



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

November 6, 2008

MEMORANDUM FOR THE EXECUTIVE DIRECTOR

FROM: JAMES B. PETRICK *JBP*
CHIEF FINANCIAL OFFICER

SUBJECT: TIER 1 CAPITAL RATIO

This memorandum is in response to a question raised by Board Member Fink in the September Board meeting regarding the calculation of the Tier 1 ratio reported for Barclays.

The Tier 1 Capital is a measure of capital adequacy of a bank, and is the ratio of a bank's core equity capital to its total risk-weighted assets. The U.S. risk-based capital guidelines require all bank holding companies to meet a standard of a minimum ratio of Tier 1 capital to risk-weighted assets of 4 percent. (Source: BHC Supervision Manual, July 2007). The UK does not have a published standard; any mandated minimum is shared only between the regulator and the regulated institution. However, last month, the UK Financial Services Authority established new capital targets requiring UK lenders to boost their capital either on their own accord or through government injections.

The numerator in the ratio is "qualifying tier 1 capital". This is what is deemed to be the capital and other securities with the highest level of loss absorbency and includes such items as called up share capital, eligible reserves (similar to but not identical to retained earnings) less items such as intangible assets (e.g., goodwill, software, brands and other similar assets) less regulatory deductions (generally comprising adjustments to reflect an additional buffer for credit risk not recognized in financial accounting). Each country's banking regulator has some discretion over how differing financial instruments may count in a capital calculation.

The denominator is "risk weighted assets". Risk weighted assets is the total of all assets held by the bank and weighted for credit risk according to a formula determined by the appropriate regulator, usually the country's Central Bank. Most Central Banks follow the Bank of International Settlements (BIS) guidelines in setting asset risk weights. Assets like cash usually have zero risk weight, while unsecured loans might have a risk weight of 100 percent.

As shown on the attached table, at June 30, 2008, Barclays' Total qualifying Tier 1 capital was £27,700 million (the numerator) and its Total qualifying risk weighted assets were £352.739 million (denominator) for a Tier 1 ratio of 7.9 percent. The Tier 1 ratio cannot be derived from the summary information we provide with our financial assessments.

Barclays has announced its intention to raise its Tier 1 ratio to 11.3 percent by raising cash from investors without calling on the available UK government funding. On Friday, October 31, 2008, Barclays announced a deal to raise up to £7.3 billion (\$11.9 billion) in fresh capital primarily from Middle East royal families.

Regulatory Capital

Capital Ratios

	As at 30.06.08 Basel II £m	As at 31.12.07 Basel II £m	As at 30.06.07 Basel I £m
Risk Weighted Assets			
Credit risk	239,767	244,474	237,467
Counterparty risk	43,979	41,203	46,765
Market risk	40,462	39,812	33,811
Operational risk	28,531	28,389	-
Total risk weighted assets	→ 352,739	353,878	318,043
Capital Resources			
Tier 1			
Called up share capital	1,642	1,651	1,637
Eligible reserves	22,603	22,939	21,323
Minority interests ¹	11,922	10,551	8,405
Tier 1 notes ²	902	899	887
Less: intangible assets	(8,063)	(8,191)	(7,757)
Less: deductions from Tier 1 capital	(1,306)	(1,106)	(26)
Total qualifying Tier 1 capital	→ 27,700	26,743	24,469
Tier 2			
Revaluation reserves	25	26	24
Available for sale-equity gains	228	295	440
Collectively assessed impairment allowances	999	440	2,527
Minority interests	445	442	441
Qualifying subordinated liabilities:³			
Undated loan capital	4,913	3,191	3,174
Dated loan capital	12,165	10,578	8,626
Less: deductions from Tier 2 capital	(1,306)	(1,106)	(26)
Total qualifying Tier 2 capital	17,469	13,866	15,206
Less: Regulatory Deductions			
Investments not consolidated for supervisory purposes	(523)	(633)	(947)
Other deductions	(194)	(193)	(1,276)
Total deductions	(717)	(826)	(2,223)
Total net capital resources	44,452	39,783	37,452
Equity Tier 1 ratio	5.0%	5.1%	5.3%
Tier 1 ratio	→ 7.9%	7.6%	7.7%
Risk asset ratio	12.6%	11.2%	11.8%

¹ Includes equity minority interests of £1,526m (31st December 2007: £1,608m; 30th June 2007: £1,499m).

² Tier 1 notes are included in subordinated liabilities in the consolidated balance sheet.

³ Subordinated liabilities included in Tier 2 capital are subject to limits laid down in the regulatory requirements.