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Barclays plc

15 April 2024

Sector: Financials
Sub-sector: Banks
Country: United Kingdom
Ownership: Public

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Issuer Outline

Barclays plc (Barclays, Group) is the non-operating holding company of a universal banking group. Headquartered in London, the Group operates in approximately 38 countries across retail, corporate, and investment banking (amongst others), with a primary focus on the UK, Europe, and the US. Barclays is one of the largest banking groups globally, the second largest in the UK (behind HSBC Holdings plc) by total assets and is a global systemically important bank (G-SIB).

The group operates across two main entities:

- Barclays International (71% of operating income): constitutes the Consumer, Cards, and Payments segment, and the Corporate and Investment Bank business. Activities undertaken include corporate banking, capital markets activities, payments, wealth management, and cards.
- Barclays UK (29% of operating income): the Group's UK ring-fenced bank, which focuses on UK retail (mortgages and credit cards) and small business banking.

Historically, the Group has been seen as quite risky, given its large exposure to international banking and capital markets. However, over recent years Barclays has dialled back that exposure and, while there is more work to do, the risk is declining.

Key Financials (GBPm)

LTM (31 Dec)	2023
Net interest income	12,709
Credit loss provisions	(1,881)
NPAT	5,323
Gross loans	399,496
Customer deposits	538,789
Net interest margin (%)	3.98
Credit losses (%)	(0.46)
Nonperforming loans (%) *	1.17
CET 1 ratio (%)	13.8

Source: Company
**As measured by Stage 3 (impaired) loans.*

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
XS1349043130	AUD 130m	Senior Unsecured	6.10%	Annual	N/A	24 Mar 2031

[1]Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.

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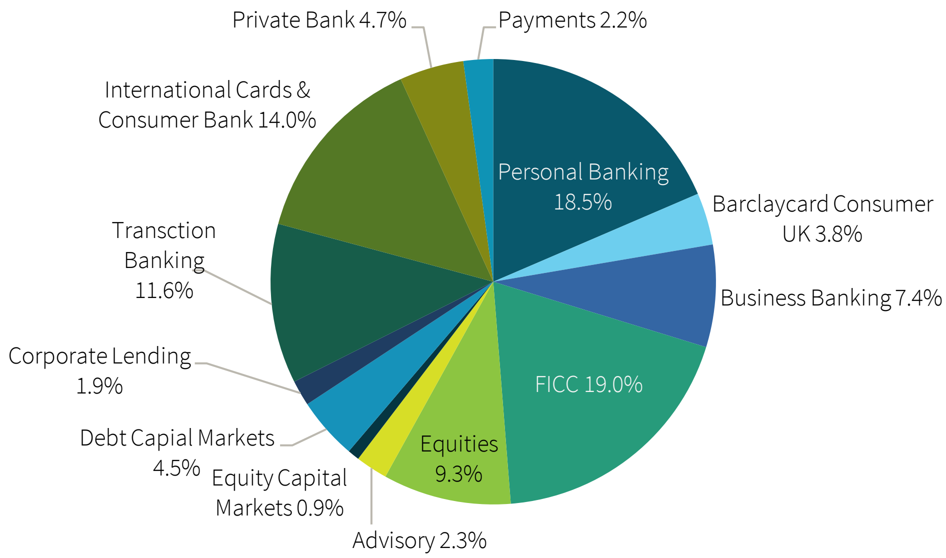
Strengths

- **Globally systemic and universal bank with well-diversified revenue by business lines and geographies:** Barclays benefits from a relatively diversified business model, underpinned by strong foundations in its core markets. The group is one of the largest banks globally (and the second largest in the UK as measured by assets) and is primarily anchored by its capital markets businesses, particularly fixed income financing (FICC) and trading. It operates in other, mostly low risk countries such the US, Germany, and France (amongst others), with the US making up the group's second largest international exposure after the UK. This helps deliver repeatable earnings. This is supplemented by a diverse set of functions across retail banking (which is relatively low risk), and other capital market sectors which would generally be lower risk such as transaction banking (see Figure 1 below).

Figure 1: Barclays Total income by business line (FY23)



Ssource: Company

- **Solid capitalisation and buffers above regulatory limits:** Barclays is well-capitalised, with a Common Equity Tier 1 (CET1) ratio of 13.8% (equivalent to a buffer above regulatory limits of 180bps, or about GBP6.16bn), which is broadly in line with global peers. We note that its buffer above the minimum requirement is lower, in basis point terms, compared to other universal banks, but this is because the Bank of England has imposed a higher minimum level. The Group has indicated that it would maintain its CET1 ratio in a range between 13-14%, reflecting buyback programs, capital distributions and future regulatory changes, leaving the ratio well within management targets. As a global systemically important bank, Barclays has a regulatory requirement to maintain a robust capital position and must also hold additional capital over and above the requirements of other banks. The Group's robust position should provide a healthy buffer to absorb an increase in credit costs without impairing its credit profile.

- **Strong liquidity and buffers:** The Group has consistently maintained a cautious funding and liquidity position, resulting in the Group having in place a conservative liquidity risk management framework and solid liquidity buffers. As of 31 December 2023, Barclays reported a liquidity coverage ratio (the proportion of a bank's high liquid assets to help meet short-term obligations) of 161%, well above the regulatory minimum of 100% and one of the highest amongst its peers. It also reported a net stable funding ratio of 138%. The amount of High-Quality Liquid Assets, per the liquidity coverage ratio definition, is also one of the highest among other universal banks. Importantly, S&P Global Ratings notes that the Group's liquidity position underpins its credit rating, especially over the short to medium term.

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- **Diversified funding profile with a strong franchise in capital markets:** Barclay's funding structure has several strengths, notably from its customer deposit base, underpinned by a strong retail bank franchise throughout the UK. The Group operates with a loan to deposit ratio of approximately 74.0% as of FY23 (it is 92.0% at Barclays UK, and 58.0% as Barclays International). Typical for a universal bank with capital market activities, Barclays is a large user of wholesale funding. Short-term wholesale funding typically represents close to a third of total funding, which appears high, but is essentially used to fund short-term assets, in particular the non-lending assets (securities and reverse repos, for example) through its investment banking operations. As such, the bank's asset-liability profile is well-matched. Wholesale funding is well-diversified by instrument-type, while liquidity cover for short-term maturing assets is comfortably above 1.0x.
- **Sound macro environment:** UK banks benefit from operating in a country with a large and broadly diversified economy, a robust institutional framework, and one with a strong history of understanding and regulating the banking sector. Although economic growth remains subdued, the Group remains predominantly exposed to lower-risk operating environments (nearly two thirds of Barclays' credit exposures are in the UK, with further exposures to other safe jurisdictions like the US, though this global breakdown is not fully itemised).

Risks

- **Performance of capital markets and other investment banking operations are exposed to market volatility and tail risks:** Some of the markets Barclays operates in (particularly the Barclays International division) are complex and volatile compared to the relatively vanilla retail and commercial banking activities. The increased complexity can counterbalance some of the stability generally observed in banking. Barclay's corporate and investment banking operations operate in and depend on the operation of global markets. Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which make it very difficult to sell, hedge or value such assets, and in turn may negatively affect the bank's earnings, capital, and liquidity. Additionally, jurisdictions in which Barclays does business may be negatively impacted by slow growth rates or recessionary conditions, market volatility and/or political unrest. Barclay's future strategy across its businesses is well defined: it will aim to reduce the investment bank share of total risk-weighted assets from 58% at end of FY23 to around 50% by 2026 Barclays also plans to have retail and corporate financing represent more than 70% of the bank's income by 2026.
- **Relatively high-cost base in comparison with recurring revenue:** While a high-cost base is not uncommon amongst investment banks globally, Barclay's cost base relative to recurring income is fairly high, leaving the bank's earnings (and as such, capital) generation susceptible to periods of softer earnings. As of 31 December 2023, the group's cost to income ratio was approximately 67.0%. This has also been impacted by a number of extraordinary and other one-off events, such as provisions against customer redress for payment protection insurance, run-off of non-core operations, investigations into sales and trading practices in foreign exchange market, legal entity restructuring to comply with the UK ring-fencing legislation, Brexit, and litigation and conduct penalties. Management recently announced plans to reduce structural costs through significant one-off actions, in addition to recent measures including headcount reductions.
- **NOHC structure:** The Group relies on a non-operating holding company structure (unlike the Australian major banks except ANZ) whereby the top company in the corporate structure (also the listed entity) typically acts as the single point of entry for financing (especially loss-absorbing capital) which is then on-lent to the various operating subsidiaries. The main asset of the NOHC is its investment in the various operating entities. In the event of a severe stress which would require regulatory intervention, it is likely that regulators (in various countries) would intervene at the operating entity level, leaving creditors to the NOHC one step removed from any recovery. This structural subordination is reflected in the assessment of the credit quality of NOHC which is viewed as weaker than the overall Group (if assessed as if it was a single entity).

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