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Barclays PLC

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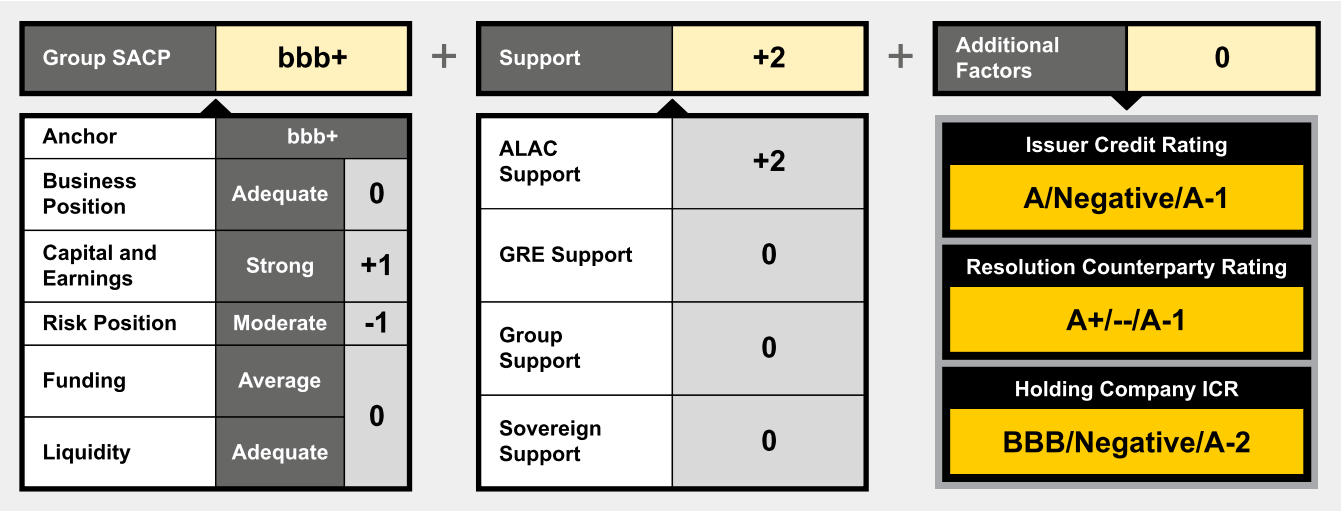
Barclays PLC



SACP—Stand-alone credit profile. The bank holding company issuer credit rating (ICR) shown applies to Barclays PLC. The ICR and the resolution counterparty rating shown apply to certain core subsidiaries, including Barclays Bank PLC and Barclays Bank UK PLC.

Major Rating Factors

Issuer Credit Rating
BBB/Negative/A-2

Strengths:	Weaknesses:
• Leading market positions focused on U.K. retail and corporate banking and global wholesale banking. • Diversified risk profile by business and geography. • Robust capital, funding, and liquidity positions.	• The deep recession triggered by the COVID-19 pandemic significantly increased credit impairments. • Exposure to higher risk market segments including unsecured consumer credit, leveraged finance, and corporate sectors vulnerable to the effects of the pandemic. • Scope for revenue volatility and operational complexity in the large capital markets business.

Outlook

The negative outlook reflects potential downside risks to asset quality and earnings from the ongoing impact of COVID-19. Barclays has built prudent provision cover and we expect economic recovery to take hold in 2021, but the path of the pandemic remains uncertain. Although we view positively Barclays' significant revenue diversity, robust balance sheet profile, and the unprecedented fiscal and monetary response, a prolonged economic downturn could maintain elevated impairment losses and weaken revenues over our two-year outlook horizon.

Downside scenario

There is headroom at the current rating level to withstand a period of high impairment charges and depressed earnings. Nevertheless, we could lower the ratings if we think an extended unfavorable operating environment is likely to substantially weaken Barclays' asset quality, profitability, and capitalization. The likely trigger for us to consider a downgrade is a lowering of our Banking Industry Country Risk Assessments (BICRAs) for the U.K. or U.S., which are Barclays' principal markets. In that scenario, we would consider the extent to which Barclays' intrinsic strengths may mitigate the adverse economic conditions in comparison with domestic and international peers.

Upside scenario

We could revise the outlook to stable if Barclays' earnings and balance sheet demonstrate resilience relative to similarly-rated peers, and if governments and central banks are successful in averting a long-lasting downturn.

Rationale

Our ratings reflect Barclays' robust balance sheet and leading positions in its core markets, principally U.K. retail and commercial banking and global wholesale banking. This diversified profile has delivered resilient earnings since the onset of the COVID-19 pandemic. In particular, buoyant capital markets activity has partly mitigated a sharp increase in credit impairments on customer lending.

At 164 basis points for the first nine months of 2020, Barclays' loan loss rate was closer to U.S. than European peers. This principally reflects its portfolio mix, which includes sizable exposures to consumer credit and corporate sectors that are vulnerable to the ongoing recession. We think that Barclays has taken a prudent approach to provisioning and its coverage of stage 2 consumer credit balances is notably higher than peers'.

We revised the outlook to negative from stable when COVID-19 brought economic activity in Barclays' core geographies to a sudden stop (see Barclays Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed published on April 23, 2020). Our base-case expectation is that economic recovery in 2021 will enable a material reduction in Barclays' impairment charges and improved profitability. However, we see downside risks to this outcome due to uncertainty over the path of the pandemic and the implications for asset quality as fiscal support tapers.

Our 'bbb+' group SACP on Barclays sits within the 'bbb' to 'a' range that we apply to its peer group, which comprises the other major U.K. banks and international wholesale banking competitors. The main differentiating factor with higher rated peers is our less favorable assessment of Barclays' business position. However, we see positive momentum arising from Barclays' consistent strategy, stable senior management team, and improved execution. Moreover, in year-to-date 2020, we have lowered the business position assessments of certain peers including HSBC and Société Générale.

Table 1

Barclays PLC--Key Figures

	--Year ended Dec. 31--				
(Mil. £)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	1,376,954	1,132,110	1,125,310	1,125,399	1,205,363
Customer loans (gross)	353,860	335,799	322,601	381,241	407,923
Adjusted common equity	43,965	41,608	40,613	43,906	50,824
Operating revenues	11,590	21,693	21,205	21,146	20,941
Noninterest expenses	6,531	13,552	14,036	14,756	15,338
Core earnings	779	3,990	3,463	1,050	2,237

*Data as of June 30.

Anchor: International activity affects the weighted-average economic risk

The 'bbb+' anchor draws on our BICRA methodology and our view of the weighted-average economic risk in the countries where Barclays operates. We weight each jurisdiction according to the geographic distribution of credit exposures as disclosed in the Pillar 3 Report. At year-end 2019, the distribution was close to 55% in the U.K., 25% in North America, 5% in Germany, 10% elsewhere in Europe, and 5% in the rest of the world. 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). The 'bbb+' anchor would not change if we revise down all the BICRA economic risk scores that currently have negative trends.

We view the economic risk trend for the U.K., as it affects its domestic banking sector, as negative. This reflects the uncertain and evolving epidemiological situation, and associated containment measures which inadvertently restrict economic activity. Moreover, a switch to a basic free trade agreement with the EU at year-end 2020 and more uncertain access for U.K. services to the EU's single market--our base case--will weigh on the pace of economic recovery.

While economic prospects remain so uncertain we cannot be sure that cumulative credit losses won't exceed our current assumptions. A revision of the trend to stable appears unlikely given the continued macro uncertainty, but could arise if bank asset quality holds up better than we assume.

The industry risk trend is stable as we incorporate the strong institutional framework and robust funding profile. However, pre-provision earnings are being squeezed by the even lower rate environment than we had previously assumed, as well as reduced economic activity even as competition remains robust. If we believe that medium-term earnings prospects have been structurally impaired, then we could eventually consider revising down our industry risk assessment.

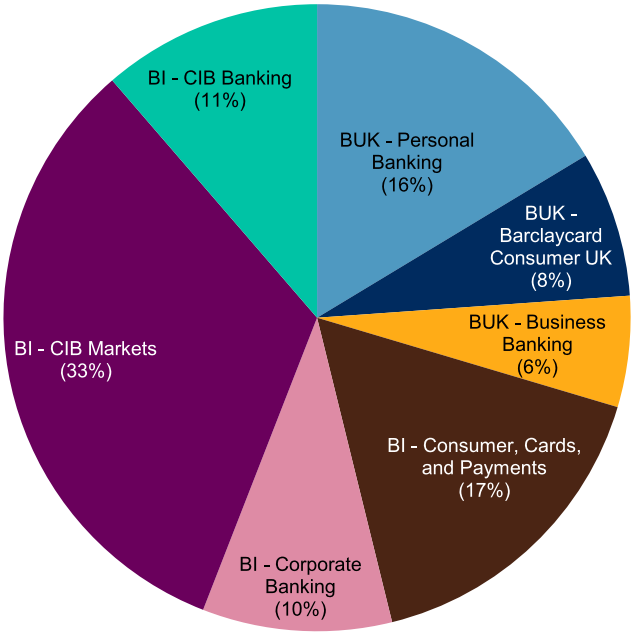
Business position: Diversification benefits yet to translate into consistent outperformance

Our business position assessment balances Barclays' strong franchise and significant diversification with its weaker track record relative to better-performing peers in achieving a consistent performance level. However, we think Barclays was making progress in these areas when the COVID-19 pandemic struck. Once the operating environment becomes more supportive, we could raise the business position assessment if we see further disciplined execution of the strategic plan and greater confidence in the consistency and predictability of earnings.

Barclays follows a diversified banking strategy divided between two divisions: Barclays UK (which broadly aligns with ring-fenced legal entity Barclays Bank UK PLC) and Barclays International (which broadly aligns with non-ring-fenced entity Barclays Bank PLC). This model results in a diversified revenue base by business line (see chart 1). We see Barclays' profile as a credit strength due to the different revenue and risk cycles of the retail and wholesale businesses through the pandemic. By geography, Barclays' strategy prioritizes the U.K. and the Americas (mainly the U.S.), which contributed 52% and 32%, respectively, of group income in the first half of 2020.

Chart 1

Universal Bank Strategy Results In A Diversified Revenue Profile
Total income by division in the 12 months to Sept. 30, 2020



Excludes head office segment. BUK-Barclays UK. BI-Barclays International. CIB-Corporate and Investment Bank. Source: Barclays.

Barclays UK operates the group's domestic personal banking, consumer credit, wealth management, and small-business banking businesses. As one of the large incumbent banks, it has market shares of 10%-15% in most products, and 20%-25% share in credit cards. We think Barclays UK is well-positioned to adapt to the continuing

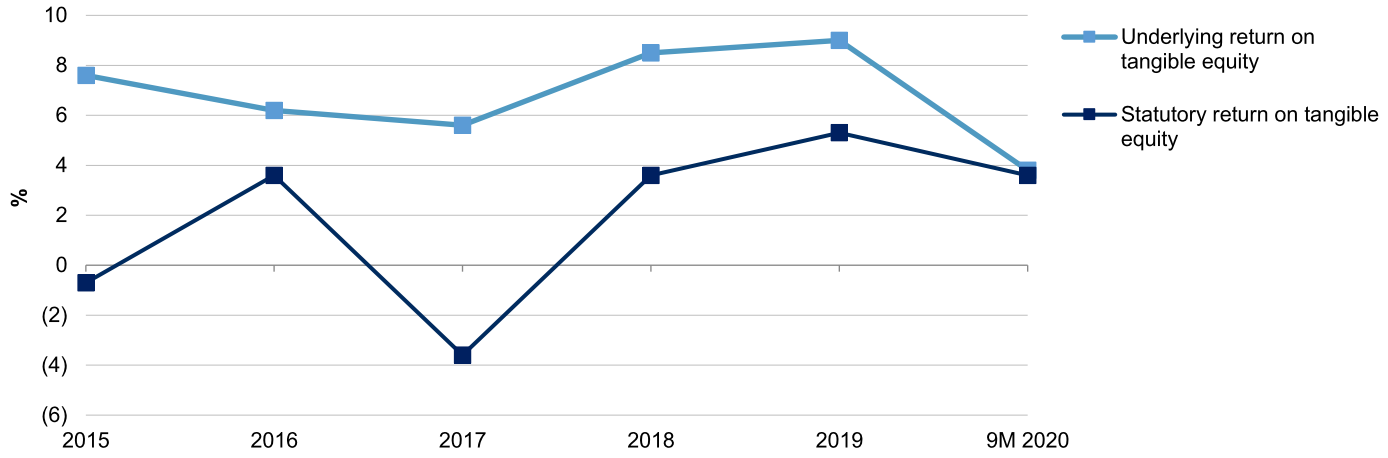
competitive and regulatory changes within the U.K. banking industry. For example, we think it is one of the most advanced incumbents in digitalizing customer services and internal processes.

Barclays International comprises two elements: the Corporate and Investment Bank (CIB) and the Consumer, Cards, and Payments (CC&P) businesses. The CIB operates a full service model in the U.K. and U.S., and targets selected market segments elsewhere. Its traditional strength is in fixed income sales and trading. It has steadily gained market share in the past two years, partly as European competitors retrenched. CC&P provides payments, merchant acquisition, U.S. cards, and international wealth management. It has an approximate 2.5% market share of U.S. consumer credit card and unsecured lending, focusing on prime, co-branded cards with partners such as airlines.

Barclays has performed inconsistently in recent years on a statutory basis, primarily due to significant conduct and litigation charges. However, its legacy legal matters are now largely resolved, and its underlying earnings showed positive momentum prior to the COVID-19 pandemic (see chart 2). We attribute this improvement to the completion of internal restructuring programs, the stable management team, and more disciplined strategic execution. The durability of these positive factors are key to our analysis of Barclays' business position.

Chart 2

Improved Underlying Performance In 2018-2019
Trend in the reported return on tangible equity



Underlying returns primarily exclude conduct and litigation charges. Source: Barclays.

In February 2020, before COVID-19 became a global pandemic, Barclays unveiled plans to expand in three capital-efficient, technology-led businesses with annuity-like revenues: payments, transaction banking, and financial advice. It has slowed the pace of investment in these areas due to the current recession, but they are likely to remain part of its medium-term strategy.

Entities controlled by an activist investor, Sherborne Investors, hold about 5.9% of voting rights attached to Barclays' share capital. Sherborne sought a seat on Barclays' board at the 2019 Annual General Meeting but its resolution was

comprehensively defeated. Its main strategic proposal is that Barclays should downsize the CIB. Since Sherborne does not appear to have won over other shareholders, we assume it is unlikely to have a material influence on Barclays' future direction.

We see two main peer groups for Barclays. First, we compare it with the other large U.K. banks: HSBC Holdings plc ('a' group SACP), Lloyds Banking Group plc ('a-'), and NatWest Group plc ('bbb+'). Second, we consider a broad group of similarly-rated international peers with large investment bank divisions. These include Bank of America Corp. ('a'), Citigroup Inc. ('a-'), Credit Suisse Group AG ('a-'), Deutsche Bank AG ('bbb'), Morgan Stanley ('a-'), and Société Générale (bbb+').

Table 2

Barclays PLC--Business Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	11,603	21,703	21,205	21,333	22,567
Commercial & retail banking/total revenues from business line	50.8	65.6	65.9	68.7	76.5
Trading and sales income/total revenues from business line	39.3	24.2	23.1	21.1	23.3
Corporate finance/total revenues from business line	11.8	11.7	11.9	12.2	N/A
Other revenues/total revenues from business line	(1.9)	(1.5)	(1.0)	(2.0)	0.2
Investment banking/total revenues from business line	51.1	35.9	35.0	33.4	23.3
Return on average common equity	2.5	4.6	3.0	(3.1)	3.7

*Data as of June 30. N/A--Not applicable.

Capital and earnings: Robust capitalization mitigates downside risks from COVID-19

We view Barclays' capital and earnings as strong and we see its capital position as a significant mitigant to the economic downturn and earnings pressures triggered by the COVID-19 pandemic. Our base-case projection is that our risk-adjusted capital (RAC) ratio will be in the 10.75%-11.25% range through year-end 2022, above our 10% threshold for a strong assessment.

Barclays' RAC ratio increased to 11.2% at year-end 2019 from 10.2% a year earlier (see table 3). This reflected a lower exposure to corporates and increased Total Adjusted Capital (TAC), partly due to net Additional Tier 1 issuance during 2019.

Table 3

Barclays PLC--Risk-Adjusted Capital Framework Data

(Mil. £)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	285,707.0	6,391.0	2.2	5,490.7	1.9
Of which regional governments and local authorities	8,665.0	1,481.0	17.1	311.9	3.6
Institutions and CCPs	48,361.0	7,815.0	16.2	11,461.6	23.7
Corporate	120,974.0	75,375.0	62.3	101,022.7	83.5
Retail	247,685.0	75,025.0	30.3	155,824.7	62.9
Of which mortgage	163,096.0	25,884.0	15.9	61,105.9	37.5

Table 3

Barclays PLC--Risk-Adjusted Capital Framework Data (cont.)					
Securitization§	44,246.5	6,899.4	15.6	13,508.5	30.5
Other assets†	106,999.6	44,321.0	41.4	78,965.1	73.8
Total credit risk	853,973.1	215,826.4	25.3	366,273.4	42.9
Credit valuation adjustment					
Total credit valuation adjustment	--	2,504.0	--	3,536.2	--
Market Risk					
Equity in the banking book	1,578.0	4,808.0	304.7	12,034.4	762.6
Trading book market risk	--	30,762.5	--	43,865.0	--
Total market risk	--	35,570.5	--	55,899.4	--
Operational risk					
Total operational risk	--	40,957.0	--	46,106.1	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	295,133.9	--	471,815.1	100.0
Total diversification/ concentration adjustments	--	--	--	(43,255.4)	(9.2)
RWA after diversification	--	295,133.9	--	428,559.6	90.8
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		52,241.0	17.7	53,008.0	11.2
Capital ratio after adjustments		52,241.0	17.7	53,008.0	12.4

*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. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31 2019, S&P Global Ratings.

Barclays reported a 14.6% common equity tier 1 (CET1) ratio at Sept. 30, 2020, which included a 77 bps benefit from IFRS 9 transitional arrangements. We anticipate the ratio will moderate in 2021 for two main reasons: a reduced IFRS 9 transitional benefit as loans migrate to stage 3, and increased procyclicality of regulatory risk-weighted assets (RWAs) in response to the deep recession. We expect Barclays will maintain a satisfactory cushion above the minimum regulatory CET1 requirement, which was 11.3% at Sept. 30, 2020.

In common with other U.K. banks, Barclays cancelled its proposed 2019 final dividend following a request from the regulator, and deferred decisions on future dividends and buybacks until year-end 2020. We assume in our RAC ratio projection that dividends will then restart and Barclays will eventually apply a similar distribution policy as before the COVID-19 pandemic.

We consider the quality of Barclays' capital to be satisfactory. Additional Tier 1 instruments usually represent 20%-25% of TAC, similar to most peers.

Barclays' pretax profit for the first nine months of 2020 was 26% lower year-on-year, which we see as a relatively

resilient performance in the economic circumstances (see table 4). The main causes of the reduction were a significant increase in impairment charges, margin compression in the retail businesses, lower lending balances (particularly in consumer credit), and waived fees to support customers through the pandemic. Partial mitigating factors were exceptionally strong trading revenues and a non-recurrence of material conduct charges incurred in 2019.

Table 4

Barclays' Earnings For The First Nine Months Of 2020

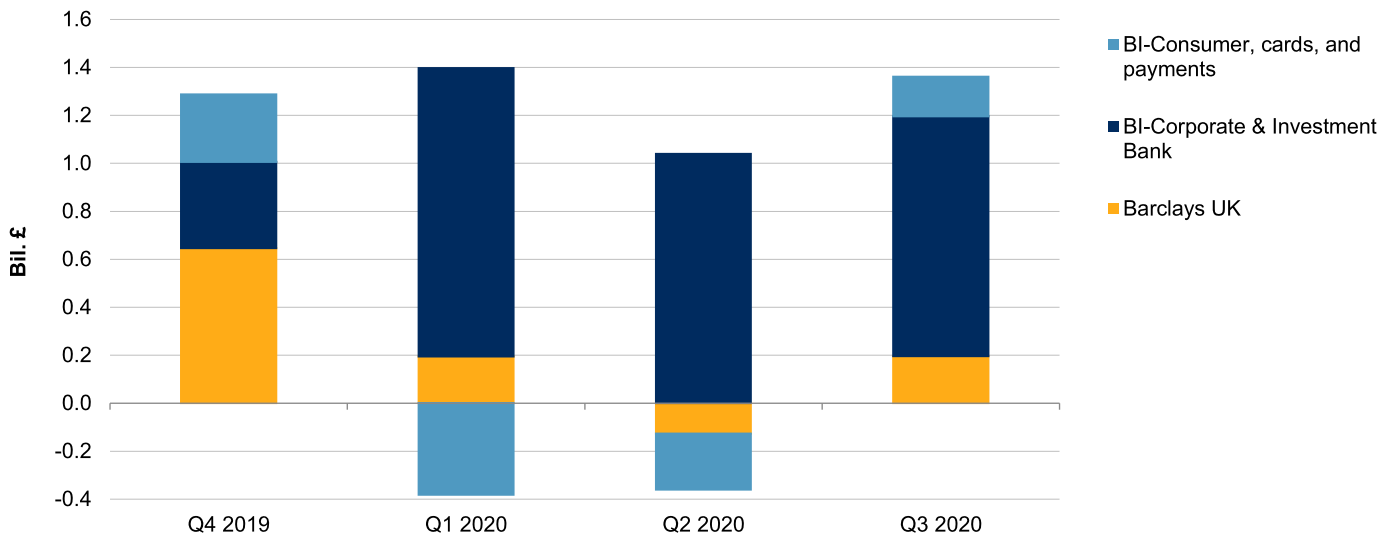
(Mil. £)	9M 2019	9M 2020	% change
Net interest income	7,063	6,278	-11%
Net trading income	3,270	5,548	70%
Net fee, commission, and other income	5,998	4,999	-17%
Total income	16,331	16,825	3%
Credit impairment charges	(1,389)	(4,346)	213%
Operating expenses	(10,051)	(9,954)	-1%
Litigation and conduct charges	(1,682)	(106)	-94%
Other net income	51	0	(1)
Pre-tax profit	3,260	2,419	-26%
Tax	(814)	(441)	N.M.
Net profit	2,446	1,978	-19%
RoTE	5.1%	3.6%	
RoTE excl. litigation and conduct charges	9.7%	3.8%	
Cost-to-income ratio excl. litigation and conduct charges	62%	59%	
Net interest margin	3.41%	2.98%	

Source: Barclays. RoTE-Return on Tangible Equity. N.M.--Not meaningful.

Illustrating Barclays' diversified business model, buoyant CIB earnings underpinned group profitability in the quarters when the contributions from Barclays UK and CC&P came under the most severe pressure (see chart 3). That said, CIB revenues are less annuity-like than those of the retail and commercial banking businesses, and CIB earnings could have been less favorable if central banks and governments had not responded decisively to the pandemic.

Chart 3

Diversified Business Profile Supports The Resiliency Of Earnings
Quarterly pretax profit by division



Excludes head office segment. BI-Barclays International. Source: Barclays.

The earnings component of our base case RAC ratio projection assumes Barclays' earnings will strengthen in 2021-2022, primarily due to reducing impairment charges. We expect further margin pressure resulting from the low interest rate environment, a gradual recovery in consumer credit balances, and continued cost discipline. CIB revenues are unlikely to remain as strong as in 2020 but market conditions are likely to be more supportive than in 2018-2019, when volatility was very low. However, there remains uncertainty over the path of the pandemic and economies' resilience when fiscal support tapers. As such, we think that risks to bank earnings remain to the downside.

Before the COVID-19 pandemic, Barclays aimed for a 10% return on tangible equity in 2020 and a cost-to-income ratio below 60%. They remain Barclays' medium-term aspirations but the returns target in particular is not realistic in the current economic environment. Consistent achievement of these targets in normal operating conditions would likely position Barclays much closer to the best-performing members of its peer group.

Table 5

Barclays PLC--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	17.8	17.7	17.0	17.2	15.6
S&P Global Ratings' RAC ratio before diversification	N/A	11.2	10.1	10.8	9.9
S&P Global Ratings' RAC ratio after diversification	N/A	12.4	11.1	11.9	11.0
Adjusted common equity/total adjusted capital	79.4	78.5	80.0	80.3	84.7

Table 5

Barclays PLC--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Double leverage	107.5	105.5	105.9	100.4	N.M.
Net interest income/operating revenues	36.4	43.4	42.7	46.6	50.3
Fee income/operating revenues	28.6	31.2	32.1	32.2	32.3
Market-sensitive income/operating revenues	35.0	25.4	23.3	19.6	18.5
Cost to income ratio	56.4	62.5	66.2	69.8	73.2
Preprovision operating income/average assets	0.8	0.7	0.6	0.5	0.5
Core earnings/average managed assets	0.1	0.4	0.3	0.1	0.2

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. RAC--Risk adjusted capital.

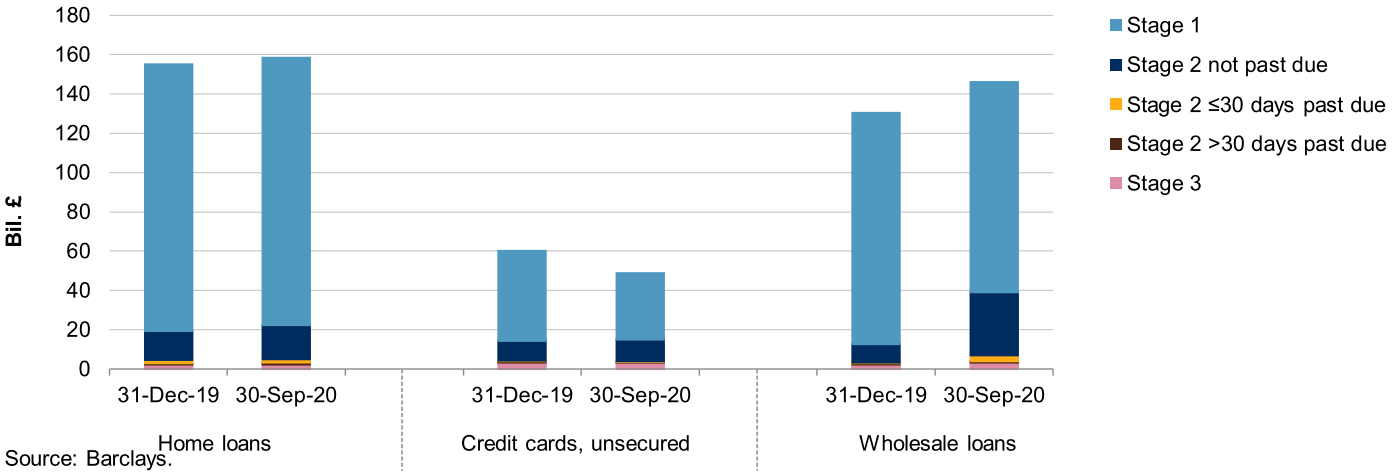
Risk position: Prudent increase in provision coverage following COVID-19

Our risk position assessment reflects the relatively high weighting of capital markets activities in Barclays' business model, the inherent complexity of some of its businesses, and its exposure to higher loss rate lending such as consumer credit. We think that Barclays' risk management capabilities are sound, and it has taken an appropriately prudent approach to building credit provisions since the onset of the pandemic. Consistent with Barclays' guidance, we expect its impairment charge should be materially lower in the second half of 2020 than in the first half, and also lower in 2021 than in 2020. Realized defaults have been relatively low to date, primarily due to fiscal support, but are likely to increase in 2021.

Residential mortgages represent just less than half of Barclays' drawn customer loans (see chart 4). The 51.5% average indexed loan-to-value ratio of the mortgage portfolio at June 30, 2020 was a little below the average for the U.K. market. The remainder of the portfolio comprises wholesale loans and consumer credit, elements of which are facing particular stress during the current recession. Barclays' exposure to consumer credit is notably higher than those of its U.K. peers, but similar to the major U.S. banks.

Chart 4

Diversified Loan Portfolio With Relatively High Weighting Toward Consumer Credit



Source: Barclays.

Barclays' loan portfolio grew by 3% on an annualized basis in the first nine months of 2020. The growth rate was much stronger in the first half of the year as corporates drew down committed lines. Repayments of these facilities in the third quarter more than offset new term loans to corporates under government guarantee schemes introduced in response to COVID-19. The pandemic triggered a decline in consumer credit balances as households reduced spending and paid down debt.

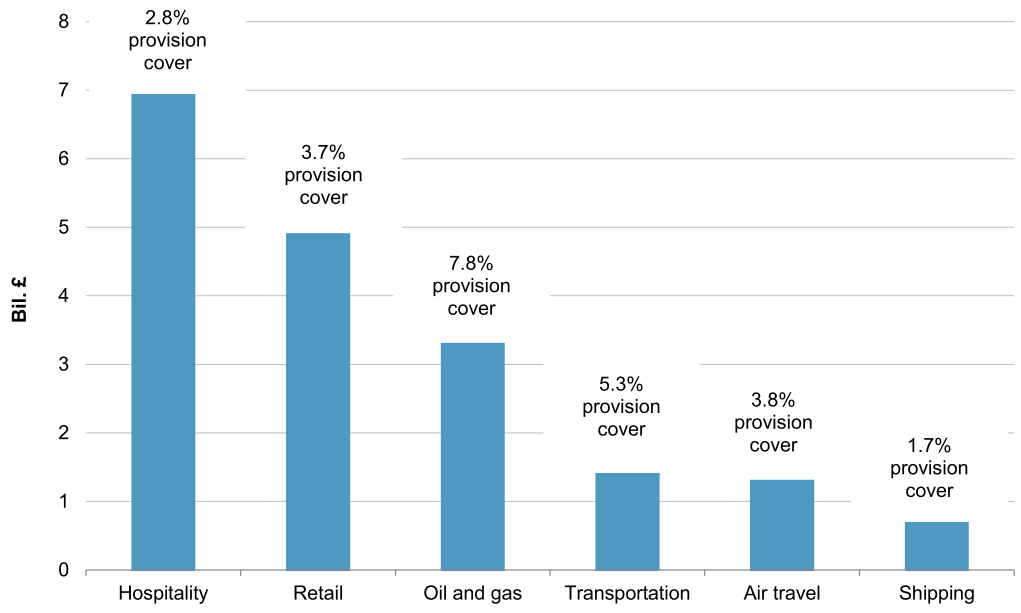
Geographically, lending is focused on the U.K. but the U.S. in particular is also a material market for consumer credit and wholesale banking. With a £18.1 billion gross on-balance exposure at Sept. 30, 2020, the U.S. credit card book is about 50% larger than its U.K. counterpart, though Barclays additionally has £8.5 billion of U.K. unsecured personal loans and partner finance. The vast majority of credit card lending in both markets is to prime customers.

Barclays' corporate lending includes exposures to six sectors that are particularly vulnerable to the current recession and lower oil prices (see chart 5). In aggregate, they represent a manageable 13% of Barclays' total wholesale loans at Sept. 30, 2020. Barclays stated that over 60% of its exposure to these vulnerable sectors is secured, and synthetic risk mitigation covers over 30% of the exposure to some of these sectors.

Chart 5

Meaningful Exposures To Corporate Sectors Most Vulnerable To The COVID-19 Pandemic

Exposure to selected corporate sectors at Sept. 30, 2020



Source: Barclays.

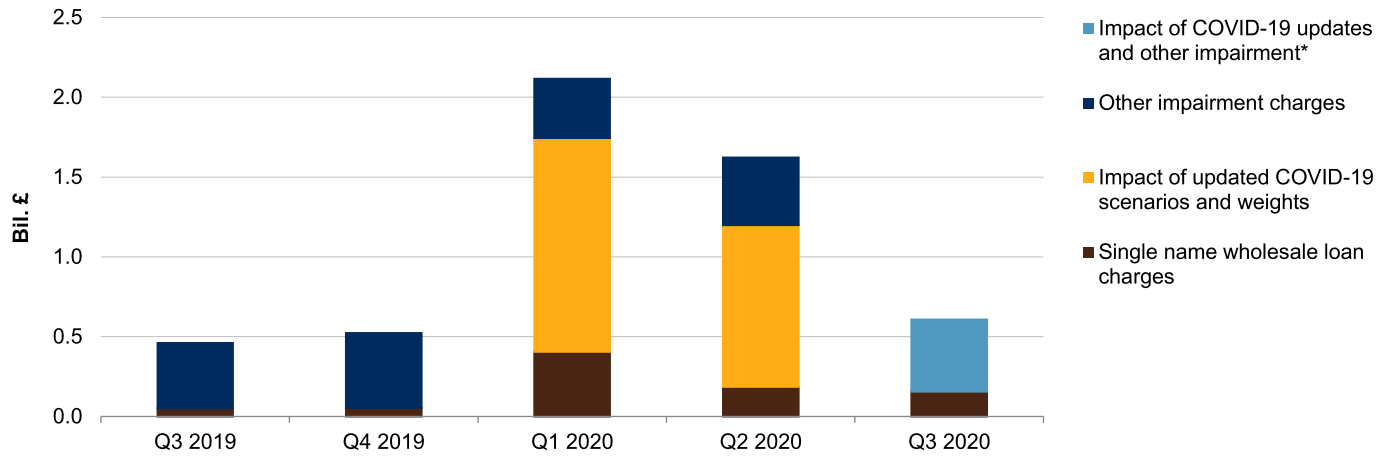
Barclays is a leading player in the leveraged loan market. It incurred some writedowns on fair value corporate lending positions in the first quarter of 2020, largely offset by gains on related mark-to-market hedges. Leveraged loan pricing subsequently recovered but is susceptible to a further reversal if economic sentiment deteriorates again.

Like peers, the sharp increase in Barclays' IFRS 9 impairment charge in the first half of 2020 was driven by weaker economic assumptions (see chart 6). This added to single name wholesale loan charges and Barclays' normal impairment charge of about £400 million-£500 million per quarter. The economic assumptions were little changed in the third quarter and therefore the impairment charge for that period was much lower than the first-half run rate. The U.K.'s second COVID-19 lockdown that started in November 2020 may negatively affect the economic assumptions in the fourth quarter of 2020. Furthermore, potential trade friction following the end of the post-Brexit transition period could weaken the U.K. economic outlook and trigger additional impairment charges.

Chart 6

Weaker Macroeconomic Assumptions Triggered Significant Impairment Charges

Components of the quarterly impairment charges

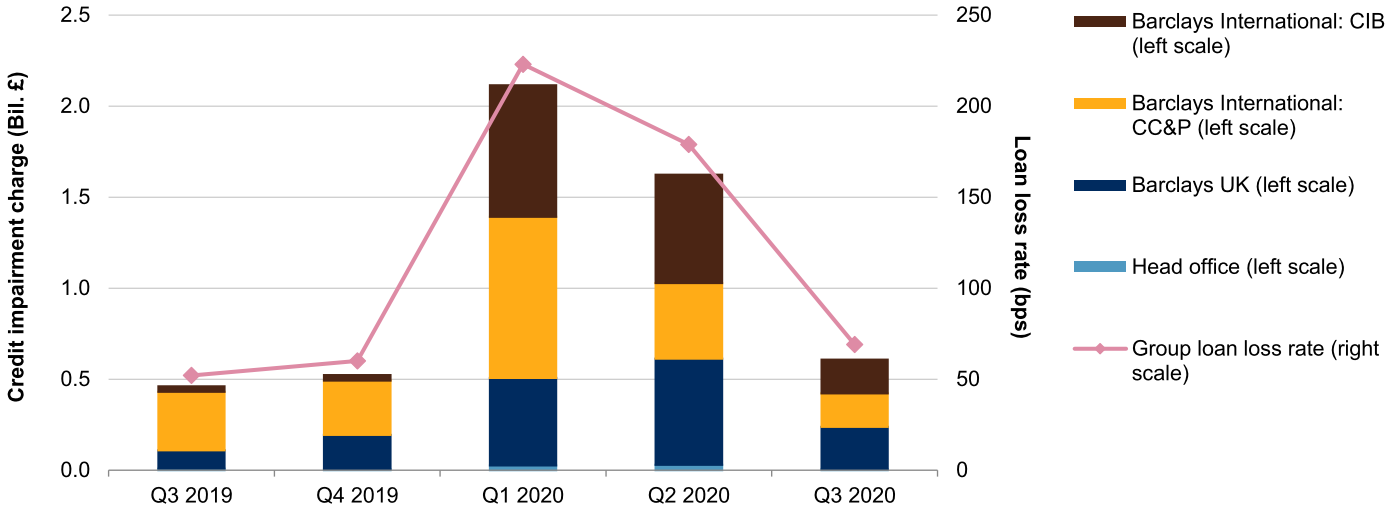


*In Q3 2020, Barclays' disclosure aggregated the impact of updated COVID-19 scenarios and weights with other impairment charges. Source: Barclays.

The divisional breakdown of the impairment charge indicates that the U.S. and U.K. consumer credit portfolios absorbed much of the impairment charge component arising from the more adverse macroeconomic assumptions (see chart 7). The CIB charge was largely driven by single name wholesale loan losses. We project Barclays' reported loan loss rate at about 150 bps in full-year 2020 and 90-100 bps in 2021, which compares to 55 bps in 2019.

Chart 7

Impairment Charges Increased Significantly In The First Half Of 2020
Quarterly divisional credit impairment charges and the group loan loss rate

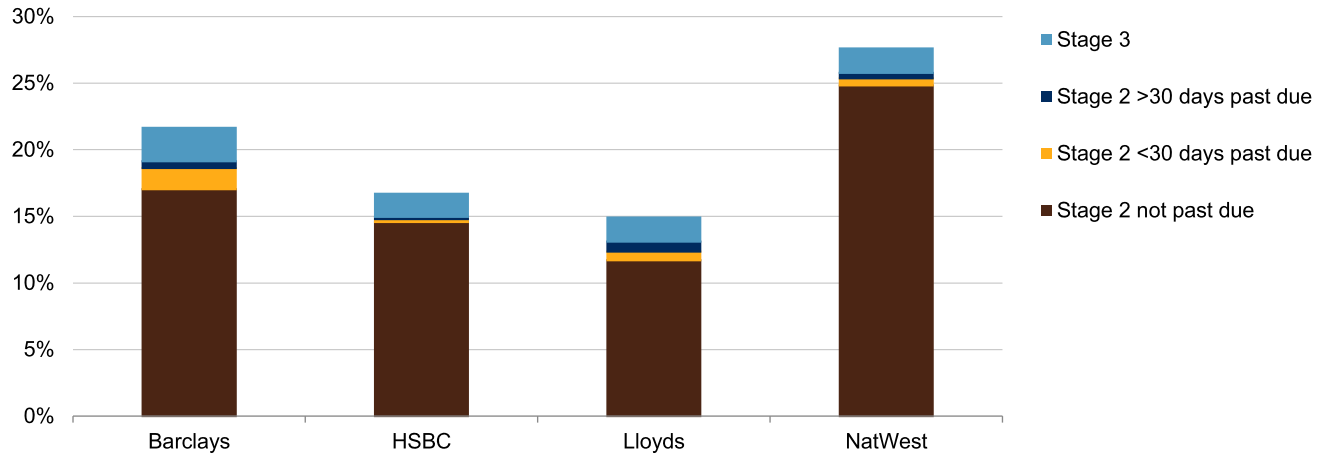


Bps--Basic points. CIB--Corporate & Investment Bank. CC&P--Consumer, Cards, and Payments. Source: Barclays.

Like U.K. peers, Barclays reports relatively high stage 2 loan balances (see chart 8). This is partly because relatively low increases in probabilities of default trigger migration of exposures to stage 2 from stage 1, particularly for consumer credit and wholesale loans. The vast majority of stage 2 loans are fully performing but we expect declining fiscal support in 2021 will increase arrears and migration to stage 3. Most COVID-19 payment holidays have expired with the majority of customers returning to regular payments, indicating that holidays were often taken as precautionary measures.

Chart 8

Barclays' Stage 2 Loans Are Broadly Similar To Domestic Peers'
Stages 2 and 3 loans as percentages of total portfolios at Sept. 30, 2020

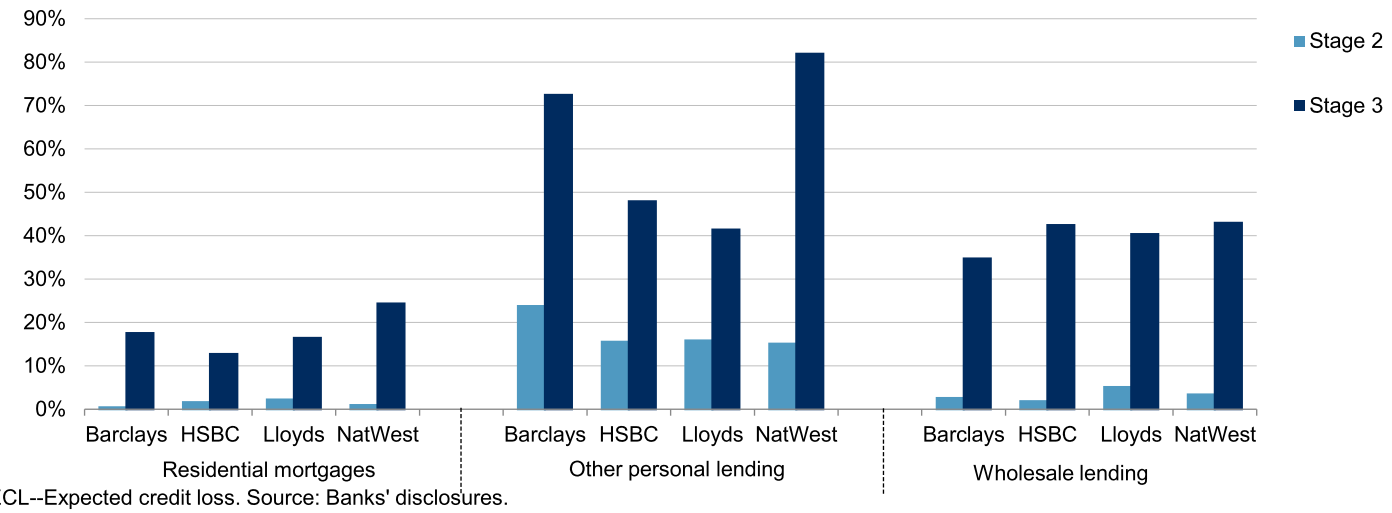


Source: Banks' disclosures.

Barclays is broadly in line with domestic peers in terms of the coverage of stage 2 and stage 3 loans by associated ECL provisions (see chart 9). Residential mortgage and wholesale exposures are significantly collateralized, but other personal lending is predominantly unsecured and therefore requires higher ECL coverage. Barclays' coverage of stage 2 consumer credit exposures is higher than peers', and stood at 28.5% and 28.6%, respectively, for the U.K. and U.S. credit card portfolios at Sept. 30, 2020. These ratios appear prudent and should mitigate the extent of further impairment charges, and potentially enable releases if the economic outlook improves conclusively in 2021.

Chart 9

Barclays' ECL Coverage Is Broadly Similar To Its Domestic Peers'
ECL provision cover at Sept. 30, 2020



ECL--Expected credit loss. Source: Banks' disclosures.

Barclays engages heavily in derivatives and other traded products, resulting in material market and counterparty risks. Recent market volatility increased value-at-risk and trading book RWAs across the peer group. We see Barclays' traded market risk exposure as similar to U.S. peers' in the context of their respective capital bases. Barclays also faces market risks from its structural interest rate and foreign exchange positions and its large defined-benefit employee pension schemes.

Barclays' difficult-to-value level 3 assets increased to £20.2 billion at June 30, 2020 due to market illiquidity. They include a portfolio of education, social housing, and local authority loans, which we see as having very low credit risk.

Like peers, Barclays has incurred material conduct and litigation costs since the 2008 financial crisis. We think that most of the major investigations and cases are now resolved, but there are ongoing civil actions in respect of legacy advisory services agreements, interest rate benchmarks, foreign exchange, and other matters. We assume in our earnings projections that Barclays continues to recognize conduct and litigation charges but at a much lower level than in the recent past.

Table 6

Barclays PLC--Risk Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	10.8	4.1	(15.4)	(6.5)	(3.3)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(9.2)	(8.6)	(9.2)	(10.1)
Total managed assets/adjusted common equity (x)	31.5	27.4	27.9	25.8	23.9
New loan loss provisions/average customer loans	2.2	0.6	0.4	0.6	0.6

Table 6

Barclays PLC--Risk Position (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Net charge-offs/average customer loans	0.5	0.5	0.5	0.5	0.4
Gross nonperforming assets/customer loans + other real estate owned	2.6	2.4	2.7	1.9	2.1
Loan loss reserves/gross nonperforming assets	98.4	77.0	77.0	62.7	53.2

*Data as of June 30. /A--Not applicable. RWA--Risk weighted assets.

Funding and liquidity: Balanced profiles

We assess Barclays' funding as average, based on a comparison with the wider U.K. banking system. Barclays' funding profile benefits from its diverse deposit base, including its granular U.K. retail and corporate franchise, and its proven ability to access wholesale funding in varied market conditions.

We view Barclays' liquidity, which we compare globally, as adequate, which takes into account the bank's large liquid asset portfolio and solid liquidity metrics. Like peers, Barclays' liquidity profile was tested by the market volatility in the first-quarter of 2020, but remained resilient to this stress.

We expect that Barclays' funding and liquidity metrics will not change materially. Its investment bank is an active borrower in confidence-sensitive wholesale markets, which is the main constraint on a stronger funding and liquidity assessment.

Barclays' strong deposit franchise underpins the bank's funding profile. Its 70% reported loan-to-deposit ratio at Sept. 30, 2020 was below the average for U.K. banks. It reduced significantly since the onset of the pandemic as central banks increased the money supply.

Our stable funding ratio was 122% at June 30, 2020, and we expect it will remain around that level. This metric indicates a balanced use of deposits and long-term wholesale funding to finance less-liquid assets. Barclays does not disclose its regulatory net stable funding ratio, which is not yet in force.

The investment bank funds the majority of its inventory on a secured basis, and Barclays' short-term unsecured borrowing primarily funds its liquidity portfolio. Excluding repurchase agreements, Barclays had £182 billion of wholesale funding at June 30, 2020, of which 38% had a maturity of less than one year. Outstanding wholesale funding increased by £35 billion in the first half of 2020 as the asset base increased during the pandemic.

Barclays' liquid asset portfolio increased to £327 billion at Sept. 30, 2020 as it invested a large proportion of its deposit inflow in central banks and government bonds. The portfolio significantly exceeded the total stock of wholesale funding and resulted in a 181% regulatory liquidity coverage ratio. Like other U.K. banks, Barclays has followed a conservative liquidity policy while there remains uncertainty over the final outcome of the Brexit process, and this was a relative advantage when the COVID-19 pandemic occurred. Our calculation of Barclays' broad liquid assets to short-term wholesale funding was a solid 1.7x at June 30, 2020, and we expect it will remain at a comfortable level.

Table 7

Barclays PLC--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	45.1	47.9	45.4	52.6	58.7
Customer loans (net)/customer deposits	76.7	82.3	83.0	87.8	95.3
Long-term funding ratio	75.9	75.0	72.8	68.2	74.5
Stable funding ratio	122.5	118.1	119.4	119.1	101.7
Short-term wholesale funding/funding base	25.6	26.7	28.9	34.1	27.8
Broad liquid assets/short-term wholesale funding (x)	1.7	1.6	1.5	1.5	1.5
Net broad liquid assets/short-term customer deposits	38.6	31.9	34.0	29.8	23.9
Short-term wholesale funding/total wholesale funding	45.7	50.0	51.8	69.9	65.2
Narrow liquid assets/3-month wholesale funding (x)	4.8	5.2	5.4	1.6	1.7

*Data as of June 30.

Environmental, Social, And Governance (ESG)

Overall, we see ESG credit factors for Barclays as broadly in line with those of the industry, including U.K peers. It faces elevated conduct and legal risks in its main markets of the U.K. and U.S., and it has incurred material charges in relation to legacy business practices. These were absorbable from a purely financial point of view, principally at the expense of larger shareholder distributions. We consider that successive management teams have significantly tightened business standards and we believe that the management and awareness of conduct risk are now firmly embedded into the organization.

As a major corporate and investment bank, Barclays is typically exposed as a lender, investor, or advisor to sectors exposed to environmental risks and changing regulation or norms. It has been criticized for its financing of the fossil fuel sector, but the 2020 Annual General Meeting approved a new commitment on climate change. This includes an ambition to be a net zero bank by 2050, stricter prohibitions on thermal coal, and £100 billion of green financing by 2030. Barclays provided more detail on this policy in November 2020, including a new methodology called BlueTrack that will measure and track financed emissions at a portfolio level, starting with energy and power. In Barclays' lending activities, we see growing evidence of environmental risk being treated as a mainstream credit risk factor. Transition risks in the lending portfolio remain important in the medium term.

Support: Large ALAC buffer

We incorporate a two-notch uplift in the long-term ratings on the core operating subsidiaries due to Barclays' comfortable additional loss-absorbing capacity (ALAC). The 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 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 holding company instruments in our ALAC assessment because, over our projection period, we believe they have capacity to absorb losses without triggering a default on the operating entities' senior obligations. 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

10.3% of S&P Global Ratings' RWAs at year-end 2019, and we think it will likely remain about that level.

Consistent with our criteria, and similar to other global banks, the threshold for a two-notch ALAC uplift is 8.5% for Barclays rather than the standard 8.0% threshold. This is because Barclays operates through multiple regulated legal entities and we think this might constrain the flexible deployment of ALAC in a stress scenario.

Barclays' minimum requirement for own funds and eligible liabilities (MREL) ratio was 32.8% at Sept. 30, 2020. Based on its current capital buffers, Barclays will be subject to a 29.9% MREL requirement from January 2022. The debt issuance needed to meet and maintain the MREL requirement appears both manageable and supportive of our ALAC assessment.

Additional rating factors:None

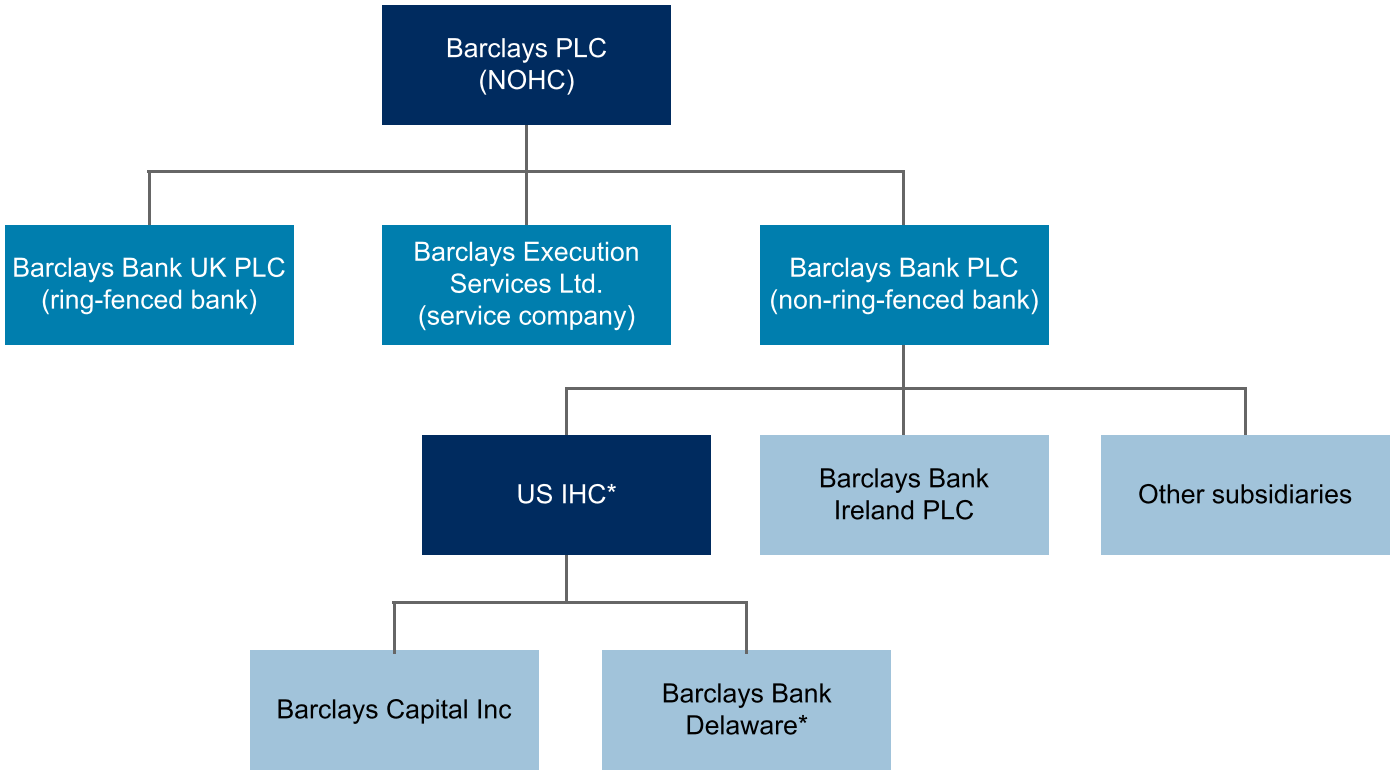
No other factors affect the ratings.

Group structure and rated subsidiaries

Barclays PLC is the non-operating holding company of the group. Barclays Bank PLC and Barclays Bank UK PLC are the main operating entities (see chart 10). We view both as core to the group and, in common with the other core subsidiaries, we rate them in line with the ALAC-supported 'a' group credit profile.

Chart 10

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



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

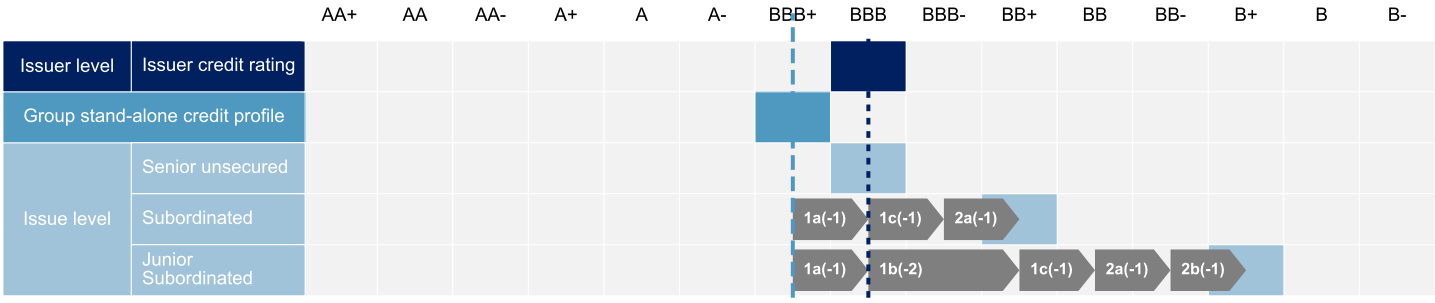
We do not include ALAC uplift in the rating on Barclays PLC because we do not believe that its senior obligations would necessarily continue to receive full and timely payment in a resolution scenario. We rate Barclays PLC one notch below the 'bbb+' group SACP.

Hybrid issue ratings

We rate hybrid instruments according to their respective features (see charts 11 and 12).

Chart 11

Barclays PLC: NOHC Notching



Key to notching

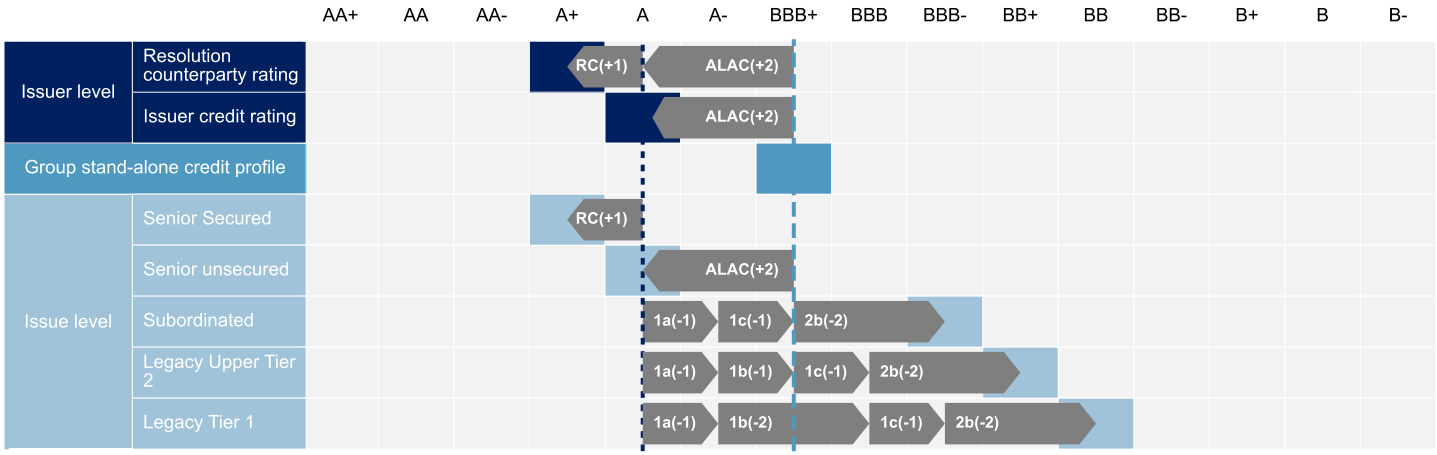
- ----- Group stand-alone credit profile
- ------ Issuer credit rating

1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2a	Mandatory going-concern, regulatory capital-based trigger (either statutory or contractual)
2b	Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) underour criteriastructural subordination (see "Group Rating Methodology," published July 1, 2019).

Chart 12

Barclays Bank PLC: Notching



Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2b	Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

Additional Tier 1 instruments face coupon nonpayment risk if, among other factors, the issuer's regulatory capital ratios breach applicable hurdles (commonly known as Minimum Distributable Amount (MDA) thresholds). At Sept. 30, 2020, Barclays' 14.6% CET1 ratio stood about 330 bps above the MDA threshold. This was a marked improvement from about 170 bps at year-end 2019, reflecting various factors including a reduced countercyclical buffer, expanded IFRS 9 transition arrangements, and dividend cancellations. We expect Barclays will maintain satisfactory MDA headroom but we could lower our ratings on capital securities with discretionary coupons (including Additional Tier 1 instruments), even without a revision of the group SACP, if it declines materially.

Resolution counterparty ratings (RCRs)

We assign 'A+/A-1' resolution counterparty ratings (RCRs) to core subsidiaries and their rated branches that are based in the U.K. and EU.

In contrast, our 'A' long-term RCR on Barclays Capital Inc. is in line with the long-term issuer credit rating. This is because, in our U.S. jurisdiction assessment, we have insufficient visibility regarding whether some senior liabilities have lower default risk than others in a bail-in resolution.

Related Criteria

- Group Rating Methodology, July 1, 2019
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Guarantee Criteria, Oct. 21, 2016
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: United Kingdom, Nov. 17, 2020
- Preparedness And Resilience Keep The U.K.'s Banking Industry In BICRA Group 3 Despite The Second National Lockdown, Nov. 17, 2020
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 23, 2020
- Barclays Bank PLC, Oct. 6, 2020
- Barclays Bank UK PLC, Oct. 6, 2020
- Economic Research: The Second Wave And Brexit Will Test The U.K. Recovery, Oct. 1, 2020
- U.K. Banks' Creditworthiness Will Be Tested As Fiscal Support Ebbs, Aug. 13, 2020
- COVID-19 Effects Might Quadruple U.K. Bank Credit Losses In 2020, May 4, 2020
- Barclays Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed, April 23, 2020

Ratings Detail (As Of December 7, 2020)*	
Barclays PLC	
Issuer Credit Rating	BBB/Negative/A-2
Commercial Paper	A-2
Junior Subordinated	B+
Senior Unsecured	BBB

Ratings Detail (As Of December 7, 2020)*(cont.)	
Subordinated	BB+
Issuer Credit Ratings History	
23-Apr-2020	BBB/Negative/A-2
15-Nov-2017	BBB/Stable/A-2
07-Jul-2016	BBB/Negative/A-2
Sovereign Rating	
United Kingdom	AA/Stable/A-1+
Related Entities	
Barclays Bank Ireland PLC	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank Ireland PLC (Milan Branch)	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank Ireland PLC, Sucursal en Espana (Madrid Branch)	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank Mexico S.A.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Negative/mxA-1+
Barclays Bank PLC	
Issuer Credit Rating	A/Negative/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 (New York Branch)	
Commercial Paper	A-1
Barclays Bank UK PLC	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1

Ratings Detail (As Of December 7, 2020)*(cont.)	
Commercial Paper	A-1
Senior Secured	AAA/Stable
Senior Unsecured	A
Short-Term Debt	A-1
Barclays Capital Inc.	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A/--/A-1
Barclays Capital Luxembourg	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Capital Trading Luxembourg	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Execution Services Ltd.	
Issuer Credit Rating	A/Negative/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.