

CREDIT OPINION

21 June 2019

Update

 Rate this Research

RATINGS

Barclays Bank PLC

Domicile	United Kingdom
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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 PLC

Update post rating action

Summary

[Barclays Bank PLC](#) (Barclays Bank) is a global systemically important bank with large capital markets operations, based in the [United Kingdom](#) (Aa2 stable). Barclays Bank is the non ring-fenced bank of the Barclays group (Barclays PLC, LT senior unsecured Baa3 positive).

Barclays Bank's A2 long-term senior unsecured debt and deposit ratings reflect the bank's credit profile, as mapped in our Baseline Credit Assessment (BCA) and include a three-notch uplift resulting from our advanced Loss Given Failure (LGF) analysis. The uplift reflects our view that the bank's junior depositors and senior unsecured creditors face an extremely low loss given failure. In addition, our moderate assessment of government support translates into a further one-notch uplift to these ratings.

The BCA of baa3 for Barclays Bank reflects its (1) good regulatory capitalisation and its (2) adequate funding and sound liquidity, which protect the bank against unexpected market shocks. The bank's BCA is constrained by (3) risks from investment banking and capital market activities, and (4) weak historical profitability, which we expect will continue to improve.

Credit strengths

- » Regulatory capitalisation is good
- » Adequate funding and sound liquidity protect the bank against unexpected market shocks
- » Our advanced LGF analysis indicates an extremely low loss given failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift to the relevant ratings from the bank's baa3 adjusted BCA
- » The long-term deposit and senior unsecured debt ratings incorporate one notch of government support uplift

Credit challenges

- » Risks from investment banking and capital market activities weigh on asset risk
- » Weak historical profitability, which we expect will continue to improve

Rating outlook

The positive outlook on Barclays Bank's ratings reflects the progress the firm has made in its restructuring plan including the de-risking of its balance sheet, which will lead to higher profits and an improved capital position.

Factors that could lead to an upgrade

Barclays Bank's baa3 BCA could be upgraded if the bank were to restore its profitability on a sustainable basis. Higher capitalisation levels, lower reliance on confidence-sensitive wholesale funding and a reduction in the size of capital markets activities would also be positive for the BCA. An upgrade of the BCA would likely lead to a ratings upgrade.

Factors that could lead to a downgrade

A rating downgrade is unlikely, given the positive outlook on the firm's ratings. Barclays Bank's baa3 BCA could be downgraded in the case of (1) a deterioration in the operating environment beyond our current expectations, (2) a material risk management failure or increase in risk appetite or leverage, and/ or (3) a material deterioration in the bank's liquidity or capital positions. A downgrade of the bank's BCA would likely lead to a ratings downgrade. The ratings for Barclays Bank could be downgraded in the case of a lower degree of protection for its creditors from the stock of bail-in-able debt, which we assess through its advanced LGF analysis.

Profile

Barclays Bank is the non ring-fenced bank of the Barclays group, accounting for around 80% of the group's total assets, following the transfer of the group's retail and small business banking operations to Barclays Bank UK on 1 April 2018. The bank houses the group's corporate and investment banking activities together with other non-capital markets activities including payments, wealth management, and international consumer and cards activities. The bulk of the bank's operations are split between the group's key markets of the UK and US but it also has a presence in continental Europe and other major global financial centres.

Detailed credit considerations

Regulatory capitalisation is good

Our assigned score of aa2 for Capital reflects the bank's good regulatory capitalisation and leverage. The bank had a common equity tier 1 (CET1) ratio of 13.5% and a CRR leverage ratio of 4.0%, as at end-2018.

We expect Barclays Bank's capitalisation to stabilise at current levels. The bank has settled the RMBS related litigation with the US Department of Justice, and the SFO charges against the bank were dismissed by the UK High Court.

Adequate funding and liquidity protect the bank against unexpected market shocks

Our b1 assigned score for Funding Structure reflects a relatively large amount of confidence-sensitive wholesale funding. An increasing portion of bail-in-able liabilities issued to the holding company and good degree of diversification of its wholesale funding market sources by investor type and currency partly mitigate refinancing risk.

Barclays Bank had deposits of around £199 billion as of end-2018, largely relating to its corporate deposit book, well in excess of the customer loan book (we calculate a gross loan-to-deposit ratio of 69% as of the same reporting date).

Liquidity is a credit strength: the bank had a sizeable liquid asset pool of GBP182 billion, at end-2018. The size and quality of its liquidity buffer are higher than those of some of its large domestic and European peers. This reflects the conservative UK transitional liquidity standards and the bank's conservative liquidity risk management framework. The bank's liquidity coverage ratio (LCR) of 147% as at end-2018, also evidences its good liquidity. We assign an aa2 score to the Liquidity Resources factor of our BCA Scorecard to reflect these factors.

Weak historical profitability, which we expect will continue to improve

Barclays Bank's profitability, to which we assign a score of ba3 in our BCA Scorecard, represents the bank's key credit weakness. The bank reported £188 million net income in 2018 (£1,937 million loss in 2017), with an end point return on equity of less than 1%, partly due to the negative impact from the £1.4bn settlement with US Department of Justice (DoJ) relating to Residential Mortgage-Backed Securities (RMBS).

- Revenues decreased 1%: Corporate and Investment Bank revenues - around 70% of total - decreased 2% (markets revenues increased 9%, reflecting gains in market share; banking revenues decreased 6%); Consumer, Cards and Payments revenues - around 30% of total - decreased 5% (Exhibit 1).

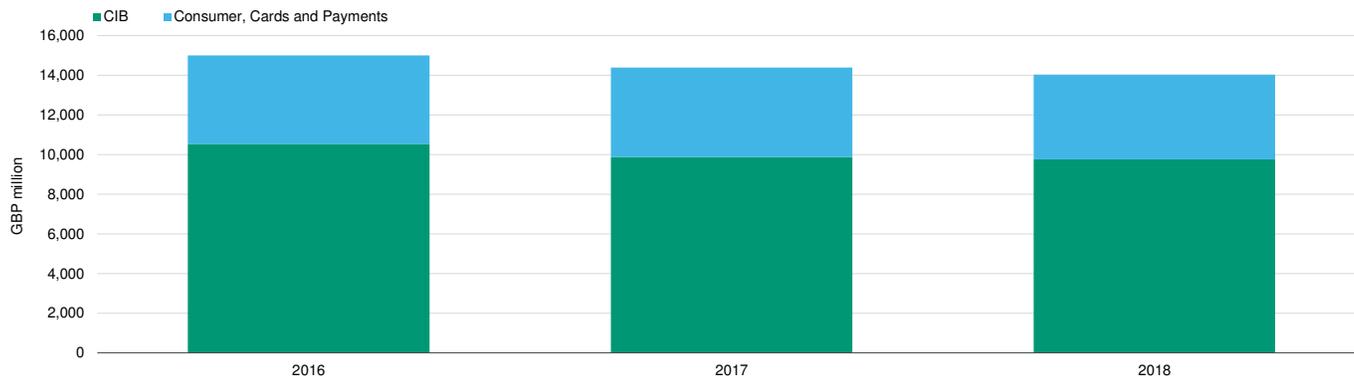
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

- Operating expenses increased 10%, mostly due to the £1.4bn relating to RMBS with the US DoJ. Adjusted operating expenses decreased 3% due to lower restructuring costs.

- Credit charges decreased 59% due to a decrease in charges both in Corporate and Investment Banking and in Consumer, Cards and Payments.

Exhibit 1

Barclays International: revenues breakdown by business segment



CIB: Corporate and Investment Bank

Source: company data.

We expect Barclays Bank profitability to increase in 2019, due to the absence of major litigation costs, moderately higher revenues and broadly stable operating costs. However, a deterioration in the operating conditions in the UK could pose additional profitability challenges, albeit about two thirds of Barclays International revenues are non-UK.

In the longer term, the current business plan, if successfully delivered, will lead to stronger profitability. However, we expect the bank's greater portion of CIB earnings to result in a higher degree of volatility in the bank's earnings because they are more dependent on market conditions.

Risks from investment banking and capital market activities weigh on asset risk

The baa3 score for the Asset Risk factor of our BCA Scorecard incorporates Barclays Bank's strong credit quality, reflected in a low non-performing loans ratio of 3.0% as at end-2018, but also takes into account the risks associated with the group's capital markets activities and residual investigation and conduct issues.

Capital markets activities carry tail risk and give rise to market, counterparty credit and operational risks, in particular from the bank's large stock of financial assets and derivatives. These factors constrain the credit profile of Barclays Bank and that of its global peers, and are reflected in a one-notch negative adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard.

Risk weighted assets (RWA) allocated to the CIB business account for around three quarters of total RWA's (which includes Head Office). CIB will refocus on less capital intensive customer flow business, thus generating higher risk-adjusted returns; however the greater proportion of CIB earnings could nevertheless lead to a higher degree of volatility in the group's earnings, a credit negative.

Support and structural considerations

Loss given failure and additional notching

We apply our advanced LGF analysis to Barclays Bank 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 the junior proportion of Barclays Bank plc's deposits are consistent with our standard assumption of 26%. Finally, we assign a 25% probability to deposits being preferred to senior unsecured debt.

The introduction of UK ring-fencing has led us to perform separate advanced LGF analysis for Barclays, Barclays Bank and Barclays Bank 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 an extremely low loss given failure for junior depositors and senior unsecured creditors, (resulting in a three-notch uplift) and a high loss given failure for junior creditors. We also incorporate an additional negative notching for junior subordinated and preference share instruments, reflecting coupon suspension risk ahead of failure.

Government support

We assess a moderate probability of government support for Barclays Bank's junior depositors and senior unsecured creditors, resulting in a further one-notch uplift incorporated in the relevant A2 ratings. For junior securities, we continue to assess a low support probability, resulting in no uplift for government support included in these 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 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	3.4%	a3	↔	baa3	Operational risk	Market risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	28.5%	aa1	↔	aa2			
Profitability							
Net Income / Tangible Assets	0.0%	caa1	↔	ba3			
Combined Solvency Score		a3		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	47.0%	b1	↔	b1			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	71.7%	aa1	↔	aa2	Asset encumbrance		
Combined Liquidity Score		baa2		baa2			
Financial Profile							
				baa1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				-1			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aa2			
Scorecard Calculated BCA range				baa1 - baa3			
Assigned BCA				baa3			
Affiliate Support notching				0			
Adjusted BCA				baa3			
Debt Class	De jure waterfall	De facto waterfall	Notching		LGF	Assigned	Additional Preliminary
	Instrument Sub-volume + subordination	Instrument Sub-volume + subordination	De jure	De facto	notching guidance versus BCA	LGF notching	notching Rating Assessment
Counterparty Risk Rating	-	-	-	-	-	3	0 a3
Counterparty Risk Assessment	-	-	-	-	-	3	0 a3(cr)
Deposits	-	-	-	-	-	3	0 a3
Senior unsecured bank debt	-	-	-	-	-	3	0 a3
Dated subordinated bank debt	-	-	-	-	-	-1	0 ba1
Junior subordinated bank debt	-	-	-	-	-	-1	-1 ba2
Cumulative bank preference shares	-	-	-	-	-	-1	-1 ba2
Non-cumulative bank preference shares	-	-	-	-	-	-1	-2 ba3
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating	
Counterparty Risk Rating	3	0	a3	1	A2	A2	
Counterparty Risk Assessment	3	0	a3(cr)	1	A2(cr)		
Deposits	3	0	a3	1	A2	A2	
Senior unsecured bank debt	3	0	a3	1	A2	A2	
Dated subordinated bank debt	-1	0	ba1	0	Ba1	Ba1	
Junior subordinated bank debt	-1	-1	ba2	0	Ba2 (hyb)	Ba2 (hyb)	
Cumulative bank preference shares	-1	-1	ba2	0	Ba2 (hyb)	Ba2 (hyb)	

Non-cumulative bank preference shares -1 -2 ba3 0 Ba3 (hyb)

[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
BARCLAYS BANK PLC	
Outlook	Positive
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Subordinate	Ba1
Jr Subordinate	Ba2 (hyb)
Pref. Stock	Ba2 (hyb)
Pref. Stock Non-cumulative	Ba3 (hyb)
Commercial Paper	P-1
Other Short Term -Fgn Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

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