



# BARCLAYS Vs LLOYDS THIRD QUARTER 2022

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Barclays and Lloyds are the two key banks in the UK sector and despite some similarities, there are also glaring differences.

Lloyds has been back to doing what it does best, current accounts, mortgages, personal and business loans, and life insurance...sound dull? Thank goodness. Fund managers in the City used to mockingly call Lloyds “the world’s most boring bank”, who knew that would become a compliment. Lloyds dominates the UK savings and mortgage industry and does 98% of its business in the UK, reconfirming its position as a key bell weather for the UK economy so perhaps needs a bit more focus to understand the underlying view on the UK economy.

Barclays is much more of a global operation and has some great businesses when you scratch the surface. They have a leading wealth manager and a leading investment bank, but it is fair to say that Barclays is not the global bank it once was. Except for the US, it has largely retreated from foreign markets. Only a few years ago it had major operations in Europe and Africa in particular, but these have been sold off. What we have left is a UK-US-focused bank.

Both have caused investors huge frustrations over recent years but for different reasons.

## Barclays Plc (BARC)

### Company Profile

Barclays PLC is a UK-based global financial services provider. The firm is engaged in various operations including retail banking, credit cards, wholesale banking, investment banking, wealth management, and investment management services. The Company operates in two main divisions, which include Barclays UK and Barclays International, supported by its service company, Barclays Execution Services.

Barclays UK houses the UK Personal Banking, UK Business Banking and Barclaycard Consumer UK businesses. Barclays International consists of its corporate and investment bank and consumer, cards, and payments businesses. Barclays Execution Services provides technology, operations, and functional services to businesses. Its functions include consumer banking and payment services.

One thing that sets Barclays apart from the UK’s other big four banks is its large and sometimes successful investment bank. Investment banking is seen as the riskier but more lucrative cousin of retail banking. Instead of mortgages and current accounts, it involves things like advice on takeovers, raising debt and equity for large corporations and trading bonds and shares.

### Analysts Targets.

Barclays' share price receives a lot of coverage with 18 analysts across the industry offering target prices. The average for the 12-month target price is 237.5p with the top-end target prices of 300p and the bottom-end target of 150p. At the time of writing the share were trading at @148.58p



## Barclays Recent Market Update Q3 2022

### Performance Highlights

- **Attributable profit was £1.5bn (Q321: £1.4bn) and RoTE was 12.5% (Q321: 11.4%).**
  - **Excluding the impact of the Over-issuance of Securities in the US.**
  - **Group income was £6.4bn, up 17% year-on-year**, with continued momentum in both Consumer, Cards and Payments (CC&P) and Barclays UK. Within Corporate and Investment Bank (CIB), strong client activity in Markets more than offset the impact of a reduced fee pool in Investment Banking. Group income benefited from the appreciation of USD against GBP.
  - **Group operating expenses were £4.1bn**, up 18% year-on-year. Within this, operating costs (which exclude all litigation and conduct) were £3.9bn, up 14% year-on-year driven by the appreciation of USD against GBP, the impact of inflation and investment in the business.
- **On a statutory basis, including the impact of the Over-issuance of Securities:**
  - **Group income was £6.0bn, up 9% year-on-year**, including an income reduction of £0.5bn from hedging arrangements concerning the Over-issuance of Securities.
  - **Total Group operating expenses were £3.6bn (Q321: £3.6bn)**, including a provision reduction of £0.5bn concerning the Over-issuance of Securities (Q321: £0.1bn charge)
  - The total impact of the Over-issuance of Securities, net of tax, was £29m positive in Q322
- **Credit impairment charges were £0.4bn (Q321: £0.1bn).** Delinquencies remained below historical levels and coverage levels have been broadly maintained at the portfolio level in light of an uncertain macroeconomic backdrop. The deteriorating macroeconomic forecast resulted in an increased charge, partially offset by consuming economic uncertainty post-model adjustments (PMAs), which were established in prior periods in anticipation of the future deterioration, which is now captured within the modelled output.
- **Capital: Common Equity Tier 1 (CET1) ratio of 13.8%** (December 2021: 15.1% and June 2022: 13.6%) and tangible net asset value (TNAV) per share of 286p (December 2021: 291p and June 2022: 297p).
- **Capital distributions:** Barclays paid a half-year dividend of 2.25p per share on 16 September 2022, and completed a share buyback of £0.5bn on 3 October 2022, bringing the total capital return equivalent to 5.25p per share as announced at H122 results.

## Barclays Q3 2022 Vs Q3 2021

<b>Barclays Group Results</b>	30.09.22 £m	30.09.21 £m	% Change
<b>Barclays UK</b>	<b>5,289</b>	<b>4,837</b>	<b>9</b>
Corporate and Investment Bank	10,792	9,702	11
Consumer, Cards and Payments	3,213	2,453	31
<b>Barclays International</b>	<b>14,005</b>	<b>12,155</b>	<b>15</b>
Head Office	-139	-212	34
<b>Total income</b>	<b>19,155</b>	<b>16,780</b>	<b>14</b>
Credit impairment (charges)/releases	-722	622	
Net operating income	18,433	17,402	6
Operating costs	-11,209	-10,578	-6
Litigation and conduct	-1,518	-305	
<b>Total operating expenses</b>	<b>-12,727</b>	<b>-10,883</b>	<b>-17</b>
Other net (expenses)/ income	-4	247	
<b>Profit before tax</b>	<b>5,702</b>	<b>6,766</b>	<b>-16</b>
Tax charge	-1,072	-1,034	-4
<b>Profit after tax</b>	<b>4,630</b>	<b>5,732</b>	<b>-19</b>
Non-controlling interests	-23	-20	-15
Other equity instrument holders	-620	-586	-6
<b>Attributable profit</b>	<b>3,987</b>	<b>5,126</b>	<b>-22</b>

<b>Balance Sheet and Capital Management</b>	30.09.22 £bn	30.09.21 £bn
Loans and advances at amortised cost	413.7	353
Loans and advances at amortised cost impairment coverage ratio	1.40%	1.70%
Total assets	1,726.90	1,406.50
Deposits at amortised cost	574.4	510.2
Tangible net asset value per share	286p	286p
Common equity tier 1 ratio	0.14	15.30%
Common equity tier 1 capital	48.60	47.2
Risk weighted assets	350.80	307.7
UK leverage ratio	5.00%	5.10%
UK leverage exposure	1,232.10	1,162.70
Average UK leverage ratio	4.80%	4.90%
Average UK leverage exposure	1259.60	1,201.10
<b>Funding and liquidity</b>		
Group liquidity pool (£bn)	326	293
Liquidity coverage ratio	151%	161%
Loan: deposit ratio	72%	69%

## Outlook

- Targeting a RoTE greater than 10% in 2022.
- Diversified income streams position the Group well for the current economic and market environment including rising interest rates.
- Total operating expenses for the full year 2022 are expected to be in line with the outlook given in the first half of 2022 results of around £16.7bn with a reduction in litigation and conduct charges of around £0.3bn.
- They expect the credit impairment charges at a portfolio level to trend towards a through-the-cycle loan loss rate, acknowledging the risk of further deterioration in the economic outlook.
- Targeting a CET1 ratio within the range of 13-14%.
- Capital distribution policy incorporates a progressive ordinary dividend, supplemented with buybacks as appropriate. Dividends will continue to be paid semi-annually, with the half-year dividend expected to represent, under normal circumstances, around one-third of the total dividend for the year.

## Summary

Overall, the Q3 figures don't read too bad. They beat analyst expectations despite a rise in 'litigation and conduct' costs. Profit rose 10% to £1.5bn in the three months to 30th September, up from £1.37bn for the same period last year. The number would have been better as well if it weren't for litigation costs relating to the over-issuance of US securities. The bank was also given a boost due to the solid bond trading which helped Barclays offset weakness in investment banking activities.

Consumer activity in the UK did fall in the third quarter for Barclays. The group did see higher card transaction-based revenues because of improved spending but this was somewhat counteracted due to borrowers paying down their debt and taking on reduced loans as the economy weakens. This activity reduces the group's ability to earn interest. That all being said higher interest rates saw net interest margins rise to 2.78% and net interest income increased by 10% to £4.3bn. So largely this has had a balancing effect resulting in a resilient showing overall.

Barclays has also cautioned that the economic environment was set to deteriorate and so for this they have set aside £0.4bn for credit impairments. However, Barclays were also upbeat on its ongoing revenue generation capabilities and saw a return on tangible equity above 10%, despite economic challenges.

"We delivered another quarter of strong returns, and achieved income growth in each of our three businesses, with a 17% increase in Group income to £6.4bn. Our performance in FICC was particularly strong and we continued to build momentum in our consumer businesses in the UK and US," said C. S. Venkatakrishnan, Barclays Group Chief Executive.

# Lloyds Bank (LLOY)

## Company Profile

Lloyds Banking Group plc is a UK-based retail and commercial financial services, provider. The Company provides a range of banking and financial services in the UK and a small selection of locations overseas. The group offer its services through a range of brands, including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows.

It operates through three key segments: Retail, Commercial Banking, and Insurance and Wealth. The retail arm offers a range of financial service products, including current accounts, savings, mortgages, motor finance and unsecured consumer lending to personal and small business customers. The Commercial Banking arm provides a range of products and services, such as lending, transactional banking, working capital management, risk management and debt capital markets services to small and medium enterprises (SMEs), corporates and financial institutions. The Insurance and Wealth arm offers insurance, investment and wealth management products and services.

## Analysts Targets.

Lloyds' share price receives a lot of coverage with 19 analysts across the industry offering target prices. The average for the 12-month target price is 60p with the top end target prices of 100p and the bottom end target of 42p. At the time of writing the share were trading @42.75p

## Lloyds Recent Market Update Q3 2022

### Performance Highlights

- Supporting the transition to a low carbon economy; announced new sector-based 2030 emissions reduction targets and a new net zero ambition for our supply chain in our Net Zero Activity Update.
- **Statutory profit after tax of £4bn (nine months to 30 September 2021: £5.5bn)**, with higher net income more than offset by impairment charges as a result of the revised economic outlook (versus a significant write-back in 2021)
- Robust revenue growth supported by continued recovery in customer activity and UK Bank Rate changes. **Net income of £13.0bn, up 12%**; higher net interest and other income and continued low operating lease depreciation.
- **Underlying net interest income is up 15%**, significantly driven by a stronger banking net interest margin of 2.84 per cent year to date (2.98 per cent in the third quarter).
- **Operating costs of £6.4bn, up 6% compared to the first nine months of 2021**, reflecting stable business-as usual costs alongside higher planned strategic investment and new businesses
- **Underlying profit before impairment was up 29% to £6.5bn in the period** (with £2.4bn in the third quarter), as a result of robust net income growth.

- Observed asset quality remains strong and the portfolio is well-positioned in the context of the cost of living pressures. The underlying impairment of £1.0bn (of which £0.7bn was recognised in the third quarter) reflects a resilient observed credit performance, but was impacted by the weakening economic outlook and associated scenarios in the third quarter, partially offset by COVID-19 releases continued franchise growth and strong capital generation.
- **Loans and advances to customers at £456.3bn were up £7.7bn** in the first nine months and up £0.2bn in the quarter, with continued growth in the open mortgage book.
- **Customer deposits of £484.3bn were up £8.0bn** in the first nine months and £6.1bn in the quarter. Loan to deposit ratio of 94% continues to provide robust funding and liquidity and potential for growth.
- **Capital generation of 191 basis points** in the first nine months based on robust banking performance and including the insurance dividend paid in July 2022.
- **CET1 ratio of 15% after ordinary dividend** and variable pension contributions, remaining well ahead of the ongoing target of 12.5%, plus a management buffer of 1%. Commitment to consider excess capital returns as usual at year-end.

## Lloyds Q3 2022 Vs Q3 2021

<b>Lloyds Banking Group</b>	30 Sep 2022 £m	30 Sep 2021 £m	Change %
Net interest income	11,061	7,073	56
Other income	-17,984	20,012	
Total income	-6,923	27,085	
Insurance claims	20,181	-14,803	
Total income, net of insurance claims	13,258	12,282	8
Operating expenses	-7,033	-7,194	2
Impairment (charge) credit	-1,056	846	
Profit before tax	5,169	5,934	13
Tax expense	-1,134	-469	
Profit for the period	4,035	5,465	26
Profit attributable to ordinary shareholders	3,632	5,064	28
Profit attributable to other equity holders	327	321	2
Profit attributable to non-controlling interests	76	80	5
Profit for the period	4,035	5,465	26
Ordinary shares in issue (weighted-average – basic)	69,478m	70,919m	2
Basic earnings per share	5.2p	7.1p	1.9 p

<b>Balance sheet and capital management</b>	30 Sep 2022 £bn	30 Sep 2021 £bn
<b>Loans and advances to customers</b>		
Open mortgage book	298.4	292.6
Closed mortgage book	12.3	14.8
Credit cards <sup>2</sup>	14.3	13.5
UK Retail unsecured loans	8.8	8.1
UK Motor Finance	14.2	14.1
Overdrafts	1	1
Retail other <sup>1</sup>	13	10.8
Wealth <sup>2</sup>	1	1
Small and Medium Businesses <sup>2</sup>	39.8	43.8
Corporate and Institutional Banking <sup>2</sup>	57.6	51
Central items <sup>2,3</sup>	-4.1	-0.2
Loans and advances to customers	456.3	450.5
<b>Customer deposits</b>		
Retail current accounts	115.7	109.6
Retail relationship savings accounts	165.7	162.6
Retail tactical savings accounts	16.2	16.8
Wealth <sup>2</sup>	14.9	15.1
Commercial Banking deposits	170.2	174.5
Central items <sup>2</sup>	1.6	0.5
<b>Total customer deposits</b>	484.3	479.1
Total assets	892.9	882
Total liabilities	846.5	829.4
Ordinary shareholders' equity	40	46.5
Other equity instruments	6.2	5.9
Non-controlling interests	0.2	0.2
<b>Total equity</b>	46.4	52.6

## Outlook

Given the robust financial performance in the first nine months of 2022 and incorporating revised macroeconomic forecasts in the third quarter, the Group is updating its 2022 guidance:

- Banking net interest margin is now expected to be greater than 290 basis points.
- Operating costs expected to be £8.8bn.
- Asset quality ratio now expected to be 30 basis points.
- Return on tangible equity expected to be 13%.
- Risk-weighted assets at the end of 2022 are expected to be £210bn.
- Capital generation now expected to be between 225 and 250 basis points.

## Summary

Profits at Lloyds Bank took a drop in the third quarter as the firm prepared itself for defaults from bad loans. Pre-tax profit for the third quarter fell by £1.5bn, down 26% year on year and well below analysts' forecast of £1.8bn. The main contributing factor was the £668mn of charges Lloyds took in preparation for the expectation of rising defaults. What compounds this, and shows the expectation for trouble ahead is the fact the earnings miss came despite rising interest rates boosting income.

However, it wasn't all bad net income for the quarter was £4.6bn, an increase of 13% on a YoY basis and beat market expectations. This has also led to its updating some of its guidance for the full year, with its net interest margin now expected to be greater than 290 basis points, up from more than 280 basis points in its half-year results. Lloyds was also the UK lender with the highest exposure to the fallout from the mini-budget (if it can even be called that) through its use of reverse repo, or repurchase agreements, in which the bank lends cash to pension funds through their corporate treasuries and takes government bonds as collateral.

"In February we announced an ambitious new strategy. While the operating environment has changed significantly since then, our customer focus remains unchanged. We continue to execute against our strategic goals, based on our objectives of transforming the business, while generating a stronger growth trajectory and enabling the Group to deliver higher, more sustainable returns. Our income growth, balance sheet momentum and resilient customer franchise have enabled the Group to deliver a robust financial performance and strong capital generation, alongside updated guidance for 2022. The current environment is concerning for many people and we are committed to maintaining support for our customers. The Group's resilient business model and prudent approach to risk position the Group well to face the current macroeconomic uncertainties while generating enhanced returns for our shareholders." Charlie Nunn, Group Chief Executive.

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