension accrued assuming retirement at contractual date Pension is payable on retirement at contractual retirement date (normally 60), and is calculated by reference to each Director's length of service and pensionable salary.

	Age	Years of service	At 31st December 1997 (a) £000	Increase for inflation	Pension accrued during 1998 £000	At 31st December 1998 £000	Other contributions made in 1998 £000
Executive							
ARF Buxton	59	35	246	9	17	272	-
Sir Andrew Large	56	-	-	-	-	-	54
CJ Lendrum	52	29	106	2	18	126	-
Sir Peter Middleton	64	7	64	1	-	65	-
OHJ Stocken	57	19	160	6	25	191	-
JS Varley	42	16	62	1	35	98	-
Former Directors							
WJ Gordon	59	43	165	6	11	182	-
JM Taylor	46	5	6	-	1	7	212

Notes

- Or on appointment as Director if later. Mr Lendrum and Mr Varley were appointed Directors on 5th June 1998. Sir Andrew Large was appointed a Director on 1st May 1998.
- For death before retirement, a capital sum equal to four times salary is payable, together with a spouse's pension of 50% of the member's prospective pension at retirement. For death in retirement, a spouse's pension of approximately 50% of the member's pre-commutation pension is payable. If a Director granted a deferred pension dies before his pension comes into payment, his widow will be paid immediately a pension of 50% of his deferred pension. In all circumstances, children's allowances are payable, usually up to the age of 18. Enhanced benefits are payable if Directors are unable to continue to work as a result of serious ill health.
- Pension accrued during the year represents the increase in accrued pension (excluding inflation at the prescribed rate) which occurred either during the entire year or during that part of the year for which the executive was also a Director. All pensions are reviewed annually, with a guaranteed increase in line with retail price inflation up to a maximum of 5%.
- Mr Buxton, Mr Lendrum and Mr Varley are entitled to pensions of two-thirds of their pensionable salary at retirement age of 60. Mr Stocken is entitled to a pension of approximately 62% of his pensionable salary on leaving the Group, subject to his remaining with the Group until 30th April 1999.
- Sir Peter Middleton's pension commenced payment following his retirement as an executive Director on 30th April 1998. His new contract as an executive Director, which commenced on 26th November 1998, is non-pensionable.
- Mr Taylor accrued benefit in the Group's main pension scheme at the rate of one-sixtieth of the Inland Revenue earnings cap for each year of service. In addition, a notional contribution was accrued on his behalf outside the pension scheme.
- Sir Andrew Large is not a member of the Group's main pension scheme. A notional contribution was accrued on his behalf outside the pension scheme.

Directors: details of shares under option or awarded under Group incentive schemes

Directors	Number at 1st January 1998 *	During the year		Number at 31st December 1998	Exercise price per share	Market price at exercise date	Weighted average exercise price	Date from which exercisable	Latest expiry date
		Granted/ (exercised)	Lapsed		£	£	£		
ARF Buxton									
ESOS	120,000	-	-	120,000	-	-	6.14	31/08/97	29/08/05
PSP	46,325	21,950	-	68,275	N/A	-	-	05/09/99	12/08/08
SAYE	3,493	(1,243)	-	2,250	3.62	12.515	4.20	01/11/99	30/04/01
Sir Andrew Large									
PSP	-	11,201	-	11,201	N/A	-	-	12/08/01	12/08/02
CJ Lendrum									
ESOS	35,000	-	-	35,000	-	-	6.16	31/08/97	29/08/05
PSP	18,493	10,889	-	29,382	N/A	-	-	05/09/99	12/08/08
SAYE	978	-	-	978	-	-	7.97	01/11/03	30/04/04
Sir Peter Middleton									
ESOS	32,000	(32,000)	-	-	5.50	18.535	-	-	-
PSP	20,153	(12,313)	(7,840) (c)	-	N/A	9.375	-	-	-
OHI Stocken									
ESOS	84,700	(30,000)	-	54,700	5.97	18.535	6.19	31/03/97	29/08/05
PSP	31,528	-	-	31,528	N/A	-	-	05/09/99	08/08/04
SAYE	3,844	(1,102)	-	2,742	2.72	16.715	7.10	01/11/00	30/04/05
JS Varley									
PSP	20,261	10,889	-	31,150	N/A	-	-	05/09/99	12/08/08
SAYE	2,164	-	-	2,164	-	-	7.97	01/11/01	30/04/02
Former Directors									
WJ Gordon									
ESOS	50,000	-	-	50,000	-	-	6.27	31/08/97	23/04/00
PSP	26,567	-	-	26,567	N/A	-	-	24/04/99	23/04/00
SAYE	1,102	(1,102)	-	-	2.72	19.510	-	-	-
JM Taylor									
ESOS	81,900	(39,200)	-	42,700	5.44	13.165	5.44	31/03/97	31/12/99
PSP	71,940	35,779	-	107,719	N/A	-	-	05/09/99	12/08/02
SAYE	1,361	-	(1,361)	-	-	-	-	-	-

Notes

ESOS Executive Share Option Scheme, see page 84

PSP Performance Share Plan, see page 84

SAYE Save As You Earn Share Option Scheme, see page 85

* Or on appointment if later. Mr Lendrum and Mr Varley were appointed Directors on 5th June 1998. Sir Andrew Large was appointed a Director on 1st May 1998.

- The register of Directors' interests, which shows full details of Directors' current share awards and options, is available for public inspection at the Group's head office in London.
- Under PSP, a participant pays a nominal amount of £1 to exercise each award irrespective of the number of shares involved.
- In accordance with the rules of PSP, Sir Peter Middleton was eligible to exercise his award following his retirement in April 1998 but a proportion of his award lapsed to reflect the length of time he held the award.

Directors: details of shares provisionally allocated and shares under option under the Executive Share Award Scheme

Directors	Number at 1st January 1998 (a)	During the year		Number at 31st December 1998	Market price at release date (£)
		Granted	Released		
ARF Buxton	34,041	-	(5,494)	28,547	17.875
CJ Lendrum	12,615	-	-	12,615	-
Sir Peter Middleton	26,464	-	(4,772)	21,692	17.875
OHJ Stocken	39,767	-	(9,493)	30,274	17.875
JS Varley	55,720	-	-	55,720	-
Former Directors					
WJ Gordon	19,971	-	(3,257)	16,714	17.875
JM Taylor	29,307	16,805	(1,389)	44,723	17.875

Notes

- (a) The numbers shown as at 1st January 1998, or on appointment date if later, include any bonus shares awarded under ESAS. Mr Lendrum and Mr Varley were appointed Directors on 5th June 1998.
- (b) The trustee may release accumulated dividends on vesting which are excluded from the table above.
- (c) A description of ESAS is set out on page 84.

Relations with shareholders

Meetings with Barclays principal institutional investors are held on a regular basis and the agenda and format of the annual general meeting provide a forum for questions from private shareholders.

Barclays encourages shareholders to attend the annual general meeting in 1999 which is an opportunity for shareholders to ask questions of the Board, including the chairmen of the Audit, Remuneration and Nominations Committees. All voting at Barclays annual general meetings is conducted by poll so that the votes of those shareholders who cannot attend will be taken into account.

Accountability and audit

Going concern

The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

Internal control

No detailed guidance has been provided to listed companies by the London Stock Exchange on the application of the provision in the Combined Code concerning internal control. The following statement on internal control has therefore been prepared on the same basis as in previous years.

The Directors have responsibility for maintaining a system of internal control which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. In this context, the Directors have regard to what, in their judgement, is appropriate to the Group's business, to the materiality of the financial risks inherent in the business and to the relative costs and benefits of implementing specific controls.

The Group's business involves the acceptance and management of a range of risks and the nature of these risks means that events may occur which give rise to unanticipated losses. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

The Directors have established an organisational structure with defined responsibility for internal control in each of the Group's businesses and this, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally acknowledged by each business group chief executive once a year.

Responsibilities and authorities are set out in the Group Controls Manual. There are established procedures and information systems in place for regular budgeting and reporting of financial information and for risk management. Further details of risk management procedures are given in the Financial review on pages 42 to 45.

The system of internal financial and operational controls is also subject to regulatory supervision in the United Kingdom and overseas, as explained under Supervision and regulation on pages 68 to 69.

The effectiveness of the Group's internal control and internal financial control systems is reviewed periodically on behalf of the Directors by the Audit Committee. Separate audit committees are also established in Retail Financial Services, Corporate Banking, Barclays Capital, Barclays Global Investors and in the USA, Asia Pacific and Europe as well as in business units within those areas of activity.

Statement of Directors' responsibilities for accounts

The following statement, which should be read in conjunction with the Auditors' report set out on pages 93 and 94, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the accounts.

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

The Directors consider that, in preparing the accounts on pages 95 to 152 and 155 to 162, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

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

Signed on behalf of the Board

Andrew Buxton

15th February 1999

UK audit report to the members of Barclays PLC

We have audited the accounts on pages 95 to 152 which have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and the accounting policies set out on pages 95 to 97 and the additional information contained on pages 86 to 90.

Respective responsibilities of Directors and Auditors The Directors are responsible for preparing the Annual report including, as described on page 92, the accounts. Our responsibilities, as independent Auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

We read the other information contained in the Annual report and consider the implications for our report if we became aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 81 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We draw attention to the fact that the Directors' review of the system of internal control has been undertaken before formal guidance has been issued as to the scope of such a review and the procedures to be undertaken and may not, therefore, constitute a review for the purposes of the Combined Code as ultimately interpreted. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

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

Opinion In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 1998 and of the profit of the Company and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
London, England, 15th February 1999

US audit report to the Boards of Directors and shareholders of Barclays PLC and Barclays Bank PLC

We have audited the consolidated financial statements of Barclays PLC and its subsidiary undertakings on pages 95 to 152 and Barclays Bank PLC and its subsidiary undertakings on pages 95 to 152 and 155 to 162 inclusive. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall accounts presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Barclays PLC and its subsidiary undertakings and Barclays Bank PLC and its subsidiary undertakings at 31st December 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended 31st December 1998, in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income for each of the three years in the period ended 31st December 1998 and the determination of the consolidated shareholders' equity at 31st December 1998 and 1997 to the extent summarised in note 60 and note g to the consolidated financial statements.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
London, England, 15th February 1999

Summary of significant accounting policies

a Accounting convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain properties and investments. They are prepared in accordance with applicable accounting standards of the Accounting Standards Board (ASB) and pronouncements of its Urgent Issues Task Force (UITF) and with the Statements of Recommended Accounting Practice (SORPs) issued by the British Bankers' Association. Changes to the accounting policies described in the 1997 Annual report are set out on page 97.

b Consolidation and format

The consolidated accounts have been prepared in compliance with Sections 230, 255, 255A and 255B of, and Schedule 9 to, the Companies Act 1985 (the Act). The profit and loss account and balance sheet of Barclays PLC have been prepared in compliance with Section 226 of, and Schedule 4 to, the Act.

The consolidated accounts include the accounts of Barclays PLC and its subsidiary undertakings made up to 31st December. Details of the principal subsidiary undertakings are given in note 46. As the consolidated accounts include partnerships where a Group member is a partner, advantage has been taken of the exemption given by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993.

c Goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings and joint ventures. It represents the excess of cost over fair value of the Group's share of net tangible assets acquired. In accordance with Financial Reporting Standard (FRS) 10, such goodwill is capitalised as an intangible asset and amortised against profit over its expected life. Under SSAP 22 Group accounting policy had been to write off goodwill directly to reserves. The transitional arrangements of FRS 10 allow this goodwill to remain eliminated. In the event of a subsequent disposal, any goodwill previously charged directly against reserves under SSAP 22 will be written back and reflected in the profit or loss on disposal.

d Interests in associated undertakings and joint ventures

An associated undertaking is generally one in which the Group's interest is more than 20% and less than 50% and where the Group exercises a significant influence over the entity's operating and financial policies. A joint venture is one where the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other ventures. Consolidated profit includes income from interests in associated undertakings and joint ventures based on accounts made up to dates not earlier than 3 months before the balance sheet date. Interests in associated undertakings and joint ventures are included in the consolidated balance sheet at the Group's share of the book value of the net tangible assets of the undertakings concerned.

e Shareholders' interest in the long-term assurance fund

A value is placed on the shareholders' interest in the in-force policies of the Group's long-term assurance business. This value is a prudent estimate, based on the advice of a qualified actuary, of the net present value of the profits inherent in such policies. Changes in the value are included in the profit and loss account, grossed up at the underlying rate of taxation.

f Bad and doubtful debts

Specific provisions are made against advances when, in the opinion of the Directors, credit risks or economic or political factors make recovery doubtful. In addition, general provisions are raised, based on an evaluation of the portfolios of advances and other exposures, in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio. The aggregate provisions which are made during the year (less amounts released and recoveries of bad debts previously written off) are charged against operating profit. If the collection of interest is considered to be doubtful, it is suspended and excluded from interest income in the profit and loss account. Bad debts are written off in part, or in whole, when a loss has been confirmed.

g Debt securities and equity shares

Debt securities and equity shares are stated at market value, apart from investment debt securities and equity shares, which are stated at cost less any provision for diminution in value. Investment securities are intended for use on a continuing basis by the Group and have been identified as such. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts on purchase over periods to redemption.

h Depreciation

Depreciation of tangible fixed assets is provided on a straight line basis at the following annual rates:

Freehold buildings and long-leasehold property (more than 50 years to run)	2%
Leasehold property (less than 50 years to run)	over the remaining life of the lease
Costs of adaptation of freehold and leasehold property*	10%
Equipment installed in freehold and leasehold property*	10%
Computers and similar equipment	20%-33%
Fixtures and fittings and other equipment	20%

*Where a leasehold has a remaining useful life of less than 10 years, costs of adaptation and installed equipment are depreciated over the remaining life of the lease.

Accounting policies

i Derivatives

Derivatives used for asset and liability management purposes

Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include interest rate swaps, options, futures and currency swaps.

The criteria required for a derivative instrument to be classified as a designated hedge are that:

- (i) the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cashflows being hedged and which results from potential movements in interest rates, exchange rates and market values; and
- (ii) adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cashflows being hedged, must be established at the outset of the transaction.

Profits and losses on interest rate swaps and options entered into for specifically designated hedging purposes against assets, liabilities, other positions and cashflows measured on an accrual accounting basis are included in the related category of income and expense (in accordance with the accounting treatment of the underlying transaction) as part of the yield on the hedged transaction. Amounts paid or received over the life of futures contracts are deferred until the contract is closed; accumulated deferred amounts on futures contracts and amounts paid or received at settlement of forward contracts are accounted for as elements of the carrying value of the associated instrument, affecting the resulting yield. Foreign exchange contracts which qualify as hedges of foreign currency exposures, including positions relating to investments the Group makes in its business outside the United Kingdom, are revalued at the spot rate with any forward premium or discount recognised over the life of the contract in net interest income. Profits and losses on foreign exchange contracts which qualify as a hedge of a firm commitment are deferred and recognised as part of the measurement of the related transaction.

Profits and losses related to qualifying hedges of firm commitments and probable anticipated transactions are deferred and recognised in income or as adjustments to carrying amounts when the hedged transactions occur.

Hedging transactions which are superseded, cease to be effective or are terminated prior to the end of the life of the asset, liability position or cashflow being hedged are measured at fair value. Any profit or loss arising is deferred and amortised into interest income or expense over the remaining life of the item previously being hedged.

When the underlying asset, liability position or cashflow is terminated prior to the hedging transaction, or an anticipated transaction is no longer likely to occur, the hedging transaction is measured on a fair value accounting basis prior to being transferred to the trading portfolio. The profit or loss arising from the fair value measurement prior to the transfer to the trading portfolio is included in the category of income or expense relating to the previously hedged transaction.

Derivatives used for trading purposes

Derivative instruments which do not meet the criteria to be designated as a hedge are deemed to be trading transactions. Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivatives entered into as trading transactions, together with any associated hedging thereof, are measured at fair value, including an allowance for credit risk, and the resultant profits and losses are included in dealing profits, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains or losses on derivative and foreign exchange contracts are reported gross in other assets or liabilities, reduced by the effects of qualifying netting agreements with counterparties. The Group establishes provisions for credit risk to the extent that the credit risk is not embedded in the fair value measurement prior to impairment. Associated costs of dealing are recognised when incurred. Where the market price may not be achievable, as a result of significant positions held or operating in illiquid markets, appropriate adjustments to the market value are made.

Collateral and netting

The Group 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 be terminated and all amounts outstanding will be settled on a net basis.

Transactions with positive fair values are netted against transactions with negative fair values where the Group has the ability to insist on net settlement which is assured beyond doubt, based on a legal right that would survive the insolvency of the counterparty.

The Group holds collateral in respect of credit related instruments where this is considered desirable, given the customer's financial position and the overall banking relationship. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities.

Accounting policies

j Credit related instruments

The Group treats credit related instruments as contingent liabilities and these are not shown on the balance sheet unless and until the Group is called upon to make a payment under the instrument. Assets arising from payments to a third party where the Group is awaiting reimbursement from the customer are shown on the balance sheet, together with any necessary provision. Fees received for providing these instruments are taken to profit over the life of the instrument and reflected in fees and commissions receivable.

k Pensions and other post-retirement benefits

The Group's main pension scheme covers some 70% of the Group's employees and comprises a funded defined benefit scheme and a money purchase scheme for new joiners since July 1997. Staff do not make contributions for basic pensions. The pension cost relating to the defined benefit scheme is assessed in accordance with the advice of a qualified actuary, using the projected unit method. Variations from the regular cost are allocated over the expected average service lives of current employees.

The Group also provides post-retirement health care to certain staff and pensioners, the cost of which has been accrued on a similar basis.

l Finance lease receivables

Finance lease receivables are included in loans and advances to customers at the cost of the equipment less amounts charged against rentals to date. Net leasing income under finance leases is taken to profit using an actuarial method which gives a constant periodic return on the net cash investment.

m Deferred tax

Deferred tax is provided using the liability method on timing differences between the accounting and tax treatment of income and expense where it is considered probable that a liability to tax will crystallise.

n Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at rates of exchange ruling on the balance sheet date. Overseas profits and losses are expressed in sterling at average rates of exchange for the year. Profits arising in areas experiencing hyper-inflation are adjusted to recognise its effect on the worth of the working capital employed.

Translation differences arising from the application of closing rates of exchange to the opening net assets held overseas and to related foreign currency borrowings are taken directly to reserves. All other exchange profits and losses, which arise from normal trading activities, are included in operating profit.

o Loan fees

Fee income relating to loans and advances is recognised in the profit and loss account to match the cost of providing a continuing service, together with a reasonable profit margin, except where the fee is charged in lieu of interest when it is recognised on a level yield basis over the life of the advance.

Changes in accounting policy

During the year the Group implemented FRS 9 'Associates and Joint Ventures', FRS 10 'Goodwill and Intangible Assets' and FRS 11 'Impairment of Fixed Assets and Goodwill'. Implementation of these standards did not have a significant effect on the Group's results, although under FRS 10 the Group is now required to capitalise and amortise all purchased goodwill. This is a change as in previous years selected goodwill could be written off immediately to reserves.

There have been no other significant changes to the accounting policies as described in the 1997 Annual report.

Future UK accounting developments

In September 1998 the ASB issued FRS 12 'Provisions, Contingent Liabilities and Contingent Assets' and FRS 13 'Derivatives and Other Financial Instruments: Disclosure'. These standards will be effective for the year ended 31st December 1999. Implementation of FRS 13 may require additional disclosure but the majority of the requirements are already met.

US GAAP

Significant differences exist between accounting principles generally accepted in the United Kingdom and those generally accepted in the United States, and the approximate effect on attributable profit and shareholders' funds of Barclays PLC is set out in note 60.

Accounting presentation

Changes in accounting presentation

Within the classification Other operating income, Income from the long-term assurance business now includes amounts previously reported within Other income (1997 £14m, 1996 £15m).

Following a reassessment, certain BGI managed funds, previously reported within life-fund assets attributable to policyholders are now more appropriately classified as funds under management. Accordingly these funds, and their related liabilities, have been excluded from the consolidated balance sheet (1997 £2,228m).

Comparative numbers have been restated for the impact of these changes. Total operating income and operating profit are not affected.

Nature of business

Barclays is a UK-based financial services group engaged primarily in banking and investment banking businesses. In terms of assets employed, Barclays is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is a principal provider of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres.

Analyses by geographical segments and classes of business

The analyses by geographical segment are generally based on the location of the office recording the transaction.

In note 59, the global swaps business is included within the United Kingdom segment. Foreign UK-based comprises activities in the United Kingdom with overseas customers, including sovereign lendings, and the main foreign exchange trading business arising in the United Kingdom. Of the £14bn of assets reported under this heading in 1998, it is estimated that £7bn relates to customers domiciled in Other European Union countries and £3bn relates to customers domiciled in the United States.

United States includes business conducted through the Bahamas and the Cayman Islands.

The world-wide activities of Barclays are highly integrated and, accordingly, it is not possible to present geographical segment information without making internal allocations, some of which are necessarily subjective. Where appropriate, amounts for each geographical segment and class of business reflect the benefit of earnings on a proportion of shareholders' funds, allocated generally by reference to weighted risk assets.

Note 59 to the accounts also presents an analysis of the results by classes of business based on the business groupings described on pages 6 to 8.

Total assets and total revenues are stated after elimination of intra-group assets and revenues. Intra-group transactions are undertaken on normal commercial terms.

In 1998, only the United Kingdom accounted for more than 10% of the total profit before tax or total gross income and at 31st December 1998 only the United Kingdom and the United States accounted for more than 10% of the total assets. In 1997, only the United Kingdom accounted for more than 10% of the total profit before tax or total gross income and at 31st December 1997 only the United Kingdom and the United States accounted for more than 10% of the total assets. In 1996, and for the year ended 31st December 1996, only the United Kingdom accounted for more than 10% of the total profit before tax, total assets or total gross income.

Disposals

The Group made the following significant disposals of interests in subsidiary and associated undertakings in 1998:

	Date
BZW Australasia	2nd March 1998
BGI Hong Kong	9th June 1998

The effect of these disposals on the profit for the year is reflected in notes 9 and 10 to the accounts respectively.

During the year the sale of the equities, equities capital markets and mergers and acquisitions advisory business in the United Kingdom, continental Europe and Asia was completed. The loss on sale of these businesses was provided for in 1997, see note 9 to the accounts.

Consolidated profit and loss account Barclays PLC
For the year ended 31st December 1998

	Note	1998 £m	1997 £m	1996 £m
Interest receivable:				
Interest receivable and similar income arising from debt securities		1,419	1,305	976
Other interest receivable and similar income		8,493	7,822	7,754
		9,912	9,127	8,730
Interest payable		5,600	5,091	4,821
Profit on redemption/repurchase of loan capital	1	3	2	32
Net interest income		4,315	4,038	3,941
Fees and commissions receivable		3,008	3,197	3,168
Less: fees and commissions payable		(229)	(218)	(223)
Dealing profits	2	(33)	374	414
Other operating income	3	324	200	248
Operating income		7,385	7,591	7,548
Administrative expenses - staff costs	4	2,811	3,035	2,980
Administrative expenses - other	6	1,810	1,896	1,807
Depreciation and amortisation	7	275	269	301
Operating expenses		4,896	5,200	5,088
Operating profit before provisions		2,489	2,391	2,460
Provisions for bad and doubtful debts	19	492	227	215
Provisions for contingent liabilities and commitments	8	76	4	9
Provisions		568	231	224
Operating profit		1,921	2,160	2,236
Loss on sale or restructuring of BZW	9	(3)	(469)	-
Profit on disposal of other Group undertakings	10	4	44	70
Write-down of fixed asset investments	11	(4)	(19)	-
Profit on ordinary activities before tax		1,918	1,716	2,306
Tax on profit on ordinary activities	12	538	542	620
Profit on ordinary activities after tax		1,380	1,174	1,686
Minority interests - equity		(20)	(20)	(22)
Minority interests - non-equity	13	(25)	(24)	(25)
Profit for the financial year attributable to the members of Barclays PLC (Net income)		1,335	1,130	1,639
Dividends	14	(646)	(563)	(479)
Profit retained for the financial year		689	567	1,160
Basic earnings per £1 ordinary share	15	88.4p	74.4p	104.2p
Diluted earnings per £1 ordinary share	15	87.1p	73.1p	102.6p

For each of the years reported above, there was no material difference between profit before tax and profit retained and historical cost profits.

The Board of Directors approved the accounts set out on pages 95 to 152 on 15th February 1999.

Statement of total recognised gains and losses
For the year ended 31st December 1998

	1998 £m	1997 £m	1996 £m
Profit for the financial year attributable to the members of Barclays PLC	1,335	1,130	1,639
Exchange rate translation differences	32	(101)	(209)
Other items	30	-	-
Total recognised gains relating to the year	1,397	1,029	1,430

Consolidated balance sheet Barclays PLC
As at 31st December 1998

	Note	1998 £m	1998 £m	1997 £m	1997 £m
Assets					
Cash and balances at central banks			942		750
Items in course of collection from other banks			2,475		2,564
Treasury bills and other eligible bills	16		4,748		5,511
Loans and advances to banks - banking		20,316		21,729	
- trading		16,296		15,155	
	17		36,612		36,884
Loans and advances to customers - banking		81,469		74,111	
- trading		14,641		25,712	
	18		96,110		99,823
Debt securities	20		45,180		53,176
Equity shares	21		4,888		2,780
Interests in associated undertakings and joint ventures	22		150		57
Intangible fixed assets	23		196		191
Tangible fixed assets	24		1,939		2,016
Other assets	26		16,617		20,413
Prepayments and accrued income	28		2,552		2,305
			212,409		226,470
Retail life-fund assets attributable to policyholders	27		7,085		5,959
Total assets			219,494		232,429

Andrew Buxton Chairman

Sir Peter Middleton GCB Deputy Chairman and Chief Executive

Oliver Stocken Finance Director

Consolidated balance sheet Barclays PLC
As at 31st December 1998

	Note	1998 £m	1998 £m	1997 £m	1997 £m
Liabilities					
Deposits by banks - banking		25,951		30,511	
- trading		8,469		13,968	
	29		34,420		44,479
Customer accounts - banking		96,099		89,647	
- trading		12,706		18,791	
	30		108,805		108,438
Debt securities in issue	31		17,824		20,366
Items in course of collection due to other banks			1,279		1,676
Other liabilities	32		33,350		35,268
Accruals and deferred income	33		3,074		3,557
Provisions for liabilities and charges - deferred tax	34		721		758
Provisions for liabilities and charges - other	35		551		696
Dividend	14		414		359
Subordinated liabilities:					
Undated loan capital - convertible to preference shares	36		301		304
Undated loan capital - non-convertible	36		1,441		1,353
Dated loan capital - non-convertible	37		1,992		1,211
Other subordinated liabilities - non-convertible	38		-		59
			204,172		218,524
Minority interests and shareholders' funds					
Minority interests - equity		51		61	
Minority interests - non-equity	13	263		265	
Total minority interests			314		326
Called up share capital	39	1,511		1,530	
Share premium account		1,381		1,281	
Capital redemption reserve		179		150	
Other capital reserve		320		320	
Revaluation reserve		36		35	
Profit and loss account		4,496		4,304	
Shareholders' funds - equity	40		7,923		7,620
			8,237		7,946
			212,409		226,470
Retail life-fund liabilities to policyholders	27		7,085		5,959
Total liabilities and shareholders' funds			219,494		232,429

	Note	1998 £m	1997 £m
Memorandum items			
Contingent liabilities:			
Acceptances and endorsements		1,384	1,602
Guarantees and assets pledged as collateral security		8,784	6,623
Other contingent liabilities		5,069	5,123
		15,237	13,348
Commitments - standby facilities, credit lines and other		68,191	59,121

Consolidated statement of changes in reserves Barclays PLC
For the year ended 31st December 1998

	1998 £m	1997 £m	1996 £m
Share premium account			
At beginning of year	1,281	1,186	1,136
Premium arising on shares issued	100	95	50
At end of year	1,381	1,281	1,186
Capital redemption reserve			
At beginning of year	150	120	25
Repurchase of ordinary shares	29	30	95
At end of year	179	150	120
Other capital reserve			
At beginning and end of year	320	320	320
Revaluation reserve			
At beginning of year	35	44	57
Exchange rate translation differences	1	(3)	(6)
Realisation of revaluation surplus	-	(5)	(7)
Other items	-	(1)	-
At end of year	36	35	44
Profit and loss account			
At beginning of year	4,304	4,055	3,866
Profit retained	689	567	1,160
Exchange rate translation differences	31	(98)	(203)
Repurchase of ordinary shares	(472)	(321)	(686)
Transfer to capital redemption reserve	(29)	(30)	(95)
Goodwill arising on acquisitions	-	-	(3)
Goodwill written back on disposals	10	126	-
Realisation of revaluation surplus	-	5	7
Shares issued to the QUEST in relation to share option schemes for staff	(67)	-	-
Other items	30	-	9
At end of year	4,496	4,304	4,055
Total reserves	6,412	6,090	5,725

The Group operates in a number of countries subject to regulations under which a local subsidiary undertaking has to maintain a minimum level of capital. The current policy of the Group is that local capital requirements are met, as far as possible, by the retention of profit. Certain countries operate exchange control regulations which limit the amount of dividends that can be remitted to non-resident shareholders. It is not possible to determine the amount of profit retained and other reserves that is restricted by these regulations, but the net profit retained of overseas subsidiaries, associated undertakings and joint ventures at 31st December 1998 totalled £732m (1997 £511m, 1996 £515m). If such overseas reserves were to be remitted, other tax liabilities, which have not been provided for in the accounts, might arise.

Goodwill amounting to £353m (1997 £363m, 1996 £489m) has been charged directly against reserves in prior years in respect of acquisitions. This amount is net of any goodwill attributable to subsidiary undertakings disposed of prior to the balance sheet date.

The Group has established a Qualifying Employee Share Ownership Trust (QUEST) for the purposes of delivering shares on the exercise of options under the Save As You Earn (SAYE) Share Option Scheme. During 1998 the Group received £98m on the issue of shares in respect of the exercise of options awarded under these SAYE schemes. Employees paid £31m to the Group for the issue of these shares and the balance of £67m comprised contribution to the QUEST from subsidiary undertakings.

Accumulated exchange rate translation differences included in reserves are £428m debit (1997 £460m debit, 1996 £359m debit).

Consolidated cash flow statement Barclays PLC
For the year ended 31st December 1998

	Note	1998 £m	1998 £m	1997 £m	1997 £m	1996 £m	1996 £m
Net cash (outflow)/inflow from operating activities	49		(1,337)		8,979		4,708
Dividends received from associated undertakings			3		7		6
Returns on investments and servicing of finance:							
Interest paid on loan capital and other subordinated liabilities		(220)		(270)		(278)	
Preference dividends paid by subsidiary undertaking		(25)		(24)		(25)	
Dividends paid to minority shareholders		(7)		(9)		(8)	
Net cash outflow from returns on investment and servicing of finance			(252)		(303)		(311)
Tax paid			(547)		(263)		(519)
Capital expenditure and financial investment:							
Capital expenditure		(305)		(342)		(444)	
Sale of property and equipment		107		159		67	
Purchase of investment securities		(10,866)		(11,942)		(7,431)	
Redemption of investment securities		3,874		1,481		1,043	
Sale of investment securities		9,523		3,131		3,566	
Net cash inflow/(outflow) from capital expenditure and financial investment			2,333		(7,513)		(3,199)
Acquisitions and disposals:							
Acquisition of subsidiary undertakings	53	(70)		-		(13)	
Acquisition of associated undertakings and joint ventures		(43)		-		(15)	
Sale of associated undertakings		7		2		1	
Sale of other group undertakings	50	690		48		46	
Net cash inflow from acquisitions and disposals			584		50		19
Equity dividend paid			(591)		(445)		(438)
Net cash inflow before financing			193		512		266
Financing:	51						
Issue of loan capital and other subordinated liabilities (net of expenses)		962		478		318	
Redemption/repurchase of loan capital and other subordinated liabilities		(240)		(640)		(631)	
Repurchase of ordinary shares		(501)		(351)		(781)	
Issue of ordinary shares (net of £67m contribution to the QUEST)		43		45		64	
Net cash inflow/(outflow) from financing			264		(468)		(1,030)
Increase/(decrease) in cash	52		457		44		(764)

Parent company accounts Barclays PLC
As at 31st December 1998

	1998 £m	1997 £m	1996 £m
Profit and loss account and changes in reserves			
Interest income	2	1	2
Operating expenses:			
Management charge from subsidiary undertaking	2	1	2
Operating profit	-	-	-
Dividends from subsidiary undertaking	1,214	914	1,260
Profit on ordinary activities before tax	1,214	914	1,260
Tax on profit on ordinary activities	-	-	-
Profit on ordinary activities after tax	1,214	914	1,260
Dividends	(646)	(563)	(479)
Profit retained by Barclays PLC	568	351	781
Profit retained by subsidiary undertakings	106	212	372
Profit retained by associated undertakings	15	4	7
Profit retained for the financial year	689	567	1,160
Premium arising on shares issued	100	95	50
Reduction in reserves arising from repurchase of shares	(472)	(321)	(686)
Shares issued to the QUEST in relation to share option schemes for staff	(67)	-	-
Other movements in investment in Barclays Bank PLC	72	24	(203)
Profit and loss account and other reserves brought forward	6,090	5,725	5,404
Profit and loss account and other reserves carried forward	6,412	6,090	5,725

	Note	1998 £m	1997 £m
Balance sheet			
Fixed assets			
Investment in Barclays Bank PLC	41	7,923	7,620
Current assets			
Amounts falling due within one year:			
Due from subsidiary undertaking		410	19
Cash at bank and in hand - balance with subsidiary undertaking		4	340
		414	359
Current liabilities			
Amounts falling due within one year - dividend		(414)	(359)
Net current assets		-	-
Assets less current liabilities		7,923	7,620
Capital and reserves			
Called up share capital	39	1,511	1,530
Share premium account		1,381	1,281
Capital redemption reserve		179	150
Revaluation reserve		3,971	3,778
Profit and loss account		881	881
Shareholders' funds - equity	40	7,923	7,620

Andrew Buxton Chairman

Sir Peter Middleton GCB Deputy Chairman and Chief Executive

Oliver Stocken Finance Director

1 Profit on redemption/repurchase of loan capital

In 1998, \$32m of undated loan capital was repurchased at a discount of £3m.

The profit of £2m in 1997 was attributable to the repurchase of \$101m and £55m of undated loan capital at a discount of £6m and the redemption of \$123m of dated loan capital at a premium of £4m.

The profit of £32m in 1996 was attributable to the repurchase of \$400m of undated loan capital.

2 Dealing profits

	1998	1997	1996
	£m	£m	£m
Interest rate related	(132)	199	202
Foreign exchange and commodities	100	132	71
Equities and other	(1)	43	141
	(33)	374	414

Of the total dealing loss, £256m was lost on securities (of the total dealing profits in 1997 and 1996 £288m and £259m respectively was earned from securities).

3 Other operating income

	1998	1997	1996
	£m	£m	£m
Income from associated undertakings	22	16	23
Dividend income from equity shares	14	20	20
Profits on disposal of investment securities	49	46	29
Income from the long-term assurance business	109	33	76
Property rentals	44	39	36
Other income	86	46	64
	324	200	248

4 Administrative expenses – staff costs

	1998	1997	1996
	£m	£m	£m
Salaries and accrued incentive payments	2,211	2,380	2,274
Social security costs	173	200	214
Pension costs	37	65	80
Post-retirement health care	17	23	18
UK profit sharing	88	101	96
Other staff costs	285	266	298
	2,811	3,035	2,980

Staff costs reported above include £86m (1997 £66m, 1996 £105m) relating to staff reductions and relocations.

Average number of employees

The average number of persons employed by the Group world wide during the year, excluding temporary staff, was 80,200 (1997 84,300, 1996 87,400). All staff fall within a single structure.

In addition, the average number of advisers and administration staff of Barclays Life Assurance Company, whose remuneration is reflected in the valuation of the long-term assurance fund, was 2,200 (1997 2,100, 1996 2,000).

5 Pensions, post-retirement benefits, profit sharing and other staff costs

Pensions

Barclays provides pension plans for employees in most parts of the world. The majority of UK staff are members of The Barclays Bank UK Retirement Fund (the UK Retirement Fund). Other UK staff are covered by broadly comparable schemes. The assets of the Fund are held separately from the assets of the Group and are administered by a trustee. The Fund comprises two schemes:

The Retirement Investment Scheme (RIS) - a defined contribution plan for new joiners. Barclays contributes between 5.5% and 13.5% of pensionable pay dependent on employee contribution decisions. In addition the costs of ill-health and death in service benefits are generally borne by the Fund.

The 1964 Pension Scheme - most employees recruited before July 1997 are members of this non-contributory defined benefit scheme. Pensions are calculated by reference to service and pensionable salary and are normally subject to a deduction from State pension age.

Formal actuarial valuations of the UK Retirement Fund are carried out triennially by a professionally qualified independent actuary using the attained age method. The most recent valuation was conducted as at 30th September 1998 and expresses the assets and liabilities at market values (previous valuations showed actuarially assessed values). This change has not materially affected the financial balance of the Fund as reported in this note. The market value of the 1964 Pension Scheme assets at the valuation date was £9,546m and the valuation revealed a surplus of assets over accrued liabilities of 13% after allowing for expected future salary increases. The principal financial assumptions underlying the valuation made allowance for the taxation changes introduced in the July 1997 Budget and were:

Price inflation	3.0%	Earnings growth	4.5% *
Dividend growth	3.75%	Return on new investments	7.25%
Pension increases	3.0%		

Market related discount rate for 1964 Pension Scheme accrued liabilities: 6.5%

* 4.0% for the first three years from the valuation date

In view of the continuing financial health of the UK Retirement Fund the current contribution holiday, which commenced in January 1998, is expected to continue at least until the next valuation due in 2001. Protected Rights contributions in respect of RIS members will be paid as required by the contracting-out regulations.

The pensions charge in the accounts will be reduced over the remaining service lives of the members to take account of the surplus. Without the benefit of the surplus, the 1964 Pension Scheme charge would be some 16.4% of pensionable salaries (on the projected unit method), whilst contributions to the RIS would equal the contributions described above plus the costs of ill-health and death in service benefits. In 1998 these costs would have been £183m for the 1964 Scheme and £4m for the RIS. The assumptions used to derive the pensions charge differ from those shown above in that returns on new investments are assumed to be 8.25% and dividend growth is assumed to be 4.5%.

Total pension costs of the Group are summarised as follows:

	1998	1997	1996
	£m	£m	£m
The Barclays Bank UK Retirement Fund - 1964 Pension Scheme	-	25	25
- Retirement Investment Scheme	1	-	-
Other UK pension schemes	14	20	22
Overseas pension schemes	22	20	33
Totals	37	65	80

Note 60 provides additional disclosures required by US Statement of Financial Accounting Standards No. 132.

Post-retirement benefits

Some 9,400 UK and US pensioners are provided with private health care on similar terms to eligible staff. In addition 8,000 members of staff in the United Kingdom who had, at 1st January 1991, satisfied the qualification criteria may also become eligible for this benefit on retirement.

Profit sharing scheme

Barclays has operated a profit sharing scheme since 1974. Participants in the 1991 scheme (which consolidated the 1974 and 1979 schemes) are employees of the Bank, including executive Directors and employees of most of its UK subsidiary undertakings, but excluding staff and Directors employed by Barclays Capital and former BZW businesses. Participants can elect to take their entitlement either in cash after deduction of income tax, or in ordinary shares of Barclays PLC of the equivalent current market value, up to a certain annual value (currently £3,000 or 10% of salary, if greater, with a maximum of £8,000). Entitlements in the form of shares can be held by trustees for between two and three years in order to obtain a tax advantage for the participant.

Other staff costs

Other staff costs comprise medical health insurance, social welfare taxes, staff transfer costs, redundancy payments and other sundry employee costs.

6 Administrative expenses – other

	1998	1997	1996
	£m	£m	£m
Property and equipment expenses			
Hire of equipment	28	35	28
Property rentals	176	217	199
Other property and equipment expenses	638	619	612
Other administrative expenses	968	1,025	968
	1,810	1,896	1,807

The figures shown in the narrative below relate to amounts paid to Price Waterhouse prior to 1st January 1998, amounts paid either to Price Waterhouse or to Coopers & Lybrand from 1st January 1998 to 30th June 1998 and amounts paid to PricewaterhouseCoopers since 1st July.

The statutory and regulatory audit and accountancy fees paid to the Group's main Auditors, PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand), comprised £4.2m (1997 £4.4m, 1996 £4.8m) in respect of the Group's audit and £5.4m (1997 £3.8m, 1996 £3.1m) relating to other accounting and regulatory work required of them. Prior to 1st July 1998, no fees were paid to Coopers & Lybrand in respect of the Group's audit and £0.3m were paid in respect of accounting and regulatory work.

Of total consultancy fees of £126m (1997 £103m, 1996 £80m) included in Other administrative expenses above, the Group's main Auditors received £26.2m (1997 £5.9m, 1996 £3.8m). Of this amount Coopers and Lybrand received £6.4m prior to 1st July 1998.

Of the total non audit fees of £31.6m (1997 £9.7m, 1996 £6.9m), fees paid to the Group's main Auditors in relation to their work in the United Kingdom was £22.6m (1997 £7.7m, 1996 £3.1m). Of this amount Coopers & Lybrand received £4.8m prior to 1st July 1998. The Group has a competitive tender policy for all consultancy projects.

7 Depreciation and amortisation

	1998	1997	1996
	£m	£m	£m
Property depreciation	88	106	107
Equipment depreciation	172	170	175
Goodwill amortisation	12	12	13
Loss on sale of equipment	5	3	6
Write-back of surplus properties	(2)	(22)	-
	275	269	301

8 Provisions for contingent liabilities and commitments

	1998	1997	1996
	£m	£m	£m
	76	4	9

The charge for the year represents a contribution of some £116m to the Administrators of British & Commonwealth Holdings PLC in relation to proceedings which arose in connection with that company's acquisition of Atlantic Computers PLC in 1988, adjusted for insurance cover of £40m.

9 Loss on sale or restructuring of BZW

	1998	1997	1996
	£m	£m	£m
Profit/(loss) on sale of business assets	8	(57)	-
Staff reductions, property and equipment costs and other costs	-	(283)	-
	8	(340)	-
Goodwill written off	(11)	(129)	-
	(3)	(469)	-

The profit on sale of businesses and related goodwill write-off in 1998 is in respect of the sale of the Australasian investment banking business.

The loss on sale of businesses in 1997 of £57m represented a provision relating to the disposal of the equities, equities capital markets and mergers and acquisitions advisory business in the United Kingdom, continental Europe and Asia. The sale of these businesses was completed in 1998.

10 Profit on disposal of other Group undertakings

	1998	1997	1996
	£m	£m	£m
Net profit on disposal of Group undertakings	4	44	70

The net profit on disposal of Group undertakings comprised profits on disposal of £14m (1997 £50m) and losses on disposal of £10m (1997 £6m).

The profits on disposal of Group undertakings in 1998 include a further £11m realisation in respect of the sale of Barclays Global Securities Services in 1997, and £3m profit on disposal of part of the Hong Kong fund management business. The losses include a further £6m loss on the sale of Masterworks in 1997 after a write-off of capitalised goodwill of £1m.

Goodwill previously written off to reserves on these disposals amounted to £nil (1997 £nil, 1996 £nil). £2m of tax credit is attributable to the losses on disposal in 1998 (1997 £3m, 1996 £nil). Tax of £3m was payable on the 1998 gains (1997 £nil, 1996 £nil).

Up to the date of sale, the businesses sold in 1998 made no contribution to Group profit before tax (1997 £12m, 1996 £1m).

The profits on disposal of Group undertakings in 1997 include a £42m gain on the disposal of the Group's remaining investment in 3i Group plc and a net gain of £2m on other disposals after a write-off of capitalised goodwill of £21m.

The profits on disposal of Group undertakings in 1996 included £61m on the disposal of a further part of the Group's investment in 3i Group plc and a gain of £12m on the disposal of the Cyprus onshore banking business. There was a loss on disposal of Barclays Bank of Canada of £3m.

11 Write-down of fixed asset investments

	1998	1997	1996
	£m	£m	£m
	(4)	(19)	-

The charge in 1997 was primarily in respect of the write-down of the cost of investments in certain Asian banking associates.

12 Tax

The charge for tax assumes an effective UK corporation tax rate of 31% (1997 31.5%, 1996 33%) and comprises:	1998	1997	1996
	£m	£m	£m
Current tax:			
United Kingdom	378	436	291
Overseas	171	114	151
Total current tax	549	550	442
Deferred tax (credit)/charge:			
United Kingdom	(19)	1	169
Overseas	4	(14)	(1)
Total deferred tax	(15)	(13)	168
Associated undertakings, including overseas tax of £3m (1997 and 1996 £5m)	4	5	10
Total charge	538	542	620
Analysis of deferred tax charge/(credit):			
Leasing transactions	10	15	125
Short-term and other timing differences	(25)	(28)	43
	(15)	(13)	168

Current tax includes £4m (1997 £20m, 1996 £57m) in respect of advance corporation tax on franked investment income, together with notional tax of £25m (1997 £10m, 1996 £16m) on the shareholders' interest in the long-term assurance fund.

Available overseas tax credits of £17m (1997 £64m, 1996 £81m) have been applied to reduce UK tax in accordance with UK legislation.

Further information is provided in the tax section on page 30 of the Financial review.

13 Minority interests (non-equity) – Barclays PLC

Non-equity minority interests in the balance sheet comprise non-cumulative dollar-denominated preference shares issued by Barclays Bank PLC of \$437m (1997 and 1996 \$437m). Further details of the rights of holders of preference shares are given in note a to the accounts of Barclays Bank PLC on page 160.

14 Dividends – Barclays PLC

	1998	1997	1996
	£m	£m	£m
Dividends per ordinary share			
First interim	232	204	176
Second interim (previous years final)	414	359	309
	646	563	485
Over-accrual in prior periods	-	-	(6)
	646	563	479
		(pence per share)	
First interim	15.50	13.50	11.50
Second interim (previous years final)	27.50	23.50	20.00
	43.00	37.00	31.50

Dividends amounting to £0.1m are payable on the staff shares, which in respect of payments after 5th April 1999 carry a fixed dividend of 20% per annum (previously 14% per annum) unless no dividend is paid for the year on the ordinary shares.

The over-accrual in 1996 resulted from repurchases and cancellation of shares, which took place subsequent to the dividends being accrued but before payment.

15 Earnings per £1 ordinary share – Barclays PLC

	1998	1997	1996
	£m	£m	£m
Basic and diluted earnings	1,335	1,130	1,639
Basic weighted average number of shares	1,510	1,519	1,573
Add potential ordinary shares	23	26	25
Diluted weighted average number of shares	1,533	1,545	1,598

Basic and diluted earnings are based upon the results after deducting tax, profit attributable to minority interests and dividends on staff shares.

Certain incentive plan shares have been excluded from the calculation of earnings per share in line with UITF 13, on the grounds that the trustee has waived all dividend and voting rights.

The recognition of potential ordinary shares for the purposes of calculating diluted EPS is in accordance with FRS 14 'Earnings per Share'.

See note 60 for approximate earnings per £1 ordinary share calculated in accordance with the accounting principles generally accepted in the United States.

16 Treasury bills and other eligible bills

	1998 £m	1997 £m
Treasury bills	3,624	3,643
Other eligible bills	1,124	1,868
	4,748	5,511
Treasury bills and other eligible bills comprise:		
Banking business	2,838	3,294
Trading business	1,910	2,217
	4,748	5,511

Treasury bills and other eligible bills are mainly short term in maturity with a book value not materially different from market value.

The total amount of treasury bills and other eligible bills included above, which are subject to sale and repurchase agreements, was £708m at 31st December 1998 (1997 £929m).

17 Loans and advances to banks

	1998 £m	1997 £m
Repayable		
on demand	1,174	908
not more than three months	29,502	28,135
over three months but not more than one year	4,621	6,540
over one year but not more than five years	1,137	1,072
over five years	219	251
	36,653	36,906
Less:		
Provisions (including country risk)	(41)	(22)
	36,612	36,884
By geographical area		
Banking business:	£m	£m
United Kingdom	4,037	8,751
Other European Union	3,847	4,268
United States	2,230	4,349
Rest of the World	10,243	4,383
Total banking business	20,357	21,751
Total trading business	16,296	15,155
	36,653	36,906

At 31st December 1998 and 1997, there were no loans and advances to banks outstanding from associated undertakings and joint ventures.

The Group is required to maintain balances with central banks and other regulatory authorities and these amounted to £302m at 31st December 1998 (1997 £697m).

Additional analyses are provided within the loans and advances, provisions for bad and doubtful debts and potential credit risk lendings sections on pages 46 to 57 of the Financial review.

The geographic analysis of the banking business is based on the location of the office from which the lendings are made. The trading business, which is largely carried out in the United Kingdom and the United States, is more international in nature and has not been analysed geographically. It primarily constitutes settlement and reverse repo balances.

18 Loans and advances to customers

	1998	1998	1997	1997
	£m	£m	£m	£m
Repayable				
on demand		9,080		9,573
not more than three months		26,747		40,390
over three months but not more than one year		10,262		7,376
over one year but not more than five years		22,322		15,483
over five years		29,678		28,914
		98,089		101,736
Less:				
Provisions	(1,902)		(1,828)	
Interest in suspense	(77)		(85)	
		(1,979)		(1,913)
		96,110		99,823
By geographical area				
Banking business:				
United Kingdom		70,434		64,776
Other European Union		5,939		5,077
United States		4,164		3,162
Rest of the World		2,911		3,009
Total banking business		83,448		76,024
Total trading business		14,641		25,712
		98,089		101,736

At 31st December 1998, there were loans and advances to customers of £719m (1997 £581m) outstanding from associated undertakings and joint ventures.

Banking business loans and advances to customers include finance lease receivables of £5,852m (1997 £6,193m) which are stated in the balance sheet after deducting £4,073m (1997 £4,685m) of unearned charges and interest.

Assets acquired in the year for letting under finance leases amounted to £382m (1997 £1,127m).

Additional analyses are provided within the loans and advances, provisions for bad and doubtful debts and potential credit risk lendings sections on pages 46 to 57 of the Financial review.

The geographic analysis of the banking business is based on the location of the office from which the lendings are made. The trading business, which is largely carried out in the United Kingdom and the United States, is more international in nature and has not been analysed geographically. It primarily constitutes settlement and reverse repo balances.

Loans subject to non-recourse finance arrangements

Banking business loans and advances to customers also include loans subject to non-recourse finance arrangements which at 31st December 1998 and 1997 comprised portfolios of mortgage loans. The principal benefits of these loans were acquired from the Bank by special purpose securitisation companies which were funded primarily through the issue of floating rate notes. No gain or loss was recognised on the transfer.

Barclays PLC and its subsidiary undertakings are not obliged to support any losses that may be suffered by the floating rate noteholders and do not intend to provide such support. Additionally, the floating rate notes were issued on the basis that noteholders are only entitled to obtain payment, as to both principal and interest, to the extent that the securitisation companies' respective available resources, including funds due from customers in respect of the securitised loans, are sufficient and that noteholders have no recourse whatsoever to the Group.

The Bank has made an interest bearing subordinated loan to each of the securitisation companies repayable on final redemption of the floating rate notes. The Bank receives payments from the securitisation companies in respect of fees for loan administration services and also under the terms of interest rate swaps written between the Bank and the securitisation companies to hedge their respective exposures to movements in interest rates arising from these transactions. In each case the effect of the interest rate swaps between the Bank and the securitisation companies, in conjunction with certain interest rate swaps with third parties, is that the securitisation companies swap all or part of the interest flows receivable from customers in respect of the securitised loans into variable rate interest flows which are designed broadly to match the interest payable to floating rate noteholders.

The Bank has no right to repurchase the benefit of any of the securitised loans and no obligation to do so, other than in certain circumstances where the Bank is in breach of warranty.

18 Loans and advances to customers (continued)

The securitisations involved were as follows:

Securitisation company	Type of loans	Date of securitisation	Outstanding at 31st December 1998			Outstanding at 31st December 1997		
			Customer loans £m	Non-returnable finance £m	Subordinated loans made by the Bank £m	Customer loans £m	Non-returnable finance £m	Subordinated loans made by the Bank £m
Gracechurch Mortgage Finance (No. 2) PLC	Personal mortgages	28/4/94	129	124	5	151	146	5
Gracechurch Mortgage Finance (No. 3) PLC	Personal mortgages	14/7/94	149	145	4	176	173	3
			278	269	9	327	319	8

All the shares in Gracechurch Mortgage Finance (No. 2) PLC and Gracechurch Mortgage Finance (No. 3) PLC are held beneficially by Gracechurch Mortgage (Holdings) Limited. All the shares in Gracechurch Mortgage (Holdings) Limited are held by Royal Exchange Trust Company Limited. The Group does not own, directly or indirectly, any of the share capital of the securitisation companies or their parent companies.

19 Provisions for bad and doubtful debts

	1998 Specific £m	1998 General £m	1998 Total £m	1997 Specific £m	1997 General £m	1997 Total £m
Movements in provisions for bad and doubtful debts						
Provisions at beginning of year	1,122	728	1,850	1,374	756	2,130
Acquisitions and disposals	-	-	-	(14)	-	(14)
Exchange and other adjustments	6	-	6	(30)	(8)	(38)
	1,128	728	1,856	1,330	748	2,078
Provision for the year, net of recoveries of £176m (1997 £126m)	492	-	492	247	(20)	227
Amounts written off, net of recoveries	(405)	-	(405)	(455)	-	(455)
Provisions at end of year	1,215	728	1,943	1,122	728	1,850
Provisions at 31st December					1998 £m	1997 £m
Specific provisions - credit risk:						
United Kingdom					928	765
Other European Union					213	245
United States					23	27
Rest of the World					35	41
					1,199	1,078
Specific provisions - country risk					16	44
					1,215	1,122
General provisions - credit risk					663	683
- country risk					65	45
					1,943	1,850

20 Debt securities

	1998 Balance Sheet £m	Gross unrealised gains £m	Gross unrealised losses £m	1998 Valuation £m	1997 Balance Sheet £m	Gross unrealised gains £m	Gross unrealised losses £m	1997 Valuation £m
Investment securities:								
UK government	1,730	45	-	1,775	5,537	78	-	5,615
other government	5,937	136	(20)	6,053	8,223	103	(13)	8,313
other public bodies	87	2	-	89	178	3	-	181
other issuers	6,548	86	(39)	6,595	4,357	55	(5)	4,407
	14,302	269	(59)	14,512	18,295	239	(18)	18,516
Other debt securities:								
UK government	3,621	-	-	3,621	1,190	-	-	1,190
other government	10,377	-	-	10,377	13,301	-	-	13,301
other public bodies	775	-	-	775	784	-	-	784
bank and building society certificates of deposit	8,677	-	-	8,677	9,384	-	-	9,384
other issuers	7,428	-	-	7,428	10,222	-	-	10,222
	45,180	269	(59)	45,390	53,176	239	(18)	53,397

	1998 Balance Sheet £m	1998 Valuation £m	1997 Balance Sheet £m	1997 Valuation £m
Debt securities comprise:				
Banking business	21,305	21,515	27,203	27,424
Trading business	23,875	23,875	25,973	25,973
	45,180	45,390	53,176	53,397

	1998 Cost £m	1998 Provisions £m	1998 Balance Sheet £m
Movements in Investment securities			
At beginning of year	18,313	(18)	18,295
Exchange adjustments	253	-	253
Acquisitions	10,614	-	10,614
Redemption of Investment securities	(3,874)	-	(3,874)
Sale of Investment securities	(9,408)	-	(9,408)
Provisions raised	-	(8)	(8)
Transfers	(1,514)	-	(1,514)
Write-offs	(5)	5	-
Amortisation of discounts and premiums	(56)	-	(56)
At end of year	14,323	(21)	14,302

The total value of debt securities at 31st December 1998 includes securities which are subject to sale and repurchase agreements of £4,024m (1997 £12,754m), and unamortised net premium on available for sale securities of £91m (1997 £72m). The value of securities due within one year at 31st December 1998 was £14,547m (1997 £12,665m). The Group had no holdings of securities issued by associated undertakings or joint ventures at 31st December 1998 or 31st December 1997.

Barclays PLC holds, as an investment, British government stock with a book value of £0.1m (1997 £0.1m). As part of its normal market making activities, Barclays Capital holds positions in Barclays Bank PLC's loan capital.

20 Debt securities (continued)

Gross gains of £42m (1997 £37m) and gross losses of £3m (1997 £nil) were realised on the sale and redemption of Investment securities. Other debt securities comprise dealing securities and short-term certificates of deposit. Other debt securities are marked to market and all profits and losses are deemed realised.

The cost of Other debt securities is not available and would be unreasonably expensive to obtain.

Of the total debt securities disclosed above, £25,881m (1997 £37,733m) were listed on a recognised exchange. These listed debt securities had a market value of £26,053m (1997 £37,853m).

Under US GAAP all Investment securities are classified as 'available for sale' and Other debt securities are classified as 'trading securities'.

See pages 41 and 42 of the Financial review for the valuation and maturity analysis of Investment securities.

21 Equity shares

	1998 Balance Sheet £m	1998 Valuation £m	1997 Balance Sheet £m	1997 Valuation £m
Investment securities	336	379	116	170
Other securities	4,552	4,552	2,664	2,664
	4,888	4,931	2,780	2,834

	1998 Cost £m	1998 Provisions £m	1998 Balance Sheet £m
Movements in Investment securities			
At beginning of year	121	(5)	116
Exchange adjustments	-	-	-
Acquisitions	252	-	252
Sale of Investment securities	(27)	-	(27)
Transfers	2	-	2
Provisions raised	-	(7)	(7)
Provisions written off	-	-	-
At end of year	348	(12)	336

The total value of equity shares included above, which are subject to sale and repurchase agreements, was £nil at 31st December 1998 (1997 £781m).

Gross unrealised gains on equity shares amounted to £43m (1997 £54m). There were no unrealised losses in either year.

Gross gains of £49m (1997 £92m) and gross losses of £nil (1997 £3m) were realised on the sale of Investment securities. Investment securities represent those equity shares held within the banking business.

Other equity securities, comprising the Group's trading business, are marked to market and all profits and losses are deemed realised.

The cost of Other securities is not available and would be unreasonably expensive to obtain.

As part of its normal operations, the equity derivatives business of Barclays Capital holds shares in Barclays PLC.

Of the total equity securities disclosed above, £4,612m (1997 £2,695m) were listed on a recognised exchange. These listed equity securities had a market value of £4,638m (1997 £2,712m).

In 1998 the Group, as part of a consortium of major international banks, invested \$300m in Long Term Capital Portfolio, a hedge fund. This holding is accounted for on the basis of the lower of cost and recoverable amount and is included at cost in investment equity securities.

22 Interests in associated undertakings and joint ventures

	Associates		Joint Ventures	
	1998 £m	1997 £m	1998 £m	1997 £m
Share of net assets				
At beginning of year	57	86	-	-
Write-down of fixed asset investments	-	(13)	-	-
Exchange and other adjustments	30	(20)	-	-
Acquisitions	3	-	51	-
Disposals	(6)	-	-	-
Transfers	-	-	-	-
Profit retained	15	4	-	-
At end of year	99	57	51	-

Associated undertakings included £82m in respect of banks (1997 £34m).

Dividend income from associated undertakings amounted to £3m (1997 £7m).

On an historical cost basis, the Group's interests in associated undertakings at 31st December 1998 amounted to £28m (1997 £30m).

Of the above interests in associates, £8m (1997 £21m) are listed on a recognised exchange and these shares had a market value of £8m (1997 £22m).

In 1998 the remaining assets of Imry Holdings Ltd were sold to West Quay Shopping Ltd, a joint venture in which the Group has a 50% interest (see note 46). This interest amounted to £51m at 31st December 1998.

23 Intangible fixed assets

	1998 £m	1997 £m
Goodwill		
At beginning of year	191	222
Additions	20	-
Disposals	(2)	(26)
Amortisation charge for year	(12)	(12)
Exchange and other adjustments	(1)	7
At end of year	196	191

24 Tangible fixed assets

	Property		Equipment	
	1998 £m	1997 £m	1998 £m	1997 £m
Cost or valuation				
At beginning of year	2,141	1,416	2,297	1,435
Acquisitions and disposals of Group undertakings	(1)	(23)	(3)	(2)
Exchange and other adjustments	(56)	53	(34)	(14)
Additions at cost	127	178	146	202
Sale of assets	(54)	(150)	(226)	(175)
Fully depreciated assets written off	(2)	(15)	(39)	(30)
At end of year	2,155	1,459	2,141	1,416

Accumulated depreciation and diminution in value

	1998	1997	1998	1997
	£m	£m	£m	£m
At beginning of year	603	938	679	961
Acquisitions and disposals of Group undertakings	-	(12)	-	(2)
Exchange and other adjustments	22	(5)	(8)	(22)
Charge for year	88	172	106	170
Sale of assets	(10)	(104)	(135)	(139)
Fully depreciated assets written off	(2)	(15)	(39)	(30)
At end of year	701	974	603	938

24 Tangible fixed assets (continued)

	Property 1998 £m	Equipment 1998 £m	Property 1997 £m	Equipment 1997 £m
Cost or valuation				
At valuation				
1979 to 1993	924	-	953	-
At cost	1,231	1,459	1,188	1,416
	2,155	1,459	2,141	1,416
Accumulated depreciation	(701)	(974)	(603)	(938)
Net book value	1,454	485	1,538	478

	1998 £m	1997 £m
Balance sheet value of property		
Freehold	1,038	1,072
Leasehold over 50 years unexpired	72	75
Leasehold up to 50 years unexpired	302	348
Assets in the course of construction	42	43
	1,454	1,538

	1998 £m	1997 £m
Historical cost of property		
At cost	1,809	1,804
Accumulated depreciation and diminution in value	(666)	(587)
Net book value	1,143	1,217

The net book value of property occupied by the Group for its own use was £1,370m at 31st December 1998 (1997 £1,445m). The net book value included £28m (1997 £30m) in respect of property held under finance leases, on which the depreciation charge was £2m (1997 £2m, 1996 £2m). The book value of property at 31st December 1998 included £294m (1997 £294m) in respect of land.

25 Commitments for capital expenditure not provided in these accounts

At 31st December 1998, commitments for capital expenditure under contract amounted to £37m (1997 £33m).

26 Other assets

	1998 £m	1997 £m
Own shares	43	43
Balances arising from off-balance sheet financial instruments	13,725	17,124
Shareholders' interest in the long-term assurance fund	530	460
London Metal Exchange warrants and other metals trading positions	457	665
Sundry debtors	1,862	2,121
	16,617	20,413

Own shares represent Barclays PLC shares held in employee benefit trusts that have not yet vested unconditionally with the eligible employees.

27 Long-term assurance fund

The increase in the shareholders' interest in the long-term assurance fund is calculated as follows:

	1998 £m	1997 £m
Value of the shareholders' interest at beginning of year	460	451
Value of the shareholders' interest at end of year	530	460
Increase for the year after tax	70	9
Increase before tax	95	19

In addition to the increase in the shareholders' interest in the long-term assurance fund detailed above, a further £14m (1997 £14m) of other income from the long-term assurance business has been recognised in the year.

The principal economic assumptions used in calculating the value of the shareholders' interest were as follows:

	%	%
Risk discount rate (net of tax)	10.0	12.5
Gross equities returns for unit linked business*	8.0	9.5
Gross fixed interest returns for unit linked business	5.0	7.0
Renewal expense inflation	5.0	6.0

*The assumption used for UK equities is 8.0% (1997 9.5%) less the unrecoverable tax credit of 0.6% (1997 0.8%), derived as 20% (1997 20%) of the assumed dividend yield of 3% (1997 4%).

The retail life-fund assets attributable to policyholders comprise:

	£m	£m
Assets:		
Investments	7,068	5,928
Group undertakings	4	-
Other debtors	101	72
	7,173	6,000
Current liabilities	88	41
	7,085	5,959

28 Prepayments and accrued income

	1998 £m	1997 £m
Accrued interest and commission	2,396	2,205
Prepayments	156	100
	2,552	2,305

29 Deposits by banks

	1998 £m	1997 £m
Repayable		
on demand	1,372	2,061
not more than three months	27,786	37,930
over three months but not more than six months	2,244	1,852
over six months but not more than one year	1,668	1,757
over one year but not more than five years	634	402
over five years	716	477
	34,420	44,479
By geographical area		
Banking business:		
United Kingdom	14,569	16,028
Other European Union	4,793	7,713
United States	3,668	3,910
Rest of the World	2,921	2,860
Total banking business	25,951	30,511
Total trading business	8,469	13,968
	34,420	44,479

There were no balances due to associated undertakings and joint ventures at 31st December 1998 or 31st December 1997. Deposits by banks are mostly over £25,000.

A further analysis of Deposits by banks is given within the Deposits section on pages 39 and 40 of the Financial review.

30 Customer accounts

	1998	1997
	£m	£m
Repayable		
on demand	41,884	41,549
not more than three months	59,651	59,774
over three months but not more than six months	1,826	2,015
over six months but not more than one year	2,167	1,527
over one year but not more than five years	2,077	2,314
over five years	1,200	1,259
	108,805	108,438
By geographical area		
Banking business:		
United Kingdom	81,653	76,292
Other European Union	5,560	5,230
United States	2,643	1,774
Rest of the World	6,243	6,351
Total banking business	96,099	89,647
Total trading business	12,706	18,791
	108,805	108,438
By type	1998	1997
	£m	£m
In offices in the United Kingdom:		
current and demand accounts - interest free	8,814	8,317
current and demand accounts - interest bearing	11,315	10,275
savings accounts	24,129	21,802
other time deposits - retail	22,176	21,388
other time deposits - wholesale	18,841	25,510
In offices outside the United Kingdom:		
current and demand accounts - interest free	1,336	1,505
current and demand accounts - interest bearing	2,340	1,647
savings accounts	1,218	1,067
other time deposits	18,636	16,927
	108,805	108,438

There were no balances due to associated undertakings and joint ventures at 31st December 1998 or 31st December 1997.

Deposits in offices in the United Kingdom received from non-residents amounted to £8,781m (1997 £9,914m).

Other time deposits in the United Kingdom and the United States are mostly over £25,000.

A further analysis of customer accounts is provided within the Deposits section on page 39 of the Financial review.

31 Debt securities in issue

	1998	1997
	£m	£m
Bonds and medium-term notes repayable:		
within one year	397	323
one year and over	1,305	1,363
	1,702	1,686
Other debt securities in issue repayable:		
not more than three months	13,799	12,077
over three months but not more than one year	1,830	5,089
over one year but not more than five years	282	1,329
over five years	211	185
	17,824	20,366

Debt securities at 31st December 1998 included certificates of deposit of £14,764m (1997 £17,027m) and commercial paper of £1,098m (1997 £1,411m). There were no balances due to associated undertakings and joint ventures at 31st December 1998 or 31st December 1997.

32 Other liabilities

	1998	1997
	£m	£m
Obligations under finance leases payable:		
not more than one year	18	25
over one year but not more than five years	76	77
over five years	166	189
	260	291
Less: future finance charges	119	134
	141	157
Balances arising from off-balance sheet financial instruments	15,849	18,703
Short positions in securities	13,682	13,170
Current tax	479	509
Sundry creditors	3,199	2,729
	33,350	35,268
Short positions in securities comprise:		
Treasury bills and other eligible bills	161	987
Debt securities - government	9,937	9,449
Debt securities - other public sector	32	-
Debt securities - other	1,521	1,321
Equity shares	2,031	1,413
	13,682	13,170

33 Accruals and deferred income

	1998	1997
	£m	£m
Accrued interest and commission	1,366	1,440
Other accruals and deferred income	1,708	2,117
	3,074	3,557

34 Deferred tax

Deferred tax is provided using the liability method on timing differences where it is considered probable a liability to tax will crystallise. The movements on deferred tax during the year were:

	1998	1997
	£m	£m
At beginning of year	758	725
Exchange and other adjustments	(22)	46
Credit to profit and loss account	(15)	(13)
At end of year	721	758
Deferred tax at 31st December:		
Leasing transactions	782	769
Other timing differences	(61)	(11)
	721	758

Potential tax liabilities not provided in the accounts in respect of leasing transactions are computed at estimated future tax rates and amounted to £228m (1997 £235m). No tax is provided on capital gains which might arise on the disposal of Group subsidiary or associated undertakings at their balance sheet amounts. Furthermore, no provision is made for tax on capital gains which might arise on the disposal of properties at their balance sheet amounts, as the Directors are of the opinion that, in view of the substantial number of properties involved and the law relating to rollover relief, the likelihood of any such material tax liability arising is remote and no useful purpose would be served by attempting to quantify it.

35 Other provisions for liabilities and charges

	Contingent liabilities and commitments	Employee pension obligations	Other	Total
	£m	£m	£m	£m
At beginning of year	27	73	596	696
Exchange and other adjustments	(5)	3	10	8
Charge to profit and loss account	116	3	53	172
Amounts utilised or written off	(4)	(4)	(317)	(325)
At end of year	134	75	342	551

Provisions for contingent liabilities and commitments include provisions against losses on direct credit substitutes such as guarantees, letters of credit and acceptances. The charge to profit and loss account does not include recoveries from third parties totalling £40m (1997 £nil) in respect of the settlement with British & Commonwealth which are included in Other assets (see note 8).

Other provisions include a provision for loss on sale or restructuring of BZW of £38m (1997 £283m) and accrued post-retirement health care liabilities of £98m (1997 £89m).

36 Undated loan capital

Undated loan capital, issued by the Bank for the development and expansion of the Group's business and to strengthen its capital base, comprised:

	1998	1997
	£m	£m
Convertible to preference shares		
8% Convertible Capital Notes Series E (\$500m)	301	304
Non-convertible		
Junior Undated Floating Rate Notes (\$168m, 1997 \$170m)	101	103
Undated Floating Rate Primary Capital Notes Series 1 (\$358m, 1997 \$382m)	216	232
Undated Floating Rate Primary Capital Notes Series 2 (\$442m, 1997 \$447m)	266	272
Undated Floating Rate Primary Capital Notes Series 3	145	145
9.875% Undated Subordinated Notes	300	300
9% Permanent Interest Bearing Capital Bonds	100	100
7.875% Undated Subordinated Notes	100	100
6.5% Undated Subordinated Notes (FFr 1,000m)	107	101
5.03% Reverse Dual Currency Undated Subordinated Notes (Yen 8,000m)	42	-
5% Reverse Dual Currency Undated Subordinated Notes (Yen 12,000m)	64	-
	1,441	1,353

36 Undated loan capital (continued)

Security and subordination

None of the Bank's undated loan capital is secured.

The Junior Undated Floating Rate Notes (the Junior Notes) rank behind the claims against the Bank of depositors and other unsecured unsubordinated creditors and holders of dated loan capital. All other issues of undated loan capital rank pari passu with each other and behind the claims of the holders of the Junior Notes.

Interest

The Junior Notes, the Undated Floating Rate Primary Capital Notes Series 1 (the Series 1 Notes) and the Undated Floating Rate Primary Capital Notes Series 2 (the Series 2 Notes), bear interest at rates fixed in advance for periods of six months. At 31st December 1998, the rates were 5¹/₂% (1997 6¹/₁₆%) on the Junior Notes, 5¹⁵/₁₆% (1997 6¹/₁₆%) on the Series 1 Notes and 5¹³/₁₆% (1997 5¹⁵/₁₆%) on the Series 2 Notes. The Undated Floating Rate Primary Capital Notes Series 3 (the Series 3 Notes) bear interest at rates fixed in advance for periods of three months and, at 31st December 1998, the rate was 7³/₄% (1997 7⁷/₈%). In each case, interest is fixed at ¹/₄% or ¹/₂% above rates determined by reference to the London inter-bank market for each interest period. In the case of the Series 3 Notes, the rate will rise to LIBOR plus 70 basis points in October 1999 and LIBOR plus 100 basis points in October 2009.

The interest rates on the 9.875% Undated Subordinated Notes (the 9.875% Notes) and the 7.875% Undated Subordinated Notes (the 7.875% Notes) are fixed until May 2008 and October 2003 respectively. The 6.5% Undated Subordinated Notes (the 6.5% Notes) bear interest at 6.5% until July 2009. After that date the coupon will be Ffr PIBOR plus 142 basis points and the rate will be fixed in advance for periods of three months. The 5.03% Reverse Dual Currency Undated Subordinated Notes (the 5.03% Notes) bear interest until 28th April 2028 at 5.03% based on a US dollar principal amount of \$62,992,000 but the coupons have been swapped until then, resulting in an interest rate payable of Yen LIBOR plus 40 basis points (0.79766% at 31st December 1998) and the rate is fixed in advance for periods of three months. After 28th April 2028 the coupons will be Yen LIBOR plus 132 basis points and the rate will be fixed in advance for periods of six months. The 5% Reverse Dual Currency Undated Subordinated Notes (the 5% Notes) bear interest until 30th October 2028 at 5% based on a US dollar principal amount of \$90,293,454 but the coupons have been swapped until then, resulting in an interest rate payable of Yen LIBOR plus 38 basis points (0.77563% at 31st December 1998) and the rate is fixed in advance for periods of three months. After 30th October 2028 the coupons will be Yen LIBOR plus 132 basis points and the rate will be fixed in advance for periods of six months. The interest rates on the 9% Permanent Interest Bearing Capital Bonds (the 9% Bonds) and the 8% Convertible Capital Notes, Series E (the Series E Notes) are fixed for the life of those issues.

The Bank is not obliged to make a payment of interest on its undated loan capital (other than the Junior Notes) if, in the preceding six months, a dividend has not been declared or paid on any class of shares of Barclays PLC or, in certain cases, any class of preference shares of the Bank. Interest not so paid becomes payable if such a dividend is subsequently paid or in certain other circumstances. No payment of principal or any interest may be made unless the Bank satisfies a specified solvency test.

Interest payable on undated loan capital amounted to £127m (1997 £125m, 1996 £129m).

Repayment and conversion

The Junior Notes are repayable, at the option of the Bank, in whole or in part on any interest payment date. The Series 1 Notes, the Series 2 Notes and the Series 3 Notes are repayable in each case, at the option of the Bank, in whole on any interest payment date. The 9.875% Notes are repayable, at the option of the Bank, in whole in May 2008, or on any fifth anniversary thereafter. The 6.5% Notes are repayable, at the option of the Bank, in whole in July 2009, or on any fifth anniversary thereafter. The 5.03% Notes are repayable, at the option of the Bank, in whole in April 2028, or on any fifth anniversary thereafter. The 5% Notes are repayable, at the option of the Bank, in whole in October 2028, or on any fifth anniversary thereafter. The 9% Bonds are repayable, at the option of the Bank, in whole at any time and the 7.875% Notes are so repayable at any time up to and including October 2003, or on any tenth anniversary thereafter. The Series E Notes are repayable at par, at the option of the Bank, in whole on any interest payment date falling in or after April 2003 and are convertible, at the option of the Bank, into 40,000,000 non-cumulative dollar-denominated preference shares of the Bank. The Series E Notes have been registered under the US Securities Act of 1933. The other issues of undated loan capital, which were made in the eurocurrency market, have not been so registered.

In addition, each issue of undated loan capital is repayable, at the Bank's option, in whole for certain tax reasons, either at any time, or on an interest payment date. There are no events of default except non-payment of principal or mandatory interest.

During the year a subsidiary of the Bank purchased \$32m of Junior Notes, Series 1 Notes and Series 2 Notes at a discount of \$4m (£3m).

37 Dated loan capital – non-convertible

Dated loan capital, issued by the Bank and its finance subsidiaries for the development and expansion of the Group's business and to strengthen its capital base, comprised:

	Repayment terms	1998 £m	1997 £m
The Bank			
8.8% Subordinated Redeemable Bonds 1998		-	61
Floating Rate Subordinated Notes 2000 (\$100m)		60	-
5.875% Subordinated Notes 2000 (\$225m)		135	-
5.95% Subordinated Notes 2001 (\$225m)		135	-
9.5% Subordinated Redeemable Bonds 2001 (FFr 350m)		39	35
Floating Rate Unsecured Capital Loan Stock 2006	(a, b)	4	4
Floating Rate Subordinated Notes 2006 (DM 350m)	(a)	126	118
Floating Rate Subordinated Notes 2006 (Yen 20,000m)	(a)	106	93
16% Unsecured Capital Loan Stock 2002/07	(a)	100	100
4.875% Step-up Callable Subordinated Notes 2008 (FFr 1,000m)	(a)	107	-
Floating Rate Subordinated Notes 2008 (ITL 250,000m)	(a)	91	-
Subordinated Floating Rate Notes 2008 (\$250m)	(a)	150	-
Subordinated Floating Rate Notes 2009 (\$60m)	(a)	36	-
Variable Floating Rate Subordinated Notes 2009 (Yen 5,000m)	(a)	26	23
12% Unsecured Capital Loan Stock 2010		25	25
Floating Rate Unsecured Capital Loan Stock 2010	(a, c)	1	1
Fixed/Floating Rate Subordinated Notes 2011 (Yen 5,000m)	(a)	26	23
Floating Rate Subordinated Notes 2012	(a)	298	298
5.5% Subordinated Notes 2013 (DM 500m)	(a)	180	-
Reverse Dual Currency Subordinated Yen Notes 2027 (Yen 15,000m)		80	70
Barclays Overseas Investment Company B.V. (BOIC)			
Guaranteed Notes 2007 (Yen 15,000m)	(a)	80	70
Barclays North American Capital Corporation (BNACC)			
11 ⁵ / ₈ % Guaranteed Capital Notes 2003		-	101
9 ³ / ₄ % Guaranteed Capital Notes 2021 (\$311m)	(a)	187	189
		1,992	1,211
Repayable			
not more than one year		5	66
over one year but not more than two years		195	-
over two years but not more than five years		174	35
over five years		1,618	1,110
		1,992	1,211

None of the Group's dated loan capital is secured. The debt obligations of the Bank, BOIC and BNACC rank ahead of the interests of holders of their equity. Dated loan capital of the Bank has been issued on the basis that the claims thereunder are subordinated to the claims of depositors and other unsecured unsubordinated creditors. Loan capital issued by BOIC and BNACC carries the guarantee of the Bank, which is subordinated on a similar basis. All loan capital issued by BOIC and BNACC has been on-lent to the Bank on a subordinated basis.

The Floating Rate Unsecured Capital Loan Stock 2006 bears interest at rates fixed in advance for periods of six months. The Floating Rate Subordinated Notes 2000, the Floating Rate Subordinated Notes 2006 (DM), the Floating Rate Subordinated Notes 2006 (Yen), the Floating Rate Subordinated Notes 2008 (ITL), the Subordinated Floating Rate Notes 2008 (\$), the Subordinated Floating Rate Notes 2009 (\$), the Variable Floating Rate Subordinated Notes 2009 (Yen), the Floating Rate Unsecured Capital Loan Stock 2010 and the Floating Rate Subordinated Notes 2012 bear interest at rates fixed in advance for periods of three months.

At 31st December 1998, the rates in force were 5³/₄% (1997 7¹/₂%) on the Floating Rate Unsecured Capital Loan Stock 2006, 5.62109% on the Floating Rate Subordinated Notes 2000, 3.79328% (1997 3.825%) on the Floating Rate Subordinated Notes 2006 (DM), 0.47891% (1997 0.63125%) on the Floating Rate Subordinated Notes 2006 (Yen), 3.50625% on the Floating Rate Subordinated Notes 2008 (ITL), 5.55% on the Subordinated Floating Rate Notes 2008 (\$), 5.53844% on the Subordinated Floating Rate Notes 2009 (\$), 0.51547% (1997 0.7875%) on the Variable Floating Rate Subordinated Notes 2009 (Yen), 6¹/₈% (1997 7¹/₂%) on the Floating Rate Unsecured Capital Loan Stock 2010 and 6.56469% (1997 7.92656%) on the Floating Rate Subordinated Notes 2012. The coupon on the Floating Rate Subordinated Notes 2006 (DM) is DM LIBOR plus 20 basis points, increasing in July 2001 to DM LIBOR plus 70 basis points. The coupon on the Floating Rate Subordinated Notes 2006 (Yen) is Yen LIBOR plus 10 basis points, increasing in October 2001 to Yen LIBOR plus 60 basis points.

37 Dated loan capital – non-convertible (continued)

The coupon on the Floating Rate Subordinated Notes 2008 (ITL) is ITL LIBOR plus 25 basis points, increasing in March 2003 to ITL LIBOR plus 75 basis points. The coupon on the Subordinated Floating Rate Notes 2008 (\$) is \$ LIBOR plus 30 basis points, increasing in May 2003 to \$ LIBOR plus 80 basis points. The coupon on the Subordinated Floating Rate Notes 2009 (\$) is \$ LIBOR plus 32 basis points, increasing in June 2004 to \$ LIBOR plus 82 basis points. The coupon on the Variable Floating Rate Subordinated Notes 2009 is Yen LIBOR plus 10 basis points, increasing in September 2004 to Yen LIBOR plus 60 basis points and further increasing in December 2006 to Yen LIBOR plus 110 basis points. The 4.875% Step-up Callable Subordinated Notes 2008 bear interest at 4.875% until 1st April 2003. After that date the coupon will be Ffr PIBOR plus 82.5 basis points and the rate will be fixed in advance for periods of three months. The Fixed/Floating Rate Subordinated Notes 2011 bear interest at 3.09% until 5th December 2006. After that date the coupon will be Yen LIBOR plus 110 basis points and the rate will be fixed in advance for periods of six months. The 5.5% Subordinated Notes 2013 bear interest at 5.5% until 12th March 2008. After that date the coupon will be DM LIBOR plus 136 basis points and the rate will be fixed in advance for periods of three months.

The Reverse Dual Currency Subordinated Yen Notes 2027 bear interest at 5.4% based on a US dollar principal amount of \$130,867,222.22 but the coupons have been swapped, resulting in an interest rate payable of Yen LIBOR plus 10 basis points (0.52547% at 31st December 1998, 0.60781% at 31st December 1997) and the rate is fixed in advance for periods of three months.

The coupons on the Guaranteed Notes 2007 have been swapped until March 2002, resulting in an interest rate payable until then of Yen LIBOR plus 40 basis points (0.89703% at 31st December 1998, 1.15% at 31st December 1997). After that date, the coupon will be Yen LIBOR plus 115 basis points. Both rates are fixed in advance for periods of three months.

The Bank has swapped the proceeds of the 5.875% Subordinated Notes 2000 (the 5.875% Notes) for Deutschmarks under a swap the duration of which will match the term of the 5.875% Notes. The payment obligations of the Bank under this swap are subordinated so that the claims against the Bank in respect of the swap rank pari passu with claims against the Bank in respect of its dated loan capital. The sterling value of the 5.875% Notes in the figures set out above takes into account this subordinated swap.

Interest payable on loan capital with a final maturity within five years amounted to £16m (1997 £56m, 1996 £66m).

The notes issued by BNACC and the Floating Rate Subordinated Notes 2000, the 5.875% Notes and the 5.95% Subordinated Notes 2001 issued by the Bank have been registered under the US Securities Act of 1933. All other issues of dated loan capital by the Bank and BOIC, which were made in non-US markets, have not been so registered. With respect to the Floating Rate Subordinated Notes 2000, 5.875% Notes 2000 and 5.95% Subordinated Notes 2001, the Bank is not obliged to make (i) a payment of interest on any interest payment date unless a dividend is paid on any class of share capital and (ii) a payment of principal until six months after the respective maturity date with respect to such Notes. In addition the Bank may also defer the payment of interest and principal on any such Notes in the event that the Financial Services Authority has required or requested the Bank to make such a deferral.

During the year, the Bank repaid all the 8.8% Subordinated Redeemable Bonds 1998 upon maturity and BNACC redeemed all the 11⁵/₈% Guaranteed Capital Notes 2003 at par.

Repayment terms

Unless otherwise indicated, the Group's dated loan capital outstanding at 31st December 1998 is redeemable only on maturity subject, in particular cases, to provisions allowing an early redemption in the event of certain changes in tax law.

- (a) Repayable at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, some in whole or in part, and some only in whole.
- (b) Holders of the Floating Rate Unsecured Capital Loan Stock 2006 have certain cumulative rights to call for redemption of their holdings.
- (c) Holders of the Floating Rate Unsecured Capital Loan Stock 2010 have certain rights to call for the redemption of their holdings.

There are no committed facilities in existence at the balance sheet date which permit the refinancing of debt beyond the date of maturity.

38 Other subordinated liabilities – non-convertible

	1998	1997
	£m	£m
Repayable		
over two years but not more than five years	-	59

Other subordinated liabilities comprised long-term borrowings of subsidiary undertakings, which were subordinated to the claims of depositors and others against those subsidiaries.

39 Called up share capital

The authorised share capital of Barclays PLC is £2,000m (1997 £2,000m), comprising 1,999 million (1997 1,999 million) ordinary shares of £1 each and 1 million (1997 1 million) staff shares of £1 each.

	1998	1997
	£m	£m
Called up share capital, allotted and fully paid		
Ordinary shares:		
At beginning of year	1,529	1,541
Issued to staff under the SAYE Share Option Scheme (see below)	9	12
Issued under Share Dividend Scheme	-	5
Issued under Executive Share Option Scheme	1	1
Repurchase of shares	(29)	(30)
At end of year	1,510	1,529
Staff shares	1	1
	1,511	1,530

45.7 million (1997 49.3 million) options are outstanding under the terms of the SAYE Share Option Scheme and 3.4 million (1997 3.2 million) options are outstanding under the terms of the Executive Share Option Scheme, enabling certain Directors and members of staff to subscribe for ordinary shares between 1999 and 2008, at prices ranging from 272p to 1590p per share.

In 1998, the Company repurchased ordinary shares with a nominal value of £29m at a total cost of £501m. In 1997, ordinary shares with a nominal value of £30m were repurchased at a total cost of £351m.

40 Shareholders' funds

	Consolidated	Barclays PLC	Associated undertakings
	£m	£m	£m
At beginning of year	7,620	7,620	26
Proceeds of shares issued (net of expenses)	110	110	-
Exchange rate translation differences	32	-	1
Repurchase of ordinary shares	(501)	(501)	-
Goodwill written back on disposals	10	-	-
Revaluation of investment in subsidiary undertaking	-	193	-
Shares issued to the QUEST in relation to SAYE share option scheme	(67)	(67)	-
Other items	30	-	30
Profit retained	689	568	15
At end of year	7,923	7,923	72

The revaluation reserve of Barclays PLC arises from the revaluation of the investment in Barclays Bank PLC.

The increase in consolidated shareholders' funds of £32m arising from exchange rate translation differences is net of a related tax charge of £1m.

41 Investment in Barclays Bank PLC

The investment in Barclays Bank PLC is stated in the balance sheet at Barclays PLC's share of the book value of the net assets of Barclays Bank PLC. The net increase of £303m during the year comprised the cost of additional shares of £110m and an increase of £193m in other net assets of Barclays Bank PLC. The cost of the investment was £3,503m (1997 £3,393m).

Details of principal subsidiary undertakings, held through Barclays Bank PLC, are shown in note 46.

42 Leasing activities

Aggregate amounts received and receivable during the year under finance leases were £1,031m (1997 £824m, 1996 £944m), including interest income of £474m (1997 £527m, 1996 £512m).

43 Assets and liabilities denominated in sterling and foreign currencies

	1998 £m	1997 £m
Denominated in sterling	106,855	106,673
Denominated in currencies other than sterling	112,639	125,756
Total assets	219,494	232,429
Denominated in sterling	105,732	107,936
Denominated in currencies other than sterling	113,762	124,493
Total liabilities	219,494	232,429

44 Assets pledged to secure liabilities

At 31st December 1998, the amount of assets pledged to secure liabilities, primarily in respect of settlement and payment systems, was £1,573m (1997 £1,515m). The secured liabilities outstanding amounted to £7,123m (1997 £8,091m).

45 Future rental commitments under operating leases

At 31st December 1998, the Group held various leases on land and buildings, many for extended periods, and other leases for equipment.

	1998 Property £m	1998 Equipment £m	1997 Property £m	1997 Equipment £m
Annual commitments under non-cancellable operating leases expiring:				
not more than one year	8	1	4	-
over one year but not more than five years	28	-	23	2
over five years	130	-	135	-
	166	1	162	2

The following aggregate rental payments outstanding at 31st December 1998 fall due as follows:

	Year ended 31st December					Total thereafter £m
	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m	
Aggregate rental payments	167	178	165	166	156	1,642

The rentals for leasehold land, buildings and equipment, included in operating expenses for the year ended 31st December 1998, amounted to £204m (1997 £252m, 1996 £227m).

46 Principal subsidiary undertakings

Country of registration or incorporation		Percentage of equity capital held
England	Barclays Bank PLC - ordinary shares	100*
England	Barclays Private Bank Limited	100*
England	Barclays Mercantile Business Finance Limited	100
England	Barclays Asset Management Limited	100
England	Barclays Global Investors Limited	100*
England	Barclays Life Assurance Company Limited	100
England	Barclays Funds limited	100
England	Barclays Bank Trust Company Limited	100
England	Barclays Stockbrokers Limited	100
Guernsey	Barclays Finance Company (Guernsey) Limited	100
Jersey	Barclays Bank Finance Company (Jersey) Limited	100
Jersey	Barclays Private Bank and Trust Limited	100*
Isle of Man	Barclays Finance Company (Isle of Man) Limited	99.9
Italy	Barclays Financial Services Italia SpA	100
France	Barclays Capital France SA	100
Spain	Barclays Bank SA	99.7
Botswana	Barclays Bank of Botswana Limited	74.9
Ghana	Barclays Bank of Ghana Ltd	90
Kenya	Barclays Bank of Kenya Limited	68.5
Zimbabwe	Barclays Bank of Zimbabwe Limited	65.1*
USA	Barclays Capital Inc.	100*
USA	Barclays Global Investors, National Association	100*
Switzerland	Barclays Bank (Suisse) SA	100*
Cayman Islands	Barclays Capital Japan Limited	50*

In accordance with S231(5) of the Companies Act 1985 the above information is provided solely in relation to principal subsidiary undertakings. Full information on all subsidiaries is included with the Annual Return.

With the exception of Barclays Capital Japan Limited which operates in Japan, the country of registration or incorporation is also the principal area of operation for each of the above undertakings. Investments in these undertakings are held directly by Barclays Bank PLC except where marked *. Barclays Bank PLC also has in issue 34,920,000 (1997 34,920,000) non-cumulative dollar-denominated preference shares of \$0.01 each, none of which are held by Barclays PLC.

In 1992, the Group acquired a 100% interest in Imry Holdings Limited (Imry), a company registered in England, as a result of enforcing security against a loan to Chester Holdings (UK) Ltd, the parent company of Imry. Following the sale of certain assets of Imry during 1997 and 1998, the remaining significant assets were sold to West Quay Shopping Ltd (see note 22). Imry and its subsidiaries have no material assets and are in the process of being liquidated.

47 Off-balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments, including swaps, futures, forwards and option contracts or combinations thereof (all commonly known as derivatives) the nominal amounts for which are not reflected in the consolidated balance sheet.

Following internationally accepted banking supervisory practice for the calculation of the credit risk associated with such off-balance sheet items, the contract or underlying principal amounts are initially converted to credit risk equivalents by applying specified conversion factors.

Nature of instruments

For a description of the nature of derivative financial instruments, see pages 61 to 62 of the Financial review.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the Group in respect of bills of exchange which have been paid and subsequently rediscounted.

Guarantees and assets pledged as collateral security are generally written by a bank to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

47 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

Other contingent liabilities include transaction related customs and performance bonds and are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements. In particular, the Group may withdraw from its contractual obligations for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Most commitments expire without being fully drawn upon and hence the cash requirements of such commitments are considerably less than the commitment limits that are reported.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

The following table summarises the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk as at 31st December 1998.

	1998	1997
	Contract or underlying principal amount £m	Contract or underlying principal amount £m
Contingent liabilities		
Acceptances and endorsements	1,384	1,602
Guarantees and assets pledged as collateral security	8,784	6,623
Other contingent liabilities	5,069	5,123
Off-balance sheet credit risk	15,237	13,348
Commitments		
Commitments arising out of sale and option to resell transactions	-	-
Other commitments:		
documentary credits and other short-term trade related transactions	419	495
forward asset purchases and forward deposits placed	7	112
undrawn note issuance and revolving underwriting facilities	47	29
undrawn formal standby facilities, credit lines and other commitments to lend:		
over one year	15,895	12,020
in one year or less	51,823	46,465
Off-balance sheet credit risk	68,191	59,121

As an active participant in international banking markets, the Group has a significant concentration of off-balance sheet items with financial institutions, as shown in note 63.

Accounting for derivatives

The Group's policies for accounting for derivatives and credit related instruments are set out on pages 96 and 97.

Risks

Credit exposure or replacement cost of derivative instruments represents the cost to replace contracts with a positive value and is usually a small fraction of the notional amount of the contracts. Credit risk exposures, however, relate to accounting losses that would be recognised if counterparties failed completely to perform their obligations. Options written do not expose the Group to credit risk (apart from unremitted premiums), except to the extent of the underlying risk in the financial instrument that the Group may be obligated to acquire under certain written put options. The risk that counterparties to both derivative and cash instruments might default on their obligations is monitored on an ongoing basis. To control the level of credit risk taken, the Group assesses counterparties using the same techniques and corporate grading structure as for lending decisions, in order to deal predominantly with counterparties of high credit quality.

Cash requirements

The cash requirement of a credit related instrument has the same features as the risk set out above.

For a further description of the nature and management of credit risks and market risks, see Risk management and Treasury asset and liability management on pages 42 and 63 of the Financial review.

47 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

The tables set out below analyse the contract or underlying principal amounts and positive and negative balance sheet fair values of derivative financial instruments held or issued for trading purposes.

	1998 Contract or underlying principal amount £m	1998 Year-end positive fair value £m	1998 Year-end negative fair value £m	1998 Average positive fair value £m	1998 Average negative fair value £m
Foreign exchange derivatives					
Forward foreign exchange	259,788	6,063	6,836	5,037	5,668
Currency swaps	73,528	2,476	3,653	3,020	3,463
OTC options bought and sold	98,415	1,374	1,573	1,802	1,742
Other foreign exchange contracts	-	-	-	-	-
OTC derivatives	431,731	9,913	12,062	9,859	10,873
Exchange traded futures - bought and sold	1,366	-	-	-	-
Exchange traded options - bought and sold	1,355	-	-	-	-
Total	434,452	9,913	12,062	9,859	10,873
Interest rate derivatives					
Swaps	710,988	17,517	17,114	14,464	14,723
Forward rate agreements	80,474	133	138	56	59
OTC options bought and sold	222,242	2,433	2,351	1,694	1,682
Other interest rate contracts	23	-	-	-	-
OTC derivatives	1,013,727	20,083	19,603	16,214	16,464
Exchange traded futures - bought and sold	97,363	-	-	-	-
Exchange traded options - bought and sold	768	-	-	-	-
Total	1,111,858	20,083	19,603	16,214	16,464
Equity and stock index derivatives					
OTC options bought and sold	20,613	1,289	1,439	1,065	1,507
Equity swaps and forwards	2,439	82	73	84	88
OTC derivatives	23,052	1,371	1,512	1,149	1,595
Exchange traded futures - bought and sold	7,574	-	-	-	-
Exchange traded options - bought and sold	7,677	288	685	364	603
Total	38,303	1,659	2,197	1,513	2,198
Commodity derivatives					
OTC options bought and sold	279	9	9	19	20
Commodity swaps and forwards	5,690	246	200	231	192
OTC derivatives	5,969	255	209	250	212
Exchange traded futures - bought and sold	6,872	323	285	385	350
Exchange traded options - bought and sold	100	3	4	2	3
Total	12,941	581	498	637	565
Total trading derivatives		32,236	34,360		
Effect of netting		(18,511)	(18,511)		
Balances arising from off-balance sheet financial instruments (see Other assets/Other liabilities, notes 26 and 32)		13,725	15,849		

Collateral held that reduced credit risk in respect of derivative instruments at 31st December 1998, but did not meet the offset criteria, amounted to £549m (1997 £nil).

47 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

	1997 Contract or underlying principal amount £m	1997 Year-end positive fair value £m	1997 Year-end negative fair value £m	1997 Average positive fair value £m	1997 Average negative fair value £m
Foreign exchange derivatives					
Forward foreign exchange	331,861	7,077	7,117	5,137	5,254
Currency swaps	52,972	3,041	3,056	2,293	2,263
OTC options bought and sold	177,302	1,870	1,912	1,511	1,316
Other foreign exchange contracts	110	-	-	-	-
OTC derivatives	562,245	11,988	12,085	8,941	8,833
Exchange traded futures - bought and sold	-	-	-	-	-
Exchange traded options - bought and sold	342	-	-	-	-
Total	562,587	11,988	12,085	8,941	8,833
Interest rate derivatives					
Swaps	604,354	11,561	12,168	10,317	11,014
Forward rate agreements	131,144	79	72	74	69
OTC options bought and sold	138,088	863	973	943	889
Other interest rate contracts	28	-	-	-	-
OTC derivatives	873,614	12,503	13,213	11,334	11,972
Exchange traded futures - bought and sold	156,338	-	-	-	1
Exchange traded options - bought and sold	20,987	-	-	-	1
Total	1,050,939	12,503	13,213	11,334	11,974
Equity and stock index derivatives					
OTC options bought and sold	16,169	769	1,271	577	912
Equity swaps and forwards	1,380	77	77	53	54
OTC derivatives	17,549	846	1,348	630	966
Exchange traded futures - bought and sold	5,219	-	-	-	-
Exchange traded options - bought and sold	6,505	224	487	242	291
Total	29,273	1,070	1,835	872	1,257
Commodity derivatives					
OTC options bought and sold	758	59	39	26	19
Commodity swaps and forwards	6,066	305	335	284	338
OTC derivatives	6,824	364	374	310	357
Exchange traded futures - bought and sold	9,194	435	432	382	366
Exchange traded options - bought and sold	113	3	3	4	2
Total	16,131	802	809	696	725
Total trading derivatives		26,363	27,942		
Effect of netting		(9,239)	(9,239)		
Balances arising from off-balance sheet financial instruments (see Other assets/Other liabilities, notes 26 and 32)		17,124	18,703		

47 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

Derivative financial instruments held for the purpose of managing non-trading exposures

The following table, which includes only the derivative components of the Group's hedging programme, summarises the nominal values, fair values and book values of derivatives held for the purpose of managing non-trading exposures. Included in the amounts below were £7,637m (1997 £6,599m) contract amount of foreign exchange derivatives and £91,174m (1997 £65,449m) of interest rate derivatives which were made for asset and liability management purposes with independently managed dealing units of the Group.

	1998 Contract or underlying principal amount £m	1998 Year-end positive fair value £m	1998 Year-end negative fair value £m	1998 Year-end positive book value £m	1998 Year-end negative book value £m	1997 Contract or underlying principal amount £m	1997 Positive fair value £m	1997 Negative fair value £m
Foreign exchange derivatives								
Forward foreign exchange	4,170	84	86	87	34	5,415	124	63
Currency swaps	5,919	361	31	29	15	4,866	383	63
OTC options bought and sold	174	7	3	-	3	102	-	-
OTC derivatives	10,263	452	120	116	52	10,383	507	126
Exchange traded futures - bought and sold	-	-	-	-	-	-	-	-
Exchange traded options - bought and sold	-	-	-	-	-	4	-	-
Total	10,263	452	120	116	52	10,387	507	126
Interest rate derivatives								
Swaps	76,498	1,956	1,333	874	430	60,368	634	537
Forward rate agreements	19,486	84	71	76	69	7,475	2	2
OTC options bought and sold	347	4	-	-	-	304	3	-
Other interest rate related contracts	57	1	-	-	-	64	1	-
OTC derivatives	96,388	2,045	1,404	950	499	68,211	640	539
Exchange traded futures - bought and sold	5,678	-	-	-	-	5,430	-	-
Exchange traded options - bought and sold	114	-	-	-	-	28	-	-
Total	102,180	2,045	1,404	950	499	73,669	640	539
Equity, stock index and commodity derivatives								
	103	6	3	-	-	16	-	-

The nominal amounts of OTC foreign exchange derivatives held to manage the non-trading exposure of the Group analysed by currency and final maturity are as follows:

	One year or less £m	Over one year but not more than five years £m	Over five years £m	Total £m
£/Japanese Yen	-	2,632	174	2,806
£/French Franc	52	897	450	1,399
£/Deutschmark	266	1,037	47	1,350
US Dollars/South African Rand	916	-	-	916
US Dollar/Deutschmark	554	158	-	712
£/ECU	-	529	-	529
US Dollar/Japanese Yen	195	64	182	441
£/US Dollar	31	91	130	252
Deutschmark/Japanese Yen	76	126	19	221
£/Italian Lira	8	23	149	180
Other	1,310	42	105	1,457
Total	3,408	5,599	1,256	10,263

47 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

The residual maturity analysis of the underlying principal amounts of OTC and exchange traded derivatives held for trading purposes or asset and liability management purposes at 31st December 1998 is set out below:

	One year or less	Over one year but not more than five years	Over five years	Total
	£m	£m	£m	£m
Foreign exchange derivatives				
Forward foreign exchange	259,930	4,028	-	263,958
Currency swaps	22,318	40,005	17,124	79,447
OTC options bought and sold	96,879	1,710	-	98,589
Other foreign exchange contracts	-	-	-	-
OTC derivatives	379,127	45,743	17,124	441,994
Exchange traded futures - bought and sold	1,366	-	-	1,366
Exchange traded options - bought and sold	1,355	-	-	1,355
Total	381,848	45,743	17,124	444,715
Interest rate derivatives				
Swaps	214,521	361,242	211,723	787,486
Forward rate agreements	82,008	17,952	-	99,960
OTC options bought and sold	56,624	125,897	40,068	222,589
Other interest rate contracts	23	-	57	80
OTC derivatives	353,176	505,091	251,848	1,110,115
Exchange traded futures - bought and sold	103,024	-	17	103,041
Exchange traded options - bought and sold	852	30	-	882
Total	457,052	505,121	251,865	1,214,038
Equity and stock index derivatives				
OTC options bought and sold	9,110	11,484	32	20,626
Equity swaps and forwards	2,363	76	-	2,439
OTC derivatives	11,473	11,560	32	23,065
Exchange traded futures - bought and sold	7,613	1	-	7,614
Exchange traded options - bought and sold	5,053	1,731	943	7,727
Total	24,139	13,292	975	38,406
Commodity derivatives				
OTC options bought and sold	275	4	-	279
Commodity swaps and forwards	4,542	1,145	3	5,690
OTC derivatives	4,817	1,149	3	5,969
Exchange traded futures - bought and sold	6,572	300	-	6,872
Exchange traded options - bought and sold	94	6	-	100
Total	11,483	1,455	3	12,941

47 Off-balance sheet financial instruments, contingent liabilities and commitments (continued)

The residual maturity and counterparty analyses of the net replacement cost of OTC and non-margined exchange traded derivatives held for trading purposes or asset and liability management purposes at 31st December 1998 are as follows:

	Not more than one year	Over one year but not more than five years	Over five years	Total
	£m	£m	£m	£m
Foreign exchange derivatives	3,392	696	174	4,262
Interest rate derivatives	1,353	1,589	4,475	7,417
Equity and stock index derivatives	779	885	-	1,664
Commodity derivatives	472	37	-	509
	5,996	3,207	4,649	13,852

Net replacement cost analysed by counterparty as follows:

Central banks	576
Banks, building societies and other financial institutions	10,625
Other corporate and public bodies	2,651
	13,852

48 Legal proceedings

Barclays is party to various legal proceedings, the ultimate resolution of which is not expected to have a material adverse effect on the financial position of the Group.

49 Reconciliation of operating profit to net cash flow from operating activities

	1998 £m	1997 £m	1996 £m
Operating profit	1,921	2,160	2,236
Provisions for bad and doubtful debts	492	227	215
Depreciation and amortisation	270	266	295
Net (decrease)/increase in accrued expenditure and prepayments	(719)	729	107
Provisions for contingent liabilities and commitments	76	4	9
Interest on dated and undated loan capital and other subordinated liabilities	244	265	268
Associated undertakings - profit included	(22)	(16)	(23)
Increase in shareholders' interest in the long-term assurance fund	(95)	(19)	(61)
Profit on redemption/repurchase of loan capital	(3)	(2)	(32)
Net (increase)/decrease in net interest and commission receivable	(23)	70	(107)
Net profit on disposal of investments and fixed assets	(106)	(104)	(23)
Other non-cash movements	53	13	12
	2,088	3,593	2,896
Net change in items in course of collection	(311)	500	(682)
Net (decrease)/increase in other credit balances	(4,197)	14,365	(558)
Net decrease/(increase) in loans and advances to banks and customers	8,652	(21,324)	(12,240)
Net (decrease)/increase in deposits and debt securities in issue	(14,958)	33,695	22,411
Net decrease/(increase) in other assets	3,215	(5,516)	(2,713)
Net decrease/(increase) in other debt securities and equity shares	3,642	(15,122)	(6,851)
Net decrease/(increase) in treasury and other eligible bills	777	(1,226)	2,394
Other non-cash movements	(245)	14	51
Net cash (outflow)/inflow from operating activities	(1,337)	8,979	4,708

50 Sale of other Group undertakings during the year

	1998 £m	1997 £m	1996 £m
Goodwill written off	12	23	-
Advances and other accounts	1,561	1,183	816
Deposits and other borrowings	(829)	(1,139)	(780)
Net assets disposed of	744	67	36
Net (loss)/profit on disposal	(51)	10	10
	693	77	46
Less: Deferred consideration	(3)	(29)	-
Settled by net cash received	690	48	46

The assets and liabilities relating to the sale of former BZW businesses are included in 1998.

51 Changes in financing during the year

The following table does not include a further £472m paid in respect of the repurchase of 29.3 million ordinary shares.

	Undated loan capital £m	Dated loan capital £m	Other subordinated liabilities £m	Ordinary shares £m	Barclays Bank PLC preference shares £m	Share premium £m
Barclays PLC						
At beginning of year	1,657	1,211	59	1,530	265	1,281
Exchange rate and other movements	12	77	(1)	-	(2)	-
Profit on redemption/repurchase of loan capital	(3)	-	-	-	-	-
Net cash inflow/(outflow) from financing	76	704	(58)	(19)	-	100
At end of year	1,742	1,992	-	1,511	263	1,381

52 Analysis of cash balances

	31.12.98 £m	Change £m	31.12.97 £m	Change £m	31.12.96 £m	Change £m	31.12.95 £m
Cash and balances at central bank	942	192	750	21	729	(38)	767
Loans and advances to other banks repayable on demand	1,174	266	908	(50)	958	(846)	1,804
	2,116	458	1,658	(29)	1,687	(884)	2,571
		1998 £m	1998 £m	1997 £m	1997 £m	1996 £m	1996 £m
Balance at beginning of year			1,658		1,687		2,571
Net increase/(decrease) in cash before the effect of exchange rate movements		457		44		(764)	
Effect of exchange rate movements		1		(73)		(120)	
			458		(29)		(884)
Balance at end of year			2,116		1,658		1,687

53 Analysis of the net outflow of cash in respect of the acquisition of subsidiary undertakings

	1998 £m	1997 £m	1996 £m
Cash consideration	74	-	16
Cash at bank and in hand acquired	(4)	-	(3)
Net outflow of cash in respect of the purchase of subsidiary undertakings	70	-	13

54 Acquisitions

The Group made the following acquisitions of subsidiary undertakings or net assets and operations in 1998 which are accounted for on an acquisition basis:

	% Acquired	Date
Barclays Bank of Spain SA	0.1	31st March 1998
Menlo Investments Ltd	100	19th June 1998
Barclays Bank of Ghana Ltd	30	29th June 1998
Global Equity Financing unit from Daiwa	N/A	2nd July 1998
LongView Inc	100	20th August 1998
Barclays Bank of Uganda Ltd	49	6th October 1998
		1998
		£m
Net assets acquired:		
Cash and balances at central banks		4
Loans and advances to banks and customers		3,426
Debt securities and equity shares		1,016
Other		1
Customer accounts		(2,407)
Other liabilities		(1,995)
Minority shareholders' interests		9
		54
Goodwill		20
Satisfied by cash		74

There were no significant adjustments to the valuation of assets and liabilities of the above acquisitions.

55 Related party transactions

a) Subsidiary undertakings

Details of the principal subsidiary companies are shown in note 46. In accordance with FRS 8, transactions or balances between Group entities that have been eliminated on consolidation are not reported.

b) Associated undertakings and joint ventures

The Group provides certain banking and financial services for associated undertakings and joint ventures. These are conducted on similar terms to third party transactions and are not material to the Group's results. Details of lendings to associated undertakings and joint ventures are set out in notes 17 and 18.

c) Pension funds, unit trusts and investment funds

The Group provides a number of normal banking and financial services for the Barclays Bank pension funds (principally the UK Retirement Fund), and also for unit trusts and investment funds managed by Group companies which are conducted on similar terms to third party transactions and are not material to the Group.

d) Directors

Details of Directors' emoluments are set out in note 56 and in the Corporate governance section on pages 82 to 90. Details of transactions between Directors and the Group are set out in note 58.

56 Directors' emoluments and other benefits

The aggregate emoluments and other benefits of the Directors of Barclays PLC set out below are disclosed in accordance with Part I of Schedule 6 to the Companies Act 1985.

	1998 £000	1997 £000
Aggregate emoluments	4,196	3,405
Gains made on the exercise of share options	1,142	2,197
Amounts paid under long-term incentive schemes	115	762
Compensation for loss of office	1,588	936
Notional pension contributions to money purchase schemes (1998 and 1997: 2 Directors)	266	477

5 Directors are accruing retirement benefits under a defined benefit scheme (1997 5 directors). In addition, pensions in respect of management services of former Directors amount to £51,995 (1997 £140,142).

The amount paid under long-term incentive schemes in 1997 represents a payment to Mr Taylor related to the market price of Barclays PLC ordinary shares.

Of the other figures in the table above, the amounts attributable to the highest paid Director (1998 and 1997 Mr Taylor) are as follows:

	1998 £000	1997 £000
Aggregate emoluments	957	1,047
Notional pension contribution to money purchase schemes	212	202
Defined benefit scheme: accrued pension at year end	7	6

Further information on Directors' emoluments, compensation, shareholdings and options is given in the Corporate governance section on pages 82 to 90.

57 Directors' and officers' shareholdings and options

Directors' interests in ordinary shares of Barclays PLC

	At 1st January 1998*		At 31st December 1998	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Executive				
ARF Buxton	50,589	23,000	55,562	21,000
Sir Andrew Large	-	-	500	-
CJ Lendrum	10,240	-	9,943	-
Sir Peter Middleton	6,222	-	28,876	25,000
OHJ Stocken	53,307	-	31,413	24,600
JS Varley	11,937	-	11,997	-
Non-executive				
TDG Arculus	1,709	-	1,755	-
ME Baker	3,120	-	3,175	-
HM Cropper	1,000	-	1,051	-
PJ Jarvis	1,063	-	1,221	-
Sir Nigel Mobbs	10,391	10,281	10,437	5,000
Sir Nigel Rudd	1,000	-	1,046	-

* Or date appointed to the Board if later.

Beneficial interests in the table above represent shares held by Directors, either directly or through a nominee, their spouses and children under eighteen. They include any interests held through the 1991 UK Profit Sharing Schemes, but do not include interests under the Barclays Group Performance Share Plan and the Executive Share Award Scheme which are administered by the Trustees of the Barclays Group Employees' Benefit Trusts. Details of Directors' participation in these plans are given in the Corporate governance section on pages 82 to 90. At 31st December 1998, executive Directors, together with other senior executives, were potential beneficiaries in respect of a total of 8,111,464 Barclays PLC ordinary shares (1st January 1998 6,537,562) held by the Barclays Group Employees' Benefit Trusts.

57 Directors' and officers' shareholdings and options (continued)

The beneficial ownership of the ordinary share capital of Barclays PLC by all Directors and officers of Barclays PLC (involving 20 persons) and Barclays Bank PLC (involving 21 persons) at 31st December 1998 amounted to 201,329 £1 ordinary shares (0.01% of ordinary share capital outstanding).

Share options

Executive Directors have been granted options to purchase Barclays PLC ordinary shares under the Executive Share Option Scheme and certain executive Directors also participate in the SAYE Share Option Scheme.

The Executive Share Option Scheme is a long-term incentive scheme and is currently available by invitation to certain senior executives, with grants usually made annually being approved by the Board on the recommendation of the Remuneration Committee in consultation with the Chairman and Chief Executive. From 1996, options granted to other eligible executives will only be exercisable if the relevant performance condition set by the Remuneration Committee has been satisfied. The performance condition attached to options granted in 1996 was that such options will only be exercisable if the growth in earnings per share of the Company over a three year period exceeds the growth in the Retail Prices Index by at least two percentage points per annum over the period as a whole. Options are issued at the market price at the date of the grant, calculated in accordance with the rules of the Scheme, without any discount and are normally exercisable between three and ten years from that date. There are currently 908 executive Directors and past and present employees who hold options under the Scheme. Executive Directors and senior executives who receive an award in any year under the Barclays Group Performance Share Plan will not normally be granted options under the Executive Share Option Scheme in that year. In certain circumstances, particularly in recruitment, the Group may be inappropriately constrained by restricting participation for Directors and senior executives to either PSP or ESOS and therefore may make an award of both in the same year.

Executive Directors and officers of Barclays PLC as a group (involving 14 persons) held, at 31st December 1998, options to purchase 625,850 Barclays PLC £1 ordinary shares at prices ranging from 2.72p to 12.67p under the SAYE Share Option Scheme and ranging from 5.44p to 15.90p under the Executive Share Option Scheme, exercisable in the period from 1999 to 2008. Further details of Directors' holdings of options are given in the Corporate Governance section.

Since 31st December 1998, Sir Peter Middleton and Mr Stocken have acquired 3 and 20 shares respectively through the automatic reinvestment of dividends by their PEP Manager. There has also been a decrease of 30,264 to 8,081,200 in the number of Barclays PLC shares held by the Barclays Group Employees' Benefit Trusts of which certain Directors are potential beneficiaries. There are no further changes in any of the Directors' interests as at 15th February 1999.

58 Contracts with Directors and connected persons and with senior executives

The aggregate amounts outstanding at 31st December 1998 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were during the year, Directors of Barclays PLC and persons connected with them and for senior executives, within the meaning of the Banking Act 1987, of Barclays Bank PLC were:

	Number of Directors or senior executives	Number of connected persons	Amount £000
Directors			
Loans	3	2	127
Quasi-loans and credit card accounts	13	9	802
Senior executives			
Loans	27	-	3,723
Quasi-loans and credit card accounts	30	-	35

There are no transactions, arrangements or agreements with Barclays PLC or its subsidiary undertakings in which Directors, or persons connected with them, or senior executives of Barclays Bank PLC had a material interest and which are disclosable under the relevant provisions of the Companies Act 1985, other than options to subscribe for ordinary shares under the Barclays PLC Executive and SAYE Share Option Schemes.

59 Segmental analysis

By geographical segments (a, b)	1998	1998	1997	1997	1996	1996
	£m	%	£m	%	£m	%
Interest receivable						
United Kingdom	7,031	71	6,522	71	6,014	69
Foreign UK-based	764	8	552	6	597	7
Other European Union	832	8	921	10	1,092	12
United States	653	7	528	6	394	5
Rest of the World	632	6	604	7	633	7
	9,912	100	9,127	100	8,730	100
Fees and commissions receivable						
United Kingdom	2,146	71	2,267	71	2,224	70
Foreign UK-based	126	4	55	2	39	1
Other European Union	227	8	238	7	275	9
United States	281	9	260	8	256	8
Rest of the World	228	8	377	12	374	12
	3,008	100	3,197	100	3,168	100
Dealing profits						
United Kingdom	12	(36)	108	29	262	63
Foreign UK-based	(71)	215	190	51	88	21
Other European Union	4	(12)	2	1	16	4
United States	-	-	17	4	20	5
Rest of the World	22	(67)	57	15	28	7
	(33)	100	374	100	414	100
Other operating income						
United Kingdom	182	56	78	39	145	58
Foreign UK-based	16	5	8	4	3	1
Other European Union	73	23	59	30	56	23
United States	27	8	16	8	17	7
Rest of the World	26	8	39	19	27	11
	324	100	200	100	248	100
Gross income (f)						
United Kingdom	9,371	71	8,975	70	8,645	69
Foreign UK-based	835	6	805	6	727	6
Other European Union	1,136	9	1,220	10	1,439	11
United States	961	7	821	6	687	6
Rest of the World	908	7	1,077	8	1,062	8
	13,211	100	12,898	100	12,560	100
Profit/(loss) on ordinary activities before tax						
United Kingdom	1,570	82	1,113	65	1,797	78
Foreign UK-based	(64)	(3)	289	17	205	9
Other European Union	241	13	118	7	(22)	(1)
United States	67	3	96	5	175	7
Rest of the World	104	5	100	6	151	7
	1,918	100	1,716	100	2,306	100
Attributable profit/(loss)						
United Kingdom	1,125	83	723	64	1,297	79
Foreign UK-based	(71)	(5)	155	14	123	7
Other European Union	213	16	107	9	(19)	(1)
United States	21	2	86	8	146	9
Rest of the World	47	4	59	5	92	6
	1,335	100	1,130	100	1,639	100

59 Segmental analysis (continued)

	1998 £m	1998 %	1997 £m	1997 %	1996 £m	1996 %
Total assets						
United Kingdom	140,428	64	145,954	63	134,260	72
Foreign UK-based	14,018	6	18,303	8	9,308	5
Other European Union	18,490	9	19,872	8	18,448	10
United States	24,886	11	25,667	11	12,551	7
Rest of the World	21,672	10	22,633	10	10,594	6
	219,494	100	232,429	100	185,161	100
Net assets						
United Kingdom	6,326	77	5,914	74	5,852	77
Foreign UK-based	454	5	371	5	260	3
Other European Union	484	6	530	7	513	7
United States	599	7	637	8	532	7
Rest of the World	374	5	494	6	430	6
	8,237	100	7,946	100	7,587	100
By class of business (a, c)						
Net Interest Income						
Retail Financial Services (g)	2,821	65	2,594	64	2,435	62
Corporate Banking (g), (e)	1,174	27	1,059	26	1,047	27
Barclays Capital	428	10	337	9	311	8
Barclays Global Investors	9	-	7	-	4	-
Businesses in transition	(1)	-	31	1	49	1
Other	(116)	(2)	10	-	95	2
	4,315	100	4,038	100	3,941	100
Non Interest Income						
Retail Financial Services (e)	1,962	64	1,825	52	1,774	49
Corporate Banking	623	20	579	16	618	17
Barclays Capital	174	6	547	16	465	13
Barclays Global Investors	279	9	260	7	243	7
Businesses in transition	31	1	434	12	561	15
Other	171	6	145	4	131	4
Inter business class income included above	(170)	(6)	(237)	(7)	(185)	(5)
	3,070	100	3,553	100	3,607	100
Total Income (f)						
Retail Financial Services (e), (g)	4,783	65	4,419	58	4,209	56
Corporate Banking (e), (g)	1,795	24	1,638	22	1,665	22
Barclays Capital	602	8	884	12	776	10
Barclays Global Investors	288	4	267	3	247	3
Businesses in transition	30	-	465	6	610	8
Other	57	1	155	2	226	3
Inter business class income included above	(170)	(2)	(237)	(3)	(185)	(2)
	7,385	100	7,591	100	7,548	100
Profit/(loss) on ordinary activities before tax						
Retail Financial Services (e)	1,519	79	1,259	73	1,147	50
Corporate Banking (e)	932	49	844	49	788	34
Barclays Capital	(265)	(14)	252	15	207	9
Barclays Global Investors	52	3	51	3	43	2
Businesses in transition	15	1	(126)	(7)	53	2
Other	(244)	(13)	(108)	(6)	11	1
Unallocated items (d)	(91)	(5)	(456)	(27)	57	2
	1,918	100	1,716	100	2,306	100

59 Segmental analysis (continued)

	1998	1998	1997	1997	1996	1996
	£m	%	£m	%	£m	%
Total assets						
Retail Financial Services	46,150	21	41,698	18	40,835	22
Corporate Banking	42,853	20	36,505	16	34,292	19
Barclays Capital	117,194	53	134,680	58	90,491	49
Barclays Global Investors	183	-	161	-	105	-
Businesses in transition	554	-	9,248	4	9,549	5
Other	5,475	3	4,178	2	5,049	3
Retail life-fund attributable to policyholders	7,085	3	5,959	2	4,840	2
	219,494	100	232,429	100	185,161	100
Net assets						
Retail Financial Services	2,549	31	2,359	29	2,274	30
Corporate Banking	2,427	29	2,122	27	2,061	27
Barclays Capital	2,362	29	2,210	28	2,102	28
Barclays Global Investors	95	1	59	1	29	-
Businesses in transition	35	-	483	6	369	5
Other	769	10	713	9	752	10
	8,237	100	7,946	100	7,587	100

Notes

- (a) The analyses above are for Barclays PLC. Figures for attributable profit differ for Barclays Bank PLC and are shown on page 161.
- (b) Basis of geographical and business analysis – see Analyses by geographical segments and classes of business on page 98.
- (c) The term 'Other' covers (i) Other operations and (ii) Head office functions.
- (d) 'Unallocated items' in 1998 consist of (i) settlement of Atlantic litigation £76m (1997 Enil, 1996 Enil), (ii) Goodwill amortisation £12m, (1997 £12m, 1996 £13m), (iii) Profit on disposal of Group undertakings £4m, (1997 £44m, 1996 £70m), (iv) Loss on sale or restructuring of BZW £3m (1997 £469m, 1996 Enil) and (v) write-down of fixed asset investments £4m (1997 £19m, 1996 Enil).
- (e) Figures for Retail Financial Services and Corporate Banking include respectively the life-fund charge and write-down of leases arising from the relevant 1997 and 1998 Finance Acts.
- (f) Gross income for geographical disclosure includes interest receivable, fees and commissions receivable, dealing profits and other operating income. Total income for class of business disclosure analyses operating income from the profit and loss account.
- (g) Net interest income and total income include the following amounts relating to problem country debt management, Retail Financial Services Enil, (1997 £2m, 1996 £3m) and Corporate Banking £2m, (1997 £4m, 1996 £6m).

60 Differences between UK GAAP (UK) and US GAAP (US) accounting principles

The accounts presented in this report have been prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). Such principles vary in significant respects from those generally accepted in the United States (US GAAP). Preparing the financial statements requires the use of management's estimates. The significant differences applicable to the Group's accounts are summarised below (see also notes 61 to 64).

UK GAAP

Goodwill

Goodwill arising on acquisitions of subsidiary and associated undertakings and joint ventures is capitalised and amortised through income over its expected life (with a maximum of 20 years). Capitalised goodwill is written off when judged to be irrecoverable. There is therefore no UK/US GAAP difference for goodwill arising since the introduction of FRS 10 during 1998. However, in the event of a subsequent disposal, any goodwill previously charged directly against reserves under Statement of Standard Accounting Practice (SSAP 22) will be written back and reflected in the profit or loss on disposal.

Pension cost

In respect of defined benefit schemes, pension fund assets are assessed actuarially at the present value of the expected future investment income, which is consistent with SSAP 24. Most liabilities are discounted at a long-term interest cost and most variations from regular cost are expressed as a percentage of payroll and spread over the average remaining service lives of current employees.

For defined contribution schemes the net pension cost for a period is the contribution called for in that period in accordance with SSAP 24.

Post-retirement benefits

Post-retirement health care liabilities are assessed actuarially on a similar basis to pension liabilities under SSAP 24 and are discounted at a long-term rate. Variations from regular cost are expressed as a percentage of payroll and spread over the average remaining service lives of current eligible employees.

Leasing – lessor

Finance lease income is recognised in proportion to the funds invested in the lease using a method which results in a level rate of return on the net cash investment.

Leasing – lessee

In accordance with FRS 5, leases are categorised as finance leases when the substance of the agreement is that of a financing transaction and the lessee assumes substantially all of the risks and benefits relating to the asset. All other leases are categorised as operating leases.

Deferred tax

Deferred tax is provided using the liability method on timing differences where it is considered probable that a liability to tax will crystallise.

No deferred tax asset is created in respect of the general provision for bad and doubtful debts which is not deductible in arriving at UK taxable profits.

Property depreciation

Depreciation is charged on the cost or revalued amounts of freehold and long leasehold properties over their estimated useful economic lives.

US GAAP

Goodwill is capitalised and amortised through income over the period estimated to benefit. In Barclays case, a period of 20 years has been used. Goodwill is written off when judged to be irrecoverable.

In respect of defined benefit schemes, the same basic actuarial method is used under Statement of Financial Accounting Standards (SFAS) No. 87 as under UK GAAP, but certain assumptions differ, assets are assessed at fair value and liabilities are assessed at current settlement rates. Certain variations from regular cost are allocated in equal amounts over the average remaining services lives of current employees.

For defined contribution schemes SFAS No. 87 provides for the same treatment as SSAP 24.

Under SFAS No. 106, there are certain differences in the actuarial method used and variations in the computation of regular cost as compared with UK GAAP.

Application of SFAS No. 13 gives rise to a level rate of return on the investment in the lease, but without taking into account tax payments and receipts. This results in income being recognised in different periods than under UK GAAP.

Leases are classified as capital leases when any of certain criteria are met as outlined under SFAS No. 13. All other leases are classified as operating leases.

Under SFAS No. 109, a liability method is also used, but deferred tax assets and liabilities are calculated for all temporary differences, including the general provision for bad and doubtful debts. A valuation allowance is raised against a deferred tax asset where it is more likely than not that some portion of the deferred tax asset will not be realised.

Freehold and long-leasehold property is depreciated based on the historical cost.

60 Differences between UK and US accounting principles (continued)

UK GAAP

Revaluation of property

Property is carried either at original cost or at subsequent valuation less related depreciation (as described in Accounting policies), calculated on the revalued amount where applicable. Revaluation surpluses are taken directly to shareholders' funds, while deficits below cost, less any related depreciation, are included in attributable profit.

Shareholders' interest in the long-term assurance fund

The shareholders' interest in the in-force life assurance and pensions policies of the long-term assurance fund is valued at the net present value of the profits inherent in such policies.

Disposal of investments

Exchange rate translation differences, which arise in respect of foreign currency denominated investments, are included in the carrying value of the investment and are also accumulated in the reserves in the consolidated accounts. The profit or loss on any disposal is calculated by comparing the net proceeds with the then carrying value of the investment.

Share compensation schemes

Where shares are purchased, the difference between the purchase price and any contribution made by the employee is charged to the profit and loss account in the period to which it relates. Where shares are issued, no charge is made to the profit and loss account.

Net unrealised gain/loss on investment securities

Investment debt securities and equity shares are stated at amortised amount less provision for diminution in value. Investment securities are those intended for use on a continuing basis by the Group.

Provision for credit losses

The Group establishes, through charges or credits against profit, sufficient specific provision to cover the estimated loss as soon as the recovery of a lending is identified as doubtful. General provisions are raised to cover losses which are judged to be present in the loan portfolio, but have not been specifically identified as such. This provision is adjusted by an appropriate charge or release.

US GAAP

Revaluations of property are not permitted in the accounts under US GAAP. As a result, when a property is disposed of, a greater profit or lower loss is generally recorded under US GAAP than under UK GAAP.

The net present value of the profits inherent in the in-force life and pensions policies of the long-term assurance fund is not recognised by the Group under US GAAP. An adjustment is made for the amortisation of acquisition costs and fees in accordance with SFAS No. 97.

SFAS No. 52 requires similar treatment of exchange rate translation differences, except that, on disposal, cumulative exchange rate translation differences, which have previously been taken to reserves, are reversed and reported as part of the profit or loss on sale of the investment.

SFAS No. 123 encourages the adoption of accounting for share compensation schemes, based on their estimated fair values at the date of the grant.

SFAS No. 115 requires that certain securities which are intended for use on a continuing basis be recorded at fair value with unrealised gains and losses recorded in shareholders' equity. The securities so treated are debt securities which are 'available for sale' - the absence of intent and ability to hold them to maturity - and certain marketable equity securities.

SFAS No. 114 requires the overall credit risk provision of impaired loans to be determined based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or, as a practical expedient, on the loan's observable market value, or the fair value of collateral if the loan is collateral dependent. A corresponding charge or credit for bad debt provisions should accompany any adjustment in the overall credit risk provision. Smaller balance homogeneous consumer loans that are collectively evaluated for impairment are outside the scope of SFAS No. 114, as are debt securities and leases.

60 Differences between UK and US accounting principles (continued)

UK GAAP

Dividend payable

Dividends declared after the period end are recorded in the period to which they relate.

Taxation

Profit before tax and the tax charge for the year includes advance corporation tax on dividends received, together with notional tax at the effective rate on the shareholders' interest in the long-term fund.

Acceptances

Acceptances are not recorded within the balance sheet.

Transfer and servicing of financial assets

Under FRS 5 where a transaction involving a previously recognised asset transfers to others (a) all significant rights or other access to benefits relating to that asset and (b) all significant exposure to the risks inherent in those benefits, the entire asset should cease to be recognised.

Extinguishment of liabilities

Under FRS 5, a liability is extinguished if an entity's obligation to transfer economic benefits is satisfied or removed. Satisfaction would encompass an 'in-substance' defeasance transaction where liabilities are satisfied from the cash flows arising from essentially risk free assets transferred by the debtor to an irrecoverable defeasance trust.

Restructuring of business provisions

In accordance with FRS 3, provisions have been made for any direct costs and net future operating losses arising from a business that management is committed to terminate.

US GAAP

Dividends are recorded in the period in which they are declared.

Income before tax and the tax charge do not include adjustments for notional tax.

Acceptances and the related customer liabilities are recorded within the balance sheet.

Under SFAS No. 125 control passes where the following criteria are met: (a) the assets are isolated from the transferor (the seller), i.e. they are beyond the reach of the transferor, even in bankruptcy, receivership etc., (b) the transferee (the buyer) has the right - free of any conditions that constrain it from taking advantage of the right - to pledge or exchange the assets, and (c) the transferor does not maintain effective control over the transferred assets.

Under SFAS No. 125 a debtor may de-recognise a liability if and only if either (a) the debtor pays the creditor and is relieved of its obligation for the liability, or (b) the debtor is legally released from being the primary obligor under the liability either financially or by the creditor. SFAS No. 125 does not allow for the de-recognition of a liability by means of an 'in-substance' defeasance transaction.

The application of Emerging Issues Task Force (EITF) 94-3 has created recognition timing differences in respect of certain of the termination provisions. EITF 94-3 sets out specific conditions which must be met to enable liabilities relating to involuntary terminations to be recognised in the period management approve the termination plan. In respect of costs other than employee termination benefits, the basic requirement for recognition at the date of commitment to the plan to terminate is that they are not associated with, or do not benefit, activities that will be continued.

Developments in US GAAP

AICPA SOP 98-1 'Accounting for the costs of Computer Software Developed or Obtained for Internal Use' requires certain costs incurred in respect of software for internal use to be capitalised and subsequently amortised. The SOP is applicable for fiscal years beginning after 15th December 1998. Barclays is currently reviewing the impact of this SOP on the reconciliations between UK and US GAAP.

SFAS No. 133 'Accounting for Derivative Instruments and Hedging Activities' introduces new criteria which need to be met in order to achieve hedge accounting and it requires that all derivatives be measured at fair value. SFAS No. 133 is applicable from 1st January 2000 and Barclays is currently considering the implications of this Standard for reporting in that year.

60 Differences between UK and US accounting principles (continued)

The following table summarises the significant adjustments to consolidated attributable profit (net income under US GAAP) and shareholders' funds (shareholders' equity under US GAAP) which would result from the application of US GAAP instead of UK GAAP.

	Note	1998 £m	1997 £m	1996 £m
Attributable profit of Barclays PLC Group (UK GAAP)		1,335	1,130	1,639
Goodwill	(a)	(78)	34	(26)
Pension cost	(b)	154	114	(11)
Post-retirement benefits	(b)	(5)	-	(1)
Leasing - lessor	(c)	84	91	(40)
Leasing - lessee	(d)	3	3	2
Deferred tax	(e)	35	3	(39)
Property depreciation		4	5	2
Share compensation schemes	(f)	(19)	(11)	(5)
Shareholders' interest in the long-term assurance fund		(55)	(18)	(16)
Property revaluation differences		18	15	16
Disposal of investment		(9)	(4)	3
Restructuring of business provisions	(l)	(17)	36	-
Advance corporation tax and notional tax		(13)	(26)	(73)
Tax effect on the above UK/US GAAP reconciling items		(67)	(98)	94
Approximate net income (US GAAP)		1,370	1,274	1,545
Barclays PLC Group		p	p	p
Basic earnings per £1 ordinary share	(g)	90.8	83.9	98.2
Diluted earnings per £1 ordinary share	(g)	89.4	82.3	96.8
		Barclays PLC Group		
		1998	1997	
		£m	£m	
Shareholders' funds (UK GAAP)		7,923	7,620	
Goodwill		93	182	
Pension cost	(b)	110	(44)	
Post-retirement benefits	(b)	4	10	
Leasing - lessor	(c)	(137)	(182)	
Leasing - lessee	(d)	12	9	
Deferred tax	(e)	34	(1)	
Property depreciation		(48)	(52)	
Share compensation schemes	(f)	(36)	(17)	
Shareholders' interest in the long-term assurance fund		(624)	(569)	
Revaluation of property	(i)	(303)	(295)	
Net unrealised gain on investment securities	(h)	230	221	
Dividend payable		414	359	
Own shares	(q)	(43)	(43)	
Restructuring of business provisions	(l)	19	36	
Tax effect on the above UK/US GAAP reconciling items		133	175	
Approximate shareholders' equity (US GAAP)		7,781	7,409	

For the purposes of SFAS No. 130 'Reporting Comprehensive Income', the total comprehensive income was £1,417m (1997 £1,153m, 1996 £1,286m) incorporating net income as set out above together with other comprehensive income consisting of net exchange translation differences (including reclassification to net income on disposal of investments) of £40m (1997 (£96m), 1996 (£215m)) and net unrealised gains on investment securities of £7m (1997 (£25m), 1996 (£44m)).

Accumulated other comprehensive income consists of net exchange translation differences of (£296m) (1997 (£336m)) and unrealised gains (net of tax) on investment securities of £159m (1997 £152m).

60 Differences between UK and US accounting principles (continued)

Selected financial data, adjusted from UK GAAP to reflect the main differences from US GAAP, is given on page 164.

a) Goodwill

The US GAAP net charge includes an amount of £83m charged following a review undertaken of purchased goodwill which has been written off against reserves under UK GAAP.

b) Pension cost and post-retirement benefits

The measurement of US GAAP pension expense and post-retirement benefits charge is undertaken in accordance with the requirements of SFAS No. 87 'Employers' Accounting for Pensions', and SFAS No. 106 'Employers' Accounting for Post-retirement Benefits other than Pensions' respectively. The disclosure requirements in the two statements have, however, been amended by SFAS No. 132 'Employers' Disclosures about Pensions and Other Post-retirement Benefits', and these new requirements have been adopted below.

In accordance with SFAS No. 87 the excess of pension plan assets over the projected benefit obligation, as at the transition date, is recognised as a reduction of pension expense on a prospective basis over approximately 15 years.

The provisions of US GAAP have only been applied to the main UK pension scheme, the UK Retirement Fund (previously known as the Barclays Bank (1964) Pension Fund). The following analysis relates to the 1964 Pension Scheme (defined benefit) element of the UK Retirement Fund, which makes up over 90% of all the Group's schemes in terms of assets and actuarial liabilities. The impact of US GAAP on the other Group schemes is considered to be immaterial.

The components of the pension and post-retirements expense which arise under US GAAP are estimated to be as follows:

	1998		1997		1996	
	Pensions	Post-retirement benefits	Pensions	Post-retirement benefits	Pensions	Post-retirement benefits
Components of net periodic benefit cost	£m	£m	£m	£m	£m	£m
Service cost	235	4	214	6	219	2
Interest cost	465	12	505	10	496	11
Expected return on plan assets	(692)	-	(676)	-	(607)	-
Amortisation of prior service cost	(25)	6	(25)	7	(25)	6
Recognised net actuarial gain	(137)	-	(107)	-	(47)	-
Net periodic benefit cost	(154)	22	(89)	23	36	19

The US GAAP pension credit compares with a £nil charge under UK GAAP (1997 £25m charge, 1996 £25m charge).

The US GAAP post-retirement benefits expense compares with £17m in 1998 under UK GAAP (1997 £23m, 1996 £18m).

60 Differences between UK and US accounting principles (continued)

b) Pension cost and post-retirement benefits (continued)

The following table presents the estimated funded status of the Pension scheme and post-retirement benefits (the latter are unfunded) under US GAAP:

	1998		1997		1996	
	Pensions	Post-retirement benefits	Pensions	Post-retirement benefits	Pensions	Post-retirement benefits
	£m	£m	£m	£m	£m	£m
Change in benefit obligation						
Benefit obligation at beginning of year	7,311	184	6,463	173	6,338	163
Service cost	235	4	214	6	219	2
Interest cost	465	12	505	10	496	11
Amendments(amortisation of transitional amount)	-	-	-	2	-	-
Actuarial loss/(gain)	2,578	52	433	1	(305)	6
Benefits paid	(312)	(9)	(304)	(8)	(285)	(9)
Benefit obligation at end of year	10,277	243	7,311	184	6,463	173
Change in plan assets						
Fair value of plan assets at beginning of year	10,026	-	8,584	-	7,703	-
Actual return on plan assets	(192)	-	1,701	-	1,121	-
Employer contribution/transfers	(29)	-	45	-	45	-
Benefits paid	(312)	-	(304)	-	(285)	-
Fair value of plan assets at end of year	9,493	-	10,026	-	8,584	-
Funded status	(784)	(243)	2,715	(184)	2,121	(173)
Unrecognised transition amount	(115)	80	(140)	86	(165)	94
Unrecognised net actuarial loss/(gain)	1,010	71	(2,620)	19	(2,115)	16
Prepaid /(accrued) benefit cost	111	(92)	(45)	(79)	(159)	(63)

Pension plan assets are invested primarily in equities, fixed interest securities and property.

Further details of the post-retirement health care expense under UK GAAP are given in note 5 to the accounts.

In accordance with US GAAP requirements the actuaries for the pensions plan used the following assumptions on a weighted average basis; discount rate of 5.0% (1997 6.5%, 1996 8.0%), rate of compensation increase of 4.0% (1997 5.0%, 1996 6.0%), and expected long-term rate of return on plan assets of 6.5% (1997 7.0%, 1996 8.0%).

In accordance with the US GAAP requirements the accounting for the post-retirement benefits charge assumed a discount rate of 5.0% (1997 7.5%, 1996 7.5%), on a weighted average basis.

c) Leasing – lessor

The leasing adjustment is dependent upon the value and average age of the leasing portfolio at each period end.

d) Leasing – lessee

Under US GAAP, provisions are made for losses arising on subleases of certain operating leases which are treated as finance leases under UK GAAP.

60 Differences between UK and US accounting principles (continued)

e) Deferred tax

In accordance with SFAS No. 109 'Accounting for Income Taxes', the components of the net US GAAP deferred tax liability are as follows:

	1998 £m	1997 £m
Deferred tax liabilities:		
Leasing transactions	(1,010)	(1,004)
Capital allowances	(55)	(51)
ACT	(1)	(2)
Other	(20)	(94)
Total deferred tax liabilities	(1,086)	(1,151)
Deferred tax assets:		
Specific allowances	87	106
General allowance	214	226
Tax losses	287	131
Leasing transactions	-	1
Other	78	59
Total deferred tax assets before valuation allowance	666	523
Less: valuation allowance	(267)	(131)
Deferred tax assets less valuation allowance	399	392
Net deferred tax liability under US GAAP	(687)	(759)

- (i) The main components of the tax charge attributable to continuing operations are shown in note 12 to the accounts.
- (ii) A reconciliation of tax payable at the UK standard corporation tax rate and Barclays effective tax rate is shown on page 30 in the Financial review.
- (iii) The valuation allowance relates to the Group's capital losses and unrelieved overseas tax losses. These assets will be recognised in the future when it becomes likely that they will be utilised.

f) Share compensation schemes

With effect from 1st January 1996, the Group adopted SFAS No. 123 'Accounting for Stock-Based Compensation'.

SFAS No.123 encourages the adoption of accounting for share compensation schemes based on their estimated fair value at the date of grant. The requirements are only applicable to options and other awards granted from 1st January 1995 onwards and, in the initial phase-in period, the amounts reported will not be representative of the effect on reported net income for future years. The SFAS No. 123 charge for the fair value of options granted since 1995 is £19m (1997 £11m, 1996 £5m).

The Executive Share Option Scheme and SAYE Share Option Scheme fall within the scope of SFAS No.123.

Analysis of the movement in the number and weighted average exercise price of options are set out below:

	Executive Share Option Scheme				SAYE Share Option Scheme			
	Number (000's)		Weighted av. ex. price (£)		Number (000's)		Weighted av. ex. price (£)	
	1998	1997	1998	1997	1998	1997	1998	1997
Outstanding at beginning of year	2,336	1,628	10.04	7.84	24,751	18,923	8.72	7.24
Granted in the year	1,314	874	15.90	13.88	8,156	6,751	12.35	12.67
Exercised in the year	(488)	(71)	7.75	7.69	(261)	(112)	7.58	6.80
Less: Forfeited in the year	(43)	(95)	13.39	9.46	(1,253)	(811)	8.82	7.41
Outstanding at end of year	3,119	2,336	12.82	10.04	31,393	24,751	9.67	8.72

The disclosures of options outstanding only relate to those granted from 1995 onwards.

60 Differences between UK and US accounting principles (continued)

f) Share compensation schemes (continued)

The range of exercise prices, weighted average fair values at the date of grant and the weighted average remaining contractual life for options outstanding at the balance sheet date are as follows:

	1998	1998	1998	1997	1997	1997
	Weighted average			Weighted average		
	Exercise price range	Fair value	remaining life	Exercise price range	Fair value	remaining life
	£	£	Years	£	£	Years
Executive Share Option Scheme	7.04-15.90	4.36	7	5.97-13.88	3.35	8
SAYE Share Option Scheme	6.28-12.67	3.80	3	6.28-12.67	3.28	4

Fair values are calculated at the date of grant using a binomial model which produces similar results to the Black-Scholes model. The significant weighted average assumptions used to estimate the fair value of the options granted in 1998 are as follows:

	ESOS	SAYE
Risk-free interest rate	5.15 %	5.17 %
Expected life (years)	8	5
Expected volatility	45 %	47 %

The expected dividends for both schemes are 45p with an assumed 8% per annum until exercise estimated average growth for the industry sector.

The Executive Share Option Scheme is a long-term incentive scheme and is currently available by invitation to certain senior executives of the Group with grants usually made annually. Options are issued at the market price at the date of the grant without any discount, calculated in accordance with the rules of the Scheme, and are normally exercisable between three and ten years from that date.

Eligible employees in the United Kingdom may participate in the SAYE Share Option Scheme. Under this Scheme, employees may enter into contracts to save up to £250 per month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings to acquire shares in the Company at a discount, calculated in accordance with the rules of the scheme. The discount is currently 10% of the market price at the date the options were granted.

45.7million (1997 49.3 million) options are outstanding under the terms of the SAYE Share Option Scheme and 3.4 million (1997 3.2 million) options are outstanding under the terms of the Executive Share Option Scheme, enabling certain Directors and members of staff to subscribe for ordinary shares between 1999 and 2008, at prices ranging from 272p to 1590p per share.

g) Earnings per share

Basic earnings per share (EPS) under US GAAP differs from UK GAAP (see note 15) only to the extent that income calculated under US GAAP differs from that under UK GAAP.

Diluted EPS measures the effect that existing options would have on the basic EPS if they were to be exercised, by increasing the number of ordinary shares.

Under US GAAP, the number of those increased shares are reduced by the number of shares that could be bought (using the average market price in the year) with the assumed exercise proceeds (actual proceeds arising on exercise plus unamortised compensation costs, where appropriate). Any options that are antidilutive are excluded from this calculation. (An option is antidilutive when the value of the deemed proceeds is greater than the market price used in the above calculation).

	1998	1998	1998	1997	1997	1997	1996	1996	1996
	Income	Share	Per-Share	Income	Share	Per-Share	Income	Share	Per-Share
	£m	no. (in millions)	amount Pence	£m	no. (in millions)	amount Pence	£m	no. (in millions)	amount Pence
Basic EPS									
Approximate net income (US GAAP) available to ordinary shareholders	1,370	1,510	90.8	1,274	1,519	83.9	1,545	1,573	98.2
Effect of dilutive securities									
Employee share options		19			24			23	
Other schemes		4			4				
Diluted EPS	1,370	1,533	89.4	1,274	1,547	82.4	1,545	1,596	96.8

60 Differences between UK and US accounting principles (continued)

g) Earnings per share (continued)

Of the total number of employee share options existing at the year end, the following were not included in the dilution calculation above because they were antidilutive:

1998 (in millions)	1997 (in millions)	1996 (in millions)
15	8	11

Certain incentive plan shares have been excluded from the calculation of the basic EPS as the trustee has waived all dividend and voting rights. These shares are subsequently brought into the diluted earnings per share calculation (called 'Other schemes') above.

h) Net unrealised gain on investment securities

Unlisted investment equity securities are outside the scope of SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities' and continued to be carried at cost of £275m at 31st December 1998 (1997 £84m). The estimated fair value of these securities was £292m (1997 £121m).

All quoted Investment securities are classified as being 'available for sale' and Other debt securities are classified as trading securities.

There were no material gross gains or gross losses realised on the transfer of debt and equity securities from the available for sale category into the trading category in 1998 or 1997.

i) Revaluation of property

In 1990 £449 million of property revaluation reserve was capitalised by the issue of bonus shares.

j) Loan impairment

SFAS No. 114 applies only to impaired loans, the measurement of which is primarily based upon the present value of expected future cash flows discounted at the loan's effective interest rate. In certain instances this measurement may reflect the loan's observable market value, or the fair value of the collateral if the loan is collateral dependent. Smaller balance homogeneous consumer loans that are collectively evaluated for impairment are outside the scope of SFAS No. 114, as are debt securities and leases. At 31st December 1998, the element of impaired loans outside the scope of SFAS No. 114 amounted to £1,550m (1997 £1,351m).

In accordance with SFAS No. 114, the Group's total impaired loans are those reported as non-performing on page 57, less impaired loans outside the scope of SFAS No. 114, and amount to £1,027m at 31st December 1998 (1997 £1,220m). Credit risk provisions of £512m, estimated in accordance with SFAS No. 114, were held against these loans (1997 £539m). The average level of such impaired lendings in 1998 was approximately £1,051m (1997 £1,658m).

Having compared the value of the impaired loan portfolio calculated in accordance with SFAS No. 114 with the carrying value under UK GAAP, no adjustment was required to either shareholders' equity at 31st December 1998 or 31st December 1997, or to net income for these years.

Where cash received represents the realisation of security, or there is doubt regarding the recovery of a loan, such receipts are treated as repayments of the loan principal. Otherwise, cash received in respect of impaired loans is recognised as interest income.

Estimated interest income which was recognised in 1998 on impaired loans within the scope of SFAS No. 114 was £14m (1997 £38m). SFAS No. 114 modifies the accounting for in-substance foreclosure, in that only collateralised loans where the Group takes physical possession of the collateral, regardless of formal insolvency procedures, would be reclassified as 'other real estate owned' under US GAAP. At 31st December 1998, other real estate owned and borrowings which would be classified as in-substance foreclosure amounted to approximately £5m (1997 £18m) and are recorded at the lower of cost or market value.

k) Impairment of long-lived assets

With effect from 1st January 1996, the Group adopted SFAS No. 121 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of'. At 31st December 1998 having compared the value of long-lived assets calculated in accordance with SFAS No. 121 with the carrying value under UK GAAP, no adjustment to net income or shareholders' funds was required.

l) Restructuring

In the year ended 31st December 1997 a restructuring charge, excluding goodwill, of £340m was raised under UK GAAP in relation to the reorganisation of the Group's investment banking and trading businesses. Under US GAAP some £304m of this charge would have been recognised in 1997. In 1998 £17m of the residual UK GAAP charge of £36m became effective for US GAAP purposes.

The total restructuring charge of £304m reflects severance and other termination related costs (£99m), costs in connection with planned dispositions of certain facilities (£84m) and other related costs (£64m); and losses on sale of businesses (£57m).

60 Differences between UK and US accounting principles (continued)

m) Other EITF 94-3 disclosures

For exit plans which meet the conditions of EITF 94-3, the US GAAP balance sheet liability at 31st December 1998 would have been £19m of which £7m was in respect of staff reduction costs (covering 200 employees), £8m in respect of the planned disposition of certain facilities and £4m covering other related costs. Costs paid in the year to 31st December 1998 amounted to £97m in respect of staff reduction (900 employees), £61m relating to the disposition of facilities and £60m for other related items. The sale of the businesses subject to the provision for loss on sale of £57m was completed in 1998.

n) Transfer and servicing of financial assets and extinguishment of liabilities

With effect from 1st January 1997, the Group adopted SFAS No. 125 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'. At 31st December 1998, the application of this standard resulted in an addition to US GAAP total assets of £4,319m. This increase is in respect of certain reverse repo transactions accounted for as secured lendings under UK GAAP but requiring recognition as purchases under SFAS 125. At 31st December 1997 the addition to US GAAP total assets amounted to £177m which related to funded loan participations which did not meet the SFAS requirements for derecognition. No adjustment to net income or shareholders' funds was required for 1998 or 1997.

o) Provisions for bad and doubtful debts

The UK GAAP specific provision charge in 1998 included £95m raised in respect of credit losses in derivatives of which £19m was included in the year end specific provisions. There were no significant comparable amounts as at 31st December 1997. Under US GAAP this charge would have been treated as a trading loss. In addition at 31st December 1998 some £30m of the general provision (December 1997 some £20m) was held in respect of off balance sheet exposures (including derivatives).

Specific provisions for contingent liabilities and commitments are accounted for separately (see note 35).

p) Profit and loss account presentation

There are certain differences in the presentation of the profit and loss account between UK GAAP and US GAAP. For example, profits or losses on redemption of loan capital would be classified as an extraordinary item under US GAAP rather than as a component of net interest income, while profit on disposal of Group undertakings and the write-down of surplus properties would be classified as operating income or expense under US GAAP rather than being shown separately. Under US GAAP, interest and dividends relating to trading activities would be shown within net interest revenue and other revenue respectively, rather than included in dealing profits.

q) Own shares

In accordance with ARB No. 51, Barclays PLC shares shown for UK GAAP within Other assets in note 26 on page 116 have been netted against US GAAP shareholders' equity.

61 Consolidated statement of cash flows – discussion of differences between FRS 1 (revised) and SFAS No. 95 (as amended by SFAS No. 104)

There are many similarities between SFAS No. 95, as amended by SFAS No. 104, and the UK FRS 1 (revised), which was implemented by Barclays in 1997.

The two statements differ with regard to the classification of items within the cash flow statement and with regard to the definition of cash.

	Classification under FRS 1 (revised)	Classification under SFAS No. 95
Dividends received	Returns on investment and servicing of finance	Operating activities
Dividends paid - equity	Equity dividends paid	Financing activities
Tax paid	Taxation	Operating activities
Net change in loans and advances, including finance lease receivables	Operating activities	Investing activities
Net change in deposits and debt securities in issue	Operating activities	Financing activities

Under FRS 1 (revised), cash is defined as cash and balances at central banks and loans and advances to banks repayable on demand. SFAS No. 95 defines cash as being inclusive of cash equivalents which are short-term highly liquid investments that are both readily convertible into known amounts of cash and that are so near to maturity that they present insignificant risk of changes in value because of changes in interest rates.

Under FRS 1 (revised), transactions undertaken to hedge another transaction are reported under the same classification as that which is the subject of the hedge.

Interest paid in the year, including amounts relating to trading activities, was £9,463m (1997 £8,226m, 1996 £6,731m).

61 Consolidated statement of cash flows – discussion of differences between FRS 1 (revised) and SFAS No. 95 (as amended by SFAS No. 104) (continued)

Set out below, for illustrative purposes, is a summary consolidated statement of cash flows presented on a US GAAP basis	1998 £m	1997 £m	1996 £m
Net cash provided by/(used in) operating activities	1,092	12,010	(1,797)
Net cash provided by/(used in) investing activities	20,832	(38,092)	(9,197)
Net cash provided by/(used in) financing activities	(15,317)	32,749	20,910
Effect of exchange rate changes on cash and due from banks	(1,305)	347	(893)
Net increase/(decrease) in cash and cash equivalents	5,302	7,014	9,023
Cash and cash equivalents at beginning of year	34,885	27,871	18,848
Cash and cash equivalents at end of year	40,187	34,885	27,871

62 Regulatory capital requirements

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

The FSA regards the risk asset ratio calculation originally developed by the Basle Committee as a key supervisory tool and sets individual minimum ratio requirements for banks in the United Kingdom at or above the minimum of 8%. The ratio calculation involves the aggregation of risk weighted assets across both banking and trading activities. Weightings reflect an estimate of relative risks associated with broad categories of transactions and counterparties.

The concept of risk weighting and the basis for calculating eligible capital resources are described under Capital ratios on page 36.

The following tables analyse capital resources and capital ratios, as defined for regulatory purposes:

Barclays PLC Group and Barclays Bank PLC Group	Amount £m	Ratio %
As at 31st December 1998		
Total net capital resources	11,766	10.7
Tier 1 capital resources	8,112	7.4
As at 31st December 1997		
Total net capital resources	10,804	10.0
Tier 1 capital resources	7,873	7.3

63 Significant Group concentrations of credit risk

SFAS No. 105 defines a concentration of credit risk as an exposure to a number of counterparties engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Barclays exposure to credit risk is concentrated in the United Kingdom where the majority of the Group's activities are conducted. As one of the largest UK banks, Barclays accounts for a significant share of credit exposure to almost all sectors of the economy and the Group is therefore significantly affected by the general economic conditions in the United Kingdom. However, credit risk is well spread over a diversity of both personal and commercial customers, reflecting the Group's risk management policy of imposing limits on exposure to any one single counterparty (see Financial review – Potential credit risk lendings and Risk management).

Outside the United Kingdom, the Group's geographical spread ensures a wide variety of counterparties in the main areas of operation in Europe, the United States and other areas of the world.

As an active participant in the international banking markets, the Group has a significant concentration of credit risk with financial institutions. In total, credit risk exposure to financial institutions was estimated to have amounted to £67.5bn at 31st December 1998, of which £41.5bn consisted of placings and negotiable certificates of deposit and £11.2bn of mark to market balances in respect of exchange and interest rate contracts. The remaining credit risk exposure is largely related to letters of credit and guarantees. Within the overall exposure, the Group maintains relationships with more than 1,400 banking groups in countries all over the world.

Credit risk in respect of the property sector, included within loans and advances to customers, totalled £3.5bn world wide at 31st December 1998, with a further exposure of £1.8bn in respect of committed facilities.

See Financial review – Loans and advances to banks and customers, Securities and Trading activities.

64 Fair values of financial instruments

SFAS No. 107 'Disclosures About Fair Value of Financial Instruments', requires disclosure of the fair value of certain financial instruments (both on- and off-balance sheet) for which it is practicable to estimate such value.

Wherever possible, the Group has estimated fair value using market prices or data available for instruments with characteristics either identical or similar to those of the instruments held by the Group. In certain cases, however, including loans and advances to customers, no ready markets currently exist in the United Kingdom wherein exchanges between willing parties occur. Accordingly, various techniques have been developed to estimate what the approximate fair value of such instruments might be.

These estimation techniques are necessarily subjective in nature and involve several assumptions. There have been no significant changes in the estimation techniques or the methodology used compared with December 1997.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these accounts are thus advised to use caution when using this data to evaluate the Group's financial position.

Intangible assets, such as the value of the Group's branch network, long-term relationships with its depositors (core deposit intangibles) and credit card holders and capitalised goodwill arising on the acquisition of subsidiary or associated undertakings are not considered to constitute financial instruments for the purposes of SFAS No. 107. The Group, however, believes the value of such assets to be significant. Certain other assets and liabilities are likewise excluded from the scope of SFAS No. 107.

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in the majority of cases, particularly in respect of loans and advances to customers, the Group intends to realise assets through collection over time. As such, the fair values calculated for the purposes of reporting under SFAS No. 107 do not represent the value of the Group as a going concern at 31st December 1998.

The estimated fair values at 31st December 1998, and the estimation techniques used in arriving at such values, are summarised as follows:

Assets and liabilities for which fair value is equal to carrying value

The table below details those on-balance sheet assets and liabilities, within the scope of SFAS No. 107, which were either (i) carried at market value, or (ii) have minimal credit losses and were either short-term in nature or repriced frequently. As such, the carrying values of the following assets and liabilities presented on the balance sheets on pages 100 and 101, and 156 and 157 were an approximation of fair value.

Assets

Cash and balances at central banks
 Items in course of collection from other banks
 Treasury bills and other eligible bills
 Prepayments and accrued income (a)
 Other assets (a)
 Long-term assurance fund assets

Liabilities

Deposits by banks and customers repayable on demand (b)
 Items in course of collection
 Other liabilities (a)
 Accruals and deferred income (a)
 Provisions for liabilities and charges (a)
 Dividends payable
 Long-term assurance fund liabilities

(a) not including items excluded from the scope of SFAS No. 107.

(b) see notes 29 and 30.

Assets, liabilities and other financial instruments for which fair value is derived using market data and various estimation techniques.

Loans and advances to banks The fair value estimated for loans and advances to banks was approximately £36,600m (1997 £36,900m), as compared to a recorded value, net of provisions for bad and doubtful debts, of £36,612m (1997 £36,884m). Within this calculation, the fair value for placings to banks was estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics. The fair values for loans to banks in countries experiencing liquidity problems were arrived at by reference to secondary market prices.

Loans and advances to customers The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Several different techniques are employed, as considered appropriate, in estimating the fair value of such instruments. The fair value of personal loans was estimated either by discounting cash flows at market rates for similar loans offered by the Group and other financial institutions, or by taking into consideration market prices for securities backed by comparable loans, adjusted for differences in loan characteristics. The fair value of corporate loans was estimated by selecting a discount rate reflecting the effects of interest rate changes and making adjustments to take account of the effects of changes in credit risk. The fair values for loans to countries experiencing liquidity problems were arrived at by reference to secondary market prices. SFAS No. 107 does not require, nor has the Group calculated, an estimate of the fair value of lease receivables. For these, the fair value is presumed to equal the recorded value.

64 Fair values of financial instruments (continued)

The fair value estimated for loans and advances to customers and finance lease receivables at 31st December 1998 was approximately £96,800m (1997 £100,500m), as compared to a recorded value, net of provisions for bad and doubtful debts, of £96,110m (1997 £99,823m).

The fair value of loans subject to non-recourse finance arrangements net of non-returnable finance was approximately equal to the book value of £9m (1997 £8m).

Debt securities and equity shares The market or appraised values for debt securities and equity shares are set out in notes 20 and 21 respectively. The valuation of listed securities and investments is at mid-market prices and that of unlisted securities and investments is based on the Directors' estimate, which takes into consideration discounted cash flows, price earnings ratios and other suitable valuation techniques. At 31st December 1998 the fair value of all debt securities and equity shares was approximately £50,300m (1997 £56,200m) compared to a recorded value of £50,068m (1997 £55,956m).

Deposits by banks and customer accounts In accordance with SFAS No. 107, the fair value of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) was equal to their carrying value. The fair value of all other deposits and other borrowings was estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Group for deposits of similar remaining maturities.

The fair value estimated for deposits and other borrowings at 31st December 1998 was approximately £143,200m (1997 £152,900m), as compared to a recorded value of £143,225m (1997 £152,917m).

Debt securities in issue and other subordinated liabilities The fair value of debt securities in issue and other subordinated liabilities was estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by the Group and at 31st December 1998 was estimated to be £17,900m (1997 £20,500m), as compared to a recorded value of £17,824m (1997 £20,425m).

Dated and undated loan capital At 31st December 1998, the estimated fair values for dated and undated convertible and non-convertible loan capital, based upon quoted market rates for the issue concerned or equivalent issues with similar terms and conditions, were £2,100m (1997 £1,300m) and £1,700m (1997 £1,700m), compared with recorded values of £1,992m (1997 £1,211m) and £1,742m (1997 £1,657m) respectively.

Credit related instruments As outlined in note 47, the Group has various credit related commitments. However, based upon the level of fees currently charged for granting such commitments, taking into account maturity and interest rates, the present creditworthiness of the counterparties and the effect of related provisions, their replacement value or fair value is not material.

Market related instruments The Group uses various market related instruments, designated as hedges, to reduce exposure to fluctuations in interest and exchange rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used for valuing similar instruments used for trading purposes. The positive fair values of these market related instruments were approximately £1,437m more than the positive book value (1997 £438m more than the positive book value) and their negative fair values were £976m higher than the negative book value (1997 £60m higher than the negative book value).

Quoted market prices are adopted as fair values of financial instruments held or issued for trading purposes. If quoted market prices are not available, fair values are estimated on the basis of dealer quotes, pricing models, or the quoted prices for financial instruments with similar characteristics

Additional information on the fair values of financial instruments is given in note 47 to the accounts.

65 Ratio of earnings to fixed charges and preference share dividends

Ratio of earnings to fixed charges	1998	1997	1996	1995	1994
UK GAAP:					
Excluding interest on deposits	1.35	1.37	1.79	1.73	1.79
Including interest on deposits	1.20	1.20	1.33	1.27	1.30
US GAAP:					
Excluding interest on deposits	1.37	1.42	1.76	1.69	1.71
Including interest on deposits	1.21	1.23	1.32	1.26	1.26
Ratio of earnings to combined fixed charges and preference share dividends					
UK GAAP:					
Excluding interest on deposits	1.34	1.36	1.77	1.71	1.73
Including interest on deposits	1.19	1.19	1.32	1.27	1.28
US GAAP:					
Excluding interest on deposits	1.36	1.41	1.74	1.67	1.65
Including interest on deposits	1.21	1.22	1.31	1.25	1.25

Form 20-F cross reference and other information

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Currency of presentation

In this report, unless otherwise specified, all amounts are expressed in pounds sterling. For the years indicated, the high, low, average and year-end noon buying rates in New York City for cable transfers in pounds sterling, as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate), were:

	1998	1997	1996	1995	1994
		(US dollars per pound sterling)			
High	1.72	1.70	1.71	1.64	1.64
Low	1.61	1.58	1.49	1.53	1.46
Average*	1.66	1.64	1.56	1.58	1.54
Year-end	1.66	1.65	1.71	1.55	1.57

*The average of the Noon Buying Rates on the last day of each month.

On 19th February 1999, the Noon Buying Rate was \$1.63 per pound sterling. No representation is made that pounds sterling amounts have been, or could have been, or could be, converted into US dollars at that rate or at any of the above rates. For the purpose of presenting financial information in this report, exchange rates other than those shown above may have been used.

Glossary

Term used in annual report	US equivalent or brief description
Accounts	Financial statements
Advance corporation tax	No direct US equivalent. Tax paid on company distributions recoverable from UK taxes due on income
Allotted	Issued
Attributable profit	Net income
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Class of business	Industry segment
Fees and commissions receivable	Fee and commission income
Fees and commissions payable	Fee and commission expense
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest receivable	Interest income
Interest payable	Interest expense
Loans and advances	Lendings
Loan capital	Long-term debt
Net asset value	Book value
Profit	Income
Profit and loss account	Income statement
Profit and loss account reserve	Retained earnings
Provisions	Allowances
Revaluation reserve	No direct US equivalent. Represents the increase in the valuation of certain assets as compared with historical cost
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Shareholders' funds	Shareholders' equity
Share premium account	Additional paid-up capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Tangible fixed assets	Property and equipment
Write-offs	Charge-offs

Consolidated profit and loss account Barclays Bank PLC
For the year ended 31st December 1998

	Note	1998 £m	1997 £m	1996 £m
<i>Interest receivable:</i>				
<i>Interest receivable and similar income arising from debt securities</i>		1,419	1,305	976
<i>Other interest receivable and similar income</i>		8,493	7,822	7,754
		9,912	9,127	8,730
<i>Interest payable</i>		5,600	5,091	4,821
<i>Profit on redemption/repurchase of loan capital</i>	1	3	2	32
<i>Net interest income</i>		4,315	4,038	3,941
<i>Fees and commissions receivable</i>		3,008	3,197	3,168
<i>Less: fees and commissions payable</i>		(229)	(218)	(223)
<i>Dealing profits</i>	2	(33)	374	414
<i>Other operating income</i>	3	324	200	248
<i>Operating income</i>		7,385	7,591	7,548
<i>Administrative expenses - staff costs</i>	4	2,811	3,035	2,980
<i>Administrative expenses - other</i>	6	1,810	1,896	1,807
<i>Depreciation and amortisation</i>	7	275	269	301
<i>Operating expenses</i>		4,896	5,200	5,088
<i>Operating profit before provisions</i>		2,489	2,391	2,460
<i>Provisions for bad and doubtful debts</i>	19	492	227	215
<i>Provisions for contingent liabilities and commitments</i>	35	76	4	9
<i>Provisions</i>		568	231	224
<i>Operating profit</i>		1,921	2,160	2,236
<i>Loss on sale or restructuring of BZW</i>	9	(3)	(469)	-
<i>Profit on disposal of other Group undertakings</i>	10	4	44	70
<i>Write-down of fixed asset investments</i>	11	(4)	(19)	-
<i>Profit on ordinary activities before tax</i>		1,918	1,716	2,306
<i>Tax on profit on ordinary activities</i>	12	538	542	620
<i>Profit on ordinary activities after tax</i>		1,380	1,174	1,686
<i>Minority interests - equity</i>		(20)	(20)	(22)
<i>Profit for the financial year attributable to the members of Barclays Bank PLC (Net income)</i>		1,360	1,154	1,664
<i>Dividends payable to Barclays PLC</i>	c	(1,214)	(914)	(1,260)
<i>Dividends payable to preference shareholders</i>	c	(25)	(24)	(25)
<i>Profit retained for the financial year</i>		121	216	379

The note numbers refer to the notes on pages 105 to 152, whereas the note letters refer to those on pages 160 to 162.

For each of the years reported above, there was no material difference between profit before tax and profit retained, and historical cost profits.

Statement of total recognised gains and losses

For the year ended 31st December 1998

	1998 £m	1997 £m	1996 £m
<i>Profit for the financial year attributable to the members of Barclays Bank PLC</i>	1,360	1,154	1,664
<i>Exchange rate translation differences</i>	30	(91)	(235)
<i>Other items</i>	30	-	-
<i>Total recognised gains relating to the year</i>	1,420	1,063	1,429

Consolidated balance sheet Barclays Bank PLC
As at 31st December 1998

	Note	1998 £m	1998 £m	1997 £m	1997 £m
Assets					
Cash and balances at central banks			942		750
Items in course of collection from other banks			2,475		2,564
Treasury bills and other eligible bills	16		4,748		5,511
Loans and advances to banks - banking		20,316		21,729	
- trading		16,296		15,155	
	17		36,612		36,884
Loans and advances to customers - banking		81,469		74,111	
- trading		14,641		25,712	
	18		96,110		99,823
Debt securities	20		45,180		53,176
Equity shares	21		4,888		2,780
Interests in associated undertakings and joint ventures	22		150		57
Intangible fixed assets	23		196		191
Tangible fixed assets	24		1,939		2,016
Other assets	26		16,617		20,413
Prepayments and accrued income	28		2,552		2,305
			212,409		226,470
Retail life-fund assets attributable to policyholders	27		7,085		5,959
Total assets			219,494		232,429

The note numbers refer to the notes on pages 105 to 152.

Consolidated balance sheet Barclays Bank PLC
For the year ended 31st December 1998

	Note	1998 £m	1998 £m	1997 £m	1997 £m
Liabilities					
Deposits by banks - banking		25,951		30,511	
- trading		8,469		13,968	
	29		34,420		44,479
Customer accounts - banking		96,099		89,647	
- trading		12,706		18,791	
	30		108,805		108,438
Debt securities in issue	31		17,824		20,366
Items in course of collection due to other banks			1,279		1,676
Other liabilities	32		33,350		35,268
Balances due to Barclays PLC			414		359
Accruals and deferred income	33		3,074		3,557
Provisions for liabilities and charges - deferred tax	34		721		758
Provisions for liabilities and charges - other	35		551		696
Subordinated liabilities:					
Undated loan capital - convertible to preference shares	36		301		304
Undated loan capital - non-convertible	36		1,441		1,353
Dated loan capital - non-convertible	37		1,992		1,211
Other subordinated liabilities - non-convertible	38		-		59
			204,172		218,524
Minority interests and shareholders' funds					
Minority interests - equity			51		61
Called up share capital	a	2,076		2,066	
Share premium account		1,672		1,574	
Revaluation reserve		36		35	
Profit and loss account		4,402		4,210	
Shareholders' funds - equity and non-equity	b		8,186		7,885
			8,237		7,946
			212,409		226,470
Retail life-fund liabilities to policyholders	27		7,085		5,959
Total liabilities and shareholders' funds			219,494		232,429
Memorandum items					
Contingent liabilities:					
Acceptances and endorsements			1,384		1,602
Guarantees and assets pledged as collateral security			8,784		6,623
Other contingent liabilities			5,069		5,123
			15,237		13,348
Commitments - sale and option to resell transactions			-		-
Commitments - standby facilities, credit lines and other			68,191		59,121
			68,191		59,121

The note numbers refer to the notes on pages 105 to 152, whereas the note letters refer to those on pages 160 to 162.

Consolidated statement of changes in reserves Barclays Bank PLC
For the year ended 31st December 1998

	1998 £m	1997 £m	1996 £m
Share premium account			
At beginning of year	1,574	1,469	1,445
Premium arising on shares issued	100	95	50
Exchange rate translation differences	(2)	10	(26)
At end of year	1,672	1,574	1,469
Revaluation reserve			
At beginning of year	35	44	57
Exchange rate translation differences	1	(3)	(6)
Realisation of revaluation surplus	-	(5)	(7)
Other items	-	(1)	-
At end of year	36	35	44
Profit and loss account			
At beginning of year	4,210	3,961	3,772
Profit retained	121	216	379
Exchange rate translation differences	31	(98)	(203)
Goodwill arising on acquisitions	-	-	(3)
Goodwill written back on disposals	10	126	-
Realisation of revaluation surplus	-	5	7
Other items	30	-	9
At end of year	4,402	4,210	3,961
Total reserves	6,110	5,819	5,474

The Group operates in a number of countries subject to regulations under which a local subsidiary undertaking has to maintain a minimum level of capital. The current policy of the Group is that local capital requirements are met, as far as possible, by the retention of profit. Certain countries operate exchange control regulations which limit the amount of dividends that can be remitted to non-resident shareholders. It is not possible to determine the amount of profit retained and other reserves that is restricted by these regulations, but the net profit retained of overseas subsidiaries, associated undertakings and joint ventures at 31st December 1998 totalled £732m (1997 £511m, 1996 £515m). If such overseas reserves were to be remitted, other tax liabilities, which have not been provided for in the accounts, might arise.

Accumulated exchange rate translation differences are £406m debit (1997 £436m debit, 1996 £345m debit)

Goodwill amounting to £353m (1997 £363m, 1996 £489m) has been charged directly against reserves in the current and prior years in respect of acquisitions. This amount is net of any goodwill attributable to subsidiary undertakings disposed of prior to the balance sheet date.

Consolidated cash flow statement Barclays Bank PLC
For the year ended 31st December 1998

	Note	1998 £m	1998 £m	1997 £m	1997 £m	1996 £m	1996 £m
Net cash (outflow)/inflow from operating activities	d		(1,607)		9,038		4,746
Dividends received from associated undertakings			3		7		6
Returns on investments and servicing of finance:							
Interest paid on loan capital and other subordinated liabilities		(220)		(270)		(278)	
Preference dividends paid		(25)		(24)		(25)	
Dividends paid to minority shareholders		(7)		(9)		(8)	
Net cash outflows from returns on investment and servicing of finance			(252)		(303)		(311)
Tax paid			(547)		(263)		(519)
Capital expenditure and financial investment:							
Capital expenditure		(305)		(342)		(444)	
Sale of property and equipment		107		159		67	
Purchase of investment securities		(10,866)		(11,942)		(7,431)	
Redemption of investment securities		3,874		1,481		1,043	
Sale of investment securities		9,523		3,131		3,566	
Net cash inflow/(outflow) from capital expenditure and financial investment			2,333		(7,513)		(3,199)
Acquisitions and disposals:							
Acquisition of subsidiary undertakings	53	(70)		-		(13)	
Acquisition of associated undertakings and joint ventures		(43)		-		(15)	
Sale of associated undertakings		7		2		1	
Sale of other group undertakings	50	690		48		46	
Net cash inflow from acquisitions and disposals			584		50		19
Equity dividend paid:			(822)		(923)		(1,257)
Net cash(outflow)/inflow before financing			(308)		93		(515)
Financing:	e						
Issue of loan capital and other subordinated liabilities (net of expenses)		962		478		318	
Redemption/repurchase of loan capital and other subordinated liabilities		(240)		(640)		(631)	
Issue of ordinary shares		43		113		64	
Net cash inflow/(outflow) from financing			765		(49)		(249)
Increase/(decrease) in cash	52		457		44		(764)

The note numbers refer to the notes on pages 105 to 152, whereas the note letters refer to those on pages 160 to 162.

a Called up share capital

Ordinary shares

The authorised ordinary share capital of the Bank, at 31st December 1998, was 2,500 million (1997:2,500 million) ordinary shares of £1 each.

	1998	1997	1996
	£m	£m	£m
Called up ordinary share capital, allotted and fully paid			
At beginning of year	2,066	2,048	2,034
Issued for cash	10	18	14
At end of year	2,076	2,066	2,048

Preference shares

The authorised preference share capital of the Bank is 150 million (1997:150 million) shares of \$0.01 each. At 31st December 1998, 34.92 million (1997:34.92 million) preference shares were outstanding and had been issued for a consideration of \$436.5m or (£263m), of which the nominal value was \$349,200 and the balance was share premium.

	Number of shares issued	Nominal value per share \$	Premium per share \$	Liquidation value per share \$	Earliest redemption date
Series C1	8,960,000	0.01	19.99	20.00	29th June 2000
Series C2	8,960,000	0.01	4.99	5.00	29th June 2000
Series D1	8,500,000	0.01	19.99	20.00	29th March 2001
Series D2	8,500,000	0.01	4.99	5.00	29th March 2001

The Series C1 and C2 Preferences Shares and the Series D1 and D2 Preference Shares are respectively redeemable, at the option of the Bank, as a whole at their liquidation values, together with accrued and unpaid dividends for the current quarterly dividend period to the date of redemption.

In the event of a winding up, the holders of preference shares will be entitled to receive, before any distribution of assets is made to holders of ordinary shares of Barclays Bank PLC, liquidating distributions in the amounts of Series C1 and D1, \$20; and Series C2 and D2, \$5 per share plus an amount equal to accrued and unpaid dividends for the current quarterly dividend period to the date of commencement of the winding up.

The holders of preference shares are not entitled to receive notice of, or to attend or vote at, any general meeting of Barclays Bank PLC, except where there has been a failure to pay the equivalent of six consecutive quarterly dividends (in which case they may appoint two additional Directors), or where a resolution is proposed for adoption by shareholders providing for the winding up of the Bank. However, Series C1 and Series D1 Preference shareholders may receive notice of and attend the general meeting called for the purpose and vote on that resolution.

In the event of the conversion of the Series E Notes (see page 121), the rights of the Series E1 and E2 Preference Shares are the same as those for Series D1 and D2 respectively. The Series E Preference Shares issued on conversion are redeemable, at the option of the Bank, in full on or after 30th April 2003.

b Shareholders' funds

Shareholders' funds at 31st December 1998 include £263m (1997 £265m) of non-equity share premium (see Preference shares in note a above). All other shareholders' funds represent equity interests.

c Dividends

	1998	1997	1996
	£m	£m	£m
On ordinary shares			
Interim dividends	804	895	1,232
Final interim dividend (previous years final)	410	19	28
	1,214	914	1,260

These dividends are paid to enable Barclays PLC to fund its dividends to its shareholders and, in 1998, to fund the repurchase by Barclays PLC of 29.3 million of its ordinary shares at a total cost of £501m (1997: 30.35 million at a total cost of £351m), and to fund contributions of £67m (1997: £nil) made by Barclays PLC to the QUEST (see page 102) to enable the purchase of new Barclays PLC ordinary shares on the exercise of options under the SAYE Share Option Scheme.

Dividends on the preference shares are paid quarterly at such rates as will, including the UK associated tax credit and before deduction of UK withholding tax (see Taxation), result in annual dividends to holders, expressed as percentages of the liquidation values of the relevant preference shares, of 11.25% on Series C1 and Series C2 Preference Shares and 11.5% on Series D1 and Series D2 Preference Shares. Preference dividends paid totalled \$40m (£25m) in 1998, \$40m (£24m) in 1997 and \$40m (£25m) in 1996.

In the event of the conversion of the Series E Notes, the annual dividends, expressed as a percentage of the liquidation values, on the Series E1 and E2 Preference Shares would be 9.25%.

d Reconciliation of operating profit to net cash flow from operating activities

	1998	1997	1996
	£m	£m	£m
Net cash (outflow)/inflow from operating activities of Barclays PLC (see note 49)	(1,337)	8,979	4,708
(Decrease)/increase in balance due by Barclays Bank PLC to Barclays PLC	(270)	59	38
Net cash (outflow)/inflow from operating activities of Barclays Bank PLC	(1,607)	9,038	4,746

e Changes in financing during the year

	Undated loan capital	Dated loan capital	Other sub-ordinated liabilities	Ordinary shares	Share premium
	£m	£m	£m	£m	£m
Barclays Bank PLC					
At beginning of year	1,657	1,211	59	2,066	1,574
Exchange rate and other movements	12	77	(1)	-	(2)
Profit on redemption/repurchase of loan capital	(3)	-	-	-	-
Net cash inflow/(outflow) from financing	76	704	(58)	10	100
At end of year	1,742	1,992	-	2,076	1,672

f Segmental analysis

	1998	1998	1997	1997	1996	1996
	£m	%	£m	%	£m	%
By geographical segments (a)						
Attributable profit						
United Kingdom	1,125	83	723	63	1,297	78
Foreign UK-based	(46)	(3)	179	16	148	9
Other European Union	213	15	107	9	(19)	(1)
United States	21	2	86	7	146	9
Rest of the World	47	3	59	5	92	5
	1,360	100	1,154	100	1,664	100

Notes

(a) For the basis of the geographical analysis, see Analyses by geographical segments and classes of business on page 98.

g Differences between UK and US accounting principles – Barclays Bank PLC

The following table summarises the significant adjustments to consolidated attributable profit (net income under US GAAP) and shareholders' funds (shareholders' equity under US GAAP) which would result from the application of US GAAP instead of UK GAAP.

	Note	1998 £m	1997 £m	1996 £m
Approximate net income (US GAAP) of Barclays PLC Group (from page 143)		1,370	1,274	1,545
Preference share dividends of Barclays Bank PLC		25	24	25
Approximate net income (US GAAP) of Barclays Bank PLC Group		1,395	1,298	1,570
		1998 £m	1997 £m	
Shareholders' funds (UK GAAP) of Barclays Bank PLC Group		8,186	7,885	
Goodwill	(a)	93	182	
Pension cost	(b)	110	(44)	
Post-retirement benefits	(b)	4	10	
Leasing - lessor	(c)	(137)	(182)	
Leasing - lessee	(d)	12	9	
Deferred tax	(e)	34	(1)	
Property depreciation		(48)	(52)	
Share compensation schemes	(f)	(36)	(17)	
Shareholders' interest in the long-term assurance fund		(624)	(569)	
Revaluation of property	(i)	(303)	(295)	
Net unrealised gain on investment securities	(h)	230	221	
Dividend payable		410	19	
Restructuring of business provisions	(l)	19	36	
Tax effect on the above UK/US GAAP reconciling items		133	175	
Approximate shareholders' equity (US GAAP) of Barclays Bank PLC Group		8,083	7,377	

The note numbers refer to the notes on pages 144 to 149.

For the purposes of SFAS No. 130 'Reporting Comprehensive Income', the total comprehensive income was £1,440m (1997 £1,187m, 1996 £1,285m) incorporating net income as set out above together with other comprehensive income consisting of net exchange translation differences (including reclassification to net income on disposal of investments) of £38m (1997 (£86m), 1996 (£241m)) and net unrealised gains on investment securities of £7m (1997 (£25m), 1996 (£44m)).

Accumulated other comprehensive income consists of net exchange translation differences of (£274m) (1997 (£312m)) and unrealised gains (net of tax) on investment securities of £159m (1997 £152m).

	1998	1997	1996	1995	1994
	%	%	%	%	%
Selected financial statistics					
Attributable profit as a percentage of:					
average total assets (note (a))	0.56	0.54	0.92	0.84	0.75
average shareholders' funds	16.75	14.82	22.31	20.19	20.14
Average shareholders' funds as a percentage of average total assets (note (a))	3.34	3.63	4.11	4.18	3.75
Selected profit and loss account data					
	£m	£m	£m	£m	£m
Interest receivable	9,912	9,127	8,730	9,209	8,526
Interest payable	5,600	5,091	4,821	5,427	4,833
Profit/(loss) on redemption/repurchase of loan capital	3	2	32	-	(60)
Non interest income	3,070	3,553	3,607	3,403	3,269
Operating expenses	4,896	5,200	5,088	5,007	4,576
Provisions - bad and doubtful debts	492	227	215	396	602
- contingent liabilities and commitments	76	4	9	3	-
Loss on sale or termination of BZW businesses	(3)	(469)	-	-	-
Profit on disposal of other Group undertakings	4	44	70	238	107
Write-down of fixed asset investments	(4)	(19)	-	-	-
Profit before tax	1,918	1,716	2,306	2,017	1,831
Attributable profit	1,360	1,154	1,664	1,389	1,235
Selected balance sheet data					
	£m	£m	£m	£m	£m
Shareholders' funds	8,186	7,885	7,522	7,308	6,440
Dated and undated loan capital	3,734	2,868	3,031	3,560	3,541
Deposits by banks, customer accounts and debt securities in issue	161,049	173,283	142,554	125,361	125,165
Loans and advances to banks and customers	132,722	136,706	118,441	111,280	112,705
Total assets	219,494	232,429	185,161	168,826	162,403

Note

- (a) For the purposes of this summary, the retail life-fund assets attributable to policyholders have been excluded from average total assets.

US GAAP financial data

The following financial information has been adjusted from data prepared under UK GAAP to reflect significant differences from accounting principles generally accepted in the United States (US GAAP). See note 60 for an explanation of these differences.

Selected financial statistics

	1998(b)	1998	1997	1996	1995	1994
	¢	p	p	p	p	p
Barclays PLC Group						
Earnings per £1 ordinary share	150.7	90.8	83.9	98.2	80.3	63.0
Dividends per £1 ordinary share	64.7	39.0	33.5	28.0	22.5	16.7
Book value per £1 ordinary share	855	515	487	460	428	364
Net income as a percentage of:		%	%	%	%	%
average total assets		0.54	0.58	0.83	0.78	0.61
average shareholders' equity		18.22	17.78	22.52	20.75	18.88
Dividends as a percentage of net income		43.13	40.27	28.35	27.92	26.39
Average shareholders' equity as a percentage of average total assets		2.97	3.25	3.68	3.74	3.25
Barclays Bank PLC Group						
Net income as a percentage of:						
average total assets		0.55	0.59	0.84	0.79	0.65
average shareholders' equity		18.32	18.24	22.86	20.94	18.91
Average shareholders' equity as a percentage of average total assets		3.01	3.23	3.68	3.77	3.42

Selected financial statement data

	\$m	£m	£m	£m	£m	£m
Net income (note (a)):						
Barclays PLC Group	2,274	1,370	1,274	1,545	1,310	1,027
Barclays Bank PLC Group	2,316	1,395	1,298	1,570	1,335	1,083
Shareholders' equity (note (a)):						
Barclays PLC Group	12,916	7,781	7,452	7,082	6,948	5,956
Barclays Bank PLC Group	13,418	8,083	7,377	7,056	6,986	6,040
Total assets	373,528	225,017	234,104	185,090	169,394	162,971

Notes

- (a) Net income and shareholders' equity have been adjusted to reflect significant differences between UK and US GAAP, as shown in note 60 to the accounts. Total assets have been adjusted to reflect such differences and also to include acceptances.
- (b) The dollar financial information has been translated for convenience at the rate of \$1.66 to £1, the Noon Buying Rate for cable transfers in New York City, payable in pounds sterling, at 31st December 1998.

Shareholder information

Dividends on the ordinary shares of Barclays PLC

Barclays PLC has paid dividends on its ordinary shares every year without interruption since its incorporation in 1896.

The dividends declared for each of the last five years were:

Pence per £1 ordinary share

	1998	1997	1996	1995	1994
First interim	15.50	13.50	11.50	9.50	8.00
Second Interim (1994 second interim, other comparative years final)	27.50	23.50	20.00	16.50	13.00
	43.00	37.00	31.50	26.00	21.00

US Dollars per £1 ordinary share

	1998	1997	1996	1995	1994
First interim	0.26	0.22	0.19	0.15	0.13
Second Interim (1994 second interim, other comparative years final)	0.45	0.39	0.33	0.25	0.20
	0.71	0.61	0.52	0.40	0.33

The gross dividends applicable to an American Depositary Share (ADS) representing four ordinary shares, before deduction of withholding tax, but including the UK imputed tax credit for dividends paid before 6th April 1999 (see Taxation of US holders (page 169)) are as follows.

US Dollars per American Depositary Shares

	1998	1997	1996	1995	1994
First interim	1.32	1.09	0.93	0.75	0.63
Second Interim (1994 second interim, other comparative years final)	1.79	1.95	1.63	1.24	1.02
	3.11	3.04	2.56	1.99	1.65

Dividends expressed in dollars are translated at the noon buying rates in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the 'Noon Buying Rate') for the days on which dividends are paid, except for the 1998 final dividend, payable in the United Kingdom on 30th April 1999, which is translated at Noon Buying Rate applicable on 19th February 1999, the latest practical date for inclusion in this report. No representation is made that pounds sterling amounts have been, or could have been, or could be, converted into dollars at these rates.

Dividends on the preference shares of Barclays Bank PLC

Dividends on the preference shares are paid quarterly at such rates as will, including the UK associated tax credit if any and before deduction of UK withholding tax (see Taxation), result in annual dividends to holders of 11.25% on the aggregate liquidation values of Series C1 and Series C2 Preference Shares and 11.5% on the aggregate liquidation values of Series D1 and Series D2 Preference Shares.

Trading market for ordinary shares of Barclays PLC

The nominal capital of Barclays PLC is divided into 1,999,000,000 ordinary shares of £1 each (ordinary shares) and 1,000,000 staff shares of £1 each (staff shares). At the close of business on 31st December 1998, 1,509,955,805 £1 ordinary shares and 875,000 staff shares were outstanding.

The principal trading market for Barclays PLC ordinary shares is the London Stock Exchange. Ordinary share listings were also obtained on the Tokyo Exchange with effect from 1st August 1986 and the New York Stock Exchange (NYSE) with effect from 9th September 1986.

Trading on the NYSE is in the form of ADSs under the symbol 'BCS'. Each ADS represents four £1 ordinary shares and is evidenced by an ADR. The ADR depository is Morgan Guaranty Trust Company of New York. Details of trading activity are published in the stock tables of leading daily newspapers in the United States.

Shareholder information

Trading market for ordinary shares of Barclays PLC (continued)

There were 602 recorded holders of ordinary shares, including those holding ADRs, with US addresses at 31st December 1998, whose shareholdings represented approximately 0.42% of total outstanding ordinary shares on that date. Since certain of the ordinary shares and ADRs were held by brokers or other nominees, the number of recorded holders in the US may not be representative of the number of beneficial holders or of their country of residence.

The following table shows the high and low sales prices for the £1 ordinary shares during the periods indicated, based on mid-market prices at close of business on the London Stock Exchange and the high and low sale prices for ADSs as reported on the NYSE composite tape.

	£1 ordinary shares		American Depository Shares	
	High p	Low p	High US\$	Low US\$
1998				
Fourth quarter	1,488	838	99	58³/₈
Third quarter	1,949	961	128¹/₂	66
Second quarter	1,858	1,634	126	107
First quarter	1,948	1,603	130⁷/₈	102³/₈
1997				
Fourth quarter	1,750	1,427	115 ⁵ / ₈	96
Third quarter	1,675	1,213	108 ¹ / ₄	80
Second quarter	1,285	1,008	84	66
First quarter	1,216	980	80 ¹ / ₂	63 ³ / ₄

Trading market for preference shares of Barclays Bank PLC

At 31st December 1998, Barclays Bank PLC had outstanding 34,920,000 non-cumulative dollar-denominated preference shares, issued in 1990 and 1991, with a nominal value of \$0.01 each. Currently, the only trading market for these shares is the NYSE where they are traded in the form of ADSs, each ADS representing one preference share and being evidenced by an ADR. The Series C1 and Series C2 Preference Share ADSs are traded on the NYSE as Series C Preference Share ADS Units and each such Unit comprises one Series C1 Preference Share ADS and one Series C2 Preference Share ADS. Identical arrangements exist for the Series D1 and Series D2 Preference Share ADSs to trade as Series D Preference Share ADS Units. The ADR depository is Morgan Guaranty Trust Company of New York.

At 31st December 1998, the Series C Preference Share ADR Units were held by 699 recorded holders and the Series D Preference Share ADR Units by 1,062 recorded holders, all with US addresses.

The following table shows the high and low sale prices for the Series C and Series D Preference Share ADS Units during the periods indicated, as reported on the NYSE composite tape.

	American Depository Shares			
	Series C		Series D	
	High US\$	Low US\$	High US\$	Low US\$
1998				
Fourth quarter	26⁷/₈	26¹/₂	28¹/₁₆	27¹/₄
Third quarter	27³/₁₆	26¹/₄	27¹³/₁₆	26³/₄
Second quarter	27³/₄	27¹/₂	28¹/₂	28⁵/₁₆
First quarter	28¹/₄	27⁷/₈	29¹/₈	28¹/₂
1997				
Fourth quarter	28 ⁵ / ₈	27 ⁷ / ₁₆	29 ³ / ₁₆	27 ¹⁵ / ₁₆
Third quarter	28 ¹ / ₂	27 ⁵ / ₈	29 ¹ / ₈	28
Second quarter	28	27 ¹ / ₄	28 ⁴⁵ / ₆₄	27 ³ / ₄
First quarter	28 ³ / ₄	27 ⁷ / ₈	29 ¹ / ₄	28 ³ / ₈

The Series C1 and C2 Preference Share ADSs were issued during 1990 and the Series D1 and Series D2 Preference Share ADSs were issued during 1991.

Note

This section incorporates information on the prices at which securities of Barclays PLC and Barclays Bank PLC have traded. It is emphasised that past performance cannot be relied upon as a guide to future performance.

Shareholder information

Shareholdings at 31st December 1998

Classification of shareholders	Shareholders		Shares held	
	Number	Percentage of total holders	Number (millions)	Percentage of called up ordinary shares
Personal holders	128,550	87.27	166.2	11.01
Banks and nominee companies	14,888	10.11	1,194.6	79.12
Other companies	3,254	2.21	85.8	5.68
Insurance companies	565	0.38	34.8	2.30
Pension funds	46	0.03	28.6	1.89
Totals	147,303	100.00	1,510.0	100.00
Shareholding range				
1-100	19,920	13.52	0.8	0.05
101-250	20,664	14.03	3.7	0.25
251-500	26,800	18.19	10.1	0.67
501-1,000	29,671	20.14	22.0	1.46
1,001-5,000	41,508	28.19	89.1	5.90
5,001-10,000	5,073	3.44	34.8	2.30
10,001-25,000	1,878	1.27	27.8	1.84
25,001-50,000	538	0.37	19.2	1.27
50,001 and over	1,251	0.85	1,302.5	86.26
Totals	147,303	100.00	1,510.0	100.00

Taxation

The following is a summary of the principal tax consequences for holders of ordinary shares of Barclays PLC, preference shares of the Bank, ADRs representing such ordinary shares or preference shares and loan capital guaranteed by the Bank, who are citizens or residents of the United Kingdom or United States, or otherwise who are subject to UK tax or US federal income tax on a net income basis in respect of such securities. It is not, however, a comprehensive analysis of all the potential tax consequences for such holders and investors are advised to consult their tax advisers on the tax implications of their particular holdings, including the consequences under applicable state and local law.

Unless otherwise noted, the statements of tax laws set out below are based on the laws in force as at 16th February 1999 and are subject to any subsequent changes in UK or US law, in particular any announcements made in the Chancellor's UK Budget on 9th March 1999, or in any double tax convention between the United States and the United Kingdom. An announcement that this was to be re-negotiated was made on 1st October 1998.

For the purposes of the current US-UK double tax conventions relating to income tax (the Income Tax Convention) and estate and gift tax (the Estate Tax Convention) and for the purposes of the US Internal Revenue Code of 1986, as amended (the Code), the holders of ADRs are treated as owners of the underlying ordinary shares or preference shares, as the case may be.

Taxation of UK holders

Taxation of capital gains Since 6th April 1988, the market valuation at 31st March 1982 may be substituted for the original cost of shares purchased before that date. To arrive at the total cost of any holdings of shares of Barclays PLC, the amount subscribed for rights taken up in 1985 and 1988 should be added to the value of the holding calculated as above.

When selling shares, shareholders may also be entitled to tapering relief and indexation relief. The calculations required may be complex and shareholders are advised to consult their personal financial adviser if further information regarding a possible tax liability in respect of their holdings of Barclays PLC shares is required.

Taxation of dividends In accordance with UK law, Barclays PLC and the Bank pay dividends on ordinary shares and preference shares without any deduction or withholding tax in respect of any taxes imposed by the UK government or any UK taxing authority. Currently, however, following payment of a dividend, the Company must account to the Inland Revenue for advance corporation tax (ACT) at a rate equal to one-quarter of the dividend paid. In accordance with the provisions of the Finance Act 1998 ACT will be abolished in respect of dividends paid after 5th April 1999.

If the shareholder is a UK resident individual liable to income tax only at the basic rate or the lower rate, then there will be no further tax liability in respect of the dividend received. If, however, the individual shareholder is subject to income tax at the higher rate (currently 40%), there will be a further liability to tax on the sum of the cash dividend received and the tax credit in respect of the dividend (the amount of the credit is the amount of the ACT or the 'tax credit amount'). If the shareholder's tax liability is less than the tax credit attached to the dividend the shareholder is, in general, entitled to make a repayment claim. The amount that may be reclaimed is the amount by which the tax credit exceeds the shareholder's total tax liability.

The Finance (No. 2) Act 1997 provides that from 6th April 1999 the rate of tax credits will be reduced to one-ninth of the dividend paid. As a result of compensating changes in the rate of tax on dividend income there will be no increase in the tax borne by UK resident individual shareholders in respect of dividend income. However, tax credits will no longer be payable to shareholders with no tax liability.

Taxation of premium on redemption or purchase of shares In the event that the Bank redeems preference shares, it may be required to account for ACT in respect of any premium. Any vouchers which the Bank issues in respect of the distribution may be required to show the distribution as a 'foreign income dividend' (FID), on which notional lower rate income tax (which is not repayable) has been borne but on which there is no tax credit for shareholders, although UK resident companies which receive such distributions will be able to use them to frank FIDs or deemed FIDs which they pay. Similar tax consequences may arise as a result of a purchase by Barclays PLC of its own shares. As part of the changes mentioned above, FIDs will be abolished from 6th April 1999.

Taxation of shares under the Dividend Reinvestment Plan Where a shareholder elects to purchase shares using their cash dividend, the individual will be liable for income tax on dividends reinvested in the Plan on the same basis as if they had received the cash and arranged the investment themselves. They should accordingly include the dividend received in their annual tax return in the normal way. The tax consequences for a UK individual are the same as described in 'Taxation of dividends' above.

Stamp duty On the purchase of shares, stamp duty or stamp duty reserve tax at the rate of $\frac{1}{2}\%$ is normally payable on the purchase price of the shares.

Inheritance tax An individual may be liable to inheritance tax on the transfer of ordinary shares or preference shares. Where an individual is liable, inheritance tax may be charged on the amount by which the value of his or her estate is reduced as a result of any transfer by way of gift or other gratuitous transaction made by them or treated as made by them.

Shareholder information

Taxation of US holders

Taxation of dividends Barclays PLC and the Bank pay dividends on their ordinary shares and preference shares and when doing so must account for ACT at a rate equal to one-quarter of the dividend paid on dividends paid prior to 6th April 1999. After that date no liability to ACT will arise.

Under the Income Tax Convention, a beneficial owner of ordinary shares or preference shares who is a resident of the United States and not a resident of the United Kingdom, whose holding is not effectively connected with a permanent establishment or fixed base in the United Kingdom and who is not subject to special rules (such as those that apply to US tax-exempt entities and certain investment or holding companies, 25% of the capital of which is held directly or indirectly by persons that are not individual residents or nationals of the United States (a US holder)) has generally been entitled to receive a refund from the UK Inland Revenue, in addition to any dividend paid by Barclays PLC or the Bank, of an amount equal to the tax credit available to UK resident individuals (i.e. the amount of the ACT), less a withholding tax equal to 15% of the aggregate of the tax credit and the dividend.

For dividends paid on or after 6th April 1999, the tax credit will be reduced to one-ninth of the dividend paid, although the withholding rate will remain at 15% (but not to exceed the amount of the tax credit). Thus, US holders generally will not be entitled to a refund of the tax credit as of that date or will be entitled only to a residual refund equal to less than 1% of the amount of the dividend.

US holders of ADRs generally have been able to receive payment of the refund together with, and at the same time as, the associated dividend. Because of the changes mentioned in the preceding paragraph, the Inland Revenue has announced that this facility is to be withdrawn from 5th April 1999. In respect of dividends paid after that date any US holder entitled to a residual refund must, in order to obtain it, file a claim for payment in the manner, and at the time, specified by procedures established by the UK Inland Revenue.

Dividends received by a US holder will be foreign source income for US federal income tax purposes in the amount equal to the US dollar value of the payment (including the related tax credit amount), on the date of such payment. Dividends generally will not be eligible for the 'dividends received' deduction allowed to US corporations under the Code. Subject to certain limitations, UK tax withheld from payments will be available as a credit against US tax.

Taxation of capital gains Generally, US holders will not be subject to UK tax, but will be subject to US tax on capital gains realised on the sale or other disposition of ordinary shares, preference shares or ADRs.

Taxation of premium on redemption or purchase of shares No refund of tax will be available under the Income Tax Convention in respect of any premium paid on a redemption of preference shares by the Bank or on a purchase by Barclays PLC of its own shares.

For US tax purposes, redemption premium generally will be treated as an additional amount realised in the calculation of gain or loss.

Stamp duty No UK stamp duty is payable on the transfer of an ADR, provided that the separate instrument of transfer is not executed in, and remains at all times outside, the United Kingdom.

Estate and gift tax Under the Estate Tax Convention, a US holder generally is not subject to UK inheritance tax.

Payments under loan capital guarantees It is unclear whether, under current UK law and Inland Revenue practice, the Bank would be required to deduct or withhold UK income tax from any payment of interest made to residents of the United States in respect of the guarantees given by the Bank in relation to the long-term debt issue by Barclays North American Capital Corporation. However, the terms of such guarantees impose a grossing up obligation on the Bank, subject to limited exceptions, in regard to any payment thereunder which is subject to any such deduction or withholding.

Exchange controls and other limitations affecting security holders

Other than certain emergency restrictions which may be in force from time to time, there are currently no UK laws, decrees or regulations which would affect the transfer of capital or remittance of dividends, interest and other payments to holders of Barclays securities who are not residents of the United Kingdom. There are also no restrictions under the Articles of Association of either Barclays PLC or the Bank, or under current UK laws, which limit the right of non-resident or foreign owners, to hold Barclays securities or, when entitled to vote, to do so.

Shareholder enquiries

Investors who have any questions about their investment in Barclays, or about Barclays in general, may write to:

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Registrar: The Registrars to Barclays PLC, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH. Tel: 0117 930 6600

ADR depositary: Morgan Guaranty Trust Company of New York, c/o Equiserve, 150 Royall Street, Canton, MA02021, USA.
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Andrew Buxton Chairman

Sir Peter Middleton GCB Deputy Chairman and Chief Executive

Chris Lendrum Executive Director, Chief Executive, Corporate Banking

Oliver Stocken Finance Director

John Varley Executive Director, Chief Executive, Retail Financial Services

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Sally Bott Director, Group Human Resources

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Andrew Bruce Director, Group Credit Policy

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David Cartwright Managing Director, Barclays Technology Services

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Geoffrey Mitchell Chief Accountant

Patrick Perry Group Treasurer

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Sir Robert Wade-Gery KCMG, KCVO Vice Chairman

Sir Leonard Appleyard KCMG Vice Chairman

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Geoffrey Fletcher Chief Financial Officer, Head of Global Finance

Blake Grossman Chief Investment Officer, Advanced Active Investments

John Martinez Chief Executive, Capital Markets

Kazihusa Okamoto Chief Executive, Japan

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