**Week 1: Final Project Paper**

**Introduction**

The two companies that are selected include Barclays PLC and Lloyds Banking Group. Barclays PLC is a British multinational company offering financial; and financial services and its headquarters are located in London, It was founded in 1690 (Barclays, 2016). Lloyds Banking Group is a British financial institution formed through the acquisition of HBOS in 2009 by Lloyds TS (Lloyds Banking Group, 2016).

**Financial Information of the Companies**

According to balance sheet analysis for the period running from 2013 to 2015 both companies are listed in NYSE and their trend in according to their financial statements can be analyzed as shown below. Barclays PLC assets increase from £31,142M in 2013 then £ 37,096M in 2014 and £43,636M in 2015 (Barclays, 2016). On the other hand Lloyds Banking Group assets have a downward trend from £801,123M in 2013, £854,896M in 2014 and finally £806,688M (Lloyds Banking Group, 2016). Profits after tax of both companies have an upward trend for the three years trading period. And also both have firms have increased the issuance of debt securities for the period of three years from 2013 to 2015.

***Solvency Ratios***

Solvency ratios calculate the ability of a firm to meet its short-term obligations, one of the main solvency ratios is the current ratio.

***Current Ratio***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Ratio** | **Formula** | **Barclays** | | | **Lloyds** | | |
|  |  | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Current ratio | Current Assets/current Liabilities | 0.45 | 1 | 0.45 | 0.14 | 0.16 | 0.15 |

The current ratio helps the creditors and investors to assess the liquidity of a firm and how easily will the firm are able to meet its current liabilities. It shows the firm’s current debt expressed in terms of current liabilities (Parrino, 2011). The ratio should be higher than 1 for a company to be able to pay its current liabilities with its current assets.

***Gross Margin Ratios, Interest Coverage Ratio, and Operating Income Ratio***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Ratio** | **Formula** | **Barclays** | | | **Lloyds** | | |
|  |  | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Gross margin Ratio | Gross profit/revenue | 0.90 | 0.90 | 0.87 | 0.35 | 0.12 | 0.10 |
| Interest coverage ratio | EBIT/Interest Expense | 1.45 | 1.43 | 1.42 | 1.83 | 1.76 | 1.14 |
| Operating Income | Operating Income/revenue | 0.90 | 0.90 | 0.87 | 0.35 | 0.12 | 0.10 |

The gross profit ratio is also called gross profit ratio, it shows firm profitability excluding the fixed cost. Barclays PLC has a higher gross margin ratio than Lloyd banking group, this means that Barclays PLC has higher return per invested dollar than the Lloyd Group of Companies.

Interest coverage ratio is used to determine how easily a company can pay interest expenses on the owed debt. This ratio should be higher than 1 for a firm to be generating enough revenues to settle the interest expenses. If a firm interest coverage ratio is below 1, it means that the company will have to borrow fund in order to meet its interest expense, otherwise the company may be become insolvent. An interest rate coverage ratio of 2.5 is considered to be a warning; the company should operate carefully in order not to dip further. Both firms should aim at increasing this ratio.

Operating margin ratio shows whether the firm’s fixed costs are too high for the sales volume or for the production. An increasing operating margin is preferred; it means that a company is earning more from its sales. Both firms, Barclays and Lloyds have an increasing operating income ratio. But it is increasing at a lower rate for Barclays PLC.

***Operating Cash Flow Ratio***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Ratio** | **Formula** | **Barclays** | | | **Lloyds** | | |
|  |  | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Operating Cash flow | Cash flow from operations/sales | 0.034 | 0.032 | 0.025 | 3.11 | 2.17 | 1.75 |

Cash flow from operations is calculated to determine the cash derived for every dollar of sales. The higher the percentage the better the company, this means that the company is generating more profit from its sales. Cash flow should increase in line with sales over time, a deviation from this trend means that there is a weakness and inconsistency in operations of a firm.

**Key Characteristics of the Companies**

***Barclays PLC***

Barclays PLC core business is providing financial services; the company generates attractive income and has excellent growth prospects. One of the major strength is wide market being a multinational investment and corporate bank; it is divided into two divisions namely Barclays UK and Barclays International. Barclays UK serves its customers in UK and it is differentiated from its competitors by its large scale operations and its continuous digital innovation. Its operations in large scale and innovativeness give it a competitive advantage over its competitors. With over 325 years of operational history, the bank operates in over 40countries worldwide and employs over 130,000 people all over the world. The bank offers services to individuals, SMEs and corporate institutions (Barclays, 2016).

***Lloyds Banking Group***

Lloyds banking group is the company that has the largest private shareholder base in UK, their main services include savings account, current accounts, personal loans, mortgages and credit cards. The firm has employed approximately 75,000 people. The group main brands include Bank of Scotland, Halifax and Lloyd bank and the group has over 2,000 branches in the UK. The banking group offers one-third of all lending on new built properties in the UK. The firm has over 1100 branches across Wales and England with over 10 Million customers; six million of these customers use digital services. Investment in technology is one of the main competitive advantages that the group enjoys (Parrino, 2011). The bank receives over 2.5 Million logs on in a day with 75% of these logs on being from mobile phones or from tablets. Halifax subsidiary is a savings service provider and also offers mortgages. The other subsidiary is the Bank of Scotland which is the main financial services provider in Scotland and serves more than 1.3 million daily active members (Lloyds Banking Group, 2016).

**Company's Commitment to Corporate Governance**

Corporate governance is defined as a system in which corporations are controlled, directed and held to account. It embrace issues of public policy which the relevance, compliance and legitimacy of corporations are monitored. Barclays PLC is managed by a board of directors who are committed to maintaining ethical behavior and integrity, the firm code of conduct is called “the Barclays way” which outlines the behavior and values which govern the firm’s business. Good corporate governance is the key value for the firm to its shareholders. The bank encourages transparent and legal behavior to build trust among the stakeholders. For achieving a long-term success the Lloyds Banking Group believes in building a sustainable return and creating wealth to its shareholders. The Group is led by board members, and they maintain high standard of corporate governance. The firm adheres to the Financial reporting Council of UK Corporate Governance Code. The group is led by board members comprising a Non-executive Chairman. Board members are responsible for monitoring financial performance, reporting and establishing the organization culture. Directors are appointed by board and they are elected by shareholders at the first AGM following their appointment. Eight board meetings are held annually, this schedule enables directors to review the corporate strategy and to discharge their duties with effective control. The group Chairman Performance is reviewed by Non-Executive directors led by their Senior Independent Director. The Chairman holds a private discussion with each director at least once in a year to discuss various issues affecting the Lloyds Banking Group.

**Main Competitors of the Companies**

Both firms operate in banking industry, so the face same competitors in banking and providing other financial services (Weygard, 2010). In fact both firms are competitors with each other in the banking industry. One of the main competitors of Barclays PLC and Lloyds banking Group is the Royal Bank of Scotland Group Public Ltd Company, this firm was founded in 1971 and it has a strong financial base, it main services are in insurance and financial services. The other major competitor in this industry for both companies is the HSBC Holdings PLC.

**Reference**

Barclays. (2016). *Annual Reports.* Retrieved from https://www.home.barclays/barclays-investor-relations/results-and-reports/annual-reports.html

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