Fitch Ratings

05 Jun 2019 | Affirmation

# Fitch Affirms Barclays' Viability Ratings; Maintains IDR on Negative Watch

Fitch Ratings-London-06 June 2019: Fitch Ratings has affirmed the Viability Ratings (VRs) of Barclays plc (Barclays), Barclays Bank Plc (BB plc) and Barclays Bank UK plc (BBUK plc). We maintain their Long-Term Issuer Default Ratings (IDR) of 'A' (Barclays) and 'A+' (BB plc, BB UK plc and Barclays Bank Ireland) on Rating Watch Negative (RWN).

A full list of rating actions is available at the end of this rating action commentary.

KEY RATING DRIVERS
VRS, IDRS, SENIOR DEBT and DERIVATIVE COUNTERPARTY RATINGS (DCR)
BARCLAYS PLC
Barclays' VR and IDR are based on the consolidated analysis of the group, and reflect our view that progress made with the group's restructuring and resolving legacy conduct matters will allow for a normalisation of earnings and maintenance of capital in line with targets and peers'. The group's sound capitalisation, funding, liquidity and asset quality are supportive of the ratings.

The RWN on the Long-Term IDRs of Barclays and its subsidiaries reflects uncertainty over the outcome of Brexit. A disruptive no-deal Brexit would likely result in a negative rating action on Barclays and its subsidiaries, most likely with Negative Outlooks being assigned.

Fitch sees Barclays' profitability improving after many years of restructuring. Lower expected transformation-related charges and ongoing cost management should help the group progress towards the targeted 9% return on tangible equity in 2019 and 10% in 2020 (excluding litigation and conduct), but some challenges remain.  The corporate and investment bank (CIB) remains the weakest performing division in the group, and is facing a difficult market environment, strong competition mainly from US peers, and high overheads. The UK retail division is profitable in a still benign environment.

The group should be able to lower legacy funding costs and continue to grow its US cards franchise, while underlying revenue growth will be difficult in the CIB and the UK retail bank, in our view. Cost reduction to the targeted GBP13.6 billion-GBP13.9 billion in 2019 appears within reach, and we expect management to reduce costs below the GBP13.6 billion if the revenue environment continues to be difficult. Conduct and regulatory risks remain inherent in Barclays' business model, but we expect legacy issues to be less impactful on the bank's earnings.

Barclays' reported common equity Tier 1 (CET1) and leverage ratios are comparable to global peers', and in line with management targets. We view Barclays' capitalisation as robust, given improved profit generation and lower risk from large one-off charges.

Barclays' asset quality is sound and has held up well during economic uncertainty, aided by low interest rates and high employment in the UK. Stage 3 loans (2.6% of loans at amortised costs at end-2018) and credit losses (49bp of gross loans) are at the low end of the cycle and could increase if the economic environment worsens. However, this should be mitigated by the group's conservative underwriting standards in domestic mortgages and corporate lending and in the cautious positioning on UK credit risk since the Brexit referendum.

Barclays' funding profile is well-matched and diversified. It benefits from the group's UK retail franchise to fund retail assets and good capital market access to fund wholesale operations. Its loans/customer deposits ratio of 85% at end-2018 is healthy. Liquidity is comfortable, with a liquidity coverage ratio of 160% at end-1Q19 and an eligible liquidity pool of GBP217 billion (end-2018), which are well above regulatory requirements, and conservatively positioned for potential Brexit disruptions.

Barclays is subject to minimum requirement for own funds and eligible liabilities (MREL) requirements that are being phased in from 2019 to 2022. The bank is well-positioned to meet these requirements as at end-2018 it had holding-company MREL instruments equivalent to 28.1% of risk-weighted assets (RWAs), compared with a 30% indicative requirement in 2022.

Barclays' VR and IDR also reflect that common equity double leverage is maintained at reasonably low (107% at end-2018) levels and that liquidity is managed prudently at the holding company.

The Short-Term IDR is assigned in accordance with the 'A' Long-Term IDR and our assessment of Barclays funding and liquidity.

BARCLAYS BANK PLC, BARCLAYS BANK UK PLC
The VRs of the two main operating banks, BB plc and BBUK plc reflect their standalone credit profiles, which include the benefit of ordinary support from the group. BBUK operates a simple, domestically focused, retail and SME banking business model, has solid asset quality and stable funding dominated by granular deposits. BB is the larger operating bank by balance sheet and houses the corporate and investment bank (CIB) and the international cards and payments

businesses.

Fitch rates BBUK plc and BB plc at the same level despite the latter's more volatile business model and reliance on wholesale funding. This is because we see continued capital and funding support between the two entities, as well as benefits of common management, strategy and systems.

The Long-Term IDRs and senior debt ratings of BB plc and BBUK plc are rated one notch above their respective VRs, and one notch above the holdco's IDR. This is because of sufficiently large buffers of internal and external junior debt, which can protect both banks' external senior unsecured creditors from default in case of failure.

If the group enters resolution, Fitch's view of the regulatory intervention point and post-resolution capital needs suggests a buffer of qualifying junior (QJD) and internal MREL-eligible debt of at least about 9% of RWAs in the case of BB plc and about 10% of RWAs in the case of BBUK plc could be required to restore their viability without hitting external senior creditors. We believe that the group is committed to maintaining subordinated liability buffers at or above these requirements, given that internal MREL requirements are applicable to both entities.

The DCRs of BBUK plc and BB plc is at the same level as their Long-Term IDRs because derivative counterparties have no definitive preferential status over other senior obligations in a resolution in the UK.

The Short-Term IDRs of 'F1' of BB and BBUK are the lower option mapping to an 'A+' Long-Term IDR, reflecting our assessment of their respective funding and liquidity profiles.

BARCLAYS BANK IRELAND (BBI)
The Long- and Short-Term IDRs of BBI are equalised with its parent, BB plc's IDRs, which along with its Support Rating  of '1', reflects our view of an extremely high likelihood that BBI would be supported by its parent if needed.

BBI houses BB plc's EU operations (mainly CIB, credit cards, private banking and legacy Italian mortgages), with the aim of avoiding business disruption following the UK's departure from the EU. Fitch views most of the businesses that are already or are set to be housed in BBI as core to the parent and the wider group's business. BBI is highly integrated with BB plc and its capital and liquidity are fungible above local requirements.

Fitch equalises BBI's Long-Term IDR with BB plc's IDR rather than the parent's VR because BB plc has placed at BBI a significant buffer of internal debt subordinated to external senior creditors and of qualifying junior debt, which we view as sustainable and which is likely to be sufficient to recapitalise BBI in case of need without imposing losses on external senior creditors.

BBI's DCR is equalised with the bank's IDR. The Short-Term IDR of 'F1' corresponds to a Long-Term IDR of 'A' and is at the same level as BB plc's.

SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

BARCLAYS PLC, BARCLAYS BANK PLC, BARCLAYS BANK UK PLC

Barclays and BB plc's SRs and SRFs reflect Fitch's view that senior creditors of the bank and the holding company cannot rely on extraordinary support from the sovereign in the event that BB plc becomes non-viable. In our opinion, the UK has implemented legislation and regulations to provide a framework that is likely to require senior creditors to participate in losses for resolving even large banking groups.

BBUK plc's SR of '1' reflects our view of an extremely high probability of institutional support being made available from Barclays and, indirectly, from BB plc given the ring-fenced bank's strategic role in the group and reputational considerations. Despite its size we believe that support would be manageable.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by Barclays and BB plc are all notched down from their respective VRs, in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

Barclays' and BB plc's subordinated lower Tier 2 debt is rated one notch below the VRs for loss severity, reflecting below-average recoveries. BB plc's upper Tier 2 instruments are rated three notches below the VR, comprising one notch for loss severity and two notches for incremental non-performance risk, reflecting cumulative coupon deferral.

The high trigger contingent capital Tier 2 issued by BB plc were upgraded 'BBB+' from 'BBB-'. The notes are notched down twice from Barclays' VR for loss severity, reflecting loss absorption if the trigger of 7% CET1 ratio (CRD IV transitional, FSA October 2012 statement) is breached by the group. Fitch considers that the trigger represents minimal incremental non-performance risk relative to Barclays' VR. This is because at this level of solvency the group is likely to fail or be close to failure.

High-trigger contingent capital Tier 1 instruments and preference shares with no constraints on coupon omission are rated five notches below the relevant VRs. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are notched down three times for very high non-performance risk due to fully discretionary coupon omission.

Other legacy Tier 1 securities of BB plc are rated four notches below the VR, comprising two notches for higher-than-average loss severity, and two further notches for non-performance risk due to partly discretionary coupon omission.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

VRS, IDRS, SENIOR DEBT and DCR

BARCLAYS PLC

The RWN on the Long-Term IDRs of Barclays and its subsidiaries reflects uncertainty over the outcome of Brexit. A disruptive no-deal Brexit would likely result in a negative action on Barclays and its subsidiaries' IDRs, most likely with Negative Outlooks being assigned.

Ratings are also sensitive to progress towards stated performance targets of above 9% return on tangible equity in 2019 and above 10% in 2020, before conduct and litigation, as well as improving statutory profitability. Challenges to profitability targets could be caused by larger-than-expected economic repercussions of the UK's departure from the EU and could manifest in outsized loan impairment charges on the bank's unsecured lending, negative impact from a subdued investment appetite, and prolonged margin pressure from interest rates, among others.

Failure to maintain the CET1 capital ratio above the targeted 13% would also be negative for ratings. We believe that the potential and the willingness of the group to steer capital ratios through risk weighted assets have reduced significantly since the group has deconsolidated the African operations and reintegrated the much reduced non-core assets. Consequently we view internal capital generation as the main source for CET1 capital-build.

Ratings could also be downgraded if the group increases its risk appetite to boost profitability in the near-term. Evidence of this could be a significant increase in RWAs allocated to CIB or towards higher-risk credit exposure.

Upside for the VR is limited in the medium term unless the group demonstrates a sustained improvement in earnings through the cycle, resulting in a materially stronger capacity to generate capital internally.

Barclays' IDR could be rated above the VR if the group maintains a QJD buffer consisting of AT1 and Tier 2 debt sustainably above our assumed requirements, which we do not expect.

BARCLAYS BANK AND BARCLAYS BANK UK PLC
An upgrade of BBUK plc's VR would require a sustainable improvement in the bank's earnings generation capacity beyond the non-recurrence of conduct costs, which would reflect the bank's competitive advantage in the domestic market. Because of the high indebtedness of the UK private sector, Fitch currently caps the VRs of domestic retail banks in the UK at the 'a' category. Rating upside for BB plc is limited due to its business model.

BBUK plc's and BB plc's VRs could be downgraded if the banks' competitive positions or financial profiles weaken and if we believe that ordinary support from the group is not available to offset this weakness.

The IDRs of BB plc and BBUK plc are sensitive to the amount of qualifying junior and internal subordinated debt, and could be downgraded if it falls below around 9% of RWAs for BB plc and 10% for BBUK plc.

BB plc's DCR is primarily sensitive to changes in the bank's Long-Term IDR.

BARCLAYS BANK IRELAND
BBI's ratings are primarily sensitive to BB plc's ratings, and to Fitch's assessment of BB plc's propensity to support BBI, which is driven by the parent's strategy in the products and geographies  covered by BBI, as well as integration and reputational considerations.

The Long-Term IDR is also sensitive to the amount of qualifying junior and internal subordinated debt held at the Irish subsidiary. BBI's IDR would be equalised with BB plc's VR should the combined buffer of subordinated debt fall below our required recapitalisation amount, which at 8% of RWAs, but could be higher depending on future Pillar 2 or capital buffer requirements.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of BB plc's and Barclays' SR and upward revision of the SRFs would be contingent on a positive change in the sovereign's propensity to support its banks, which we do not expect.

A downgrade of BBUK plc's SR would require a downgrade of BB plc's SR or evidence that the group's ability or propensity to support BBUK plc has diminished.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital ratings are primarily sensitive to changes in the VRs of

BB plc and Barclays. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the respective issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

The rating actions are as follows:

Barclays plc
Long-Term IDR of 'A': RWN maintained
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior debt including programme ratings: affirmed at 'A'/'F1'
Commercial paper: affirmed at 'F1'
Tier 2 instruments: affirmed at 'A-'
Basel III-compliant additional Tier 1 instruments: affirmed at 'BB+'

Barclays Bank Plc
Long-Term IDR of 'A+' maintained on RWN
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative Counterparty Rating: affirmed at 'A+(dcr)'
Long-term senior unsecured debt, including programme ratings: affirmed at 'A+'
Short-term senior unsecured debt, including programme ratings, commercial paper and certificates of deposits: affirmed at 'F1'
Lower Tier 2 debt: affirmed at 'A-'
Upper Tier 2 debt: affirmed at 'BBB'
Additional Tier 1 and preference shares with no constraints on coupon omission: affirmed at 'BB+'
Other hybrid Tier 1 instruments: affirmed at 'BBB-'
Tier 2 contingent capital notes (US06740L8C27): upgraded to 'BBB+' from 'BBB-'

Barclays Bank UK plc
Long-Term IDR: 'A+' maintained on RWN
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'

Support Rating: affirmed at '1'
Derivative Counterparty Rating: affirmed at 'A+(dcr)'
Senior unsecured debt issuance programme affirmed at 'A+'/'F1'

Barclays Bank Ireland plc
Long-Term IDR: 'A+' maintained on RWN
Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Derivative Counterparty Rating: affirmed at 'A+(dcr)'

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**Applicable Criteria**

Bank Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

**Additional Disclosures**

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