BARCLAYS

Consolidated Statement of Financial Condition

Barclays Capital Inc. and Subsidiary

June 30, 2012
(Unaudited)

New York – Headquarters
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(in millions, except share data)

Assets		
Cash and cash equivalents	$	728
Cash and cash equivalents segregated for regulatory and other purposes		4,579
Collateralized agreements:		
Securities purchased under agreements to resell		160,005
Securities borrowed		50,500
Securities received as collateral (includes $18,915 pledged as collateral)		25,958
Financial instruments owned, at fair value (includes $59,898 pledged as collateral)		74,800
Receivables from brokers, dealers and clearing organizations		8,182
Receivables from customers		10,142
Accrued interest and dividend receivables		327
Other assets		308
Total assets	$	335,529
Liabilities and Stockholder's Equity		
Collateralized financings:		
Securities sold under agreements to repurchase	$	226,263
Securities loaned		18,330
Obligation to return securities received as collateral		25,958
Other secured financings, at fair value		578
Financial instruments sold, but not yet purchased, at fair value		24,644
Payables to brokers, dealers and clearing organizations		2,256
Payables to customers		18,050
Short-term borrowings		301
Accrued interest and dividend payables		206
Other liabilities		1,287
Long-term borrowings		7,900
Total		325,773
Commitments and Contingencies (see Note 17)		
Subordinated debt		2,500
Stockholder's equity		
Common stock – no par value, 5,000 shares authorized, 10 shares issued and outstanding		–
Additional paid-in capital		6,253
Retained earnings		1,026
Accumulated other comprehensive loss, net of tax		(23)
Total stockholder's equity		7,256
Total liabilities and stockholder's equity	$	335,529

The accompanying notes are an integral part of this Consolidated Statement of Financial Condition

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1. Organization

Barclays Capital Inc. (the "Company"), a Connecticut company, is a registered securities broker-dealer and investment advisor with the Securities and Exchange Commission ("SEC"), a futures commission merchant ("FCM"), commodity pool operator, and commodity trading advisor registered with the Commodity Futures Trading Commission ("CFTC"), and municipal advisor with the SEC and Municipal Securities Rulemaking Board ("MSRB"). The Company is headquartered in New York, with registered domestic branch offices in Atlanta, Boston, Chicago, Dallas, Greenwich, Houston, Los Angeles, Media, Menlo Park, Miami, New York, Palm Beach, Philadelphia, San Juan, San Francisco, Santa Monica, Seattle, Washington D.C., and Wells, ME. The Company's client base includes money managers, insurance companies, pension funds, hedge funds, depository institutions, corporations, trust banks, money market and mutual funds, domestic and international governmental agencies, and central banks.

The Company is Barclays Bank PLC's ("BBPLC") "4(k)(4)(E)" securities subsidiary under the Bank Holding Company Act, which permits it to engage in securities underwriting, dealing, or market-making activities. In its capacity as a broker-dealer, the Company clears derivative products for clients and affiliates on certain exchanges. The Company's activities include transactions in asset-backed securities, agency mortgage-backed securities, international debt securities, other corporate related securities and securities lending and borrowing. The Company is also a primary dealer in U.S. government securities.

The Company has investment banking, capital markets, and private investment management businesses in the United States.

The Consolidated Statement of Financial Condition includes the accounts of Barclays Capital Inc. and its wholly-owned subsidiary, Barclays Business Credit LLC ("BBC" or "Subsidiary"). The Company's direct parent and sole stockholder is Barclays Group US Inc. ("BGUS"). BGUS is wholly owned by BBPLC and its subsidiaries, and is ultimately owned by Barclays PLC ("BPLC" and collectively with its subsidiaries, "Barclays PLC Group" or "Group"). Both BBPLC and BPLC are United Kingdom companies. The Company has significant inter-company transactions with related parties.

The Subsidiary has historically managed a portfolio of leveraged leases. As of June 30, 2012, BBC only had one remaining lease.

The Americas Wealth and Investment Management division of BBPLC operates through the Company to provide high net worth clients with brokerage and investment management services in the U.S.

The Company subscribes to an independent credit rating agency review by Standard & Poor's. This rating assesses the creditworthiness of the Company and is based on reviews of the Company's broad range of business and financial attributes including risk management processes and procedures, capital strength, earnings, funding, liquidity, accounting, and governance. The Company received a long term credit rating of A+ and a short term rating of A-1 on November 29, 2011.

2. Significant Accounting Policies

Basis of Presentation

The Consolidated Statement of Financial Condition has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Material intercompany balances and transactions are eliminated upon consolidation. The U.S. Dollar is the functional currency of the Company. In the opinion of management, all adjustments necessary to present fairly the financial position at June 30, 2012 have been made.

Use of Estimates

Preparation of the Consolidated Statement of Financial Condition in accordance with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and certain disclosures at the date of the Consolidated Statement of Financial Condition. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of less than three months. Cash on deposit with financial institutions may, at times, exceed federal insurance limits.

Cash and cash equivalents segregated for regulatory and other purposes

Cash and cash equivalents segregated for regulatory and other purposes consist of cash and cash equivalents segregated under the Commodity Exchange Act and in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Act.

Collateralized agreements and financings

Collateralized agreements consist of Securities purchased under agreements to resell ("Resale agreements"), Securities borrowed, and Securities received as collateral. Collateralized financings consist of Securities sold under agreements to repurchase ("Repurchase agreements"), Securities loaned, and Obligation to return securities received as collateral. Where the requirements of *Accounting Standards Codification* ("ASC") 210-20, *Offsetting* ("ASC 210-20") are met, collateralized agreements and collateralized financings are presented on a net-by-counterparty basis in the Consolidated Statement of Financial Condition.

- Resale and repurchase agreements

  Resale and repurchase agreements are carried at the amounts of cash advanced or received, plus accrued interest, which generally approximates fair value (for further description, see Note 5 "Fair Value Measurements"). Resale agreements require the Company to deposit cash with the seller and to take possession of the purchased securities. Repurchase agreements require the buyer to deposit cash with the Company and to take possession of the sold securities. The fair value of the securities sold or purchased is generally in excess of the cash received or provided. The Company monitors the fair value of securities purchased and sold under agreements to resell/repurchase on a daily basis, with additional collateral obtained or refunded as necessary.

- Securities borrowed and loaned

  Securities borrowed and securities loaned are carried at the amounts of cash advanced or received, plus accrued interest, which approximates fair value. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash or other collateral with the Company. With respect to securities loaned or borrowed,

collateral in the form of cash or other collateral is generally in excess of the fair value of securities loaned or borrowed. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

- Securities received as collateral and Obligation to return securities received as collateral
  When the Company acts as the lender of securities in a securities lending agreement and the Company receives securities that can be pledged or sold as collateral, the Company recognizes an asset, representing the fair value of the securities received as collateral, and a liability, representing the obligation to return those securities.

Transfers of Financial Assets

In general, transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. A transferor is considered to have relinquished control over the assets where (1) the transferred assets are legally isolated from the Company's creditors, (2) the transferee can pledge or exchange the financial assets (or if the transferee is a securitization or asset-backed financing vehicle that is constrained from pledging or exchanging the assets it receives, the holder of the beneficial interests issued by the vehicle can pledge or exchange the beneficial interests), and (3) the Company does not maintain effective control through the ability to repurchase the transferred assets before their maturity, or have the ability to unilaterally cause the holder to return the transferred assets. For transfers that are not accounted for as sales, the financial assets remain in Financial instruments owned, at fair value, in the Consolidated Statement of Financial Condition and the transfers are accounted for as Other secured financings, at fair value.

The Company has elected to measure liabilities that arise from the Company's failure to de-recognize certain financial assets transferred into securitization vehicles at fair value in accordance with ASC 825, *Financial Instruments* ("ASC 825"), to eliminate volatility in earnings that would arise from using different measurement attributes.

Variable Interest Entities

The Company accounts for variable interest entities ("VIEs") in accordance with ASC 810, Consolidation (“ASC 810”). VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that provides the enterprise with (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb the VIE’s expected losses and receive expected residual returns, or both, that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with ASC 810, the Company consolidates VIEs for which it is the primary beneficiary. The Company reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The Company reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

Fair Value Measurements

The Company accounts for a significant portion of its financial instruments at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”).

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Financial assets are marked to bid prices and financial liabilities are marked to offer prices. In certain circumstances, where the Company acts as a market maker, financial instruments are marked to mid-market prices. Fair value measurements do not include transaction costs.

Unless otherwise specified in Note 5 “Fair Value Measurements”, the Company estimates that the aggregate fair value recognized in the Consolidated Statement of Financial Condition approximates their carrying value as these financial instruments are short-term in nature, bear interest at current market rates or are subject to repricing.

The Company’s policy with respect to transfers between levels of the fair value hierarchy is to recognize the

transfers into and out of each level as of the end of the reporting period.

Financial instruments owned and Financial instruments sold, but not yet purchased, at fair value

The Company's Financial instruments owned, at fair value, and Financial instruments sold, but not yet purchased, at fair value, are reflected in the Consolidated Statement of Financial Condition on a trade date basis.

Customer Securities Transactions

Securities owned by customers, including those that collateralize margin or other similar transactions and are held for clients in an agency or fiduciary capacity by the Company, are not considered assets of the Company and are not included in the Consolidated Statement of Financial Condition. However, in the event of fails to deliver or receive, the Company records corresponding Receivables from customers or Payables to customers, respectively. These customer securities transactions are recorded on a settlement date basis in the Consolidated Statement of Financial Condition. The Company monitors the market value of collateral held and the market value of securities receivable from customers. It is the Company's policy to request and obtain additional collateral when appropriate.

Receivables from and Payables to brokers, dealers and clearing organizations

Receivables from and payables to brokers, dealers and clearing organizations consist primarily of fails to deliver or receive securities, margin balances, deposits at clearing organizations, and amounts related to unsettled securities trading activity.

Receivables from and Payables to customers

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not included in the Consolidated Statement of Financial Condition.

Share-Based Compensation

The Company applies ASC 710, *Compensation – General* ("ASC 710"), which focuses primarily on accounting for a transaction in which an entity obtains employee services in exchange for share-based payments.

Retirement Benefits

The Company accounts for retirement benefits in accordance with ASC 715, *Compensation – Retirement Benefits* ("ASC 715"). For a defined benefit pension and postretirement plan, ASC 715 requires an entity to recognize in its Consolidated Statement of Financial Condition the funded status of its defined benefit pension and post-retirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation.

Income Taxes

Tax provisions are computed in accordance with ASC 740, *Income Taxes* ("ASC 740"). Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The Company's deferred tax assets and tax liabilities are presented on a net basis, where applicable, as a component of Other assets in the Consolidated Statement of Financial Condition.

The Company and its Subsidiary are included in the federal consolidated income tax return of BGUS. The Company and its Subsidiary file state and local income tax returns in New York State and New York City, as well as other state and local jurisdictions, with affiliated companies. The Company has an intercompany tax sharing agreement with BGUS under which it computes and settles its current and deferred income tax receivable/payable on a periodic basis.

The Company follows guidance under ASC 740 which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. Under ASC 740, the Company determines whether it is more likely than not that an income tax position will be sustained upon examination by tax authorities. Sustainable income tax positions are measured in the Consolidated Statement of Financial Condition at the largest amount of benefit that is more likely than not to be realized upon ultimate settlement.

Recent Accounting Developments

Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires additional disclosures for certain assets and liabilities that are presented on a net basis or instruments that are subject to an enforceable master netting arrangement or similar agreement. The additional disclosure requirements will be effective for fiscal periods beginning on or after January 1, 2013. The ASU will have no effect on the Consolidated Statement of Financial Condition.

Amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRS

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU No. 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS and generally presents clarifications of Topic 820. Adoption of the ASU did not have a material effect on the Company's Consolidated Statement of Financial Condition. The additional disclosure requirements are presented in Note 5 “Fair Value Measurements”.

Reconsideration of the Effective Control for Certain Repurchase Arrangements

In April 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Arrangements*. ASU No. 2011-03 removes the criterion that collateral received under a repurchase arrangement must be sufficient to fund substantially all of the cost of purchasing replacement assets in order for the transferor to maintain effective control of the transferred financial asset and requires the transaction to be accounted for as a repurchase arrangement. The adoption of the ASU did not have a material effect on the Company's Consolidated Statement of Financial Condition.

3. Assets Segregated or Held in Separate or Sequestered Accounts for Regulatory and Other Purposes

At June 30, 2012, assets segregated or held in separate or sequestered accounts under the Commodity Exchange Act or other regulations are included in the Consolidated Statement of Financial Condition as follows (in millions):

Cash	$ 1,729
Cash equivalents	1,353
Receivables from brokers, dealers and clearing organizations	820
	$ 3,902

Additionally, cash of $1,497 million is segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Act and for the reserve requirement for Proprietary Accounts for Introducing Broker-Dealers ("PAIB") (for further discussion, see Note 20 “Regulatory Requirements”).

4. Financial Instruments

The following table sets forth the Company’s financial instruments owned, including those pledged as collateral and financial instruments sold, but not yet purchased, that are measured at fair value in accordance with ASC 820 as of June 30, 2012 (in millions):

Fair Value of Financial Instruments:	Financial instruments owned	Financial instruments sold, but not yet purchased
Money market instruments	$ 2,922	$ –
Government and agencies:		
Government securities	29,830	17,644
Agency securities	30,919	937
Mortgage-backed securities (“MBS”) and other asset-backed securities (“ABS”):		
Commercial MBS	498	–
Residential MBS	779	–
Other ABS	602	5
Corporate debt securities	4,080	2,048
Equities and convertibles	3,994	3,002
Derivative contracts, net:		
Equity options	96	1
To-be-announced (“TBA”) contracts	1,058	990
Other derivatives	22	17
	$ 74,800	$ 24,644

Financial instruments sold, but not yet purchased, at fair value represent obligations of the Company to deliver a specified security or cash at a contracted price. These transactions are subject to market risk if the market price of these financial instruments increases subsequent to the date of the Consolidated Statement of Financial Condition. The Company seeks to limit this risk by holding offsetting financial instruments.

Derivative Contracts

The derivative balances represent future commitments to exchange payment streams based on contract or notional amounts or to purchase or sell other financial instruments at specified terms on a specified date. Derivative contracts may be listed and traded on exchanges (referred to as exchange-traded) or traded and privately negotiated directly between two parties (referred to as over-the-counter derivatives). Both exchange-traded and over-the-counter ("OTC") derivatives are presented in the table below.

The Company enters into trading derivative contracts to satisfy the needs of its clients, for trading purposes and to manage the Company's exposure to market and credit risks resulting from its trading and market making activities. As part of the Company's risk management policies, the Company manages risks associated with derivatives on an aggregate basis. The Company uses industry standard derivative contracts whenever appropriate.

The fair value of derivative transactions is reported in the Consolidated Statement of Financial Condition as assets or liabilities in Financial instruments owned or Financial instruments sold, but not yet purchased, as applicable. Derivatives are presented at fair value in the table below on a gross basis, prior to the application of the impact of counterparty netting under ASC 210-20. In accordance with ASC 210-20, where the Company has entered into a legally enforceable netting agreement with counterparties, it reports derivative assets and liabilities, and any related cash collateral, on a net-by-counterparty basis in the Consolidated Statement of Financial Condition. Net presentation of derivative assets and liabilities, and any related cash collateral, does not impact the classification of the derivative instruments within the fair value hierarchy.

The following table sets forth the fair value and the notional value of the Company's derivative contracts by

major product type on a gross basis as of June 30, 2012. Gross fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements, and therefore are not representative of the Company's exposure (in millions):

	Derivative Assets	Derivative Liabilities	Contract/ Notional
Equity options	$ 2,981	$ 2,886	$ 147,420
TBA contracts	1,058	990	525,397
Other	22	17	56,278
Gross fair value of derivatives contracts	$ 4,061	$ 3,893	$ 729,095
Counterparty netting	(2,885)	(2,885)	
Total included in Financial Instruments owned, at fair value	$ 1,176		
Total included in Financial Instruments sold, but not yet purchased, at fair value		$ 1,008	

While the notional amounts disclosed above give an indication of the volume of the Company's derivative activity, for most derivative transactions, the notional amount is not exchanged but rather used as a reference to calculate payments.

As of June 30, 2012, the Company had no requirements to post additional collateral under derivative contracts, and would not be subject to termination of these transactions in the event of a reduction in the Company's long-term credit rating.

5. Fair Value Measurements

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy under ASC 820 are described below:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and

the price represents actual and regularly occurring market transactions at an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes exchange traded government bonds and listed equities and derivatives.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are valued using quoted prices for identical instruments in markets that are not considered to be active, or quoted prices for similar assets or liabilities in active markets, or valuation techniques in which all significant inputs are observable, or can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations include financial instruments which are valued using market standard pricing techniques, such as options and TBA contracts that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the inputs or other analytical techniques.

Credit Risk

Credit risk is an essential component of fair value. Cash products (e.g. bonds and loans) and derivative financial instruments (particularly those with significant future projected cash flows) are traded in the market at levels which reflect credit considerations. Credit exposures are adjusted to reflect mitigants, namely collateral agreements which reduce exposures based on triggers and contractual posting requirements. The Company manages its exposure to credit risk and will price, economically hedge, facilitate and intermediate trades that involve credit risk.

Valuation Process

The Company has an established and well-documented process for determining fair value and has numerous controls in place to ensure that its valuations are appropriate. An independent model review group reviews the Company's valuation models and approves them for use for specific products. All valuation models of the Company are subject to this review process. A price verification group, independent from the risk-taking functions, utilizes independent data sources to validate the ongoing appropriateness and material accuracy of valuations on the Company's Consolidated Statement of Financial Condition. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more transparent, the Company continues to refine its valuation methodologies.

Fair Value Hierarchy

The following table presents the Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value as of June 30, 2012, by underlying instrument type and by the valuation hierarchy as described earlier in this Note (in millions):

	Fair Value Measurements on a recurring basis as of June 30, 2012				
	Level 1	Level 2	Level 3	Netting and Collateral	Total Carrying Value
Assets					
Financial instruments owned, at fair value					
Money market instruments	$ –	$ 2,922	$ –	$ –	$ 2,922
Government and agencies:					
Government securities	20,740	9,090	–	–	29,830
Agency securities	–	30,919	–	–	30,919
Mortgage and other ABS:					
Commercial MBS	–	325	173	–	498
Residential MBS	–	111	668	–	779
Other ABS	–	377	225	–	602
Corporate debt securities	–	4,035	45	–	4,080
Equities and convertibles	3,120	856	18	–	3,994
Derivative contracts:					
Equity options	2,924	57	–	(2,885)	96
TBA contracts	–	1,058	–	–	1,058
Other derivatives	–	22	–	–	22
Total Financial instruments owned	$ 26,784	$ 49,772	$ 1,129	$ (2,885)	$ 74,800
Liabilities					
Financial Instruments sold, but not yet purchased, at fair value					
Money market instruments	$ –	$ –	$ –	$ –	$ –
Government and agencies:					
Government securities	13,109	4,535	–	–	17,644
Agency securities	–	937	–	–	937
Mortgage and other ABS:					
Commercial MBS	–	–	–	–	–
Residential MBS	–	–	–	–	–
Other ABS	–	5	–	–	5
Corporate debt securities	–	2,048	–	–	2,048
Equities and convertibles	1,879	1,122	1	–	3,002
Derivative contracts:					
Equity options	2,878	8	–	(2,885)	1
TBA contracts	–	990	–	–	990
Other derivatives	–	17	–	–	17
Total Financial instruments sold, but not yet purchased	$ 17,866	$ 9,662	$ 1	$ (2,885)	$ 24,644

Transfers Between Levels of the Fair Value Hierarchy

During the six months ended June 30, 2012, the Company had the following transfers between levels of the fair value hierarchy:

- Equities and convertibles of $401 million assets and $253 million liabilities from Level 1 to Level 2 primarily reflecting exchange-traded funds which are valued based on net asset value.
- MBS and other ABS of $16 million assets from Level 2 to Level 3 due to a decrease in the liquidity of certain mortgage-backed securities.
- Equity options of $19 million assets and $13 million liabilities from Level 2 to Level 1 primarily due to increased trading activity of these positions.

Cash Instruments and Derivative Contracts

Financial instruments are separated into two categories: cash instruments and derivative contracts, described below.

Cash Instruments

The Company's cash instruments are predominantly classified within level 1 or level 2 of the fair value hierarchy.

Level 1 Cash Instruments

Level 1 cash instruments, valued based on unadjusted, quoted market prices for identical unrestricted instruments in active markets, include certain U.S. government obligations and actively traded listed equities.

The Company defines active markets for equity instruments based on the average daily volume both in absolute terms and relative to the market capitalization for the instrument. The Company defines active markets for debt instruments based on the average daily volume and the number of days with trading activity.

The Company does not apply liquidity or concentration reserves for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Level 2 Cash Instruments

Level 2 cash instruments include money market instruments, less liquid government bonds, most government agency obligations and mortgage-backed securities, corporate bonds, certain mortgage products, less liquid publicly listed equities, and state, municipal and provincial obligations. Valuations for these types of instruments include transactions in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where there are no observable market prices, fair value is determined by reference to either bond issuances or credit default swaps ("CDS") spreads of the same issuer as proxy inputs to obtain discounted cash flows. In the absence of observable bond or CDS spreads for the respective issuer, similar referenced assets or sector averages are applied as proxy (appropriateness

of proxies based on issuer, coupon, maturity and industry).

Valuation adjustments may be applied to reflect illiquidity and/or non-transferability, which are generally based on available market evidence and may incorporate management's best estimate based on available market evidence.

Level 3 Cash Instruments

Certain cash instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and have little or no price transparency. Such instruments include less liquid mortgage-backed securities and asset-backed securities, less liquid corporate debt securities (including distressed debt instruments), and certain types of equities.

Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. Subsequent to the transaction date, the Company uses other methodologies to determine fair value, which vary based on the type of instrument, as described below.

Valuation is adjusted generally only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third party transactions in the underlying investment or comparable entities, other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or expected cash flows. Valuations are corroborated by values realized upon sales of the Company's level 3 assets. The valuation techniques and significant inputs used in determining the fair value of each class of cash instruments classified within level 3 of the fair value hierarchy are as follows:

- Mortgage-backed and other asset-backed securities. Securities backed by real estate or collateralized by specific assets, may be tranched into varying levels of subordination. Due to the nature of these instruments, valuation techniques vary by instrument, but are generally based on

relative value analyses, discounted cash flow techniques or a combination thereof.

Valuations of securities backed by commercial real estate are predominantly based on discounted cash flow techniques using cash flow modelling engines (i.e. Intex), or other proprietary or industry recognized models. The significant inputs for these valuations include transaction prices for instruments with the same or similar collateral and risk profiles, market yields implied by such transactions, current levels and trends of market indices (i.e. CMBX), or market research that track the performance of commercial mortgage bonds and other factors (such as the operating income generated by the underlying collateral) which are used in determining the amount and timing of expected future cash flows.

Valuations of securities backed by residential real estate are predominantly based on discounted cash flow techniques using cash flow modelling engines (i.e. Intex), or other proprietary or industry recognized models. The significant inputs to these valuations include: transaction prices for instruments with the same or similar collateral and risk profiles, market yields implied by such transactions, current levels and trends of market indices (i.e. ABX) or market research that track the performance of other asset-backed bonds, and current and historical underlying collateral performance such as the rate and timing of delinquencies, prepayments, defaults and loss expectations (i.e. severities).

Valuations of other asset-backed securities are predominantly based on discounted cash flow techniques using cash flow modelling engines (i.e. Intex), or other proprietary or industry recognized models. The significant inputs for these valuations include transaction prices for instruments with the same or similar collateral and risk profiles, market yields implied by such transactions, current levels and trends of market indices or market research that track the performance of other asset-backed bonds, and current and historical underlying collateral performance such as the rate and timing of delinquencies, prepayments, defaults and loss expectations (i.e. severities).

To determine applicable transaction prices for the same or similar collateral and risk profiles requires an assessment and comparison of each of the securities' underlying attributes including: collateral type, tranche, shelf or issuer analysis, vintage, credit ratings, underlying asset composition, and other deal-specific characteristics. Analysis of underlying asset composition includes assessing current and historical performance including the rate and timing of delinquencies, prepayments, defaults and loss expectations, as well as other deal-specific factors (such as monoline insurance, litigation, settlements) and borrower characteristics / loan attributes (such as loan-to-value ratio and geographic concentration).

- Equities and convertibles. For equities and convertibles, the level 3 population is comprised of non-actively traded equities, convertible bonds and private equity securities. Valuations are generally based on relative value analyses. The significant inputs for these valuations include prices for similar instruments for which observable prices are available, and prices from broker quotes that are indicative or not corroborated by observable market data.

- Corporate debt securities. Valuations are generally based on relative value analyses. The significant inputs for these valuations include prices for similar instruments for which observable prices are available, and prices from broker quotes that are indicative or not corroborated by observable market data.

Derivative Contracts

Exchange-traded derivatives, including equity options, typically fall within level 1 or level 2 of the fair value hierarchy, depending on whether they are deemed to be actively traded or not. OTC derivatives typically fall within level 2 of the fair value hierarchy.

Level 1 Derivatives

Exchange-traded derivatives fall within level 1 of the hierarchy if they are actively traded, and are valued at their quoted market prices. Currently, the Company's level 1 derivatives include exchange-traded futures and options, which exhibit the highest level of price transparency. Examples would include U.S. Treasury

futures, Eurodollar futures, and options on indices and common corporate stock.

Level 2 Derivatives

Level 2 exchange-traded derivatives are not actively traded and are valued using models that are calibrated to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying financial instruments.

Level 2 OTC derivatives, including TBA contracts, are valued using market transactions and other market evidence whenever possible, such as market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. OTC derivatives are classified within level 2 when all of the significant inputs can be corroborated to market evidence. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Valuation adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. The pricing models take into account the contract terms (including maturity) as well as key inputs, depending upon the type of derivative and the nature of the underlying instrument, including market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Valuations of these instruments are corroborated by market prices.

For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

Significant Unobservable Inputs used in Level 3 Measurements

The table below provides information on the valuation techniques, significant unobservable inputs and their

ranges for the financial instruments that are classified as level 3 under the fair value hierarchy. The listed ranges represent the highest and lowest value of each respective input across all investments included within the Financial Instrument classifications listed below as of June 30, 2012. The disclosures below also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

	Fair value (in millions)	Valuation Methodology	Key Inputs*	Low	High
Commercial MBS	$ 173	Cash flow	Discount rate	2%	20%
			Constant prepayment rate	0%	40%
			Constant default rate	0%	70%
			Loss severity	0%	100%
Residential MBS	668	Cash flow	Discount rate	2%	20%
			Constant prepayment rate	0%	40%
			Constant default rate	0%	70%
			Loss severity	0%	100%
Other ABS	225	Cash flow	Discount rate	0%	53%
			Constant prepayment rate	0%	25%
			Constant default rate	0%	10%
			Loss severity	0%	100%
Corporate debt securities	45	Price-based	Price	0%	90%
Equities and convertibles	18	Price-based	Price	0%	80%

* When the low and high inputs are the same, there is either a constant input applied to all positions, or the methodology involving the input applies to one position only.

In general, an increase in the discount rate, default rates and loss severity, in isolation, would result in a decrease in the fair value measurement. In addition, an increase in default rates would generally be accompanied by a decrease in recovery rates, slower prepayment rates and an increase in discount rates.

Estimated Fair Value of Financial Instruments Not Carried at Fair Value

The table below (in millions) presents the Company's carrying value, fair value, and related fair value hierarchy level for those financial instruments which are not carried at fair value in the Consolidated Statement of Financial Condition for the Company as of June 30, 2012.

The carrying value of Cash and cash equivalents, Cash and cash equivalents segregated for regulatory and other purposes, Securities borrowed, Securities loaned, and receivables and payables arising in the ordinary course of business approximate fair value because of the relatively short period of time between their origination and expected maturity, and collectability.

For those financial instruments not carried at fair value with a longer maturity term or date outstanding, fair value is determined using a discounted cash flow methodology. These financial instruments include Securities purchased under agreements to resell and Securities sold under agreements to repurchase.

Fair value of Long-term borrowings and Subordinated debt agreements is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturities.

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 728	$ 728	$ 728	$ –	$ –
Cash and cash equivalents segregated for regulatory and other purposes	4,579	4,579	4,579	–	–
Securities purchased under agreements to resell	160,005	160,363	–	160,363	–
Securities borrowed	50,500	50,500	–	50,500	–
Receivables from brokers, dealers and clearing organizations	8,182	8,182	–	8,182	–
Receivables from customers and other financial assets not measured at fair value*	10,589	10,589	–	10,589	–
Liabilities					
Securities sold under agreements to repurchase	$ 226,263	$ 226,642	$ –	$ 226,642	$ –
Securities loaned	18,330	18,330	–	18,330	–
Payables to brokers, dealers and clearing organizations	2,256	2,256	–	2,256	–
Payables to customers and other financial liabilities not measured at fair value**	18,794	18,794	–	18,794	–
Long-term borrowings and subordinate debt	10,400	10,405	–	10,405	–

* Includes Receivables from customers, Accrued interest and dividend receivables and other financial assets not measured at fair value. Does not include nonfinancial assets such as intangible assets, lease receivables, deferred tax assets and prepaid assets.

** Includes Payables to customers, Accrued interest and dividend payables and other financial liabilities not measured at fair value. Does not include nonfinancial liabilities such as compensation and benefit arrangements, pension and current tax obligations.

6. Securitization Activities and Variable Interest Entities

Re-securitizations of Non-agency Residential Mortgage-backed Securities

The Company repackages mortgage-backed securities by selling them into securitization vehicles that issue beneficial interests to investors. The securitization vehicles qualify as VIEs under ASC 810. While the Company may retain interests in the securitized financial assets through holding tranches of the securitizations, the Company is generally not required to consolidate these VIEs as it does not have the power to direct the significant activities of the entities. The Company acts as underwriter of the beneficial interests that are sold to investors. The Company de-recognizes the transferred securities when it relinquishes control. The transferred

assets are recorded at fair value prior to the securitization.

For the six months ended June 30, 2012, the Company sold securities with a fair value of $1,246 million (par value of $1,904 million) into securitization vehicles, of which $30 million were investment grade and $1,216 million were non-investment grade. Retained interests related to the Company's continuing involvement are recorded at fair value and are included in Financial instruments owned, at fair value in the Consolidated Statement of Financial Condition. As of June 30, 2012, the Company held $101 million of retained interests in these types of securitizations, of which $55 million were investment grade and $46 million were non-investment grade. The maximum amount of loss that the Company is exposed to is the carrying amount of these positions in the Consolidated Statement of Financial Condition as the Company has no other requirements to support these vehicles.

The Company's positions in and associated maximum exposure to loss in all non-agency residential securitization vehicles, including those established by third parties, as of June 30, 2012 was $779 million, of which $101 million represents retained interests in securitization vehicles to which the Company sold securities.

The following table sets forth the weighted average key economic assumptions used in measuring the fair value of the Company's retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions (in millions):

Mortgage-backed Securities		
Fair value of retained interests	$	101.00
Weighted average life (years)		4.25
Constant prepayment rate		4.18%
Impact of 10% adverse change	$	(0.96)
Impact of 20% adverse change	$	(1.96)
Discount rate		6.86%
Impact of 10% adverse change	$	(3.30)
Impact of 20% adverse change	$	(8.30)
Loss severity		64.25%
Impact of 10% adverse change	$	(7.12)
Impact of 20% adverse change	$	(13.85)

Loss severity is the percentage of the defaulted balance which is not covered by liquidation proceeds (recoveries) and therefore passes through as a loss to the securitization trust. The table does not consider the

probability of default as changes in the probability of default are not expected to have a significant adverse effect on the securities held by the Company. Additionally, the preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests. The impact of a change in a particular assumption is calculated independently of changes in any other assumption. Changes in fair value of the retained interests based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

Agency Securitizations

As part of the ordinary course of business, the Company owns interests in agency securitizations established by third parties that it does not consolidate as it does not have the power to direct the significant activities of those entities under ASC 810. During the six months ended June 30, 2012, the Company sold $20,067 million of U.S. government agency-issued securities to the agencies which were placed into their securitization vehicles.

The Company generally de-recognizes those securities from its Consolidated Statement of Financial Condition as it has relinquished control over those securities. However, in certain situations, the Company sells government agency-issued securities to be included in agency securitizations and retains a callable class security that allows the Company to re-acquire the transferred assets at some point post securitization at a fixed price. As long as the Company retains that callable security, it does not relinquish control over the transferred securities. As a result, the Company was not able to de-recognize these transferred assets and continues to record them in its Consolidated Statement of Financial Condition. During the six months ending June 30, 2102, the Company sold $1,185 million of US government agency-issued securities to such vehicles while retaining callable class securities.

As of June 30, 2012 the Company exercised certain of these callable class securities and re-acquired $1,728 million of the transferred assets ($725 million were

related to transfers of assets that took place during the six months ended June 30, 2012).

Due to the callable class securities still retained as of June 30, 2012, the Company was unable to de-recognize $617 million of transferred assets with a fair market value of $603 million ($460 million of which, with a fair value of $459 million, are related to transfers that took place during the six months ended June 30, 2012). The Company recognized a corresponding liability for the failed de-recognition of the transferred securities in Other secured financings, at fair value of $578 million ($439 million is related to transfers that took place during the six months ended June 30, 2012).

The Company's positions in and associated maximum exposure to loss in all agency securitization vehicles, including those established by third parties, as of June 30, 2012 was $2,582 million, and was recorded as Financial instruments owned, at fair value in the Consolidated Statement of Financial Condition.

Municipal Securities Tender Option Bond ("TOB") Trusts

The Company forms TOB trusts through which investments in municipal securities are financed. TOB trusts hold tax-exempt securities issued by state or local municipalities. The trusts are typically single-issuer trusts whose assets are purchased from the Company via the primary and secondary market. To fund the purchase of their assets, the trusts issue long-term senior floating rate notes ("Floaters") and junior residual securities ("Residuals"). The holder of the Residuals generally has the ability to direct decisions that significantly impact the economic performance of the TOB trusts through its ability to liquidate the TOB trust and ultimately direct the sale of the municipal bonds owned by that trust. Liquidity agreements are provided to the trust by BBPLC and the Company serves as remarketing agent for the Floaters. Floater holders have an option to tender the Floaters they hold back to the trust periodically. The Company, in its capacity as a remarketing agent, facilitates the sale of the Floaters to third parties at inception of the trust, facilitates the reset of the Floater coupon, and remarkets any tendered Floaters. If Floaters are tendered and the Company (in its role as remarketing agent) is unable to find a new investor within a specified period of time, it can declare a failed remarketing (in which case the trust is unwound)

or may choose to buy the Floaters into its own inventory and may continue to try to sell them to a third-party investor. No failed remarketings on trusts formed by the Company were declared during the six months ended June 30, 2012.

The Company considers the TOB trusts to be VIEs. The trusts are not consolidated by the Company where third-party investors hold the Residual interests in the trusts, as the Company's involvement with the trusts is limited to its role as remarketing agent and the Company does not have the power to direct the activities of the trust that most significantly impact the economic performance of the trust. Where the Company holds the Residual interests, the Company consolidates the trusts.

As of June 30, 2012, the Company holds no Residual interests and therefore does not consolidate any TOB trusts. During the six months ended June 30, 2012, the Company sold $630 million of municipal bonds into TOB trusts. The Company generally de-recognizes those bonds from its Consolidated Statement of Financial Condition as it has relinquished control over those securities. As of June 30, 2012, the Company did not hold any of the Floater inventory related to the TOB programs.

7. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations, as reported in the Consolidated Statement of Financial Condition at June 30, 2012 consist of the following (in millions):

	Receivables from brokers, dealers and clearing organizations	Payables to brokers, dealers and clearing organizations
Securities failed to deliver/receive	$ 1,519	$ 1,145
Margin receivable/payable	6,510	749
Fees and commissions receivable/payable	71	322
Other	82	40
	$ 8,182	$ 2,256

8. Other Assets and Other Liabilities

At June 30, 2012, Other assets primarily consist of net deferred tax assets of $118 million, $36 million of identifiable intangible assets (which consists primarily of customer lists), asset management fee receivables of $20 million, and loans to employees of $14 million. Other liabilities primarily consist of accrued compensation of

$622 million, current tax liabilities of $355 million, and $145 million for accrued operating expenses.

9. Income Taxes

The Company and its Subsidiary are included in the federal consolidated income tax return of BGUS.

At June 30, 2012, the Company had $468 million of net deferred tax assets. This balance is comprised of deferred tax assets of $539 million resulting from temporary differences primarily related to deferred compensation and stock-based compensation. These deferred tax assets were offset by deferred tax liabilities of $71 million resulting from temporary differences primarily related to leases and allocation of service revenue. The Company's tax-sharing agreement requires periodic settlement with BGUS of increases or decreases to the net federal deferred tax balance. Until settlement, net balances are recorded as a component of Other assets in the Consolidated Statement of Financial Condition. As of June 30, 2012, the Company had $118 million of unsettled net deferred tax asset balance.

The Company is required to assess the likelihood that deferred tax assets will be realized using a more-likely-than-not criteria. To the extent this criteria is not met, the Company is required to establish a valuation allowance against the deferred tax assets. No valuation allowance is recorded at June 30, 2012 because the Company believes the net deferred tax assets will more-likely-than-not be realized.

The Company has state net operating losses of $24 million expiring in the years beginning after 2024.

The Company's unrecognized tax benefits, including interest of $24 million, are recorded in the Consolidated Statement of Financial Condition as current income taxes payable, included in Other liabilities. The Company has not recorded any amounts for penalties related to its unrecognized tax benefits. In connection with the 2008 Lehman Brothers acquisition, and due to the complexities involved with the transaction, there are potentially material tax uncertainties which could have a significant impact in the Company's unrecognized tax benefits.

If any tax return examination by federal, state or local tax authorities is concluded during the next twelve months, it is possible that the amount of accrued liability

for uncertain tax positions could change. It is not possible to estimate the amount of any such change at this time. It is possible that any change in uncertain tax positions could have a significant impact on the Company's Consolidated Statement of Financial Condition.

BGUS's federal corporate income tax returns for the years 2007 and after remain subject to examination. The Company and its Subsidiary filed combined and unitary state and local returns with affiliates, as well as certain separate state and local filings. The most significant state and local filings are subject to examination for the years 2006 and after.

10. Short-Term Borrowings

At June 30, 2012, Short-term borrowings consist of uncollateralized loans payable primarily to affiliates of $244 million and bank overdrafts payable primarily to third parties of $57 million. The loans from affiliates bear interest at rates based on an average of rates for Group's outstanding borrowings. The carrying value of these borrowings approximates fair value due to the short-term nature of the obligation.

11. Long-Term Borrowings

In February 2012, and in connection with the decision made to move part of the BBPLC liquidity pool to the Company, BGUS and the Company entered into two 5-year unsecured fixed term financing arrangements totaling $7,900 million, with an option to prepay all or part of each loan on 30 days notice without penalty. These arrangements bear interest at a rate of 4.03% and will mature on February 23, 2017. For discussion on the fair value of the borrowings, see Note 5 "Fair Value Measurements".

The Company used the majority of the proceeds from this arrangement to repay and subsequently, terminate previously existing lines of credit. The remaining balance was used to support the Company's liquidity pool.

12. Subordinated Debt

At June 30, 2012, the Company had subordinated debt with BGUS for $2,500 million which matures on July 16, 2014. Under the provisions of this loan, provided that the Company has not given written notification to the Financial Industry Regulatory Authority to cancel the rollover, an automatic one year rollover of the maturity

date occurs within seven months of maturity. The loan bears interest at rates based on 3 month US Dollar London Interbank Offered Rate ("LIBOR"), plus 4.3%. For discussion on the fair value of the borrowings, see Note 5 "Fair Value Measurements".

13. Transactions with Affiliated Companies

The Company enters into securities transactions and other transactions with affiliates. At June 30, 2012, balances with such affiliates were included in the Consolidated Statement of Financial Condition line items as follows (in millions):

Cash and cash equivalents	$	73
Securities purchased under agreements to resell		104,463
Securities borrowed		9,188
Securities received as collateral		24,691
Financial instruments owned, at fair value		28
Receivables from brokers, dealers and clearing organizations		1,896
Receivables from customers		694
Other assets		18
Securities sold under agreements to repurchase		40,835
Securities loaned		12,364
Obligation to return securities received as collateral		24,691
Financial instruments sold, but not yet purchased, at fair value		52
Payables to brokers, dealers and clearing organizations		402
Payables to customers		2,354
Short-term borrowings		242
Accrued interest and dividend payables		30
Long-term borrowings		7,900
Subordinated debt		2,500

At June 30, 2012, the Company had an uncommitted and unsecured money market line of credit of $10,000 million with BBPLC, of which $240 million was utilized as described in Note 10 "Short-term Borrowings". The Company also had two loans with BGUS as described in Note 11 "Long-term Borrowings". The loans with BGUS were driven by a decision to move part of the BBPLC liquidity pool to the Company. Liquidity stress scenarios are used to assess the appropriate level for the Company's liquidity pool. The Company's liquidity pool consists of unencumbered cash and U.S. Treasury and U.S. Agency securities.

During the six months ended June 30, 2012, under its intercompany tax sharing agreement with BGUS, the Company transferred $56 million of current and deferred

federal income taxes, the payment of which is settled periodically.

The Company sells certain receivables related to investment banking clients to an affiliate. At June 30, 2012, the fair value of these receivables was approximately $158 million.

At June 30, 2012, the Company was a beneficiary of letters of credit from BBPLC in the amount of $375 million related to certain margin requirements of the CME Group when trading futures.

At June 30, 2012, the Company had $1,303 million of its affiliates' securities and $703 million of its affiliates' cash and cash equivalents on deposit with clearing organizations for trade facilitation purposes.

In 2011, the Company paid fees to BBPLC and BGUS as consideration for their agreement to assume responsibility for any contingent obligation that may arise out of litigation in respect of exchange-traded derivative margin assets received by the Company in connection with the acquisition of assets of Lehman Brothers Inc. and for any collateral required to be posted to escrow related to such litigation. This litigation is one of the Contract Claims described in Note 17 "Collateral, Commitments and Contingencies".

In the ordinary course of business, BBPLC may be asked by third parties to guarantee performance of the Company in relation to futures trading or prime services financing activities.

14. Benefit Plans

Pension Plan

The Company and its Subsidiary provide pension benefits for eligible employees through participation in a defined benefit pension plan of BBPLC. All eligible employees participate in the pension plan on a non-contributory basis, and are fully vested after five years of service. The Company makes contributions to the plan based upon the minimum funding standards under the Internal Revenue Code. Employees hired on or after September 22, 2008 are not eligible to participate in the plan.

401(k) Contribution Plan

The Company has adopted the BBPLC Thrift Savings Plan (referred to as the "401(k) Plan") effective January 1, 1980. Eligible employees may elect to participate in the plan at any time during the year. Employees who formally elect to participate may contribute any amount from 2% to 50% of their base pay on a pre-tax basis each pay period, subject to Internal Revenue Service Limits. Additionally, employees who formally elect to participate may contribute 2% to 6% of their base pay on an after-tax basis to the 401(k) plan each pay period, subject to Internal Revenue Service Limits. The combined pre-tax and after-tax contributions may not exceed 50% of eligible compensation.

The Company matches all or a portion of employee pre-tax contributions through employer matching contributions. For every $1.00 an employee contributes on a pre-tax basis (up to 6% of eligible compensation each pay period), the Company contributes $1.00 ($1.50 for employees whose annualized eligible compensation is $60 thousand or less). The matching contributions vest with the employee on a graduated scale based on completed years of service.

Post-retirement

The Company follows ASC 715 which requires the recognition of post-retirement benefit costs on an accrual basis over the active working lives of employees, rather than on a cash basis. Only employees hired as of April 1, 1997 are eligible for post-retirement benefits.

Post-employment

The Company recognizes post-employment benefit costs on an accrual basis over the active working lives of employees, rather than on a cash basis.

15. Share-Based Compensation

BBPLC operates certain share plans for its employees, including the employees of the Company. Shares for distribution under these plans are sourced from newly issued shares and market purchases. Market purchased shares are held by a trust and will be vested for individual employees when they satisfy specific vesting conditions. The costs of these compensation plans are funded in cash paid to BBPLC. The liabilities related to these share payments are recorded by the trust.

The Company makes recommendations on the compensation awards for its employees which are

approved annually by the Remuneration Committee of BBPLC. Depending upon the threshold limit, a portion of such compensation award for the employees will be awarded in BBPLC stock. The main current share-related plans from which the Company's employees benefit are as follows:

Executive Share Award Scheme ("ESAS") – Closed Plan

For certain employees of the Group, an element of their annual bonus is in the form of a deferred award of a provisional allocation of BPLC shares under ESAS. The total value of the bonus made to the employee of which ESAS is an element is dependent upon the business unit, Group and individual employee performance. The ESAS element of the annual bonus must normally be held for at least three years. Additional bonus shares are subsequently awarded to recipients of the provisional allocation and vest upon achieving continued service for three and five years from the date of award. ESAS awards were also made to eligible employees for recruitment purposes under the Joiners Share Award Plan. All awards are subject to potential forfeiture if the individual resigns and commences work with a competitor business.

Incentive Share Plan ("ISP") – Closed Plan

The ISP was introduced in March 2008. Incentive shares are granted to participants in the form of a provisional allocation of Barclays shares which vest upon achieving continued service after three years. Participants do not pay to receive an award or to receive a release of shares. Incentive share awards qualify for dividends.

Incentive Share Option Plan ("ISOP") – Closed Plan

The ISOP was open by invitation to the employees and Directors of Barclays PLC. Options were granted at the market price at the date of grant calculated in accordance with the rules of the plan, and are normally exercisable between three and ten years from that date. The final number of shares over which the option may be exercised is determined by reference to set performance criteria. All options have now reached maturity and the number of shares under option represents the vested number that may be exercised. No awards were made under ISOP during 2012.

Long Term Incentive Plans ("LTIPs")

LTIP awards are granted to participants in the form of a conditional right to receive BPLC shares and cash. The

awards vest, subject to the achievement of specified performance conditions and continued service, after three years. At vesting, fifty percent of the award is settled in cash and fifty percent is settled under ESAS or SVP in shares transferred to the individual that are subject to an additional twelve month holding period.

Group LTIP awards are granted to participants in the form of a conditional right to receive BPLC shares. The awards vest, subject to the achievement of specified performance conditions and continued service, after three years. At vesting, fifty percent of the shares that vest are transferred to the individual and the remaining fifty percent are subject to an additional 12 month holding period. The grantor may also make a dividend equivalent payment to participants on vesting of an LTIP award.

Share Value Plan ("SVP")

The SVP was introduced in March 2010 and approved by shareholders (for executive Director participation and use of new issue shares) at the Annual General Meeting in April 2011. SVP awards are granted to participants in the form of conditional right to receive BPLC shares (awards granted prior to May 2011 were granted as provisional allocations of Barclays shares), which vest over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on vesting of an SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. From 2010, the portion of business unit LTIP award that was previously granted under ESAS is now granted under SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

The number of options and restricted stock shares outstanding at June 30, 2012 is set forth below (in millions):

	ESAS[(a)]	ISP[(a)]	ISOP[(a)]	SVP[(a)]	Group LTIP[(a)]
Outstanding at June 30, 2012	36.6	–	0.2	209.0	1.82
Of which are exercisable	1.4	–	0.2	0.1	–

(a) Options / shares granted relate to Barclays PLC shares.

16. Financial Instruments with Off-Balance Sheet Risk

In the normal course of its business, the Company enters into transactions involving financial instruments with off-balance sheet risk in order to meet financing and hedging needs of customers and to reduce the Company's own exposure to market and interest rate risk in connection with trading activities. These financial instruments include forward and futures contracts, options contracts, and options on futures contracts. Each of these financial instruments contains varying degrees of off-balance sheet risk as changes in the fair values of the financial instruments subsequent to June 30, 2012 may, in certain circumstances, be in excess of the amounts recognized in the Consolidated Statement of Financial Condition. The Company is also at risk from the potential inability of counterparties to perform under the terms of the contracts.

The Company also bears market risk for unfavorable changes in the price of securities sold but not yet purchased. In the normal course of business, the Company enters into securities sales transactions. If the securities subject to such transactions are not in the possession of the Company, the Company may incur a loss if the security the Company is obligated to deliver is not received and the market value has increased over the contract amount of the sale transaction.

The Company also executes customer transactions in commodity futures contracts (including options on futures), all of which are transacted on a margin basis subject to individual exchange regulations. These transactions may expose the Company to off-balance sheet risk in the event margin deposits are insufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations.

In the normal course of business, the Company may pledge or deliver customer or other counterparty securities as collateral in support of various financing sources such as bank loans, securities loaned and repurchase agreements. Additionally, the Company pledges customer securities as collateral to satisfy margin deposits of various exchanges. In the event the counterparty is unable to meet its contracted obligation

to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at current market prices in order to return them to the owner.

17. Collateral, Commitments and Contingencies

Collateral

The Company receives financial instruments as collateral, primarily in connection with resale agreements, securities borrowed, derivatives transactions and customer margin loans. In many cases, the Company is permitted to deliver, repledge or otherwise use these financial instruments in connection with entering into repurchase agreements, securities lending agreements, other secured financings, collateralizing derivative transactions and meeting the Company or customer settlement requirements. At June 30, 2012, the approximate fair value, excluding the impact of netting, of financial instruments received as collateral by the Company that the Company was permitted to sell or repledge was $341,138 million, of which $302,215 million was sold or repledged.

The amount of collateral that was sold or repledged by the Company included the following:

- $165,271 million of securities collateral that was pledged under repurchase agreements which cannot be resold or repledged by the counterparty.
- $118,029 million of securities collateral that was pledged under repurchase and securities lending agreements which can be resold or repledged by the counterparty.
- $18,915 million of securities loaned against pledged securities transactions recorded as Securities received as collateral and a related Obligation to return securities received as collateral.

Financial instruments owned and pledged to counterparties that the counterparties have the right to resell or repledge are included in Financial instruments owned, at fair value in the Consolidated Statement of Financial Condition and were $59,898 million at June 30, 2012.

At June 30, 2012, the Company had $4,719 million of securities on deposit with clearing organizations for trade facilitation purposes. These securities cannot be resold or repledged by the clearing organizations. In

addition, the Company had $2,873 million of cash and cash equivalents, and $874 million of issued letters of credit on deposit with clearing organizations.

On a month-end basis, the Company's total assets varied between $335,529 million and $403,349 million during the six months ended June 30, 2012, largely as a result of the variation in the level of resale agreements which varied between $160,005 million and $229,441 million. Also based on month-end balances, the average total assets and average total resale agreements during the six months ended June 30, 2012 were $378,079 and $198,317 million respectively.

Commitments

At June 30, 2012, the Company had committed $15,112 million in forward starting collateralized agreements, primarily resale transactions, and $12,055 million in forward starting collateralized financings, primarily repurchase transactions.

Contingencies

On September 15, 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") by Lehman Brothers Holdings Inc. ("LBHI"), the SIPA Trustee for Lehman Brothers Inc. (the "Trustee") and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (the "Committee"). All three motions challenged certain aspects of the transaction pursuant to which the Company, its parent BBPLC and other subsidiaries of BBPLC (collectively, "Barclays") acquired most of the assets of Lehman Brothers Inc. ("LBI") in September 2008 and the court order approving such sale. The claimants sought an order voiding the transfer of certain assets to the Company; requiring the Company to return to the LBI estate alleged excess value the Company received; and declaring that the Company is not entitled to certain assets that it claims pursuant to the sale documents and order approving the sale (the "Rule 60 Claims"). On November 16, 2009, LBHI, the Trustee and the Committee filed separate complaints in the Bankruptcy Court asserting claims against the Company based on the same underlying allegations as the pending motions and seeking relief similar to that which is requested in the motions. On January 29, 2010, the Company filed its response to the Rule 60 Claims and also filed a motion seeking delivery of certain assets that LBHI and LBI have failed to deliver as required by

the sale documents and the court order approving the sale (together with the Trustee's competing claims to those assets, the "Contract Claims").

On February 22, 2011, the Bankruptcy Court issued its Opinion in relation to these matters, rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee's favor and some in favor of the Company. On July 15, 2011, the Bankruptcy Court entered final Orders implementing its Opinion. The Company and the Trustee each appealed the Bankruptcy Court's adverse rulings on the Contract Claims to the United States District Court for the Southern District of New York (the "District Court"). LBHI and the Committee did not pursue an appeal from the Bankruptcy Court's ruling on the Rule 60 Claims. After briefing and argument, the District Court issued its opinion on June 5, 2012 in which it reversed one of the Bankruptcy Court's rulings on the Contract Claims that had been adverse to Barclays and the Company and affirmed the Bankruptcy Court's other rulings on the Contract Claims. Barclays and the Trustee have each filed a notice of appeal from the adverse rulings of the District Court to the United States Court of Appeals for the Second Circuit. If the District Court's rulings are unaffected by future proceedings, the Company will not incur a loss in respect of these claims.

The United States Federal Housing Finance Agency, acting for two U.S. government sponsored enterprises, Fannie Mae and Freddie Mac (collectively, the "GSEs"), filed lawsuits against seventeen financial institutions in connection with the GSEs' purchases of residential MBS. The lawsuits allege, among other things, that the residential MBS offering materials contained materially false and misleading statements and/or omissions. The Company and certain of its former employees are named in two of these lawsuits, relating to sales between 2005 and 2007 of residential MBS, in which the Company was lead or co-lead underwriter.

Both complaints demand, among other things: rescission and recovery of the consideration paid for the residential MBS; and recovery for the GSEs' alleged monetary losses arising out of their ownership of the residential MBS. The complaints are similar to other civil actions filed against the Company by other plaintiffs, including the Federal Home Loan Bank of Seattle, Federal Home Loan Bank of Boston, Federal Home Loan Bank of Chicago, Cambridge Place Investment

Management, Inc., HSH Nordbank AG (and affiliates), Sealink Funding Limited, Landesbank Baden-Württemberg (and affiliates), Deutsche Zentral-Genossenschaftsbank AG (and affiliates) and Stichting Pensioenfonds ABP, relating to their purchases of residential MBS. The Company considers the claims against it are without merit and intends to defend them vigorously.

The original amount of residential MBS related to the claims against the Company in these cases totaled approximately $7,647 million, of which approximately $2,433 million was outstanding as at June 30, 2012. Cumulative losses reported on these residential MBS as at June 30, 2012 were approximately $163 million. If the Company were to lose these cases it could incur a loss of up to the outstanding amount of the residential MBS at the time of judgment (taking into account further principal payments after June 30, 2012) plus any cumulative losses on the residential MBS at such time and any interest, fees and costs, less the market value of the residential MBS at such time. The Company has estimated the total market value of the residential MBS as at June 30, 2012 to be approximately $1,320 million. The Company may be entitled to indemnification for a portion of any losses.

The CFTC, the SEC, the U.S. Department of Justice Fraud Section (the "DOJ-FS") and Antitrust Division, the Financial Services Authority (the "FSA") and the European Commission are among various authorities conducting investigations into submissions made by BBPLC and other panel members to the bodies that set various interbank offered rates, such as LIBOR and the Euro Interbank Offered Rate ("EURIBOR").

On June 27, 2012, BPLC, BBPLC and the Company announced that they had reached a settlement with the CFTC. A penalty of $200 million was paid by BBPLC in connection with the CFTC settlement. On June 27, 2012, BBPLC also announced that it had reached a settlement with the FSA (USD equivalent of $93 million penalty paid by BBPLC) and the DOJ-FS ($160 million penalty paid by BBPLC). These three settlements were made by entry into a Settlement Order Agreement with the CFTC, a Non-Prosecution Agreement with the DOJ-FS and a Settlement Agreement with the FSA. On July 6, 2012, the U.K. Serious Fraud Office announced that it had decided formally to accept the LIBOR matter for

investigation. The Company and BBPLC have received several additional LIBOR-related inquiries from state governmental authorities.

A class action was commenced on July 6, 2012 in the United States District Court for the Southern District of New York ("SDNY") against the Company, BBPLC and other EURIBOR panel banks by plaintiffs that purchased or sold EURIBOR-related financial instruments. The complaint alleges, among other things, manipulation of the EURIBOR rate and breaches of the Sherman Act and the Commodity Exchange Act beginning as early as January 1, 2005 and continuing through to December 31, 2009. BBPLC has been granted conditional leniency from the Antitrust Division of the Department of Justice ("DOJ") in connection with potential U.S. antitrust law violations with respect to financial instruments that reference EURIBOR. As a result of that grant of conditional leniency, BBPLC and BCI are eligible for (i) a limit on liability to actual rather than treble damages if damages were to be awarded in any civil antitrust action under U.S. antitrust law based on conduct covered by the conditional leniency and (ii) relief from potential joint-and-several liability in connection with such civil antitrust action, subject to BBPLC satisfying the DOJ and the court presiding over the civil litigation of its satisfaction of its cooperation obligations.

The Company, BPLC and BBPLC also have been named as defendants along with a current and a former member of BPLC's board of directors in a proposed securities class action pending in the SDNY in connection with BBPLC's role as a contributor panel bank to LIBOR. The complaint alleges that BPLC's Annual Reports on Form 20-F for the years 2006-2011 contained misstatements and omissions concerning (among other things) its compliance with its operational risk management processes and certain laws and regulations. The complaint is brought on behalf of a proposed class consisting of all persons or entities (other than defendants) who purchased BPLC-sponsored American Depositary Receipts on an American securities exchange between July 10, 2007 and June 27, 2012. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

It is not practicable to provide an estimate of the financial impact of the potential exposure of any of the

actions described or what effect if any that they might have upon the Company's financial position.

The Company is also involved in a number of judicial and arbitration matters arising in connection with the conduct of its business. The Company does not expect the ultimate resolution of any of such proceedings to have a significant adverse effect on the Company's Consolidated Statement of Financial Condition.

18. Guarantees

In the ordinary course of its business, the Company indemnifies certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company, its customers and its affiliates. In addition, the Company is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the Company to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the Company may agree to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The Company's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the Company on behalf of the client. The Company is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Company will have to make material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the Consolidated Statement of Financial Condition.

The Company enters into certain derivative contracts that meet the definition of a guarantee under ASC 460 Guarantees. Guarantees are defined to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in the underlying that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the definition of a guarantee include certain written equity options. Accordingly, the Company has disclosed information about certain written equity options that can potentially be used by clients to protect against

changes in an underlying. The Company's derivatives that act as guarantees are summarized below and are shown on a gross basis prior to cash collateral or counterparty netting (in millions):

	Carrying Value of Net Liability	Maximum Payout/Notional
Equity Options	$ 1,185	$ 35,251

19. Counterparty Credit Risk Management

As a securities broker-dealer, the Company is engaged in various securities trading and brokerage activities. The Company's securities transactions, both as principal and as agent, are executed with individuals and institutions including other brokers and dealers, commercial banks, insurance companies, pension plans, mutual funds, hedge funds and other financial institutions. In the event that counterparties to the transactions do not fulfill their obligations, the Company may be exposed to credit risk. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations can be directly affected by volatile trading markets and/or the extent to which such obligations are unsecured.

The Company's policy is to monitor its customer and counterparty risk through the use of a variety of credit and market exposure reporting and control procedures, including marking to market securities and collateral and requiring adjustments of collateral levels as considered appropriate. In connection with its derivatives trading activities, the Company may enter into master netting agreements and collateral arrangements with counterparties. These agreements may provide the Company with the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default. In addition, the Company has a policy of reviewing the credit standing of each counterparty and customer with whom it conducts business as considered necessary.

20. Regulatory Requirements

As a registered broker-dealer and FCM, the Company is subject to Rule 15c3-1 of the Securities and Exchange Act and CFTC Regulation 1.17. The Company has elected to compute Net Capital in accordance with the "Alternative Net Capital Requirement" ("ANC") as permitted by Rule 15c3-1. At June 30, 2012, the

Company had Net Capital, as defined, of $6,223 million, which was $5,253 million in excess of the amount required of $970 million.

In accordance with the ANC requirements, the Company is required to maintain tentative net capital in excess of $1,000 million and notify the SEC in the event its tentative net capital is less than $6,000 million. At June 30, 2012, the Company had tentative net capital in excess of the minimum and notification requirements.

In accordance with the SEC's No Action Letter dated November 3, 1998, the Company has elected to compute a reserve requirement for PAIB. The PAIB calculation is completed for a correspondent firm that uses the Company as its clearing broker-dealer in order to classify its assets held by the Company as allowable assets in their Net Capital calculation. At June 30, 2012, the Company had no reserve requirement for PAIB.

The Company is required to comply with sequestration requirements for certain cleared OTC derivatives accounts. At June 30, 2012, the Company held $1,608 million in sequestration which was $246 million in excess of the requirement of $1,362 million.

In connection with the acquisition of certain assets of Lehman Brothers, the Company was granted temporary permission by the SEC to apply the ANC methodology to compute the Net Capital requirements of a U.S. broker-dealer under Appendix E of Rule 15c3-1. The Company has submitted its application to the SEC to continue applying the ANC methodology on a permanent basis and is awaiting formal approval of that application.

21. Subsequent Events

The Company evaluated subsequent events from July 1, 2012 through August 16, 2012, the date the Consolidated Statement of Financial Condition was available to be issued. The Company did not have any significant subsequent events to report.

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Senior officers

Hugh E. McGee III
Co-Chief Executive Officer

Gerald Donini
Co-Chief Executive Officer

Gerard S. LaRocca
President

Christopher Weidler
Chief Financial Officer