Barclays PLC

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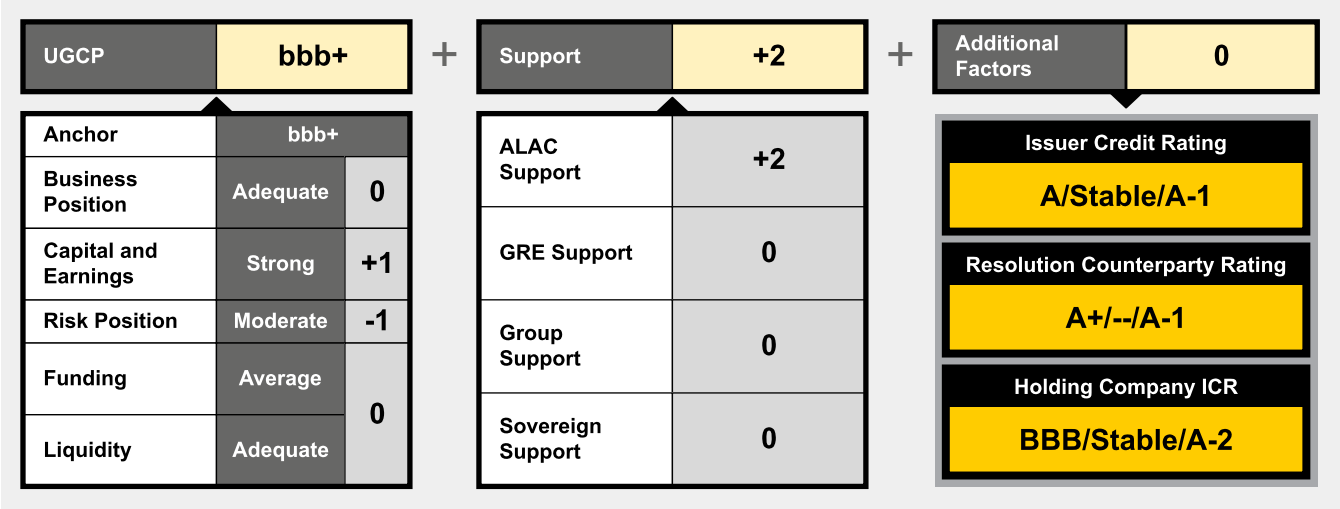


UGCP--The unsupported group credit profile of the Barclays group. The holding company issuer credit rating (ICR) shown applies to Barclays PLC and is one notch below the UGCP. The ICR and the resolution counterparty rating shown apply to Barclays PLC's core bank operating subsidiaries, including Barclays Bank PLC and Barclays Bank UK PLC.

Major Rating Factors

Issuer Credit Rating
BBB/Stable/A-2

Strengths:	Weaknesses:
• Leading market positions in U.K. banking and global wholesale banking. • Significant diversity of business lines and customer segments. • Good asset quality relative to U.K. peers over an extended period.	• Lack of a medium-term track record of stable management and consistent strategy. • Level of attributable profit lacks predictability. • Scope to improve relative efficiency.

Outlook

Barclays PLC

The stable outlook reflects our view that Barclays' statutory earnings performance will steadily improve and that its asset quality metrics will remain resilient over our two-year outlook horizon.

If we observed growing evidence of better and reasonably predictable earnings, business and management stability, and no material deterioration in our overall view of Barclays' capitalization, then we could revise upward the unsupported group credit profile (UGCP), and therefore raise the issuer credit rating and hybrid ratings.

We could consider lowering the ratings if we saw Barclays' earnings recovery falter or if our confidence in the predictability of its management and strategy waned. This could reflect Barclays experiencing larger-than-expected difficulties in adjusting the business model to the regulatory, competitive, and economic environment, and this might exert downward pressure on the bank's risk-adjusted solvency over time.

Barclays Bank PLC/Barclays Bank UK PLC

The stable outlook on both legal entities reflects that on Barclays PLC.

Given that we already uplift the ratings on the entities by two notches, to reflect our view of additional loss-absorbing capacity (ALAC), a higher rating would depend upon an uplift of the UGCP as described above. A higher UGCP would also benefit the hybrid ratings of Barclays Bank PLC.

We could consider lowering the ratings if we revised downward the UGCP, if our view of their group status weakened, or if we observed a material reduction in the elements that contribute toward ALAC.

Rationale

Barclays' 'bbb+' UGCP is toward the lower end of the 'bbb' to 'a+' UGCP range that we observe across large, global banks. We compare Barclays with the other major U.K. banks and a range of U.S. and European wholesale banks.

Barclays' relatively poor earnings track record weighs down its creditworthiness. For example, over the past six calendar years, the bank's average reported return on average tangible equity (RoTE) has been less than 1%. In recent times, we have observed the conclusion of Barclays' long period of restructuring and the resolution of key litigation matters. We believe that management is now better positioned to focus upon improving statutory earnings. We have seen early evidence of this fact with statutory returns above 9% in three of the past four quarters through the first quarter of 2019. Balance sheet metrics are solid, in line with peers, and we expect they will remain so.

Effective April 2018, the Barclays group fully established Barclays Bank UK PLC (BUK) as the group's ring-fenced bank. In turn, Barclays Bank PLC (BB PLC) became the non-ring-fenced bank. We believe that both entities are core to

the group, as defined in our group rating methodology.

The long-term ratings on BB PLC and BUK incorporate two notches of uplift based on the ALAC arising from the group's subordinated debt and senior debt buffers.

Anchor: International activity impacts the weighted-average economic risk for Barclays

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk in the countries in which Barclays operates. We base this on Barclays' geographic distribution of the net values of on and off-balance sheet exposures (as reported in Barclays' Pillar 3 Report). This distribution, at Dec. 31, 2018, is approximately 55% in the U.K., 30% in North America, 5% in Germany and 10% in the rest of Europe. The weighted-average economic risk score for these territories is a little under '4' on a scale of '1' to '10' ('1' representing the lowest risk and '10' the highest), but this is still the same outcome as the economic risk score for a bank operating solely in the U.K. If we based this calculation upon net loans, an alternative measure, the outcome would be similar.

We view the economic and industry risk trends for the U.K., as it affects its domestic banking sector, as stable. While U.K. economic growth will remain lackluster, and may well decline in a disruptive Brexit scenario, the sector as a whole is now much more resilient to a tougher operating environment. We also note that the domestic reform agenda is well advanced, and we assume that past changes in regulatory structures will now continue to support market discipline, constrain risk appetites, curb adventurous management strategies, encourage a better conduct and compliance agenda, and still enable the banking system to yield adequate profitability. In the context of Barclays' U.S. exposures, we note that our economic risk in the U.S. (which is a '3' compared to our U.K. score of '4') also incorporates a stable trend.

Although Barclays and its U.K. peers have strengthened their balance sheets, we think that certain potential Brexit outcomes could lead to a more challenging operating and wholesale funding environment. This could lower customer activity, weigh on the net interest margin, and weaken asset quality beyond our current, relatively benign expectations. We note, however, that Barclays has greater geographic and business line diversity than its domestically focused peers.

Table 1

Barclays PLC--Key Figures

	--Year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. £)					
Adjusted assets	1,125,310	1,125,399	1,205,363	1,110,341	1,348,083
Customer loans (gross)	322,601	381,241	407,923	422,051	453,420
Adjusted common equity	40,663	43,956	50,824	44,512	45,662
Operating revenues	21,205	21,146	20,941	24,575	25,764
Noninterest expenses	14,036	14,756	15,338	16,199	16,904
Core earnings	3,870	3,295	2,391	1,953	2,507

Business position: Benefits of diversity yet to show up in sustained performance

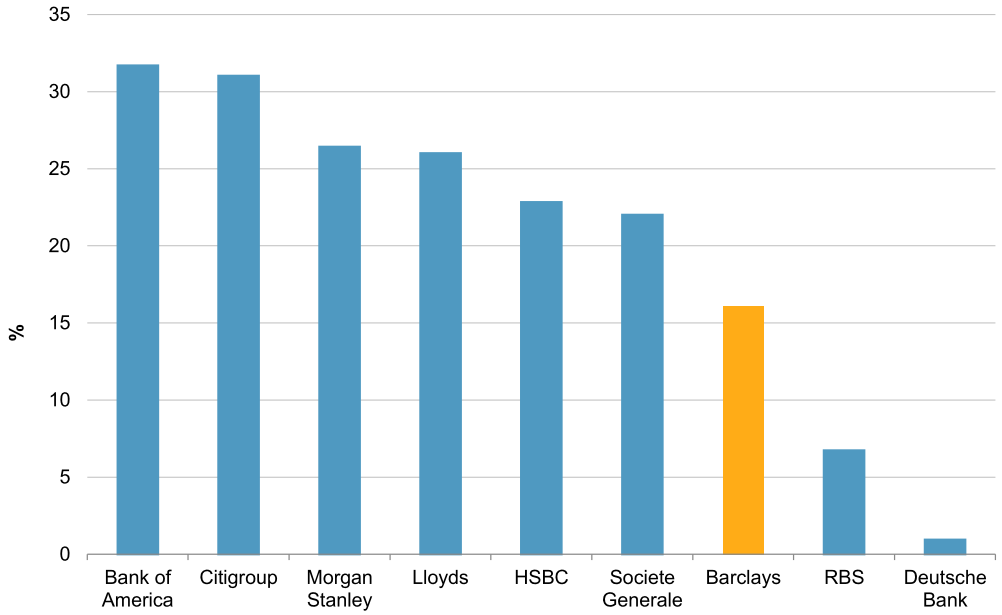
Our assessment balances Barclays' strong franchises and significant diversification with the failure of successive management teams since the financial crisis to achieve strong, predictable returns and a consistent strategy. In light of the substantial progress made since Barclays launched a new strategy in March 2016, we are starting to take a more supportive view of Barclays' business position. That said, a stronger assessment would require us to observe further execution of the current plan, improved statutory returns on a sustainable basis, and greater confidence that its earnings prospects are reasonably predictable.

We see two main peer groups. First, we compare Barclays with its principal domestic peers: HSBC Holdings PLC (its UGCP is 'a+'), Lloyds Banking Group PLC (Lloyds; 'a-'), and The Royal Bank of Scotland Group PLC (RBS; 'bbb+'). Second, we consider a broad group of international peers with large investment banking operations (excluding the highest-rated peers). Such peers include Bank of America Corp. ('a'), Citigroup Inc. ('a-'), Deutsche Bank AG ('bbb'), Morgan Stanley ('a-'), and Societe Generale ('a-'). Out of these two peer groups, Bank of America, Citigroup, Lloyds, Morgan Stanley, and Societe Generale currently have a strong business position assessment; HSBC Holdings' business position is very strong.

Chart 1 is one measure of Barclays' weaker earnings track record than higher-rated peers; we do, however, expect this ratio for Barclays in 2019 to be somewhat closer to the peer average.

Chart 1

Pretax Profit/Revenues--Three-Year Average (2016-2018)



Source: S&P Global Ratings.

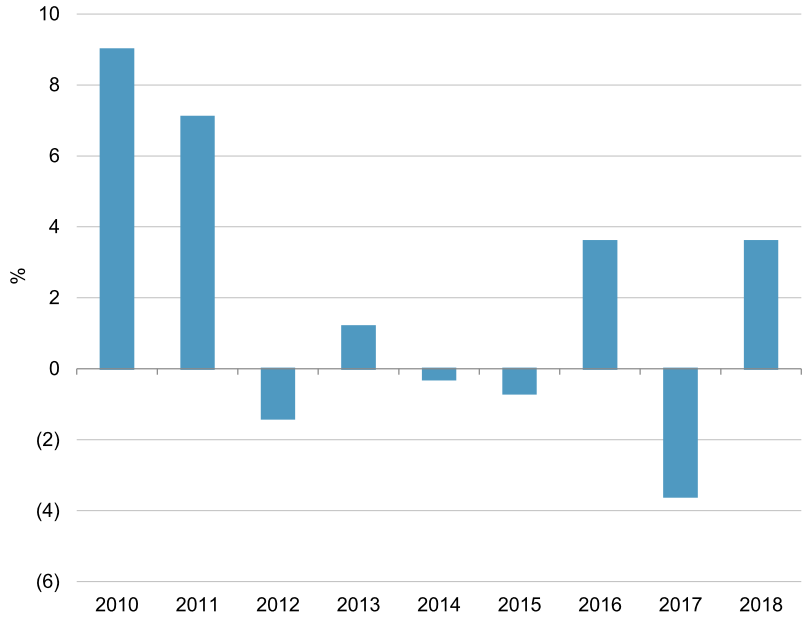
Barclays operates via two divisions, broadly aligning the Barclays UK division to BUK, and the Barclays International division to BB PLC. This remains the case despite Barclays announcing a shift in its management structure in March 2019. Key changes included the Corporate & Investment Bank being managed as three units and reporting directly to the group CEO, Jes Staley, who has also become interim CEO of BB PLC; the previous BB PLC CEO left the bank. Moreover, the CEO of BUK assumed a new role as Global Head of Consumer Banking & Payments, reporting to the group CEO, a role that covers BUK and elements of BB PLC; the new CEO of BUK is an internal promotion.

We view these important twin developments as: (1) a recognition by Barclays that further improvement in the performance of its investment bank is a key expectation of investors, notwithstanding some evidence of improvement in recent quarters; and (2) that cards and payments, in particular, are deemed to be an important growth opportunity for Barclays in the context of fast-changing technology and customer preferences.

The stability of management and the durability of its strategy is a key factor in our relative analysis. This is pertinent to our ratings on Barclays given the numerous changes that we have observed since the financial crisis, and the poor longer-term track record (see chart 2).

Chart 2

Reported Statutory Return On Average Tangible Equity (RoTE)



Source: Company accounts.

We recognize the ability of the management to execute change; they have successfully completed key elements of the 2016 strategy, notably the completion of Barclays' restructuring, sell-down of its stake in Barclays Africa Group Ltd

(BAGL), work through of key legacy litigation matters, and execution of ring-fencing. That said, the management is still working towards its stated RoTE target, excluding conduct and litigation, of greater than 9% in 2019, and greater than 10% in 2020. A new non-executive Chairman took up his role at the May 2019 AGM and we assume that the Board will maintain a close focus on the ability of the management to generate improved returns, among other factors.

We note that entities controlled by activist investor, Sherborne Investors, have acquired voting rights of around 5.5% of Barclays' issued share capital. The activist was unable, however, to obtain a seat on Barclays' board at the recent AGM. This implies that shareholders are satisfied with the performance of the management to date, notwithstanding Barclays' relatively weak stock price, as well as being aware of the potentially disruptive nature of Sherborne's recommendation to reduce the size of the investment bank. We don't anticipate that the activist investor will have any direct bearing on strategy.

The Barclays UK division incorporates the group's personal banking, U.K. wealth management, small-business banking, and the U.K. consumer credit card business (Barclaycard). We estimate that Barclays has a market share of 10%-15% in most retail products and an approximate 20%-25% share of stock in U.K. credit cards. Reported divisional revenues have been in the £7.3 billion-£7.5 billion range over the past four years, and may well remain in this range in 2019. We see little near-term upside given the low-interest-rate environment and the difficulties U.K. banks face in growing noninterest income. Nevertheless, we see the U.K. bank as being quite well positioned to meet the digital, competitive, and regulatory challenges faced by the U.K. banking industry.

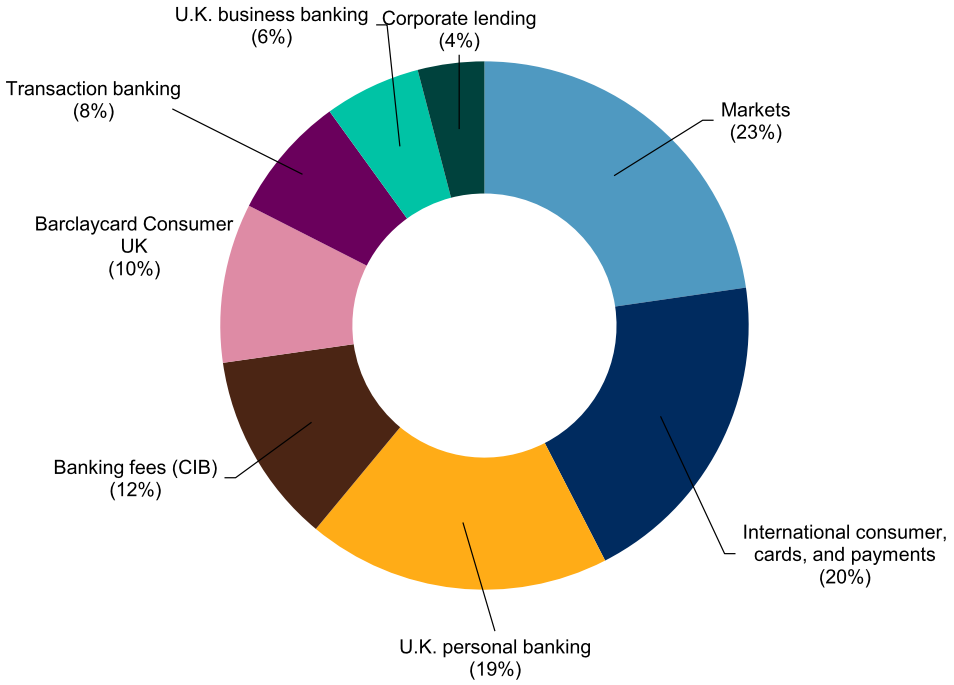
The Barclays International division comprises two elements. First, corporate and investment banking (£9.8 billion revenues in 2018), with the corporate bank serving midsize and large clients, global transaction banking, and investment banking. Second, consumer, cards, and payments (£4.3 billion revenues in 2018), including payments, merchant acquiring, U.S. cards and international wealth management.

Barclays typically ranks in the top five-to-eight banks by share of global fee pools in advisory, debt and equity underwriting, and lending. Revenues are well spread by type, and we observe signs of improvement after several years of mixed performance. Barclays states that in 2018 its market share across Markets and Banking fees was in the 4.0%-4.6% range, generally with share gains. We observe strong growth in Barclays' U.S. retail banking franchise, though it is relatively small, with an approximate 2.5% market share of consumer credit card and unsecured lending, focusing on co-branded cards.

The diversity of group revenues, both by business line and customer segment, is a credit strength (see chart 3). By geography, Barclays is less diverse than it once was (most notably following the exit of the Barclays Africa division), with a predominant reliance upon the U.K., the U.S., and, to a lesser extent, Germany (among other markets). For example, in 2018, international income was a reported 48% of revenue, up from 47% in 2017, but down from 59% in 2013. Still, diversification should be an inherent greater credit strength for Barclays than for other U.K. banking groups, with the exception of HSBC Holdings.

Chart 3

Reported Revenue By Business Activity, 2018 (£21.1 Billion)



Note: Excludes Head Office (-£273 million) and other CIB (-£171 million). Source: S&P Global Ratings.

Capital and earnings: Risk-adjusted capital ratio, relative to U.K. peers, helped by lower-risk U.S. exposures

We view Barclays' capital and earnings as strong. We project Barclays' risk-adjusted capital (RAC) ratio will be 10.0%-10.5% over the next 18-24 months, which is above our 10% threshold for a strong assessment.

We calculate Barclays' RAC ratio to be 10.2% as of Dec. 31, 2018.

Our forecast for Barclays' projected RAC through to year-end 2021 includes the assumptions outlined below:

- A steady annual rise in pre-provision operating income,mainly via improving net interest income and good control of operating expenses.
- The loan loss rate to rise to over 60 basis points (bps) in 2019, and higher still in 2020 and 2021. The reported loss rate was 44 bps in 2018, and only marginally increased in the first quarter of 2019. Our conservative forecast mainly reflects our caution around the U.K. economic outlook.
- No material conduct and litigation charges are incorporated into our assumptions.
- We assume only a modest uptick in the dividend payout ratio. We have also factored in the potential for a one-off capital distribution, which the management has indicated may become a possibility.
- Finally, we have not assumed any net increase in total adjusted capital (TAC)-eligible Tier 1 (AT1) instruments.

Barclays has issued a $2 billion AT1, and a £1 billion AT1, in the first half of 2019 but it states that around £2.3 billion of existing AT1 are callable in the second half of 2019, and a further £0.8 billion in 2020.

We expect that S&P Global Ratings' risk-weighted assets (RWAs) will resume their growth in 2019 by about 3%, and at a similar rate in subsequent years, being broadly in line with our assumptions for credit growth and eventual revenue growth.

Barclays reported a Common Equity Tier 1 (CET1) ratio of 13.0% on March 31, 2019. Management has indicated that its end-state CET1 target is about 13%, and is building a track record of quarterly ratios being consistently at or above this mark. Notwithstanding the potential for one-off capital distributions, the focus upon this target and the reduced scale of potential headwinds compared with the past few years helps to support our RAC projections.

We consider the quality of capital to be satisfactory. Adjusted common equity represents 80% of TAC, and we expect the ratio will remain above 80%, which would be a level fairly similar to that of peers.

Table 2

Barclays PLC--Reconciliation of Total Adjusted Capital

	2018	2017	2016
Mil. £			
Common shareholders' equity (reported)	52,924	54,964	58,424
+ Minority interest (equity)	0	0	3,507
- Dividends (not yet distributed)	(731)	(392)	(388)
- Revaluation reserves	(402)	(1,525)	(2,031)
- Goodwill & nonservicing intangibles	(7,973)	(7,849)	(7,726)
- Postretirement benefit adjustments	(1,335)	(732)	(38)
- Cumulative effect of credit-spread related revaluation of liabilities	(52)	83	86
- Inv. in insurance subs. & sig. MI in FIs	(1,248)	0	(516)
- DTAs arising from permanent differences	(520)	(593)	(494)
=Intermediate adjusted common equity	40,663	43,956	50,824
- DTAs arising from temporary differences	0	0	0
=Adjusted common equity	40,663	43,956	50,824
+ Admissible preferred and hybrids	10,162	10,780	9,162
=Total adjusted capital	50,825	54,736	59,986

Source: S&P Global Ratings. DTA--Deferred tax asset.

Our assessment of capital and earnings also looks beyond the capital analysis and takes into consideration both the quality of earnings and earnings capacity. We do not believe that management's risk appetite, as measured by its RoTE target, is particularly aggressive. We expect our calculation of Barclays' earnings buffer, which measures the capacity for pre-provision income to cover our estimation of normalized credit losses through the credit cycle, will be more than 65 bps in both 2019 and 2020. This would still be lower than some peers', but is on an improving trend.

In addition, we believe that Barclays still has scope to improve its relative efficiency measures. The group targets a cost-to-income ratio of less than 60%; this metric was a reported 66% in 2018. Barclays states that it is aiming for operating expenses, excluding conduct and litigation, of £13.6 billion-£13.9 billion in 2019, down from £15.0 billion in

2016 (on a comparable basis). After noting the challenging investment banking income environment experienced in the first quarter of 2019, Barclays has stated it has the flexibility to reduce 2019 operating expenses to below £13.6 billion should the weak income environment continue.

Table 3

Barclays PLC--Capital And Earnings

	--Year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(%)					
Tier 1 capital ratio	17.0	17.2	15.6	14.7	13.0
S&P Global Ratings' RAC ratio before diversification	10.2	10.8	9.9	9.5	8.1
S&P Global Ratings' RAC ratio after diversification	11.1	11.9	11.0	11.7	10.0
Adjusted common equity/total adjusted capital	80.0	80.3	84.7	83.2	85.1
Double leverage	105.9	100.4	N.M.	N.M.	N.M.
Net interest income/operating revenues	42.7	46.6	50.3	51.1	46.9
Fee income/operating revenues	32.1	32.2	32.3	32.1	31.7
Market-sensitive income/operating revenues	23.3	19.6	18.5	15.5	19.7
Noninterest expenses/operating revenues	66.2	69.8	73.2	65.9	65.6
Preprovision operating income/average assets	0.6	0.5	0.5	0.7	0.7
Core earnings/average managed assets	0.3	0.3	0.2	0.2	0.2

N.M.--Not meaningful.

Table 4

Barclays PLC RACF [Risk-Adjusted Capital Framework] Data

(Mil. £)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	289,134	2,938	1	4,407	2
Of which regional governments and local authorities	845	13	1	30	4
Institutions and CCPs	47,502	9,904	21	11,648	25
Corporate	153,047	79,888	52	116,555	76
Retail	245,139	76,300	31	157,104	64
Of which mortgage	157,270	23,775	15	59,295	38
Securitization§	35,102	4,809	14	13,260	38
Other assets†	106,217	40,306	38	79,017	74
Total credit risk	876,141	214,144	24	381,991	44
Credit valuation adjustment					
Total credit valuation adjustment	--	3,413	--	4,739	--
Market Risk					
Equity in the banking book	2,045	6,013	294	14,938	730
Trading book market risk	--	30,825	--	46,522	--
Total market risk	--	36,838	--	61,460	--
Operational risk					

Table 4

Barclays PLC RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Total operational risk	--	56,663	--	52,359	--
(Mil. £)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	311,926	--	500,549	100
Total Diversification/ Concentration Adjustments	--	--	--	(43,044)	(9)
RWA after diversification	--	311,926	--	457,505	91
(Mil. £)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		49,317	17.0	50,825	10.2
Capital ratio after adjustments‡		49,317	17.0	50,825	11.1

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31, 2018', S&P Global Ratings.

Risk position: Well-managed portfolios but substantial pockets of potential risk

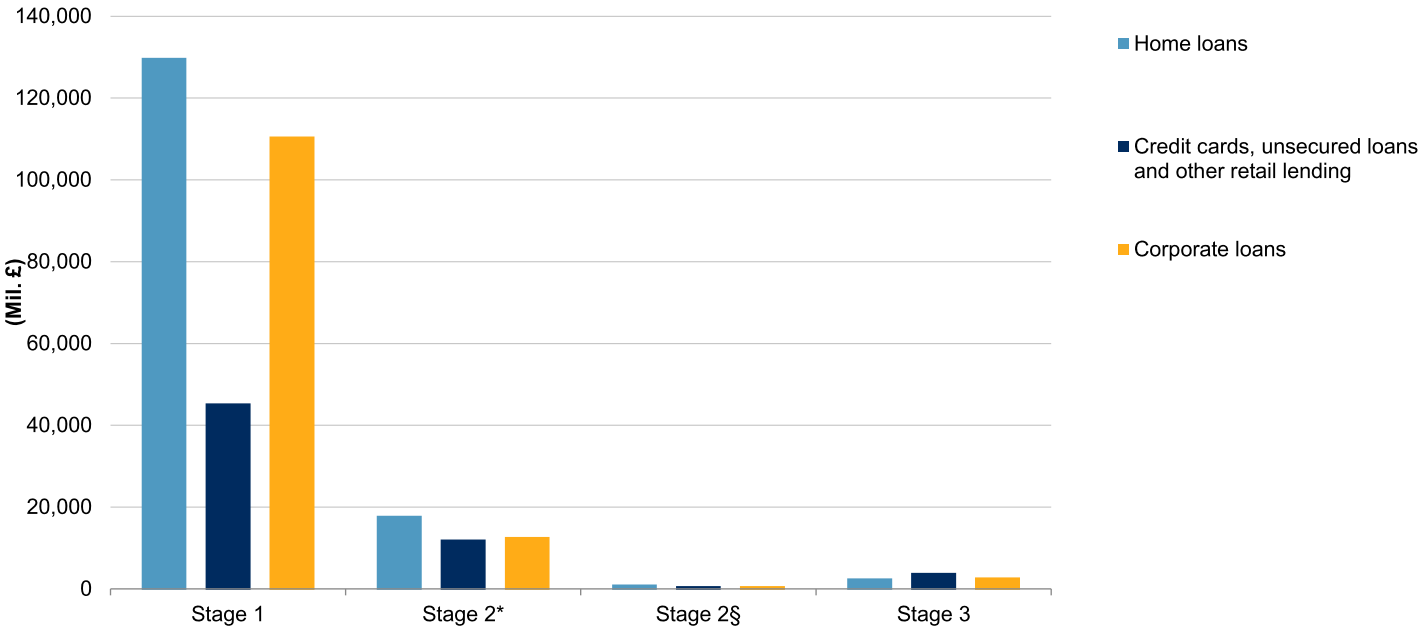
Our analysis reflects the relatively high weighting for investment-banking-related income (35% of reported income in 2018), the inherent complexity of some of Barclays' chosen activities, and the relatively high weight for higher loss rate credit card and consumer lending, notwithstanding the good track record and current benign metrics. We continue to believe that Barclays' risk management capabilities are sound and well managed, and note its more cautious approach to U.K. credit since the 2016 referendum.

We expect Barclays will maintain tight controls around balance sheet growth and risk appetite, as indicated by our assumptions for S&P Global Ratings' RWA growth. We take some comfort from the vintage profile of the U.K. loan book (Barclays has avoided the brisker growth of smaller lenders), but will continue to monitor areas of growth within its international portfolio, such as U.S. cards. The sell-down of BAGL has reduced some inherent volatility in Barclays' relative risk metrics.

Net customer loans were a reported £330.7 billion at March 31, 2019, up 3.6% from 12 months before (data prior to Jan. 1, 2018 is not fully comparable owing to the introduction of International Financial Reporting Standards (IFRS) 9 at the start of 2018). By geography, the U.K. represents the majority, though there are important credit concentrations in the U.S. and, to a lesser extent, in Germany. By sector, residential mortgages represent 45% of the total (see chart 4), lower than 65% at Lloyds and 52% at RBS, but higher than HSBC at 30%. We consider that the quality of the U.K. mortgage book compares well with the U.K. industry.

Chart 4

Reported Gross Loans And Advances At March 31, 2019

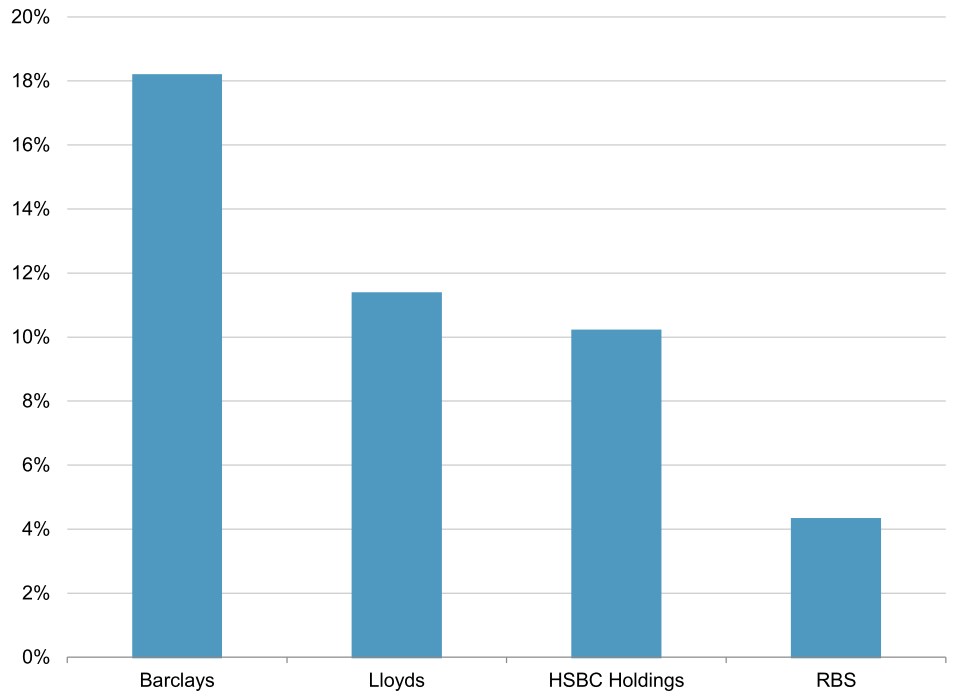


*Stage 2--Not past due or <=30 days past due. §Stage 2-- >30 days past due.
Source: Company accounts.

Other notable segments include consumer credit (cards, unsecured loans, and other personal lending), which represents 16.9% of net loans at March 31, 2019. This proportion is higher than that at U.K. peers (see chart 5, based on gross loans). The size of Barclays' U.S. cards book (reported gross exposure of £22.2 billion at Dec. 31, 2018) is actually larger than its U.K. cards book of £17.3 billion. Charge-off rates in both books are close to historic lows and first-quarter 2019 delinquency trends have remained broadly flat.

Chart 5

Consumer Credit As % Of Group Customer Loans (Gross)



Sources: Company accounts and S&P Global Ratings calculations. Data at Dec. 31, 2018.

Barclays' corporate portfolio is diverse by sector, geography, and single-name exposure. It is also heavily weighted toward investment-grade credits. We take some comfort from the fact that Barclays' commercial real estate loan book is a relatively modest size, and the vast majority relates to its home market.

Barclays' loan loss rates are usually higher than domestic peers', reflecting the bank's higher consumer credit weighting and its international lending.

Since 2005 (the introduction of IFRS), Barclays' loss rate has averaged 73 bps; the introduction of IFRS9 with effect from Jan. 1, 2018 may increase the volatility of Barclays' loss rates relative to some peers'.

In 2018, under IFRS9, the reported loss rate was 44 bps. This is a lower rate than we would typically expect and partly reflects changed economic assumptions and portfolio adjustments during the period.

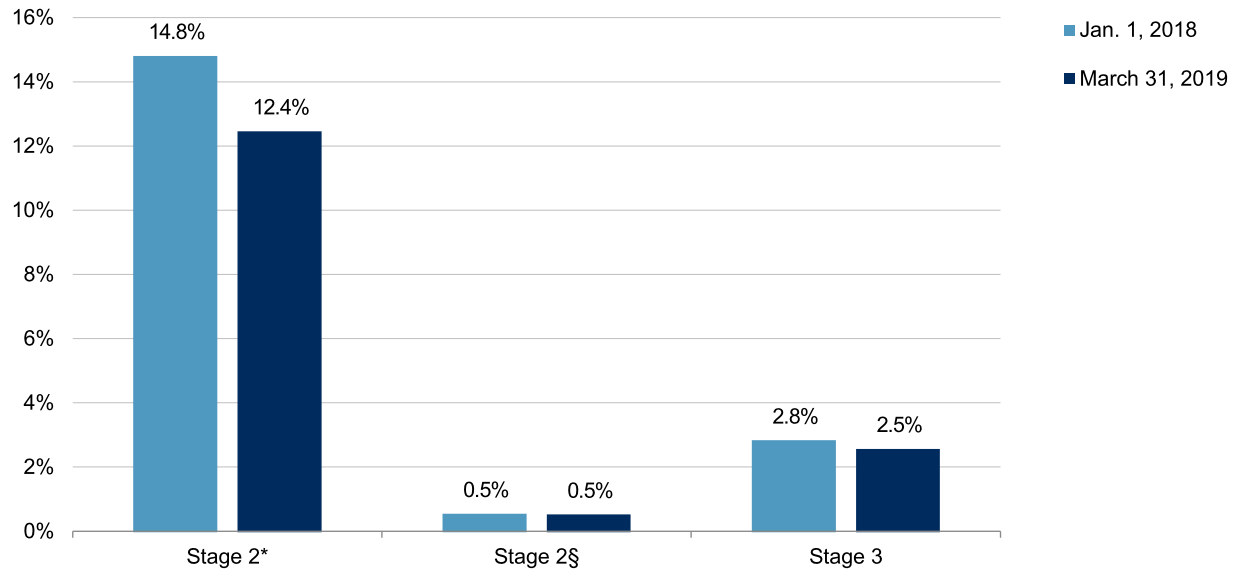
The stock of nonperforming and problematic loans remains low. Barclays reported that Stage 3 loans were £8.6 billion or 2.5% of gross loans at March 31, 2019. These figures have improved from £9.1 billion and 2.8% at Jan. 1, 2018, which is indicative of the still-benign credit environment and Barclays' cautious approach in recent years. Much of the improvement occurred in the corporate loan book.

A broader analysis of asset quality also captures Stage 2 loans (see chart 6). For Barclays, total Stage 2 loans are

relatively high, partly owing to its relatively larger consumer credit book. However, only 0.5% of total loans were defined as Stage 2 and past 30 days due, which supports our view that Barclays' credit risk compares well, which may not be first apparent when comparing total Stage 2 and Stage 3 loans to total loans. On this measure, Barclays' ratio was 15.6% at Dec. 31, 2018, which is higher than U.K. peers: HSBC 7.6%; Lloyds at 11.1% and RBS 10.4%. We also take comfort from the fact that Barclays' coverage metrics appear satisfactory as the expected credit loss (ECL) allowance represents 38% of Stage 3 loans, or 11.3% coverage of Stage 2 and Stage 3 loans; within the latter, coverage of consumer credit was a stronger 29%.

Chart 6

Reported Stage 2 and Stage 3 Loans To Gross Loans



*Stage 2--Not past due or <=30 days past due. §Stage 2-- >30 days past due. Source: Company accounts.

We note that the bank engages heavily in the derivatives and trading markets and ultimately relies on the strengths of its counterparties for this business and various other business segments. Overall, we consider that Barclays' market risk is not an outlier relative to global peers. For example, one of several measures we look at is sales and trading revenue to trading book S&P Global Ratings' RWA—for Barclays, this metric was about 11% in 2018, which is similar to the average for global banks. Another way to assess capital markets risk is to look at the amount of Level 3 difficult to value assets, of which a large portion is typically embedded in the trading inventory, as a percentage of TAC. Level 3 assets were 36% of TAC at Dec. 31, 2018, up from 2017 but down from 2016. That said, they still seem to make up a reasonably high proportion of capital and we will continue to monitor the trends. Even so, the market risks emanating from many of Barclays' highly complex and substantial trading activities are a weakness to the risk profile because they are difficult to model in our RAC framework.

The RAC ratio also does not capture the non-trading market risk of Barclays' large defined-benefit pension fund exposure.

The 9% RAC diversification demonstrates the good spread of Barclays' activities by business line, geography, and risk type.

Table 5

Barclays PLC--Risk Position

	--Year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(%)					
Growth in customer loans	(15.4)	(6.5)	(3.3)	(6.9)	(0.6)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(8.6)	(9.2)	(10.1)	(18.2)	(19.1)
Total managed assets/adjusted common equity (x)	27.9	25.8	23.9	25.2	29.7
New loan loss provisions/average customer loans	0.4	0.6	0.6	0.5	0.5
Net charge-offs/average customer loans	0.5	0.5	0.4	0.4	0.6
Gross nonperforming assets/customer loans + other real estate owned	2.7	1.9	2.1	2.3	2.4
Loan loss reserves/gross nonperforming assets	77.0	62.7	53.2	49.9	50.4

Note: 2018 data not fully comparable to 2017 owing to impact of IFRS9 on the loan book.

Funding and liquidity: Balanced profiles

We regard Barclays' funding as average, an assessment that we solely compare with the U.K. banking system. Barclays' funding profile benefits from its diverse deposit base, including its granular U.K. franchise, and its proven ability to access a wide variety of wholesale funding sources in varied market conditions.

We view Barclays' liquidity, which we compare globally, as adequate, which takes into account the bank's large absolute stock of liquid assets and its solid liquidity metrics. We note that Barclays' current stock of wholesale funding is less than its group liquidity pool, which is indicative of its current comfortable balance sheet position.

Barclays' investment bank is an active borrower in confidence-sensitive wholesale markets, which makes a stronger funding and liquidity assessment unlikely. This is despite our expectation that group funding and liquidity metrics will not change materially. We note that our ratio of core deposits to the funding base (45% at end-2018) is lower than some domestic and international peers.

Barclays' strong deposit franchise underpins the bank's funding profile. At Dec. 31, 2018, Barclays' loan-deposit ratio, by our measures, stood at 83%, slightly lower than the year before. Indeed, this metric has been on a consistent downward trend for the past decade. The median for the top 25 domestic U.K. banks, by revenues, was 111% at the most recent financial year-end. Indicative of Barclays' comfortable funding profile is that reported customer deposits exceeded customer loans in both its Barclays UK and Barclays International divisions. We assume that the balance between deposits and loans will not change any time soon.

We also consider our stable funding ratio to be a relevant measure. We calculate that Barclays' stable funding ratio was 119% at Dec. 31, 2017. The U.K. mean is 113%. This metric indicates a balanced use of deposits and long-term wholesale funding to finance less-liquid assets. We believe that Barclays' stable funding ratio will remain comfortably

above 100% over the next two years.

The investment bank funds the majority of its inventory on a secured basis, and its short-term unsecured borrowing primarily funds Barclays' liquidity portfolio. Barclays states that, as of March 31, 2019, total group wholesale funding outstanding excluding repurchase agreements was £158 billion.

Barclays' group liquidity pool (portfolios of unencumbered cash, central bank deposits, and government and supranational bonds) totaled £232 billion as of March 31, 2019, exceeding the total stock of wholesale funding. The liquidity pool principally comprises cash and deposits with central banks and highly rated government bonds. Our calculation of Barclays' broad liquid assets to short-term wholesale funding was a solid 1.5x at Dec. 31, 2018, and we expect this metric will remain at a comfortable level. We also note that Barclays' estimated Basel III liquidity coverage ratio was a relatively high 160% as of March 31, 2019.

Table 6

Barclays PLC--Funding And Liquidity

	--Year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(%)					
Core deposits/funding base	45.4	52.6	58.7	59.3	52.2
Customer loans (net)/customer deposits	83.0	87.8	95.3	99.7	104.7
Long-term funding ratio	72.8	68.2	74.5	75.7	68.3
Stable funding ratio	119.4	119.1	101.7	110.8	101.2
Short-term wholesale funding/funding base	28.9	34.1	27.8	26.3	34.0
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.5	1.5	1.2
Net broad liquid assets/short-term customer deposits	34.0	29.8	23.9	22.3	12.9
Short-term wholesale funding/total wholesale funding	51.8	69.9	65.2	62.5	69.7
Narrow liquid assets/three-month wholesale funding (x)	5.4	1.6	1.7	1.6	1.3

Support: Our ALAC measure continues to rise

We incorporate two notches of uplift into the long-term rating on BB PLC and BUK (the main operating subsidiaries) because the group's ALAC ratio is above our 8.5% threshold, both today and over a two-year projection period. We view the U.K. resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We include the majority of the consolidated Barclays group's junior and nonoperating holding company (NOHC) instruments in our ALAC assessment because, over our projection period, we believe they have capacity to absorb losses without triggering a default on Barclays' senior obligations (see table 7). We exclude certain instruments issued under foreign law, including in jurisdictions not yet deemed to have an effective resolution regime. On this basis, we calculate that ALAC was 10.1% of S&P Global Ratings' RWAs at year-end 2018. This metric improved from 8.8% at end-2017 owing to significant issuance of NOHC senior debt. We note further issuance of ALAC-eligible instruments year-to-date, although there will be future maturities too. Our projections assume that Barclays' ALAC metric will remain around the 10% mark.

Table 7

Summary Of ALAC Calculation As Of Dec. 31, 2018

		(Bil. £)	% of S&P Global Ratings RWA
A	Adjusted common equity	40,663	
B	Hybrids in TAC	10,162	
C (A+B)	Total adjusted common equity	50,825	10.2
D	TAC in excess of our 7% threshold	770	0.2
E	ALAC-eligible instruments	49,932	10.0
	o/w NOHC senior	30,393	
	o/w Dated subordinated	15,327	
	o/w Minimal equity content hybrids	3,759	
	o/w Other	453	
F (=D+E)	ALAC buffer	50,702	10.1
	S&P RWA	500,549	

ALAC--Additional loss-absorbing capacity. RWA--Risk-weighted assets. TAC--Total adjusted capital. Source: S&P Global Ratings.

Consistent with our criteria, and our treatment of ALAC for many global banks, we raise the threshold for ALAC uplift by 50 bps to 8.5% (from our typical 8.0% threshold). We do this because the Barclays group operates through multiple regulated legal entities worldwide and we think this might constrain the flexible deployment of ALAC in a stress scenario.

Furthermore, Barclays states that its minimum requirement for own funds and eligible liabilities (MREL) position was 27.7% at March 31, 2019, or 30.2% including eligible operating company instruments. The Bank of England has now communicated to all relevant U.K. banks their non-binding indicative MREL requirements. Firms become subject to final requirements from Jan. 1, 2022. In Barclays' case, this indicative figure is 29.9%, and the gross issuance required to achieve this target appears to be both manageable and supportive of our ALAC assessment; Barclays states that it currently expects its 2019 MREL issuance plan to be around £8 billion, which it is well on the way to achieving.

Additional rating factors:None

No other factors affect the ratings.

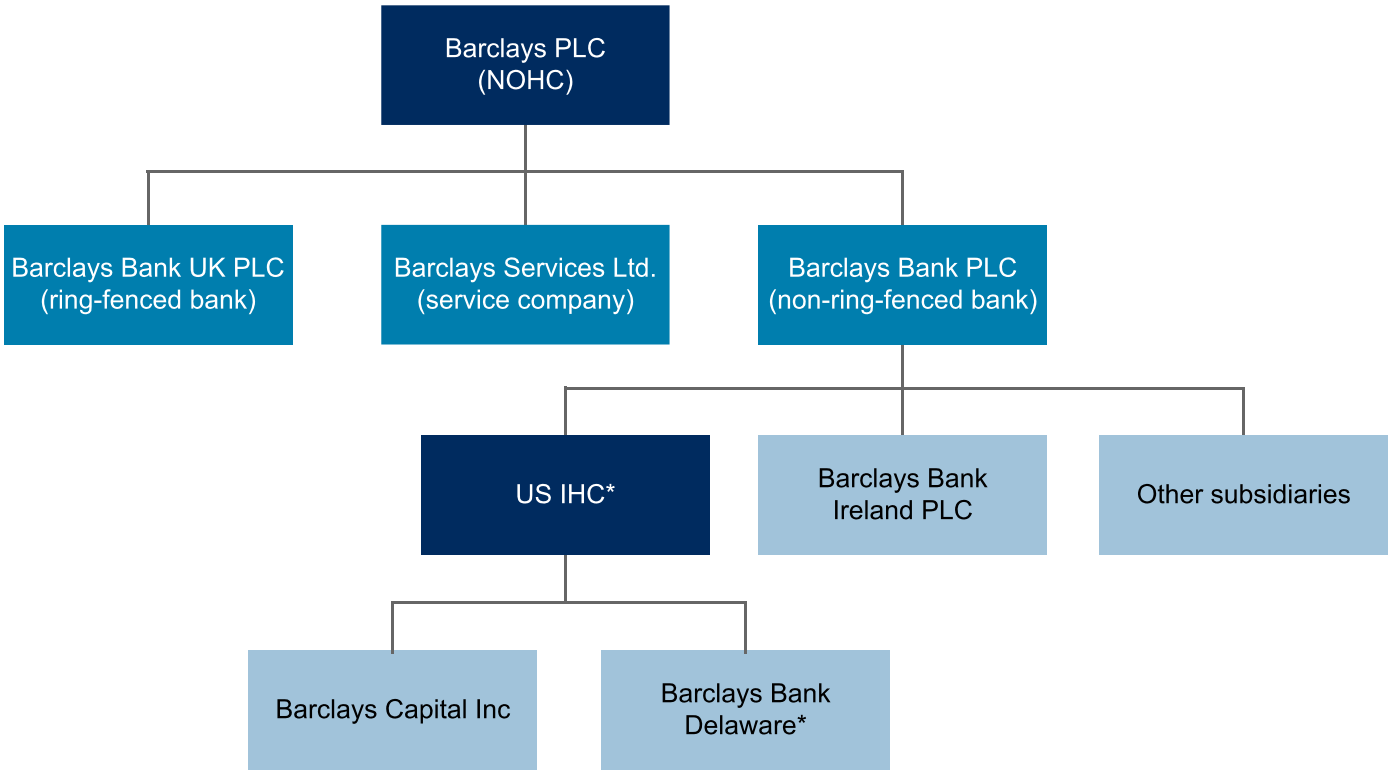
Group structure, rated subsidiaries, and hybrids

Barclays PLC is the ultimate holding company of the group that it heads, and is an NOHC.

Barclays PLC operates through two principal operating subsidiaries: BB PLC and BUK (see chart 7). We view both as core to Barclays PLC and we expect that regulators would intervene at the point of nonviability, bailing in junior liabilities and, if necessary, NOHC liabilities, to ensure that Barclays honors its senior obligations. Our ratings on both (and the other core subsidiaries) are therefore in line with the ALAC-supported 'a' GCP.

Chart 7

Barclays PLC – Highly Simplified Overview Of Barclays' Organization Structure And Significant Legal Entities



*Not rated. NOHC--Nonoperating holding company. Source: S&P Global Ratings.

We do not include notches for ALAC support in the ratings on NOHCs because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario. As a result, we rate Barclays PLC one notch below the 'bbb+' UGCP.

We rate the nondeferrable subordinated debt issued by BB PLC two notches below the UGCP, reflecting the debt's contractual subordination as a Tier 2 instrument and our view that the Bank Recovery and Resolution Directive (BRRD) creates the equivalent of a contractual write-down clause. We rate similar issuance by the NOHC one notch lower, reflecting our view of structural subordination.

We rate legacy Tier 1 instruments issued by BB PLC four notches below the UGCP, reflecting:

- One notch because the notes are contractually subordinated;
- Two notches because the notes have regulatory capital status; and
- One notch because we consider the BRRD creates the equivalent of a contractual write-down clause.

We rate the AT1 securities issued by the NOHC 'B+', six notches below the UGCP, reflecting:

- One notch because the notes are contractually subordinated;
- Two notches because the notes have regulatory capital status;
- One notch because we consider the notes have a contractual write-down clause;
- One notch because the instrument contains a going concern write-down trigger (defined as CET1 falling below 7%), and we expect that the distance to the trigger will remain within a range of 301 bps-700 bps; and
- One notch because the NOHC issues the notes.

Resolution Counterparty Ratings

We set 'A+/A-1' resolution counterparty rating (RCR) on BB PLC (and its rated Luxembourg subsidiaries), BUK, and Barclays Bank Ireland PLC (and its rated Madrid and Milan branches), one notch above the long-term issuer credit ratings on these entities. The RCRs also reflect our jurisdiction assessment for the U.K., Ireland, Italy, Luxembourg and Spain. We do not assign an RCR to other subsidiaries mainly because we regard the jurisdictions under which other operating banks run their businesses as having non-effective resolution regimes.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
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- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Barclays Capital Luxembourg And Barclays Capital Trading Luxembourg Both Assigned 'A/A-1' Ratings; Outlooks Stable, May 14, 2019
- United Kingdom Ratings Affirmed At 'AA/A-1+'; Outlook Remains Negative, April 26, 2019
- U.K. Banks: Looking At The Facts Rather Than Received Wisdom, March 4, 2019
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- Barclays Bank PLC, June 27, 2019
- Barclays Bank UK PLC, June 27, 2019
- Rearranged And Ready: U.K. Banks Are On Track For Ring-Fencing, Aug. 15, 2018
- Barclays Bank Ireland PLC 'A/A-1' Ratings Affirmed On Expansion Plans As The Barclays Group's EU Bank; Outlook Stable, June 13, 2018
- Barclays PLC 'BBB/A-2' Ratings Affirmed On Expected Statutory Earnings Improvement; Outlook Stable, June 12, 2018
- Barclays Bank PLC Assigned 'A+/A-1' Resolution Counterparty Ratings; 44 Collateralized Bonds Raised To 'A+'; UCO Removed, April 30, 2018
- Barclays Bank UK PLC Assigned 'A/A-1' Ratings; Outlook Stable, March 13, 2018

Ratings Detail (As Of June 27, 2019)*	
Barclays PLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	A-1
Junior Subordinated	B+
Senior Unsecured	BBB
Subordinated	BB+
Issuer Credit Ratings History	
15-Nov-2017	BBB/Stable/A-2
07-Jul-2016	BBB/Negative/A-2

Ratings Detail (As Of June 27, 2019)*(cont.)	
03-Feb-2015	BBB/Stable/A-2
Sovereign Rating	
United Kingdom	AA/Negative/A-1+
Related Entities	
Barclays Bank Ireland PLC	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank Ireland PLC (Milan Branch)	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank Ireland PLC, Sucursal en Espana (Madrid Branch)	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank Mexico S.A.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Barclays Bank PLC	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Certificate Of Deposit	
Foreign Currency	A/A-1/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Junior Subordinated	BBB-
Preference Stock	BB
Resolution Counterparty Liability	A+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BB+
Subordinated	BBB-
Barclays Bank PLC (Cayman Branch)	
Commercial Paper	A-1
Barclays Bank PLC (Hong Kong Branch)	
Commercial Paper	A-1
Barclays Bank PLC (New York Branch)	
Commercial Paper	A-1
Senior Unsecured	A
Barclays Bank PLC (Singapore Branch)	
Commercial Paper	A-1
Barclays Bank PLC (Tokyo Branch)	
Commercial Paper	A-1

Ratings Detail (As Of June 27, 2019)*(cont.)	
Barclays Bank UK PLC	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Secured	AA-
Senior Secured	AAA/Stable
Senior Unsecured	A
Short-Term Debt	A-1
Barclays Capital Inc.	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A/--/A-1
Barclays Capital Luxembourg	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Capital Trading Luxembourg	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Services Ltd.	
Issuer Credit Rating	A/Stable/A-1
BARCLAYS US CCP FUNDING LLC	
Commercial Paper	
Foreign Currency	A-1
Barclays US Funding LLC	
Senior Unsecured	A
Short-Term Debt	A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.