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[Name of the institution]

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### **Introduction**

In any contemporary operating organisation, progress that the company is making is recorded as basis of assessing the stewardship of management and for making economic decisions. A financial statement analysis is one such yardstick that takes into consideration current and future financial situation in an attempt to determine a financial strategy to help achieve organizational goals. As formally defined by I in 1998, financial analysis 'is an information processing system used to provide relevant information for decision making' . Various accounts from the published financial statements are evaluated in relation to each other to form performance indicators, which are then compared to 'established' standards. Ratios are normally calculated from the financial statements to assess the profitability, solvency, working capital management, liquidity, and financial structure of an organization. They may also be calculated over a period to enable an analysis of trends to be formulated or compared to other similar companies or industry averages.

Financial statements are, according to (1994 ), the 'universally accepted tools for analysis of a business entity'. If properly understood, they let the users know how good a company looks and how well it has been doing. They are, at best, an approximation of economic reality because of the selective reporting of economic events by the accounting system, compounded by alternative accounting methods and estimates ( 2003). The purpose of financial statements is to provide users (business owners, lenders, managers, suppliers, customers, attorneys and litigants and employees and job seekers) with a set of financial data that, in

summary form, fairly represents the financial strength and performance of a business (1994). They reveal opportunities and provide protection against financial pitfalls. Ideally, financial statements analysis provides information that is useful to present and potential investors and creditors and other users in making rational investment, credit and other similar decisions (2003). Further, they are comparative measurements of risk and return to make investment or credit decisions as they provide one basis for projecting future earnings and cash flows.

(2005) claims that executives and managers use the information that they glean from financial statements analysis to know how well the company is doing financially as well as information about problem areas so they can make changes to improve the company's performance. Employees, on the other hand, need to know how well they are meeting or exceeding their goals and to know where they need to improve. Potential employees review the company's financial statements so as to gain an insight on the suitability and stability of the company they are planning to apply to as an employer of choice. Creditors need to understand a company's financial report to determine whether they should risk lending more money to the company and to find out whether the company is meeting the minimum requirements of any loan programs that are already in place. Investors need information to judge whether or not the company is a good investment. Government agencies need to be sure that the firm is complying with regulations set by them. Suppliers need to figure out if the company is a good choice to do business with. Attorneys and litigants need the information from the analysis to back-up their evidences for or against a company.

The basic financial statements are: the balance sheet, the income statement and the cash flows statement. The balance sheet shows how a company stands at a given moment and attempts to show how much a corporation has and how much it owes (1998). What it has is

shown on the asset side, what it owes is shown on the liability side. (1998) relate that the assets consist of the physical properties of the company, the money it holds or has invested, and the money that is owed to the company. Intangible assets, if there are any, are also found in the balance sheet on the asset side. On the liability side are shown not only the debts of the firm, but also reserves of various kinds and the equity or ownership of interest of the stockholders. Debts incurred in the ordinary course of the business appear as accounts payable, while more formal borrowings are listed as bonds or notes outstanding. The stockholders' interest is shown on the liability side as Capital and Surplus, as they are generally considered the debt of the company that they owe to the stockholders.

The income statement shows how profitable the company was over a specific period of time. Information enclosed in the said statement are usually most or all, and sometimes more, of the following: sales, cost of goods sold, beginning inventory, purchases, ending inventory, expenses including advertising, depreciation, insurance, payroll taxes, rent, repairs and maintenance, wage and salary and utilities (Bandler 1994). The statement of cash flows, on the other hand, tells how much cash the company generated over the period of the income statement and where it went. Items in the cash flows include cash received from customers, cash paid to suppliers and employees, interest and dividends received, interest paid, and income taxes paid (1998). These cash flows are computed by converting the income statement amounts for revenue, cost of goods sold, and expenses from the accrual basis to the cash basis. This is done by adjusting the income statement amounts for changes occurring over the period in related balance sheet accounts. In conducting the analysis, regard will need to be paid to the accounting policies of the company and the extent to which any creative accounting may have taken place. As (2002) asserted, 'financial statement analysis is an essential skill in a variety of occupations' that need to

be possessed and understood. Following is the financial statements analysis of Barclays and how the statements help users of such information into assessing the stewardship of management as well as making economic decisions.

### **Brief Bank Backgrounds**

*Barclays*. Founded by his partner in Lombard Street in 1690, the name Barclay became associated with the company in 1736, when James Barclay - who had married J daughter - became a partner. Today, Barclays is a UK-based financial services group, with a large international presence in Europe, the USA, Africa and Asia. It is engaged primarily in banking, investment banking and investment management. In terms of market capitalisation, Barclays is one of the largest financial services companies in the world. It has been operating for more than 300 years with 25 million customers and 118,000 employees in over 60 countries. Barclays is the 3<sup>rd</sup> largest bank in the United Kingdom, and on the global stage, the largest bank in the world by total assets (\$1.59 trillion), the 14th largest in the world by Tier 1 capital (\$32.5 billion), and the 15th largest in the world by Market capitalization (\$71.6 billion) ( 2006' 2006).

### **Barclays' Presentation of Financial Information (Ias 1)**

The Group has adopted the requirements of International Financial Reporting Standards and International Accounting Standards (collectively IFRS) as adopted by the European Union for the first time for the purpose of preparing financial statements for the year ended 31st December 2005. The effects of the transition and a description of the differences between UK GAAP (the former accounting standard used by Barclays) and IFRS accounting policies, which are pervasive throughout last year's financial results, are presented in their Annual Report ( ).

The objective of IAS 1 (revised 1997) is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with financial statements of other entities. IAS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements. Standards for recognizing, measuring, and disclosing specific transactions are addressed in other Standards and Interpretations. An examination of the Group's 2005 Annual Report (2005) shows that Barclays' set of financial statements include a consolidated income statement (), a consolidated balance sheet (p. 148), cash flow statement () and notes (), comprising a summary of accounting policies and other explanatory notes, and a statement of changes in equity () as required in IAS 1.8. The existence of a cash flow statement assists the users of Barclays' financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty. As required by IAS 1.25, Barclays prepared its financial statements, except for cash flow information, using the accrual basis of accounting starting 2004. IAS 1.36 requires that comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements, both face of financial statements and notes, and the Group has complied with this to a certain extent, presenting only 2004 as the other comparative year. IAS 1.46 specifically asks to clearly identify the financial statements, the reporting enterprise, whether the statements are for the enterprise or for a group, the date or period covered, the presentation currency and the level of precision (thousands, millions, etc.), which Barclays could be observed to have followed. For the particular contents and presentation of the financial statements, a perusal would show that Barclays have adhered strictly to IFRS (International Financial Reporting Standards) standards, making it easy to browse inside their 320-page 2005 Annual Report. Dividends were also

appropriately disclosed, as required by IAS 1.95. As a fact, the final dividends for the year ended 31st December 2005 of 17.4p per ordinary share of 25p each and 10p per staff share of £1 each have been recommended by the Directors of Barclay and was reflected in the Annual Report. These disclosure requirements by IFRS IAS 1 will have to be followed by the Group for annual periods beginning on or after 1 January 2007, with earlier application encouraged. In compliance with IAS 10, Barclays have declared in their annual report that there have been no significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts

## CASH FLOW STATEMENT

For the year ended 31st December

	2008 £m	2007 £m	2006 £m
<b>Reconciliation of profit before tax to net cash flows from operating activities:</b>			
Profit before tax	6,035	7,107	7,197
<b>Adjustment for non-cash items:</b>			
Allowance for impairment	5,419	2,795	2,154
Depreciation and amortisation and impairment of property, plant, equipment and intangibles	951	669	612
Other provisions, including pensions	804	753	558
Net profit from associates and joint ventures	(14)	(42)	(46)
Net profit on disposal of investments and property, plant and equipment	(371)	(862)	(778)
Net profit from disposal of associates and joint ventures	–	(26)	(263)
Net profit from disposal of subsidiaries	(327)	(2)	(60)
Net gains on acquisitions	(2,406)	–	–
Other non-cash movements	830	(1,471)	1,661
<b>Changes in operating assets and liabilities:</b>			
Net increase in loans and advances to banks and customers	(58,432)	(77,987)	(27,385)
Net increase in deposits and debt securities in issue	76,886	91,451	46,944
Net (increase)/decrease in derivative financial instruments	(17,529)	(2,144)	1,196

**For the year ended 31st December**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Net decrease/(increase) in trading portfolio assets	<b>26,945</b>	(18,245)	(18,333)
Net (decrease)/increase in trading liabilities	<b>(5,928)</b>	(6,472)	310
Net decrease/(increase) in financial investments	<b>5,229</b>	(4,379)	1,538
Net (increase)/decrease in other assets	<b>(3,005)</b>	1,296	(1,527)
Net decrease in other liabilities	<b>(492)</b>	(1,056)	(1,580)
Tax paid	<b>(1,725)</b>	(1,583)	(2,141)
Net cash from operating activities	<b>32,870</b>	(10,198)	10,057
Purchase of available for sale financial investments	<b>(57,756)</b>	(26,947)	(47,109)
Proceeds from sale or redemption of available for sale financial investments	<b>51,429</b>	38,423	46,069
Purchase of intangible assets	<b>(687)</b>	(263)	(212)
Purchase of property, plant and equipment	<b>(1,720)</b>	(1,241)	(654)
Proceeds from sale of property, plant and equipment	<b>799</b>	617	786
Acquisition of subsidiaries, net of cash acquired	<b>(961)</b>	(270)	(248)
Disposal of subsidiaries, net of cash disposed	<b>238</b>	383	(15)
Increase in investment in subsidiaries	<b>(157)</b>	(668)	(432)
Decrease in investment in subsidiaries	<b>19</b>	57	44
Acquisition of associates and joint ventures	<b>(96)</b>	(220)	(162)
Disposal of associates and joint ventures	<b>137</b>	145	739
Other cash flows associated with investing activities	–	–	17
Net cash from investing activities	<b>(8,755)</b>	10,016	(1,177)
Dividends paid	<b>(1,796)</b>	(3,418)	(2,373)
Proceeds from borrowings and issuance of debt securities	<b>9,645</b>	4,625	2,493
Repayments of borrowings and redemption of debt securities	<b>(1,207)</b>	(683)	(366)
Net issue of shares and other equity instruments	1,327	1,355	585
Capital injection from Barclays PLC	<b>5,137</b>	1,434	–
Net issues of shares to minority interests	<b>11</b>	199	226
Net cash from financing activities	<b>13,117</b>	3,512	565
Effect of exchange rates on cash and cash equivalents	<b>(5,801)</b>	(654)	552
Net increase in cash and cash equivalents	<b>31,431</b>	2,676	9,997
Cash and cash equivalents at beginning of year	<b>33,078</b>	30,402	20,405
Cash and cash equivalents at end of year	<b>64,509</b>	33,078	30,402
<b>Cash and cash equivalents comprise:</b>			
Cash and balances at central banks	<b>30,019</b>	5,801	6,795
Loans and advances to banks	<b>47,707</b>	40,120	30,926
Less: non-cash amounts and amounts with original maturity greater than three months	<b>(15,428)</b>	(19,376)	(15,892)
	<b>32,279</b>	20,744	15,034
Available for sale treasury and other eligible bills	<b>65,016</b>	43,256	51,952



**For the year ended 31st December**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Less: non-cash and amounts with original maturity greater than three months	<b>(62,916)</b>	(41,872)	(50,933)
	<b>2,100</b>	1,384	1,019
Trading portfolio assets	<b>185,646</b>	193,726	177,884
Less: non-cash and amounts with maturity greater than three months	<b>(185,535)</b>	(188,591)	(170,346)
	<b>111</b>	5,135	7,538
Other	–	14	16
	<b>64,509</b>	33,078	30,402

**PROFIT & LOSS ACCOUNT**

	Profit & Loss				
<b>Year Ended 31 December</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<i>£ millions</i>				
Turnover	23352.0	23492.0	22170.0	17978.0	15367.0
Operating Profit	6063.0	7034.0	7079.0	5235.0	4524.0
Net Interest	n/a	n/a	n/a	n/a	n/a
Profit Before Tax	6077.0	7076.0	7136.0	5280.0	4580.0
Profit After Tax	5287.0	5095.0	5195.0	3841.0	3301.0
Total Dividend	n/a	n/a	n/a	n/a	n/a
Retained Profit / Loss	n/a	n/a	n/a	n/a	n/a
	Balance Sheet				
<b>Year Ended 31 December</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<i>£ millions</i>				
Intangible Assets	10402.0	8296.0	7307.0	7291.0	4657.0
Tangible Assets	4674.0	2996.0	2492.0	2754.0	2282.0
Fixed Investments	65317.0	43449.0	228.0	546.0	429.0
Total Fixed Assets	1372.0	644000.0	440844.0	399920.0	7368.0
Stocks	n/a	n/a	n/a	n/a	n/a
Debtors	n/a	n/a	n/a	n/a	1772.0
Cash at Bank and in Hand	n/a	n/a	n/a	n/a	n/a
Total Assets	2053.0	1227.0	996787.0	924357.0	715600.0
Creditors Amount Within 1 year	n/a	n/a	n/a	n/a	84409.0

Creditors Amount After 1 year	n/a	n/a	n/a	n/a	n/a
Total Liabilities	2005.0	1194.0	969397.0	899927.0	696983.0
Net Assets	47800.0	32994.0	27390.0	24430.0	18617.0
Net Current Assets	n/a	n/a	n/a	n/a	n/a
Called Up Share Capital	2093.0	1651.0	1634.0	1623.0	1614.0
Share Premium Account	4045.0	56.0	5818.0	5650.0	5524.0
Other Reserves	6272.0	614.0	178.0	1196.0	1365.0
Profit and Loss Account	24208.0	20970.0	12169.0	8957.0	6784.0
Shareholders Funds	36618.0	23291.0	19799.0	17426.0	15287.0
Minority Interests	10793.0	9185.0	7591.0	7004.0	3330.0

## Key Figures

<b>Year Ended 31 December</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Earnings Per Share Basic (p)	59.30	68.90	70.02	54.40	n/a
Earnings Per Share Diluted (p)	57.50	66.70	67.98	52.60	n/a
Earnings Per Share Adjusted (p)	59.30	68.90	70.02	54.40	n/a
Earnings Per Share Growth (%)	-14	-2	29	n/a	n/a
Total Dividend (p)	11.50	34.00	30.19	26.60	24.00
Operating Margin (%)	26	30	32	29	29
ROCE (%)	9	16	34	29	32
Dividend Cover	5.16	2.03	2.32	2.05	n/a
Dividend Yield	7.50	6.90	4.20	4.50	4.20
Price / Earnings Ratio	2.60	7.10	10.20	10.90	n/a
Dividend Per Share Growth (%)	-66	13	14	11	17

## References

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