

## **Barclays Execution Services Limited Strategic Report For the year ended 31 December 2019**

### **Business Review and Principal Activities**

The principal activities of the Company are to provide a wide range of operations, technology and functional services to service recipients across the Barclays Group. The Company provides these services under service contracts and charges service recipients a service fee calculated on a cost plus basis.

The Company is an appointed representative of Barclays Bank PLC, Barclays Bank UK PLC and Clydesdale Financial Services Limited (another company within the Barclays Group), the principals. This status enables the Company to undertake activities which would otherwise require authorisation, with the principals assuming regulatory responsibility for the Company's conduct as their appointed representative.

The majority of the Company's operations are conducted in the UK. However, in addition, the Company operates branches outside the UK in Singapore, Czech Republic and Ireland.

### **Business Performance**

The Company reported a profit before tax of £413m (2018: £308m) for the period. The Company has net assets of £691m (2018: £594m). Net cash inflow from operating activities for 2019 was £1,001m (2018: inflow of £1,387m).

### **Dividends**

An interim dividend of £150m was paid in October 2019. The Directors recommend the payment of a final dividend of £250m (2018 total dividend: £250m).

### **Strategy and future outlook**

No material changes are expected to the Company's core activities or to its role within the Barclays group.

The Company operates within the Barclays Group, providing services which support both Barclays Bank PLC and Barclays Bank UK PLC, as well as their respective subsidiaries.

The Company's objective is to provide world class services that are high quality, efficient and cost effective, to support the goal of the Barclays Group to be at the forefront of industry change and innovation. The Company intends to operate as a centre of excellence for services required by Barclays' businesses, reducing duplication and promoting best practice.

In addition, the Company enhances the operational continuity of the businesses carried out by the Barclays Group and facilitates the execution of recovery and resolution plans in the event of financial difficulty.

With effect from 1 January 2019, the Barclays Group is required to comply with PRA rules on ensuring operational continuity in resolution. Grouping services within the Company is a key part of the Barclays Group's strategy to meet these requirements and the Company remains central to this strategy.

### **Principal risks and uncertainties**

#### **Key financial risks**

The Company's principal activities are to provide services across the Barclays Group, for which it charges a service fee on cost plus basis. The primary risk inherent in the Company's business model is therefore that it does not receive service fees when due, which could jeopardise its ability to meet its operating liabilities. In addition, a material change in business demand could result in a change in the services required across the Barclays Group, which could result in a risk that the Company's property plant and equipment, intangible software assets and other operational assets become impaired.

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These risks are mitigated through a variety of measures.

First, the nature of these risks is such that the principal risks and uncertainties for the Company are integrated with the principal risks of the Barclays PLC group and are primarily managed at a Group level. Effective mitigation of risks across the Barclays Group, mitigates the above risks for the Company. Barclays Group has identified a broad range of risks to which its businesses are exposed. Material risks are those to which senior management across Barclays Group pay particular attention and which could cause the delivery of the Group's strategy, results of operations, financial condition and/or prospects to differ materially from expectations. Emerging risks are those which have unknown components, the impact of which could crystallise over a longer time period. In addition, certain other factors beyond the Group's control, including escalation of terrorism or global conflicts, natural disasters, epidemic outbreaks and similar events, could have a similar impact on the Group. The principal risks and uncertainties of Barclays PLC are discussed in pages 125 to 210 of the Barclays PLC 2019 annual report which does not form part of this report.

Secondly, in line with operational continuity regulatory principles, further mitigation is provided by the liquidity reserves held by the Company and through the terms of its funding from BPLC which includes a borrower write-down option.

Additional information on the financial risks to which the Company is exposed is included in note 25.

### Operational risk management

The Company provides many of the operational services required by Barclays' businesses. Operational risk is the risk of loss to the Group from inadequate or failed processes or systems, human factors or due to external events where the root cause is not due to credit or market risks. Examples include: operational resilience, cyber threats, new and emergent technology, processing error and supplier risk (further details of these risks and other examples are described in the Barclays PLC 2019 annual report which does not form part of this report). Operational risk is managed in accordance with Barclays Group Operational Risk policies. The Company has implemented risk controls and devoted substantial resources to developing procedures to ensure that transactions are processed efficiently, accurately and in accordance with the full suite of Barclays Group standards and controls. (Barclays Group standards are described further in the Barclays PLC 2019 annual report which does not form part of this report).

### COVID 19 risk

Whilst the direct and indirect impact of the Coronavirus (COVID-19) outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP during 2020. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks and a prolongation of the outbreak could significantly adversely affect economic growth, affect specific industries or countries or affect the Company's employees and services it provides to the Barclays Group. In addition, an escalation in geopolitical tensions or increased use of protectionist measures may also negatively impact the Barclays Group's business in affected regions.

### Key performance indicators

The Company is part of Barclays Group, which uses a variety of quantitative and qualitative measures to track and assess holistic strategy delivery across the Group.

#### *Indicators in respect of the Company's role as Barclays' operational continuity vehicle*

The indicators which the Company monitors directly are primarily those which ensure it remains financially resilient in accordance with operational continuity principles.

**Recovery rate:** this is monitored to ensure that the Company is fully recovering its cost base through the service fee it charges.

Recovery rate for 2019 was 3.89% (2018: 5.36%)

The recovery rate is calculated as PBT excluding revenue one offs as proportion of total operating cost plus net interest expense.

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Liquidity reserves: these are monitored to ensure the Company meets operational continuity requirements in respect of access to liquid assets.

Reserves as at 31 December 2019 were £2.39bn (2018: £2.34bn)

### *Other indicators*

The Company's performance contributes to the Barclays group and delivery of strategy is primarily measured at a Group level. The development, performance and position of the Barclays Group, is discussed on pages 18-36 and 212-213 of the Barclays PLC 2019 annual report which does not form part of this report. The Company primarily meets its disclosure obligations in respect of performance indicators through the disclosures included in the Group report. By providing the overall Group context, these give the most appropriate picture of the development, performance and position of the business of the Company.

### Section 172(1) statement

The directors of large organisations like Barclays are required by law to consider a range of factors when making decisions, and to make a clear statement about how they have done that.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

Key stakeholders of the Company are our employees; our customers, which includes entities within the Barclays Group; our suppliers; and our shareholder, Barclays PLC. The Directors also took into account the views and interests of a wider set of stakeholders, including our pensioners and our regulators. You can find out more about who our key stakeholders are, how management and/or the Directors engaged with them, the key issues raised and actions taken on pages 12 to 17 of the Barclays PLC Annual Report 2019 which is incorporated by reference into this statement.

Considering this broad range of interests is an important part of the way the Board makes decisions, although in balancing those different perspectives it will not always be possible to deliver everyone's desired outcome.

### How does the Board engage with stakeholders?

The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of the Company means that stakeholder engagement often takes place at an operational level.

In addition, to ensure a more efficient and effective approach, certain stakeholder engagement is led at Barclays Group level, in particular where matters are of group-wide significance or have the potential to impact the reputation of the Barclays Group.

The Board considers and discusses information from across the organisation to help it understand the impact of the Company's operations, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance as well as information covering areas such as key risks, and legal and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

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The following are some examples of how the Directors have had regard to the matters set out in sections 172 (1)-(f) when discharging their section 172 duties and the effect of that on certain of the decisions taken by them.

### Engagement in action

#### Serving and protecting our customers

The behaviours of Barclays' customers' continue to evolve, placing even greater reliance on Barclays' digital capabilities in how we serve their needs in the most convenient way for them. Given the increased reliance they place on them, customers expect those digital capabilities to be available whenever they need them, and for them to protect their interests at all times.

Despite the challenging market environment, the Board concurs with management that it is critical that our investment keeps pace with those expectations. The Board has, as a result, continued to direct heavy investment in our technology, specifically, in areas of most concern to our customers, such as operational resilience, cyber security and in supporting our customers against the ever present threat of scams; ensuring that the Barclays Group is as safe to bank with virtually as it has been physically for over 325 years.

As well as investing millions in security, resilience and defence to hold back criminals, the Company has partnered with the businesses across the Barclays group to build state-of-the-art joint operations centres so that we are watching for the next attack 24 hours a day, 365 days a year. Through this partnership, we have introduced machine learning to help spot and stop fraudulent transactions; we are using in-app and online prompts to help educate customers about new types of fraud and scams, such as push payment fraud; and we are also protecting the privacy of our customers with world-class data protection.

The further build out of our digital capability in 2020 and beyond remains fundamental to Barclays group's strategy to put customers at the centre of everything we do. More detail on Barclays' technology initiatives can be found on page 10 of the Barclays PLC Annual Report 2019 'Becoming more digital' section (which does not form part of this report).

FOR AND ON BEHALF OF THE BOARD

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*Stuart Baker*

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Director

24 April 2020

Company number 1767980