Barclays to sell £4bn assets

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Barclays is planning to spin off a £4bn portfolio of complex credit assets as the bank presses ahead with a process to clean up its balance sheet and ease shareholder concerns over its investments.

The bank is looking at a deal to shift up to £4bn of the assets off its balance sheet in an echo of a similar transaction it undertook last month with a $12.3bn portfolio, people familiar with the matter said. That deal involved a team of 45 Barclays staff, led by Stephen King, head of principal mortgage trading, leaving the bank.

They then set up a company called C12, and took on the **$12.3bn asset portfolio, codenamed Protium**.

Barclays shares have jumped eightfold since their January lows, closing on Friday at 377p, but they are still trading at a discount to the bank's book value, while local rivals such as **Standard Chartered** and **HSBC** are on a substantial premium.

One factor that the bank believes has been overhanging investor sentiment is the continuing risk posed by toxic assets.

People familiar with Barclays' thinking said that it was looking at two options for a sale of the £4bn of assets – either a replica of the Protium deal that would see Barclays traders leave with the portfolio, or a divestment to a third-party buyer.

The portfolio is made up of collateralised loan obligations (CLOs) – instruments that repackage portfolios of loans into tranches of varying risk and return. Buyers of such assets have been thin on the ground, with the exception of **JPMorgan Chase**, which has been vacuuming up CLO portfolios over the past year.

A third-party transaction might be more attractive to Barclays because CLO valuations have jumped in recent months.

"In August and September there has been a heavy rally," said one specialist credit manager. "Prices for senior tranches of AAA credits have been selling for high-70s, low-80s cents in the dollar, compared to 60 or 70 a few months ago."

Other banks, including Belgium's **Fortis**, France's **Natixis** and a number of German banks, are also in the market for similar deals, he said. If Barclays opts for a Protium-style hive-off for its CLO portfolio, it might provoke controversy.

Some analysts said the Protium deal was just an exercise in financial engineering that has obscured the performance of the underlying assets.

By selling them and replacing them on the balance sheet with a loan to C12, Barclays is still exposed to the risk, because loan repayments would be jeopardised if the underlying assets deteriorate further.

Barclays has argued that the Protium structure gives it certainty on cashflows and removes the risk that it might have to write down the value of the assets.

Shares in Barclays were little changed on Monday at 376.2p.