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Barclays PLC

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

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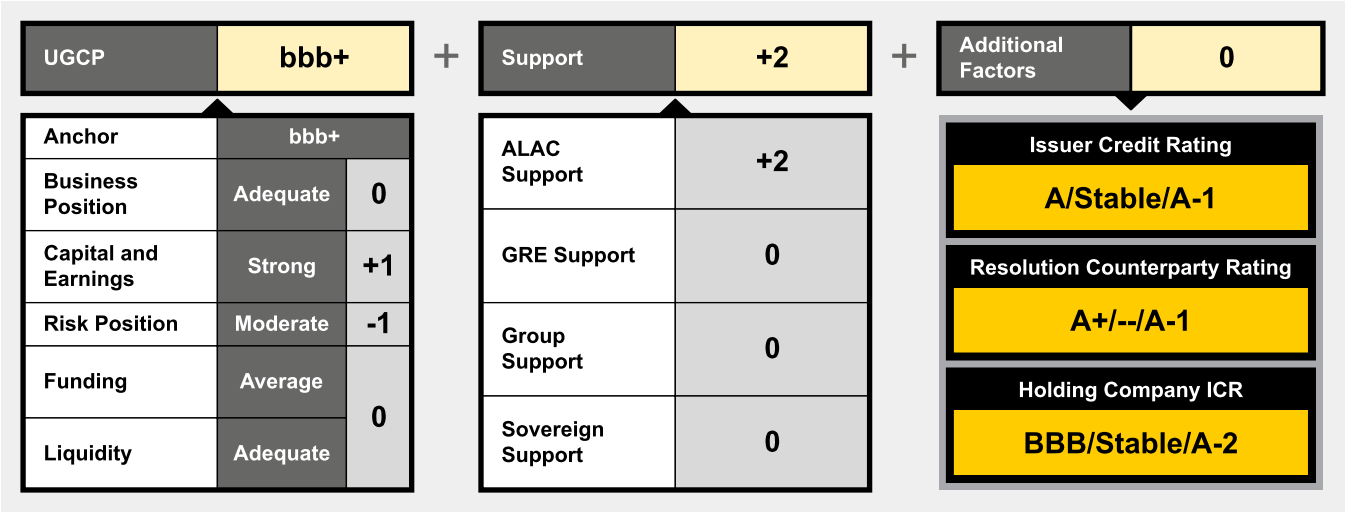
Barclays PLC



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 statutory attributable profit has lacked 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.

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 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 weak earnings track record weighs down its creditworthiness. For example, over the past six calendar years, the bank's average statutory reported return on average tangible common equity (RoTE) has been about zero.

Recently, 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. 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: 'bbb+' is 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 exposure at default pre-credit risk mitigation (as reported in Barclays' Pillar 3 Report). This distribution is approximately 50% in the U.K., 30% in North America, 15% in the EU, and 5% in Asia and the rest of the world. The weighted-average economic risk score for these territories is slightly 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 very similar.

The economic risk trend for the U.K., which affects its domestic banking sector, is stable. To be clear, this is not an indication that we view the U.K. economy as being on a firmer path. In fact, we do not expect the economic backdrop for the U.K.'s domestic banking sector to improve significantly in the next two years. In the remainder of 2018, we anticipate that the economy may slow further as the travails of Brexit negotiations affect consumer confidence and business investment.

Unlike most U.K. peers, the pro forma impact on Barclays of an increase in U.K. economic risk would likely not affect the anchor, subject to the circumstances at the time.

We also view the U.K. banking industry risk trend as stable. The domestic reform agenda is well advanced and banks have increasing clarity on their future regulatory environment. We assume that past changes in regulatory structures will better support market discipline, constrain risk appetites, curb adventurous management strategies, encourage a better conduct and compliance agenda, and, over time, still enable the banking industry to yield adequate profitability. We see limited downside to our industry risk assessment, though implicit in our assessment is the expectation that the industry will soon be able to demonstrate better statutory profitability and a return to earnings above the cost of capital.

Table 1

Barclays PLC -- Key Figures

	--Year-ended Dec. 31--				
(Mil. £)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	1,125,399	1,205,363	1,110,341	1,348,083	1,302,976
Customer loans (gross)	381,241	407,923	422,051	453,420	456,354
Adjusted common equity	43,956	50,824	44,512	45,662	46,147
Operating revenues	21,146	20,941	24,575	25,764	28,210
Noninterest expenses	14,756	15,338	16,199	16,904	18,458

Table 1

Barclays PLC -- Key Figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. £)	**2017**	**2016**	**2015**	**2014**	**2013**
Core earnings	3,295	2,391	1,953	2,507	3,065

Business position: Benefits of diversity yet to show up in 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, and the subsequent build-out of the management team, 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, 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.

Barclays operates via two divisions, broadly aligning the Barclays UK division to BUK and broadly aligning Barclays International and the majority of the Head Office division to BB PLC.

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 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 three years, and 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.

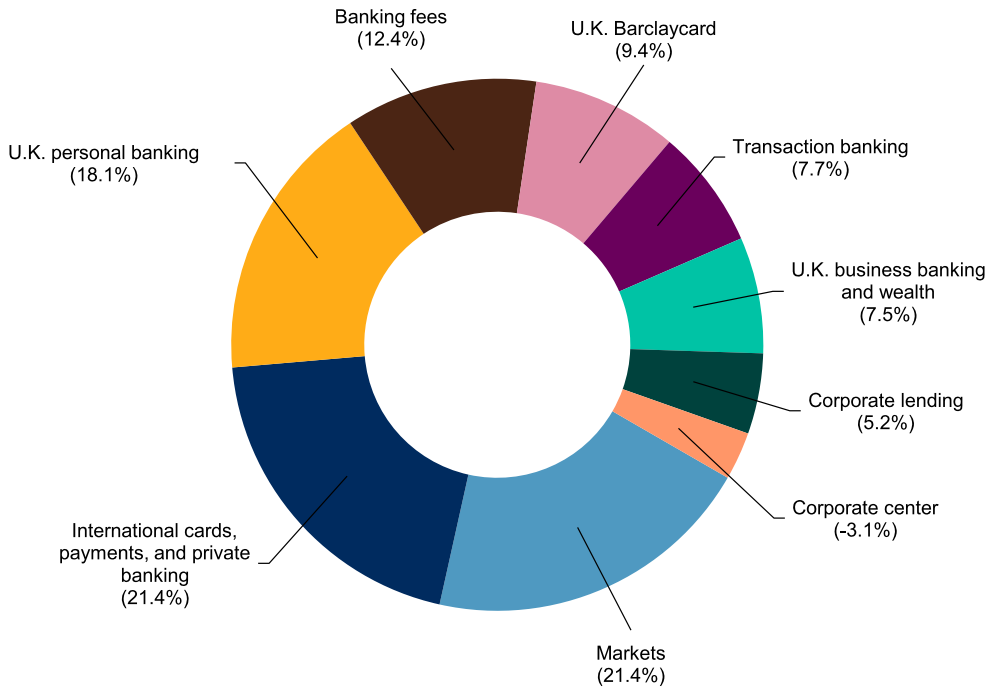
The Barclays International division comprises two elements. First, corporate and investment banking (£9.9 billion revenues in 2017), with the corporate bank serving midsize and large clients, global transaction banking, and investment banking. Second, consumer, cards, and payments (£4.5 billion revenues in 2017): Barclaycard outside the U.K., including U.S. cards, payments and merchant acquiring, 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 tentative signs of improvement after several years of mixed performance. 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 segments, is a credit strength (see chart 1). By geography, Barclays is less diverse than it once was (most notably following the accounting deconsolidation of Barclays Africa Group Ltd [BAGL] in 2017), with a predominant reliance upon the U.K., the U.S., and, to a lesser extent, Germany (among other markets). For example, in 2017, international income was 47% of revenue, 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 1

Barclays PLC -- Reported Revenue By Business Activity, 2017 (£21.1 Billion)

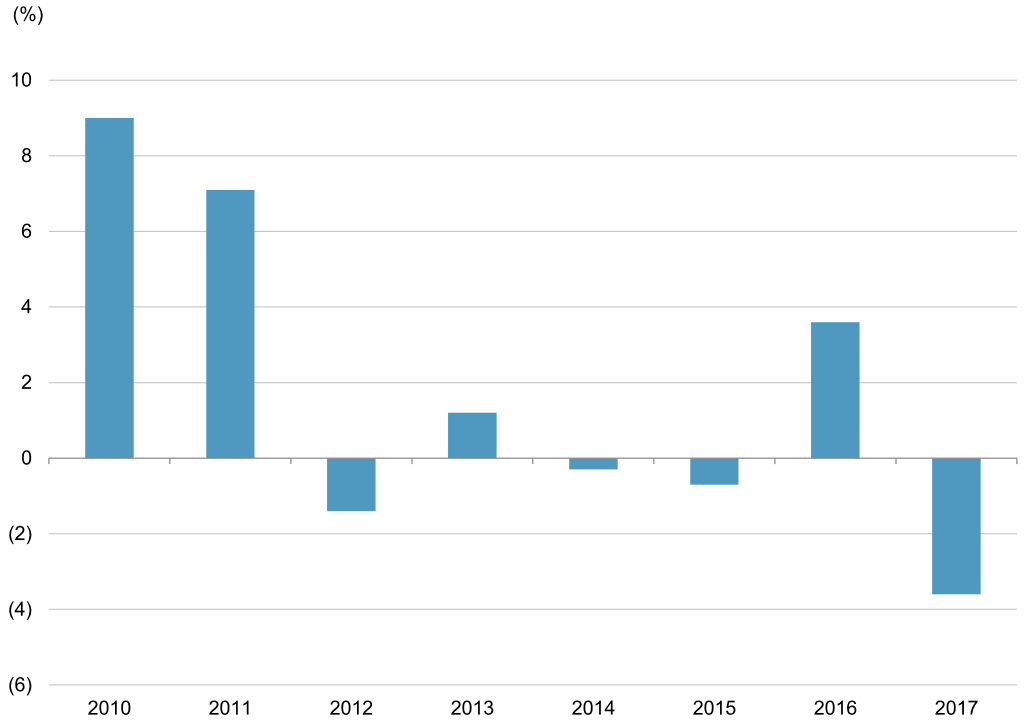


Barclays' weak reported RoTE reflects the bank's inability to translate its strong franchises into acceptable statutory returns (see chart 2). Barclays is not alone in this respect, but the important role for its investment bank, which often has to compete against typically stronger U.S. banking groups, brings its under-performance into greater focus. We now assume that return constraints should be much more limited given that Barclays has:

- Completed its restructuring (its noncore division closed in mid-2017);
- Sold down most of its stake in BAGL (this process concluded in 2017);
- Seemingly worked through its legacy litigation matters (Barclays booked a £1.4 billion charge in relation to US RMBS in the first quarter of 2018); and
- Executed ring-fencing.

Chart 2

Barclays PLC -- Reported Statutory Return On Average Tangible Equity



Finally, a key factor in our relative analysis is our view of management. 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. As indicated above, the management has credibly consummated numerous objectives since 2016. Like with Barclays' peers, we now focus our analysis upon the management's ability to generate improved returns (it has indicated an RoTE target, excluding conduct and litigation, of greater than 9% in 2019, and greater than 10% in 2020) and management stability.

In March 2018, it emerged that entities controlled by activist investor, Sherborne, had acquired voting rights of 5.2% of Barclays' issued share capital. Sherborne has been proactive in other U.K. financial services companies in recent years, although none have been major banking groups. In our opinion, given the degree of recent change at Barclays, we would be surprised if the activist investor was able to contribute to material strategic developments. That said, for the time being, this relatively unusual status for a large banking group acts as an additional constraint on our business position assessment.

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 (which we have recently revised from adequate). We project Barclays' risk-adjusted capital (RAC) ratio will be 10.0%-10.5% over the next 18-24 months, up from 9.75%-10.25%

before, which is above our 10% threshold for a strong assessment.

We calculate Barclays' RAC ratio to be 10.8% as of Dec. 31, 2017, up 90 basis points (bps) year-on-year, helped by a sharp reduction in S&P Global Ratings risk-weighted assets (RWAs).

Our forecast for Barclays' projected RAC through to year-end 2020 includes the assumptions outlined below:

- Pre-provision operating income in 2020 to be about one-quarter higher than our calculation of £6.4 billion in 2017 as the negative impact of former noncore assets wanes, trading income improves, term wholesale funding costs reduce, and good control of operating expenses becomes more visible.
- The loan loss rate to be broadly unchanged in 2018 before rising to about 70 basis points in both 2019 and 2020.
- After taking into account £2.0 billion of conduct and litigation charges in the first quarter of 2018 (the aforementioned RMBS charge and an additional £400 million payment protection insurance charge), we conservatively assume a similar amount through the remainder of the period, although we acknowledge that the timing and scale of such charges cannot be a precise estimate.
- We have incorporated the £2.2 billion negative day one impact of International Financial Reporting Standard (IFRS) 9 on total adjusted capital (TAC).
- Beyond the already announced intended pick-up in the dividend payout next year to 6.5p per share from the current 3.0p per share, 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 TAC-eligible Tier 1 (AT1) instruments. We note the possibility over the projection period that Barclays may choose to redeem a legacy preference share issue that has a value of £1.3 billion within TAC.

We expect that S&P Global Ratings' RWAs will resume its growth in 2018 by about 1% before rising more briskly by about 3% in both 2019 and 2020.

Barclays reported a regulatory fully loaded Common Equity Tier 1 (CET1) ratio of 13.3% on Dec. 31, 2017, also up by 90 bps over the year. Management has indicated that its end-state CET1 target is about 13%, which is broadly consistent with most U.K. peers. This metric fell to 12.7% in the first quarter of 2018 due to the aforementioned conduct and litigation charges, but we assume this will be a temporary dip. 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 revised 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 similar to that of peers (see table 2).

Table 2

Barclays PLC -- Reconciliation Of Total Adjusted Capital

(Mil. £)	FY2016	FY2017
Common shareholders' equity (reported)	58,424	54,964
+ Minority interest (equity)	3,507	0
- Dividends (not yet distributed)	(388)	(392)

Table 2

Barclays PLC -- Reconciliation Of Total Adjusted Capital (cont.)

(Mil. £)	FY2016	FY2017
- Revaluation reserves	(2,031)	(1,525)
- Goodwill and nonservicing intangibles	(7,726)	(7,849)
- Postretirement benefit adjustments	(38)	(732)
- Cumulative effect of credit-spread related revaluation of liabilities	86	83
- Investment in insurance subsidiaries and significant minority interest in financial institutions	(516)	0
- DTAs arising from permanent differences	(494)	(593)
= Intermediate adjusted common equity	50,824	43,956
- DTAs arising from temporary differences	0	0
Adjusted common equity	50,824	43,956
+ Admissible preferred and hybrids	9,162	10,780
Total adjusted capital	59,986	54,736

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

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 60 bps in both 2019 and 2020. This would still be lower than some peers'.

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% in 2019. 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). If achieved, this implies 2019 revenues would need to be more than £2 billion higher than the circa £21 billion figure reported in 2017 in order to hit Barclays' efficiency target.

Table 3

Barclays PLC -- Capital And Earnings

	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Tier 1 capital ratio	17.2	15.6	14.7	13.0	15.7
S&P Global Ratings RAC ratio before diversification*	10.8	9.9	9.5	8.1	8.3
S&P Global Ratings RAC ratio after diversification*	11.9	11.0	11.7	10.0	10.6
Adjusted common equity/total adjusted capital	80.3	84.7	83.2	85.1	85.2
Net interest income/operating revenues	46.6	50.3	51.1	46.9	41.1
Fee income/operating revenues	32.2	32.3	32.1	31.7	31.0
Market-sensitive income/operating revenues	19.6	18.5	15.5	19.7	25.2
Noninterest expenses/operating revenues	69.8	73.2	65.9	65.6	65.4
Preprovision operating income/average assets	0.5	0.5	0.7	0.7	0.7
Core earnings/average managed assets	0.3	0.2	0.2	0.2	0.2

*Data prior to 2016 not fully comparable owing to our mid-2017 RAC criteria update. RAC--Risk-adjusted capital.

Table 4

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 and central banks	265,043	4,088	2	4,569	2
Of which regional governments and local authorities	594	13	2	21	4
Institutions and CCPs	45,756	10,065	22	10,971	24
Corporate	153,218	78,200	51	121,142	79
Retail	246,121	75,363	31	160,252	65
Of which mortgage	157,220	23,750	15	60,014	38
Securitization§	30,120	4,163	14	12,384	41
Other assets†	107,215	49,830	46	79,176	74
Total credit risk	848,067	221,708	26	388,494	46
Credit valuation adjustment					
Total credit valuation adjustment	--	3,000	--	4,010	--
Market risk					
Equity in the banking book	1,779	2,650	149	13,021	732
Trading book market risk	--	28,313	--	41,409	--
Total market risk	--	30,963	--	54,431	--
Operational risk					
Total operational risk	--	56,663	--	57,863	--
(Mil. £)		**Basel III RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		313,050		504,798	100
Total Diversification/Concentration Adjustments		--		(46,465)	(9)
RWA after diversification		313,050		458,333	91
(Mil. £)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		50,376	16.1	54,736	10.8
Capital ratio after adjustments‡		50,376	16.1	54,736	11.9

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RAC--Risk-adjusted capital. RW--Risk weight. RWA--Risk-weighted assets. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

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

We consider Barclays' risk position to be moderate (which we have recently revised from adequate). We tend to analyze capital and risk in combination, and we continue to view Barclays' capitalization as net neutral to the ratings, similar to many peers. The revision of our assessment does not negatively reflect Barclays' risk management

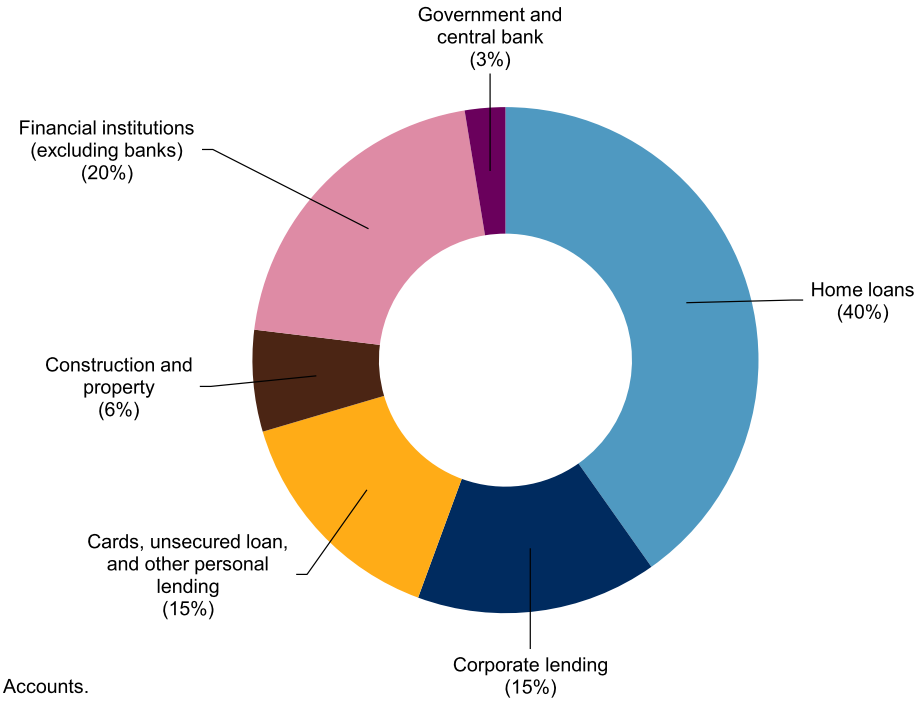
capabilities, which we continue to believe are sound and well managed. Rather, it reflects the relatively high weighting for investment-banking-related income (40% of reported income in the first quarter of 2018), the inherent complexity of some of Barclays chosen activities, and the relatively high weight for higher loss rate credit card and consumer lending, notwithstanding the good track record and current benign metrics.

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 £365.6 billion at Dec. 31, 2017, down 7% year-on-year. By geography, the U.K. represented 69%, followed by the Americas with 17%, while Europe represented most of the remainder. By sector, residential mortgages represent 40% of the total (see chart 3), which is less than the 50% at RBS and 64% at Lloyds. We consider that the quality of the U.K. mortgage book (about £132 billion) compares well with the U.K. industry.

Chart 3

Barclays PLC -- Net Loans And Advances To Customers By Industry At Dec. 31, 2017 (£365.6 billion)



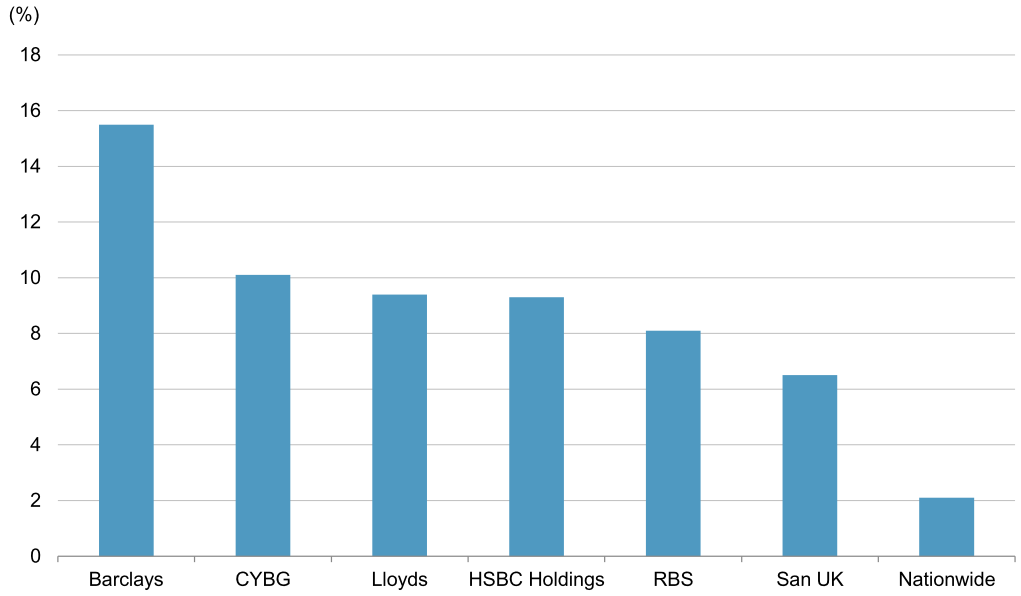
Source: Accounts.

Other notable segments include consumer credit (cards, unsecured loans, and other personal lending), which represents 15% of net loans. This proportion is higher than that at U.K. peers (see chart 4). The size of Barclays' U.S.

cards book (£21 billion) is actually larger than its U.K. cards book (£18 billion). Charge-off rates in both books are close to historic lows.

Chart 4

Barclays PLC -- Consumer Credit As A % Of Group Customer Loans (Gross)



Data at year-end 2017, except CYBG (at half-year March 31, 2018) and NBS (at year-end April 4, 2018).

Barclays' corporate and industrial portfolio is diverse by sector, geography, and single-name exposure. We take some comfort from the fact that Barclays' commercial real estate loan book (about £24 billion exposure to construction and property) is only a relatively modest 6% of total customer loans, of which the vast majority relates to its main U.K. market.

By our measure, Barclays' nonperforming loans ratio (covering impaired loans plus 90 days past due loans and renegotiated loans), was a low 2.0% at Dec. 31, 2017.

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

In 2017, Barclays' reported loss rate was 57 bps. Since 2005 (the introduction of IFRS), Barclays' loss rate has averaged 75 bps; the introduction of IFRS9 with effect from Jan. 1, 2018 may increase the volatility of Barclays' loss rates relative to some peers'.

We note that the bank engages heavily in the derivatives and trading markets and ultimately relies, to an extent, 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. 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. Finally, one other 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 are down significantly in recent years; they were 28% of TAC at Dec. 31, 2017, down from 45% the year before. That said, they still seem to make up a reasonably high proportion of capital and we will continue to monitor the trends.

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--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	(6.5)	(3.3)	(6.9)	(0.6)	(0.2)
Total diversification adjustment/S&P Global Ratings RWA before diversification	(9.2)	(10.1)	(18.2)	(19.1)	(21.3)
Total managed assets/adjusted common equity (x)	25.8	23.9	25.2	29.7	28.4
New loan loss provisions/average customer loans	0.6	0.6	0.5	0.5	0.7
Net charge-offs/average customer loans	0.5	0.4	0.4	0.6	0.7
Gross nonperforming assets/customer loans + other real estate owned*	1.9	2.1	2.3	2.4	3.3
Loan loss reserves/gross nonperforming assets*	62.7	53.2	49.9	50.4	48.0

*Impaired loans plus 90 days past due loans and renegotiated loans. RWA--Risk-weighted assets.

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 (53%) is lower than some domestic and international peers.

Barclays' strong deposit franchise underpins the bank's funding profile. At Dec. 31, 2017, Barclays' loan-deposit ratio, by our measures, stood at 88%, slightly lower than the year before. Indeed, this metric has been on a consistent

downward trend for nine consecutive years. The median for the top 25 domestic U.K. banks, by revenues, was 110% 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 110%. 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, 2018, total group wholesale funding outstanding excluding repurchase agreements was £147 billion.

Barclays' group liquidity pool (portfolios of unencumbered cash, central bank deposits, and government and supranational bonds) totaled £207 billion as of March 31, 2018, 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, 2017, 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 147% as of March 31, 2018.

Table 6

Barclays PLC -- Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	52.6	58.7	59.3	52.2	47.3
Customer loans (net)/customer deposits	87.8	95.3	99.7	104.7	105.0
Long term funding ratio	68.2	74.5	75.7	68.3	61.5
Stable funding ratio	119.1	101.7	110.8	101.2	97.3
Short-term wholesale funding/funding base	34.1	27.8	26.3	34.0	40.9
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.5	1.2	1.0
Net broad liquid assets/short-term customer deposits	29.8	23.9	22.3	12.9	3.8
Short-term wholesale funding/total wholesale funding	69.9	65.2	62.5	69.7	76.3
Narrow liquid assets/three-month wholesale funding (x)	1.6	1.7	1.6	1.3	1.1

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 8.8% of S&P Global Ratings' RWAs at year-end 2017, after incorporating the much lower effect of excess TAC following our capital score revision. We expect Barclays' loss-absorption capabilities will continue to improve, and we note further material issuance of ALAC-eligible instruments this year. Our projections assume that Barclays' ALAC metric will remain above the 9% mark.

Table 7

Barclays PLC -- Summary Of ALAC Calculation As Of Dec. 31, 2017

		(Bil. £)	% of S&P Global Ratings RWA
A	Adjusted common equity	43,956	
B	Hybrids in TAC	10,780	
C (A+B)	Total adjusted common equity	54,736	10.8
D	TAC in excess of our 10% threshold	4,256	0.8
E	ALAC-eligible instruments	40,248	8.0
	o/w NOHC senior	21,000	
	o/w Dated subordinated	14,903	
	o/w Minimal equity content hybrids	3,911	
	o/w Other	434	
F (=D+E)	ALAC buffer	44,504	8.8
	S&P Global Ratings RWA*	504,798	

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

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 24.7% at March 31, 2018, or 27.5% 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 figure is 29.1%, and the gross issuance required to achieve this target appears to be both manageable and supportive of our ALAC assessment.

Additional rating factors: None

No other factors affect the ratings.

Group structure, rated subsidiaries, and hybrids

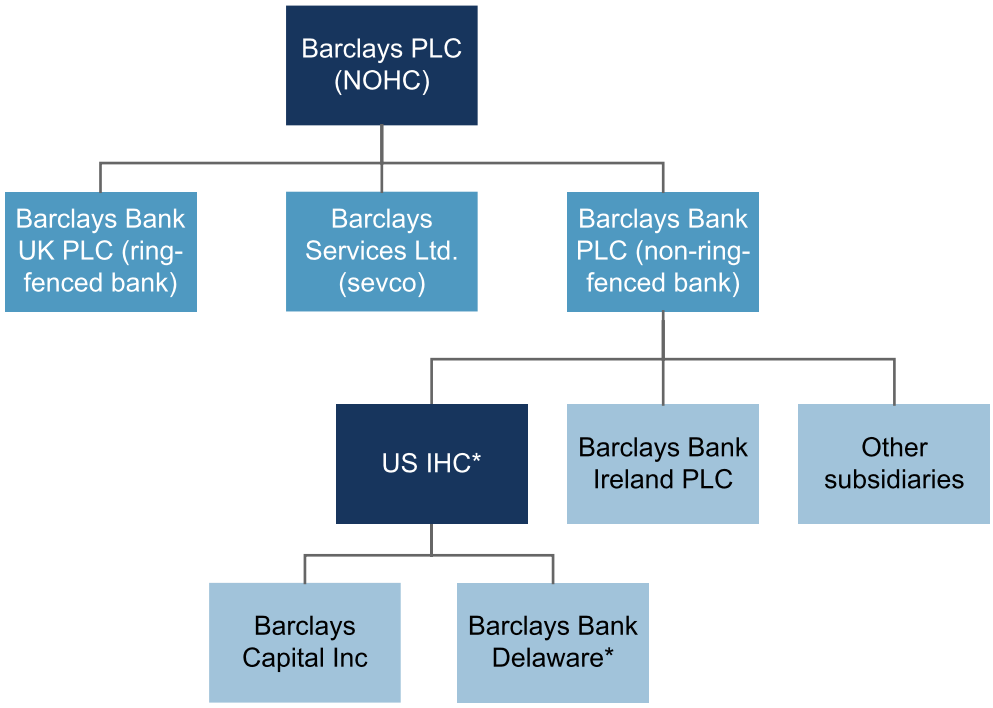
Barclays PLC is the ultimate holding company of the group that it heads, and is an NOHC.

Barclays PLC operates through two principal operating subsidiaries: BB PLC and BUK (see chart 5). 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 core subsidiaries) are therefore in line with the ALAC-supported 'a' GCP.

Chart 5

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



Source: *Not rated. NOHC--Nonoperating holding company.

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 301bps-700bps; and
- One notch because the NOHC issues the notes.

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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Banks: Rating 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

- Barclays PLC 'BBB/A-2' Ratings Affirmed On Expected Statutory Earnings Improvement; Outlook Stable, June 13, 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 Profits But Returns Disappoint, March 8, 2018
- Banking Industry Country Risk Assessment: United Kingdom, 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 Detail (As Of June 21, 2018)	
Barclays PLC	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Foreign Currency	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
03-Feb-2015	BBB/Stable/A-2
29-Apr-2014	A-/Negative/A-2
02-Jul-2013	A-/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 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
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-

Ratings Detail (As Of June 21, 2018) (cont.)	
Barclays Bank PLC (Australian Branch)	
Senior Unsecured	A
Barclays Bank PLC (Cayman Branch)	
Commercial Paper	
Foreign Currency	A-1
Barclays Bank PLC (Hong Kong Branch)	
Commercial Paper	
Foreign Currency	A-1
Barclays Bank plc (Madrid Branch)	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank plc (Milan Branch)	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Barclays Bank PLC (New York Branch)	
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A
Barclays Bank PLC (Singapore Branch)	
Commercial Paper	
Foreign Currency	A-1
Barclays Bank PLC (Tokyo Branch)	
Commercial Paper	
Foreign Currency	A-1
Barclays Bank UK PLC	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Barclays Capital Inc.	
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.