

March 26, 2021

## Barclays Bank PLC (India Operations): [ICRA]A1+ reaffirmed, rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Certificate of Deposit Programme	5,000.00	6,000.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>5,000.00</b>	<b>6,000.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating continues to draw comfort from the strength of Barclays Bank PLC (BBPLC; rated A1/Stable/P-1 by Moody's Investors Service with baseline credit assessment (BCA) of baa3), which is a global systemically important bank based in the United Kingdom (UK) with large capital market operations and a strong global presence. BBPLC is part of the Barclays Group with total assets of ~£1.05 trillion as on December 31, 2020. The rating remains supported by the strong operational linkages between the Indian branches and the head office (HO) in the UK, depicted by the strong integration of the systems and processes of the Indian branches with the HO. ICRA will continue to closely monitor the impact of international developments at BBPLC as these will remain key determinants of the rating of BBPLC's Indian branches.

ICRA further takes note of the comfortable capitalisation profile of the Indian branches of the bank while the earnings profile remains modest. Despite the short tenure of the liabilities, the liquidity of the Indian branches is strong and supported by the short tenure of advances, excess holding of government securities and balances with the Reserve Bank of India (RBI). Further, due to a Covid-19-induced decline in credit demand of customers, the overall liquidity levels have expanded during the year. ICRA also notes that the bank maintained satisfactory asset quality metrics in FY2020 and slippages (including proforma slippages) remain at limited levels.

### Key rating drivers and their description

#### Credit strengths

**Indian branches of BBPLC** – ICRA draws comfort from the strong global presence of BBPLC. The risk management policies and processes followed by the Indian branches are in line with those followed by the HO, thereby depicting the strong integration of the Indian branch operations with the HO. ICRA would continue to monitor the impact of international developments on BBPLC, which will remain important determinants of the rating of the bank's Indian operations. While the Indian banking operations account for an estimated 0.28% of BBPLC's total assets of ~£1,059 billion as on December 31, 2020, the Indian branches provide corporate and investment banking products including risk management solutions. Apart from banking operations, the other Indian entities of the Barclays Group offer various other capital market and wealth management services to corporates, high-net worth individuals, and overseas investors.

**Capitalisation metrics remain comfortable** – The capitalisation metrics of BBPLC's Indian operations remained comfortable with a CRAR and Tier I of 17.01% and 16.12%, respectively, as on December 31, 2020, compared to 15.67% and 14.87%, respectively, as on March 31, 2020 because of a decline in business volumes and hence the risk-weighted assets (RWAs). Net advances witnessed a sharp decline in 9M FY2021 due to a decline in credit demand from the bank's customers. Given the higher liquidity, lower scale of operations and prior-period tax expense, the bank's internal capital generation was lower with a return on assets (RoA) of 0.30% in 9M FY2021 against 0.70% in FY2020.

ICRA notes that as a globally systemic important bank, BBPLC needs to maintain an extra 1.5% above the minimum stipulated capital level with a required CET of 8.875% as on March 31, 2021 even for the Indian operations. Against the regulatory requirement, BBPLC reported a CET of 14.2% as on December 31, 2020 on a consolidated basis compared to 13.9% as on December 31, 2019 for the global operations. Going forward, ICRA expects the capitalisation profile of the Indian operations to remain comfortable, supported by modest growth expectations. Moreover, ICRA expects capital support from the HO in case of higher requirements.

**Profitability remains modest, given limited scale of operations** – The Indian operations are largely characterised by off-balance sheet derivative exposures, whereas the level of advances remains limited in relation to the assets. The share of advances stood at ~20% of the total assets as on December 31, 2020 (against 26% as on March 31, 2020 and 40% as on March 31, 2019). With a decline in the loan book, the share of liquid assets (largely government securities and balances with the RBI) was high at 37% of the total assets as on December 31, 2020 (24% as on March 31, 2020). Other on-balance sheet assets, representing the gross mark-to-market (MTM) positions on these derivative contracts, accounted for 37% of the total assets (with a similar amount on the liability side) as on December 31, 2020.

The net interest margins for the Indian operations declined to 1.94% of the average total assets (ATA) in 9M FY2021 from 2.29% in FY2020 (2.64% in FY2019) because of high liquidity. The fee income from the derivative books also supports the operating profitability of the bank. The profitability of the Indian operations was impacted by the increase in credit costs and losses on the investment book, which resulted in weaker return metrics with an RoA of 0.7% in FY2020. The operating profitability remained satisfactory in 9M FY2021, even though prior-period tax liabilities resulted in a modest RoA of 0.30%.

Globally, BBPLC reported a net profit of £2.45 billion, translating into a return on equity (RoE) of 4.56%, in CY2020 against a net profit of £2.78 billion, translating into an RoE of 5.49%, in CY2019. The decline in the net profit in CY2020 resulted from an increase in the credit impairment charges of £2.18 billion, a decrease in the Net Interest Income of £0.74 billion coupled with higher taxation of £0.29 billion, which was partially offset by an increase in trading income of £3 billion.

**Asset quality metrics remain satisfactory; Covid-19-induced stress likely to be limited on Indian operations** – BBPLC's customers in India mainly include entities that have strong global tie-ups with the bank and a better risk profile. Accordingly, slippages (including proforma slippages) remained limited at ~Rs. 50 crore in 9M FY2021 (0.48% of standard advances as on March 31, 2020) against Rs. 121 crore (0.79%) in FY2020. The gross non-performing advances (NPAs) and net NPAs of the bank were satisfactory at 4.41% and 0.65%, respectively, as on December 31, 2020 (3.19% and 0.0%, respectively, as on March 31, 2020). The increase in %GNPA as on December 31, 2020 was because of a sharp degrowth in net advances. Even though the bank has seen limited slippages amid a challenging environment, the asset quality profile will remain susceptible to any lumpy slippages in the corporate exposures, given the high concentration in the large-ticket corporate segment. Globally, BBPLC's asset quality remains satisfactory with GNPA of 3.67% and NNPA of 1.97% as on December 31, 2020 against 2.99% and 1.55%, respectively, as on December 31, 2019.

## Credit challenges

**High sectoral concentration for Indian operations** – Given the short tenure of the liabilities, the loan portfolio of BBPLC's Indian operations is largely focused on shorter-tenor bill discounting and working capital loans, which accounted for 75% of the outstanding loan book as on December 31, 2020 (79% as on March 31, 2020 and 90% as on March 31, 2019). The net advances degrew to Rs. 5,871 crore as on December 31, 2020 from Rs. 10,284 crore as on March 31, 2020. While the business booked by the Indian branches is a function of the liability base, the degrowth in the current year was mainly driven by lower demand from customers due to Covid-19. The largest exposure of the Indian branches is towards the banking sector as the bank takes funded exposures backed by the letters of credit of banks. The Indian operations have contingent liabilities, which stood at Rs. 8.46 lakh crore as on December 31, 2020 (Rs. 8.73 lakh crore as on March 31, 2020). The contingent liabilities are mainly on account of the currency and interest rate derivatives and forward exchange contracts and reflects the notional amount in underlying contracts. As these contracts are counter-hedged with other branches of BBPLC or with counterparties the net exposure will be lower.

**Deposit profile remains wholesale in nature** – As on December 31, 2020, BBPLC's Indian operations had a presence via six branches (excluding one service branch) with a focus on wholesale lending. Given the limited retail presence, the deposit base remains concentrated with a low share of current account and savings account (CASA) deposits and a high reliance on bulk deposits. This is depicted in the high deposit concentration with the top 20 depositors accounting for 62% of the total deposits as on March 31, 2020, marginally lower than 64% as on March 31, 2019. Moreover, the CASA share stood at 22.43% as on December 31, 2020 (15.12% as on March 31, 2020). Given the limited retail presence and the high reliance on wholesale deposits, the deposit levels can fluctuate substantially due to the limited predictability of such flows.

## Liquidity position: Strong

The overall liquidity position of the Indian branches remains strong with positive gaps witnessed across all <1 year maturity buckets as per the structural liquidity statement (SLS) as on December 31, 2020. The degrowth in advances in 9M FY2021 has contributed to the increased liquidity level and stronger positive gaps. As a result, the excess statutory liquidity ratio (SLR) holdings of the bank stood at ~46% of the net demand and time liabilities (NDTL), above the regulatory requirement of 18%, apart from the sizeable balances (~57% of deposits) parked in reverse repo with the RBI as on December 31, 2020. The Indian operations can also avail liquidity support of up to 50% of the Tier I capital from the HO in case of urgent liquidity requirement, which can increase further to 100% of the Tier I capital, with the internal approval of the Asset Liability Committee.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – A material deterioration in the credit profile of BBPLC will lead to a downgrade in the credit rating of the Indian branches.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA Rating Methodology for Banks</a>
Parent/Group Support	ICRA expects the Indian branches to be supported by the HO - BBPLC; the HO will extend financial support to the Indian branches, if needed, as they are an integral part of BBPLC
Consolidation/Standalone	Standalone for Indian branches

## About the company

UK-based Barclays Bank PLC (BBPLC) is a globally systemic important bank that is a part of the Barclays Group. It accounts for around 80% of the Group's total assets. The bank houses the Group's corporate and investment banking activities along with other non-capital market activities including payments, wealth management, and international consumer and card activities. The bulk of the bank's operations are split between the Group's key markets of the UK and the US though it also has a presence in continental Europe and other major global financial centres. The CET-I capital ratio stood at 14.2% as on December 31, 2020 compared to 13.9% as on December 31, 2019. For CY2020, the bank reported a net profit of £2.45 billion compared with £2.78 billion in CY2019.

The Indian branches commenced commercial banking operations in FY2006 and retail banking operations in FY2007. As on December 31, 2020, the bank had a presence in India via six branches (excluding one service branch). It also has investment banking operations in India. It sold its retail assets in FY2013 following the Group's decision to exit its retail business in India in December 2011. BBPLC's Indian operations reported a net profit of Rs. 104 crore in 9M FY2021 and had an asset base of Rs. 29,935 crore as on December 31, 2020. The Indian operations reported a net profit of Rs. 283 crore on a total income of Rs. 1,982 crore in FY2020 compared to a net profit of Rs. 292 crore on a total income of Rs. 1,780 crore in FY2019.

## Key financial indicators (standalone)

Barclays Bank PLC (India Operations)	FY2018	FY2019	FY2020	9M FY2021
Net interest income (Rs. Crore)	823	909	920	680
Profit before tax (Rs. Crore)	596	571	566	-
Profit after tax (Rs. crore)	319	292	283	104
Loan book (Rs. crore)	11,608	15,403	10,284	5,871
Total assets (Rs. crore)	28,861	40,072	40,252	29,935
% Net interest margin / Average total assets	2.88%	2.64%	2.29%	1.94%
% Return on assets	1.11%	0.85%	0.70%	0.30%
% Return on net worth	4.58%	4.41%	4.25%	1.53%
% Tier I	17.15%	15.59%	14.87%	16.12%
% CRAR	17.63%	16.30%	15.67%	17.01%
% Gross NPA	0.67%	1.89%	3.19%	4.41%^
% Net NPA	0.00%	0.35%	0.00%	0.65%^
%Net NPA/CET	-	0.92%	-	0.60%^

**Source:** Barclays Bank PLC (India Operations), ICRA research

^ Proforma numbers including standstill slippages as directed by the Hon'ble Supreme Court

All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2021	FY2021	FY2020	FY2019	FY2018	
					Mar-26-2021	May-29-2020	Apr-05-2019	Apr-11-2018	Mar-13-2018	Feb-02-2018
1	Certificate of Deposit Programme	Short Term	6,000.00	3,750.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

#### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE083J16199	Certificate of Deposit Programme	Feb-22-2021	3.40%	24-May-2021	250.00*	[ICRA] A1+
INE083J16223	Certificate of Deposit Programme	Mar-09-2021	3.51%	08-Jun-2021	750.00*	[ICRA] A1+
INE083J16231	Certificate of Deposit Programme	Mar-10-2021	3.55%	10-Jun-2021	750.00*	[ICRA] A1+
INE083J16249	Certificate of Deposit Programme	Mar-15-2021	3.55%	14-Jun-2021	1,000.00*	[ICRA] A1+
INE083J16215	Certificate of Deposit Programme	Mar-08-2021	3.55%	25-Jun-2021	250.00*	[ICRA] A1+
INE083J16207	Certificate of Deposit Programme	Mar-05-2021	3.55%	29-Jun-2021	750.00*	[ICRA] A1+
NA	Certificate of Deposit Programme	Yet to be placed	-	7-365 days	2,250.00	[ICRA] A1+

\*As on March 19, 2021

Source: Barclays Bank PLC (India Operations)

#### Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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