COMPANY PROFILE

Barclays Plc

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COMPANY OVERVIEW

Barclays Plc (Barclays) is a global financial services provider offering personal, commercial, and private and investment banking solutions. It offers deposits and accounts, cards, loans, and investment solutions. It also offers services such as foreign exchange, mobile banking, premier banking, international banking, and online banking. The bank caters to individuals, small-to medium-sized enterprises, and large corporates. It has a global presence. Barclays is headquartered in London, the UK.

The bank reported interest income of (British Pounds) GBP13,631 million for the fiscal year ended December 2017 (FY2017), a decrease of 6.3% over FY2016. The net interest income after loan loss provision of the bank was GBP7,509 million in FY2017, compared to net interest income after loan loss provision of GBP8,164 million in FY2016. The net loss of the bank was GBP1,283 million in FY2017, compared to a net profit of GBP2,080 million in FY2016.

KEY FACTS

Head Office	Barclays Plc 1 Churchill Place LONDON London LONDON England GBR
Phone	44 20 7116 1000
Fax	
Web Address	www.home.barclays
Revenue / turnover (GBP Mn)	27,056.0
Revenue (USD Mn)	34,834.6
Financial Year End	December
Employees	79,900
London Stock Exchange (LON) Ticker	BARC

SWOT ANALYSIS

Barclays Plc (Barclays) is one of the leading banking and related financial services providers across the globe. Its adequate capital and liquidity, improved cost efficiency and stable asset quality are its major strengths; even as decline in net interest margin and Involvement in litigation and potential regulatory penalties could be areas of concern. The bank could benefit from business streamlining activities, emergence of FinTech, and Corporate tax cuts in the US, and growing cards and payments channel in the UK. However, prolonged interest rate environment, unfavorable regulatory changes, and concerns related to cryptocurrencies could pose various challenges.

Strength Adequate Capital Cost Efficiency Adequate Liquidity Asset Quality	**Weakness** Involvement in Litigation and Regulatory Penalties Net Interest Margin
Opportunity Emergence of FinTech Corporate Tax Cuts in the US Business Streamlining Growing Cards and Payments Channel: The UK	**Threat** Prolonged Low-Interest-Rate Environment Regulatory Changes Concerns Related to Cryptocurrencies

Strength

Adequate Capital

Barclays has a strong capital base ensuring capital adequacy to support its organic and inorganic growth with the secured and unsecured nature of its lending. Better capital management and moderate risk-weighted asset growth have strengthened its capital base. In FY2017, the bank's transitional total capital adequacy, transitional tier 1 capital, and fully-loaded CET 1 ratios were 21.5%, 17.2%, and 13.3%, respectively; as compared to 19.6%, 15.6%, and 12.4%, respectively in FY2016. All the ratios were well above the minimum statutory requirements of 10.5%, 8.5%, and 8%, respectively.

Cost Efficiency

Barclays reported improvement in its cost efficiency in FY2017, which enhanced its profitability. During the year, its cost-to-income ratio improved to 73.33% from 76.16% in the previous year. The ratio reflects operating expenses as percentage of net revenue. During the year, the bank's operating expenses decreased 5.4% to GBP15,456 million from GBP16,338 million in the previous year. The improvement was primarily due to lesser non-core related operating expenses. This improved operational efficiency came amidst the company reporting an 1.7% decrease in its net revenue, which totaled GBP21,076 million, which was due to a 6.6% decline in net interest income partially offset by 2.9% increase in non-interest income. There was also a decline in net revenue from Barclays International and Head Office. Buoyed by the improved efficiency, the bank aims to achieve the efficiency ratio below 60% in 2019, with operating expenses, excluding litigation and conduct, between GBP13.6 billion and GBP13.9 billion.

Adequate Liquidity

Barclays continues to enjoy adequate liquidity, which enables it to carry out day-to-day operations with ease. During FY2017, its liquidity pool grew 33.3% to GBP220 billion from GBP165 billion in the previous year. The increase was due to the rise in net deposit growth, money market borrowing, the unwinding of legacy non-core assets, and drawdown from the Bank of England Term Funding Scheme. The bank's gross customer loans to deposit ratio stood at 86.27%, as compared to 93.91% a year ago. Its liquidity coverage ratio (LCR) was 154%, as compared to 131% in FY2016, which was well above the minimum requirement of 80% in FY2017, which will become 90% in FY2018, and 100% in FY2019.

Asset Quality

The bank reported stability in its quality of assets in FY2017, which ensures interest income from outstanding loans and leases. During the year, its gross impaired loans (GIL) amounted to GBP11,286 million from GBP12,040 million in the previous year. GIL as percentage of gross customer loans remained stable at 3.05%, as compared to 3.03% a year ago. Consequently, its allowance for impairment grew marginally to 0.7% to GBP4,652 million from GBP4,620 million in the previous year. As a result, its provision coverage improved to 41.22% from 38.37% in the previous year.

Weakness

Involvement in Litigation and Regulatory Penalties

Involvement in litigation and regulatory non-compliance could render the bank incur additional costs. In June 2017, the Serious Fraud Office (SFO) charged Barclays and four individuals with conspiracy to commit fraud and the provision of unlawful financial assistance contrary to the Companies Act 1985. The charges are related to the bank's capital raising arrangements of GBP11.8 billion with Qatar Holding LLC and Challenger Universal Ltd in June and October 2008; and US$3 billion loan facility to the State of Qatar acting through the Ministry of Economy and Finance in November 2008. The trial has been scheduled to begin in January 2019.

Net Interest Margin

Barclays reported contraction in its net interest margin (NIM) in FY2017, which restricted its net interest income. During the year, the NIM stood at 3.74%, as compared to 3.76% in the previous year. The decrease primarily reflects the integration of Education, Social Housing and Local Authority loans from its non-core operations into Barclays UK. Consequently, the NIM of Barclays UK came down to 3.49% from 3.62% a year ago. The decline was partially offset by improvement in Barclays International's NIM, which improved to 4.16% from 3.98% in the previous year. Consequently, the bank's net interest income declined 6.6% to GBP9,845 million from GBP10,537 million a year ago.

Opportunity

Emergence of FinTech

The bank could benefit from venturing into FinTech arena as it is fast changing the way banking is done and challenging the regulatory structure. FinTech innovations such as crowd-funding, mobile payments, distributed ledgers, peer-to-peer lending, and online marketplace lending are cost effective and giving tough competition to banking institutions. In response, banks are increasingly pursuing opportunities to establish FinTech capabilities through partnerships or strategic collaborations, venture funding, developing in-house capabilities, setting up business accelerators, and/or acquisitions. In line with this, the bank has started the Barclays Accelerator, an intensive startup program designed to develop the next generation of FinTech businesses. It connects startups to mentors from across Barclays. It also provides them with an access to the bank’s data and APIs to help create new financial solutions. FinTech offers cost savings for banks facing margin pressures from low interest rates. They also have the potential to expand intermediation services to the underserved.

Corporate Tax Cuts in the US

Corporations across the US would benefit from the reduced corporate tax cut bill, which was signed into law in December 2017. Among them, financial services firms are expected to be among the biggest gainers as they pay some of the highest effective tax rates in the country. The reduction of tax rate to 21% from January 1, 2018 is expected to have a positive impact on the returns generated by Barclays’ US business. Banks could benefit from increase in borrowing by businesses. Along with increase in borrowing, higher interest rates will further boost banks' profit margins. Banks with overseas businesses would become more competitive, relative to their international counterparts in countries with lower corporate tax rates. The bill includes provisions related to repatriation of overseas cash, which could boost the US mergers and acquisitions that in turn would spur investment banking. The wealth management firms are also likely to witness substantial growth in their asset under management as the bill reduces tax rates for the wealthy. Most of the corporate America is likely to increase dividends and share buybacks that would further boost the US equity markets, in turn increasing the value of investments held by asset managers.

Business Streamlining

Barclays has been conducting business streamlining activities to focus more on its core operations and improve operational efficiencies. In July 2017, it completed the closing of its non-core unit. As a part of which, the bank reduced its risk-weighted assets by GBP95 billion, sold over 20 businesses, exited from many countries, and achieved cost saving of about GBP2 billion in the last three years. During the year, despite being a profitable business, the bank sold 33.7% of its shareholding in Barclays Africa due to changing regulatory requirements. The streaming of non-strategic assets and businesses would help the bank achieve strategic growth in its core business and strengthen its capital position.

Growing Cards and Payments Channel: The UK

The growing cards and payments channel in the UK may provide growth opportunities for the bank. According to in-house report, the number of cards in circulation in the country is projected to reach 165.2 million in 2021, including debit cards to 101.6 million, credit cards to 60.2 million, and charge cards to 3.4 million. The transaction value of the channel is forecasted to grow to GBP1,056.2 billion in 2021, including debit cards to GBP855 billion, credit cards to GBP178.6 billion, and charge cards to GBP22.6 billion. The growth could be driven by launch of pan-European instant credit transfer scheme by the European Payments Council, increasing proliferation of digital-only banks and gaining prominence of alternative payments.

Threat

Prolonged Low-Interest-Rate Environment

Prolonged low-interest-rate environment could pose significant challenges to a banking institution. According to an IMF research, lower interest rates may boost banks' earnings in the short-term. However, they adversely affect profitability in the steady state once they fall below a particular positive threshold. With flattened yield curves, if bank deposit rates cannot fall below zero, the profitability would be contracted further. In such a scenario, regional and deposit-funded banks are likely to be most adversely impacted. In order to enhance yield, larger banks would increase their risk exposures in other countries that offer higher returns and rely more on wholesale funding, whereas their smaller counterparts would take more interest rate risk by increasing the duration of bond portfolios. Prolonged challenging interest rate environment would result in consolidation of smaller banks.

Regulatory Changes

Implementation and compliance of regulatory changes could render the bank incur additional costs. For instance, the banks in the UK, with an average 3-years core deposits of more than GBP25 billion, are required to separate or ring-fence their core banking activities such as deposit-taking from their riskier investment banking units by January 1. 2019. The ring-fencing legislation is likely to protect customers using essential banking services such as current accounts, savings accounts and payments from risks by a failure in another part of the business, such as investment banking. It is the biggest structural reform ever imposed on the UK banks with the treasury anticipating total set up cost of about GBP3 billion and annual running cost of about GBP4 billion.

Similarly in May 2018, the EU's General Data Protection Regulation (GDPR) will come into force. The regulation aims at offering citizens and residents, control of their personal data, simplifying the regulatory environment for global business, and pushing companies to minimize data collection. It is applicable to all businesses, regardless of geographic location, collecting or processing EU citizens' personal data such as name, location, ID numbers, and even their IP addresses. GDPR requires all data from collecting and processing companies to designate a Data Protection Officer to be fully compliant. One of the most challenging requirements of the legislation for banks is that customers can ask them to delete their personal data that may be available publicly. Banks need to develop IT mechanisms to ensure that personal data is processed only when necessary. Penalties to non-compliance include fines of up to EUR20 million or 4% of global revenue, whichever is higher.

Concerns Related to Cryptocurrencies

Rise of cryptocurrencies such as Bitcoins and Ethereum has raised several concerns among central banks as it challenges their exclusivity of managing and recording digital transactions. The disruptive economic innovation has the capacity to drastically change the current economic structure, and the way banks and financial institutions function. Central banks across the globe are very cautious about cryptocurrencies due to their uncontrollable and unpredictable form, which have the potential to create loopholes in banks' data related to financial transactions that could render inability to track economic activities. The technology enables and records digital transactions between two parties without the need of a facilitator and without revealing identity of concerning parties, which could lead to increased money laundering and cyber crimes. This public way of managing transactions has the potential to create huge disruption in the banking sector across the globe. Also, due to high price volatility, cryptocurrencies present a very high possibility for speculation.