S&P Global
Ratings

RatingsDirect®

Research Update:

Barclays PLC 'BBB/A-2' Ratings Affirmed On Expected Statutory Earnings Improvement; Outlook Stable

Primary Credit Analyst:
Nigel Greenwood, London (44) 20-7176-1066; nigel.greenwood@spglobal.com

Secondary Contact:
Richard Barnes, London (44) 20-7176-7227; richard.barnes@spglobal.com

Table Of Contents

Research Update:

Barclays PLC 'BBB/A-2' Ratings Affirmed On Expected Statutory Earnings Improvement; Outlook Stable

Overview

- Barclays' management has worked through a variety of legacy matters and appears to be better positioned to focus upon improving statutory earnings.
- We are affirming the 'BBB/A-2' long- and short-term issuer credit ratings on Barclays PLC, the nonoperating holding company.
- We are also affirming our 'A/A-1' long- and short-term issuer credit ratings on Barclays Bank PLC, the non-ring-fenced bank, and Barclays Bank UK PLC, the ring-fenced bank.
- The stable outlook reflects our view that statutory earnings will steadily improve and that asset quality metrics will remain resilient.

Rating Action

On June 13, 2018, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on U.K.-incorporated Barclays PLC, the nonoperating holding company of the Barclays group. The outlook is stable.

At the same time, we affirmed the ratings on the main operating companies: Barclays Bank PLC, the non-ring fenced bank; Barclays Bank UK PLC, the ring-fenced bank; and other core entities of the group. The outlook is stable.

Finally, we affirmed the ratings on the hybrid instruments issued by Barclays PLC and Barclays Bank PLC.

Rationale

The affirmations follow a review of Barclays' credit profile. The ratings on Barclays reflect its significant business and geographic diversification and solid balance sheet profile, offset by a relatively weak and inconsistent earnings track record. As a result, Barclays' 'bbb+' unsupported group credit profile (UGCP) is toward the lower end of the 'bbb' to 'a+' UGCP range that we observe across large, global banks.

In recent months, we have observed that a number of litigation matters have concluded, and we have updated our view of Barclays' capitalization. Both of these developments portray Barclays in a more positive light. There is no ratings impact, however, because the primary ratings consideration remains the fundamental issue of when and how Barclays can sustainably improve statutory returns and build up a track record of business and management stability.

In recent weeks, Barclays has announced:

- The Crown Court has dismissed all charges brought by the Serious Fraud Office against Barclays PLC and Barclays Bank PLC regarding matters that arose in the context of Barclays' capital raisings in 2008;
- The Financial Conduct Authority and Prudential Regulation Authority have concluded their regulatory review into Barclays' CEO, Jes Staley, in relation to attempts he made to identify a whistleblower, and deliberated that there were no findings that he acted with a lack of integrity, nor any findings that he lacks fitness and propriety to continue to perform his role as CEO; and
- It has reached a settlement with the U.S. Department of Justice in relation to residential mortgage-backed securities (RMBS) sold by Barclays between 2005 and 2007, and agreed a monetary penalty of $2 billion (£1.4 billion), which the bank included in its first-quarter results of 2018.

These developments, among other litigation matters, come on top of a period of significant restructuring at Barclays, including the launch of its U.K. ring-fenced bank in April 2018, the closure of its noncore division in mid-2017, and the accounting deconsolidation of Barclays Africa around the same time. Taking all this into account, we see the scope for managerial distraction, or the potential for hits to capitalization, to be much reduced, although we note that litigation in relation to the 2008 capital raise may not be fully closed.

Barclays' reported return on average tangible equity (RoTE) has been negative in four of the past six calendar years, with the best performance being a mere 3.6% in 2016. This is indicative of the transition period that the bank has been through. In the first quarter of 2018, Barclays reported an attributable loss of £764 million, mainly due to the aforementioned RMBS charge plus an additional £400 million charge relating to payment protection insurance. However, excluding conduct and litigation, reported RoTE was a healthier 11%, including double-digit returns at both the Barclays International division (helped by better revenues in the investment bank) and at the Barclays UK division. We think that this performance, while clearly just a brief snapshot, could become more commonplace over time as business stability, the benefits of planned cost reductions, and reduced term wholesale funding costs (while legacy securities unwind), feed through to returns.

By our measures, Barclays' capitalization has been improving. Barclays risk-adjusted capital (RAC) ratio improved by 90 basis points (bps) during 2017 to 10.8% at Dec. 31, 2017. Over the same period, its regulatory CET1 ratio also improved by 90 bps to 13.3%. The aforementioned first-quarter loss reduced this ratio to 12.7% at March 31, 2018, but management have indicated this is a temporary dip relative to their target of being around the 13% mark. They have also indicated the growing possibility of future excess capital distributions.

Given that we now have a somewhat clearer line of sight regarding Barclays' earnings, unusual items, and balance sheet growth, we have revised our capital assessment to strong from adequate, because we expect its RAC ratio will remain above our 10% threshold.

Since we do not believe that Barclays' capitalization has improved to such an extent that we would consider a higher rating, we have compensated for this change by revising our risk position assessment to moderate from adequate. This should not be construed as a negative reflection on Barclays risk management capabilities, which we continue to believe are sound and well managed. Rather, it reflects the relatively high weighting for more volatile investment banking-related income (40% of reported income in the first quarter of 2018), the inherent complexity of some of Barclays' chosen activities, and the relatively high weight for higher-loss-rate credit card and consumer lending (15% of the loan book) notwithstanding the good track record and current benign metrics. Overall, we continue to see the combination of capital and risk as neutral to the rating.

We continue to factor two notches of uplift into the ratings on the operating banks, based on the additional loss-absorbing capacity (ALAC) arising from the group's subordinated debt and senior debt buffers. The ALAC ratio was 11.8% at Dec. 31, 2017, though this figure falls to 8.8% following the aforementioned changed capital assessment, as the excess total adjusted capital element falls from 3.8% to under 1%. Even so, the pro forma ratio is above our 8.5% threshold for two notches of uplift and we expect it will build to more than 9% because Barclays is continuing to issue large volumes of ALAC-eligible instruments. More fundamentally, we consider that Barclays' overall loss absorption is higher than it was a year ago, regardless of the reclassification of our capital and risk scores.

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.

An upgrade appears unlikely in the near term while Barclays builds statutory earnings to be more in line with other large global banks. 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 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.

Upside scenario

Given that we already uplift the ratings on the entities by two notches to reflect our view of 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.

Downside scenario

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.

Ratings Score Snapshot

	To	From
UGCP	bbb+	bbb+
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Strong (+1)	Adequate (0)
Risk Position	Moderate (-1)	Adequate (0)
Funding	Average (0)	Average (0)
and Liquidity	Adequate (0)	Adequate (0)
Support	+2	+2
ALAC Support	+2	+2
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria

- General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018

- General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- 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
- Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Our Credit Loss Estimates For U.K. Banks: 2018-2020, June 7, 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
- Largest U.K. Banking Groups Boast Higher Statutory Pre-Tax Profit But Returns Disappoint, March 8, 2018
- Various U.K. Bank Ratings Affirmed; Outlooks Revised To Stable Or Positive On Balance Sheet Strengths, But Risks Remain, Nov. 15, 2017
- Prospective Barclays Ring-Fenced Entity Assigned Preliminary 'A/A-1' Ratings, Barclays Bank PLC Raised to 'A/A-1', Oct. 17, 2017

Ratings List

Ratings Affirmed

Barclays PLC	
Counterparty Credit Rating	BBB/Stable/A-2
Barclays Bank Ireland PLC	

Barclays Services Ltd.	
Barclays Capital Inc.	
Barclays Bank plc (Milan Branch)	
Barclays Bank plc (Madrid Branch)	
Barclays Bank UK PLC	
Barclays Bank PLC	
Counterparty Credit Rating	A/Stable/A-1
Barclays Bank Ireland PLC	
Barclays Bank plc (Milan Branch)	
Barclays Bank plc (Madrid Branch)	
Barclays Bank UK PLC	
Barclays Bank PLC	
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank PLC	
Certificate Of Deposit	
Foreign Currency	A/A-1
Local Currency	A
Barclays Capital Inc.	
Resolution Counterparty Rating	A/--/A-1
Barclays PLC	
Senior Unsecured	BBB
Subordinated	BB+
Junior Subordinated	B+
Commercial Paper	A-1
BARCLAYS US CCP FUNDING LLC	
Commercial Paper	A-1
Barclays Bank PLC	
Resolution Counterparty Liability	A+
Senior Unsecured	A
Senior Unsecured	Ap
Subordinated	BB+
Subordinated	BBB-
Junior Subordinated	BB
Junior Subordinated	BB+
Junior Subordinated	BBB-
Preference Stock	BB
Short-Term Debt	A-1
Certificate Of Deposit	A
Certificate Of Deposit	A-1
Commercial Paper	A-1
Barclays Bank PLC (Australian Branch)	
Senior Unsecured	A

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)	
Senior Unsecured	A
Commercial Paper	A-1
Barclays Bank PLC (Singapore Branch)	
Commercial Paper	A-1
Barclays Bank PLC (Tokyo Branch)	
Commercial Paper	A-1
Barclays Bank UK PLC	
Commercial Paper	A-1
Barclays U.S. Funding Corp.	
Commercial Paper	A-1