

## CREDIT OPINION

17 June 2019

Update

✓ Rate this Research

### RATINGS

#### Barclays Bank UK PLC

Domicile	United Kingdom
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Barclays Bank UK PLC

### Update post rating action

#### Summary

[Barclays Bank UK PLC](#) (BB UK) is a domestic systemically important bank based in the [United Kingdom](#) (Aa2 stable). BB UK is the ring-fenced bank of Barclays PLC (LT senior unsecured Baa3 stable).

BB UK's long- and short-term deposit ratings are A1/Prime-1, and its long- and short-term Counterparty Risk Rating (CRR) are Aa2/Prime-1.

BB UK's A1 long-term deposit rating considers the bank's a3 standalone BCA and incorporates a one-notch uplift resulting from our advanced Loss Given Failure (LGF) analysis and one notch of government support, reflecting our assessment of a moderate probability of support from the UK government, if needed.

The banks' a3 Baseline Credit Assessment (BCA) reflects: (1) moderate asset risk; (2) robust capitalisation; (3) stable and predictable earnings from strong retail and small business banking franchises; (4) good funding and liquidity; (5) limited reliance on confidence-sensitive wholesale funding and good liquidity levels.

#### Credit strengths

- » Robust capitalisation
- » Stable and predictable earnings from strong retail and small business banking franchises
- » Good funding and liquidity
- » Limited exposure on confidence-sensitive wholesale funding and good liquidity levels

#### Credit challenges

- » Moderate asset risk. However, exposures to unsecured retail lending represents a tail risk

#### Rating outlook

The ratings for BB UK carry a stable outlook, indicating that we do not expect material changes in the bank's credit fundamentals and in the degree of protection from its stock of bail-in-able liabilities, over the next 12-18 months. The stable outlook also incorporates our expectation for a moderate increase of the bank's asset risk, as a result of deteriorating operating conditions for BB UK and the other UK banks, due to Brexit-related uncertainty.

## Factors that could lead to an upgrade

An upgrade of Barclays Bank UK's a3 BCA could result from a much lower asset risk, or a considerable increase in profitability and liquidity. A higher BCA could lead to a rating upgrade. An upgrade of BB UK's long-term deposit rating could also result from a higher stock of bail-in-able liabilities that would provide higher protection for the bank's junior depositors, beyond what we currently expect.

## Factors that could lead to a downgrade

Barclays Bank UK's a3 BCA could be downgraded in case of a deterioration in asset quality and weaker profitability, driven by Brexit uncertainties, or lower capitalisation or a deterioration in the bank's liquidity profile. A downgrade of the BCA would likely lead to a rating downgrade. The rating could also be downgraded due to a reduction in the stock of bail-in-able liabilities that would reduce the degree of protection for junior depositors.

## Profile

BB UK is the ring-fenced bank of the Barclays group, accounting for around 20% of the group's total assets, following the transfer of the group's retail and business banking operations from Barclays Bank on 1 April 2018. BB UK is one of the market leaders in the UK, with strong franchises in retail (including credit cards) and small business banking.

## Detailed credit considerations

### Robust capitalisation protects creditors from unexpected losses

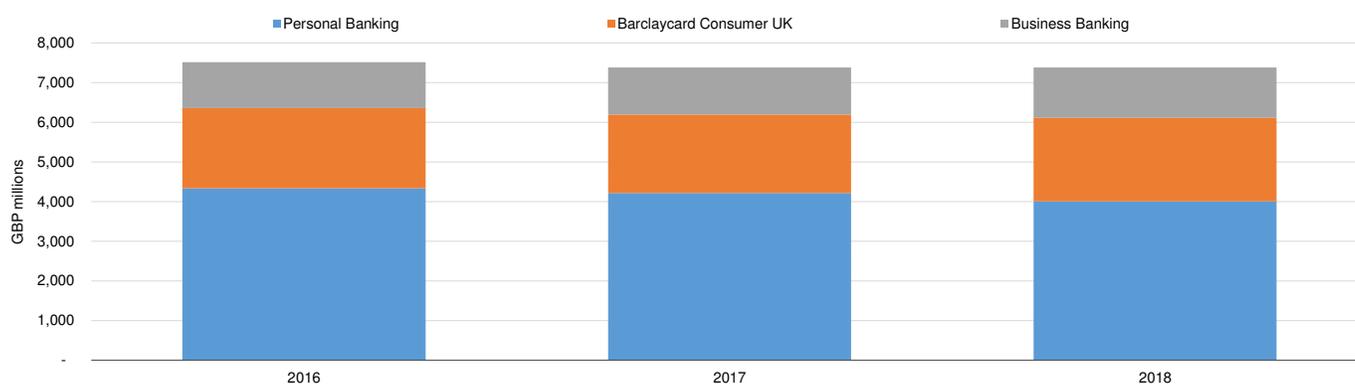
Our assigned score of aa3 for Capital reflects the bank's good regulatory capitalisation and leverage positions. BB UK had a common equity tier 1 (CET1) ratio of 14.2% and CRR leverage ratio of 4.9%, at end-2018. We expect the bank's regulatory capitalisation to remain robust and well ahead of its high minimum regulatory requirements, reflecting the UK authorities' desire to ensure ring-fenced banks are well capitalised to be able to continue to provide key banking services to the UK economy, in a stress. BB UK's good capital generation capacity is underpinned by its earnings generation capacity.

### Stable and predictable earnings from strong retail and small business banking franchises are exposed to Brexit uncertainties

BB UK houses the group's core UK retail and small business banking operations, which we consider as a key credit strength. BB UK's operations are spread across three main segments: (1) Personal Banking, (2) Barclaycard Consumer UK and (3) Business Banking. These segments contributed to around 54%, 28% and 17%, respectively, of total revenues in the Barclays UK segmental results in 2018 (see Exhibit 1).

Exhibit 1

#### Barclays UK: revenues breakdown by business segment



\* In Q218, Wealth was reclassified from Wealth, Entrepreneurs & Business Banking (now named Business Banking) to Personal Banking. Comparatives have been restated.  
Source: company data.

In 2018, BB UK reported £1.0 billion net attributable income. Total revenues were £5.6 billion (£3.2 billion from Personal Banking; £1.6 billion from Barclaycard Consumer UK and £1.0 billion from Business Banking) reflecting growth in mortgage lending and in customer

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deposits. Operating expenses excluding conduct and litigation costs were £3.4 billion and included restructuring costs driven by costs of digitisation. Credit impairment charges were £0.6 billion including a £100 million specific charge deriving from the impact of the economic uncertainty in the UK. A comparison with 2017 is not meaningful, as BB UK is a new entity.

Our baa2 assigned score for Profitability reflects our expectation of a mild deterioration in the bank's profitability over the next 12-18 months, against the backdrop of Brexit-related uncertainty. Residual conduct charges are likely to be moderate over the next 12-18 months.

BB UK operates exclusively in the UK and, as such, the bank's Strong+ Macro Profile is in line with that of the UK.

#### Limited exposure on confidence sensitive wholesale funding and good liquidity levels

BB UK had a large retail and small business banking deposit book of £197 billion as of the end of December 2018, in excess of loans (we calculate a gross loan-to-deposit ratio of 95% as of the same date). BB UK has limited reliance on wholesale funding, which is represented by bail-in-able liabilities issued to its parent company and required by regulation. Moreover, Barclays has drawn from the [Bank of England's](#) Term Funding Scheme. This provides capacity to further diversify the funding mix of BB UK and support its net interest margin in the current very low interest rate environment. Our Funding Structure score of a2 is driven by our assessment of the bank's limited refinancing risk.

BB UK has a good liquidity profile, supported by its large high quality liquid asset pool of £45 billion at end-2018. The bank's good liquidity is also evidenced by a strong liquidity coverage ratio of 164%, as at the same reporting date. We assign a baa2 score to the Liquidity Resources, reflecting our assessment of the bank's good liquidity.

#### Moderate asset risk. However, exposures to unsecured retail lending represents a tail risk

BB UK had a stage 3 problem loan ratio of 2.3% as at end-2018, which is in line with peers and below the average for the UK banking system. Stage 2 problem loans are higher than most peers, reflecting the significant portion of unsecured consumer credit in the bank's book. The bank's unsecured retail lending book included the UK card loan gross portfolio of £17.3 billion and the UK personal loan gross portfolio of £6.3 billion, as at end-2018.

Overall, we view BB UK's underwriting standards as conservative. As of end-2018, the bank's £137 billion UK mortgage book had an average balance weighted loan-to-value ratio of around 49%, lower than that of its peers. We assign a score of baa1 for asset risk.

### Support and structural considerations

#### Loss given failure and additional notching

We apply our advanced LGF analysis to BB UK because the bank is incorporated in the UK, which we consider to be an operational resolution regime because it is subject to the EU Bank Recovery and Resolution Directive. For this analysis, we assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. We also assume that junior deposits represent 10% of total deposits, given that the bank's operations are predominantly retail and SME. We assign a 25% probability to deposits being preferred to senior unsecured debt.

The implementation of UK ring-fencing has led us to perform separate advanced LGF analysis for Barclays (the holding company), Barclays Bank (the non ring-fenced-bank; LT senior unsecured A2 stable, bca baa3) and BB UK.

We assume that EU holding company senior obligations benefit from the subordination of both holding and bank-subordinated instruments. However, we believe that EU holding company senior unsecured debt is economically junior to bank senior unsecured debt, based on our forward-looking view that EU holding company senior unsecured debt, although legally pari passu to bank debt, will eventually fund bank senior unsecured debt, which is contractually, structurally or statutorily subordinated to operating company external senior debt.

Our advanced LGF analysis indicates a low loss given failure for junior depositors of BB UK, resulting in a one-notch uplift to the relevant ratings from the firm's adjusted BCA of a3.

#### Government support

We assess a moderate probability of government support for BB UK' junior depositors, resulting in a further one-notch uplift incorporated in the relevant A1 ratings.

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 2

### Barclays Bank UK PLC

#### Macro Factors

**Weighted Macro Profile**                      **Strong +**    **100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	-	-	-	baa1	Sector concentration	Geographical concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	-	-	-	aa3		
Profitability						
Net Income / Tangible Assets	-	-	-	baa2		
Combined Solvency Score		a3		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	-	-	-	a2		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	-	-	-	baa2		
Combined Liquidity Score		a2		a3		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa2		
Scorecard Calculated BCA range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				-		
Adjusted BCA				a3		
<b>Debt Class</b>	<b>De jure waterfall</b>	<b>De facto waterfall</b>	<b>Notching</b>	<b>LGF</b>	<b>Assigned</b>	<b>Additional Preliminary</b>
	<b>Instrument Sub-volume + subordination</b>	<b>Instrument Sub-volume + ordination</b>	<b>De jure De facto</b>	<b>notching guidance versus BCA</b>	<b>LGF notching</b>	<b>notching Rating Assessment</b>
Counterparty Risk Rating	-	-	-	-	3	0
Counterparty Risk Assessment	-	-	-	-	3	0
Deposits	-	-	-	-	1	0
<b>Instrument Class</b>	<b>Loss Given Failure notching</b>	<b>Additional notching</b>	<b>Preliminary Rating Assessment</b>	<b>Government Support notching</b>	<b>Local Currency rating</b>	<b>Foreign Currency rating</b>
Counterparty Risk Rating	3	0	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3(cr)	1	Aa2(cr)	
Deposits	1	0	a2	1	A1	A1

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 3

Category	Moody's Rating
<b>BARCLAYS BANK UK PLC</b>	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Commercial Paper	P-1

Source: Moody's Investors Service

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