FitchRatings

Fitch Affirms Barclays plc's IDR at 'A'

Fitch Ratings-London-21 June 2018: Fitch Ratings has affirmed Barclays plc's (Barclays) Long- and Short-Term Issuer Default Ratings (IDR) at 'A' and 'F1', respectively. The bank's Viability Rating (VR) was affirmed at 'a'. The Outlook on the IDR is Stable.

Fitch is maintaining the Long-Term 'A' IDRs of Barclays Bank Plc (BB plc) and Barclays Bank UK plc (BBUK plc) on Rating Watch Positive (RWP).

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks (GTUB), which comprises 12 large and globally active banking groups.

A full list of rating actions is available at the end of this rating action commentary.

KEY RATING DRIVERS
VR
BARCLAYS PLC, BARCLAYS BANK PLC, BARCLAYS BANK UK PLC
Barclays' VR reflects our view of the consolidated risk profile of the group, which results from an analysis of its two main operating banks BB plc and BBUK plc. After the transfer of assets and liabilities to a newly set up sister bank BBUK plc in April 2018, the remaining BB plc subgroup represents around 80% of the group's assets and just over half of pre-tax profit (according to pro-forma disclosures as at end-2017).

BB plc's VR is based on our analysis of the bank's standalone credit profile, which includes ongoing capital support from BBUK plc, as excess capital will be managed on a group-wide basis after ring-fencing, and the benefit of a common management and strategy framework. BBUK plc's VR reflects a less complex retail and SME banking business model, strong funding profile dominated by granular deposits and solid asset quality.

The consolidated holding company VR also reflects modest levels of double leverage and our expectation that the holding company will maintain prudent management of liquidity, which should be helped by existing policies to manage liquidity across a

large number of legal entities globally.

The affirmation of the group VR and IDR reflects progress made by Barclays in resolving conduct matters and reshaping its organisational structure for ring-fencing, thus removing uncertainty over the bank's capital. The group's sound capitalisation and funding and liquidity profiles mitigate its weaker profitability, in our view. Underpinning the VR are also Barclays' sound franchises in domestic retail, cards and commercial banking, as well as in select investment banking businesses in the UK and the US. However, a high share of capital markets businesses, which we regard as more volatile, weighs on our company profile assessment.

Barclays' regulatory CET1 ratio of 12.7% dropped below the target of around 13% at end-1Q18 and 60bp from end-2017, but provides a still reasonable 130 bps above the group's known end-state requirements. We expect the CET1 buffer to be restored to higher levels in a timely manner, notwithstanding management's decision to increase dividend payments to 6.5p per share, or just over GBP1 billion from 2018 results.

The reduction in 1Q18 reflected the impact of litigation (61bp), dividends, share awards and RWA growth, which more than offset the 42bp from underlying organic capital generation. The ratio also includes the benefit of transitional arrangements on the impact of IFRS 9, without which the CET1 ratio would have dropped to 12.2%.

The group's earnings are low for the ratings and we expect them to continue to lag behind most global peers' over the next two years. A modest improvement in operating profitability should be helped by lower negative contribution from non-strategic businesses and non-recurrence of ring-fencing set-up costs, in part offset by further net investments. Over the medium term the newly set up service company can facilitate further cost rationalisation through standardisation and removal of duplicate functions. Challenges to profitability may result from a slowing domestic economy, particularly in light of Brexit, while a moderate increase of UK base rates will likely help the bank's net interest income, albeit with a lag.

We believe that the risk of one-off hits to P&L has decreased after the Department of Justice settlement in 1Q18, sell-down of its Africa operations and closure of the non-core unit, but we view a certain amount of conduct-related costs as part of the ongoing expenses.

The group's funding profile is well-matched and diversified. It benefits from the group's UK retail franchise to fund retail assets and good market access to fund wholesale operations. Liquidity is comfortable, with a liquidity coverage ratio (LCR) of

147% and an available liquidity pool of GBP207 billion at end-1Q18, well above requirements. This is notwithstanding our view of reduced fungibility across legal entities after ring-fencing legislation becomes enforceable.

The group has made good progress with minimum requirement for eligible liabilities (MREL) issuance plans, having raised GBP23 billion senior holding company debt by end-March 2018. At end-March 2018 it reported a 24.7% holding company MREL/RWA ratio, which marks reasonable progress towards the requirement of 29.1% (including a 0.5% counter-cyclical buffer) by 2022.

IDRS, SENIOR DEBT and DERIVATIVE COUNTERPARTY RATINGS (DCR)
BARCLAYS PLC, BARCLAYS BANK PLC, BARCLAYS BANK UK PLC
The Long-Term IDRs and senior debt ratings of BB plc and BBUK plc are maintained on RWP to reflect the large volumes hybrid additional tier 1 (AT1) instruments, tier 2 debt and senior debt issued by Barclays, which are currently mostly down-streamed as mirror instruments to BB plc and BBUK plc. We expect that the down-streamed senior debt will become subordinated to external senior obligations and become eligible as internal MREL no later than at the start of 2019. At that point, subject to sufficient amounts being issued and pre-placed, we expect BB plc's and BBUK plc's IDRs to be rated one notch above the banks' respective VRs.

We do not expect to assign an uplift to Barclays' IDR as we do not expect the bank to maintain a sufficient amount of subordinated debt to allow for such an uplift.

The DCR on BB plc is at the same level as its Long-Term IDR because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario in the UK.

SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)
BARCLAYS BANK AND BARCLAYS PLC
BB plc's and B plc's SRs and SRFs reflect Fitch's view that senior creditors of the bank and the holding company cannot rely on extraordinary support from the sovereign in the event that BB plc becomes non-viable. In our opinion, the UK has implemented legislation and regulations to provide a framework that is likely to require senior creditors to participate in losses for resolving even large banking groups.

BARCLAYS BANK UK
BBUK plc's SR of '1' reflects our view of an extremely high probability of institutional support being made available from Barclays and indirectly BB plc given the ring-fenced bank's strategic role in the group and reputational considerations. Despite its

size we believe that support would be manageable.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
BARCLAYS BANK AND BARCLAYS PLC
Subordinated debt and other hybrid capital issued by BB plc and Barclays are all notched down from their respective VRs, in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

Barclays' and BB plc's subordinated lower Tier 2 debt is rated one notch below the VRs for loss severity, reflecting below-average recoveries. BB plc's upper Tier 2 instruments are rated three notches below the VR, comprising one notch for loss severity and two notches for incremental non-performance risk, reflecting cumulative coupon deferral.

The high trigger contingent capital Tier 2 issued by BB plc is rated four notches below the VR of Barclays as its terms reference group capitalisation and dividend payments. The notes are notched down twice for loss severity, reflecting loss absorption if the bank breaches a 7% CRD IV transitional (FSA October 2012 statement) CET1 ratio. In addition, they are notched down twice for non-performance risk.

High-trigger contingent capital Tier 1 instruments and preference shares with no constraints on coupon omission are rated five notches below the VRs. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are notched down three times for very high non-performance risk due to fully discretionary coupon omission.

Other legacy Tier 1 securities of BB plc are rated four notches below the VR, comprising two notches for higher-than-average loss severity, and two further notches for non-performance risk due to partly discretionary coupon omission.

RATING SENSITIVITIES

VR
BARCLAYS PLC, BARCLAYS BANK AND BARCLAYS BANK UK PLC
The group's VRs are primarily sensitive to progress in meeting stated performance and capital targets. Our ratings assume a return to the planned capital trajectory is achieved in a timely manner. Failure to restore capitalisation to the targeted level of around 13% CET1 ratio on a consolidated basis could cause us to reassess our view

on the group's flexibility to manage capital relative to requirements and in light of reduced capital fungibility after ring-fencing.

We believe that the potential and the willingness of the group to optimise RWAs have reduced significantly since the group has deconsolidated the African operations and reintegrated the much reduced non-core assets. Consequently we view internal capital generation as the main source for CET1 capital-building.

Ratings could also be under pressure if management's plans to improve returns towards the stated targets of above 9% of tangible equity in 2019 and above 10% in 2020 are not achieved without a material increase in risk appetite.

Challenges to profitability targets could be caused by weaker than expected economic repercussions of the UK's departure from the EU and could manifest in outsized loan impairment charges on the bank's unsecured lending, negative impact from a subdued investment appetite, and prolonged margin pressure from interest rates, among others.

A further increase in risk appetite, from higher risk weighted assets allocated to the corporate and investment bank, to market risk or towards weaker credit exposure, could increase the volatility of earnings and would also put pressure on the ratings.

Upside for the VR is limited in the medium term unless the group demonstrates a sustained improvement in earnings through the cycle, resulting in a materially stronger capacity to generate capital internally.

BBUK plc's VR could be downgraded if we believe that the bank's competitive position or financial profile weakens and operational support from the group is not available to offset this weakness, either because of competing needs in other parts of the group or a shift in group strategy. A downgrade of BB plc's VR could lead to a downgrade of BBUK plc if we believe that weaknesses in other parts of the group negatively reflect on BBUK plc's franchise or capitalisation.

An upgrade of BBUK plc's VR would require a sustainable improvement in its earnings generation capacity beyond the non-recurrence of conduct costs, which would reflect the bank's competitive advantage in the domestic market. Because of the high indebtedness of the UK private sector, Fitch currently caps the VRs of domestic retail banks in the UK at the 'a' category.

IDRS, SENIOR DEBT and DCR

BARCLAYS BANK, BARCLAYS PLC, BARCLAYS BANK UK PLC
We expect to upgrade BB plc's and BBUK plc's IDRs one notch above the VRs when the debt received by the holding company becomes subordinated to BB plc's other senior creditors, and provided that the quantum together with its external QJD remains sufficient and sustainable.

Barclays' IDR is mainly sensitive to the group's VR. The IDR could be rated above the VR if the group maintains a QJD buffer consisting of AT1 and Tier 2 debt sustainably above our assumed requirements, which we do not expect. Conversely it could be rated lower if common equity double leverage increases above 120% or if the role of the holding company changes, both of which we do not expect.

The DCR is primarily sensitive to changes in BB plc's Long-Term IDR.
SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of BB plc's and Barclays' SR and upward revision of the SRFs would be contingent on a positive change in the sovereign's propensity to support its banks, which we do not expect.

A downgrade of BBUK plc's SR would require a downgrade of BB plc's SR or evidence that the group's ability or propensity to support BBUK plc has diminished.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital ratings are primarily sensitive to changes in the VRs of BB plc and Barclays. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the respective issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

The rating actions are as follows:

Barclays plc
Long-Term IDR: affirmed at 'A'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior debt including programme ratings: affirmed at 'A'/'F1'
Commercial paper: affirmed at 'F1'
Tier 2 instruments: affirmed at 'A-'

Basel III-compliant additional Tier 1 instruments: affirmed at 'BB+'

Barclays Bank Plc
Long-Term IDR 'A' maintained on RWP
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative Counterparty Rating 'A(dcr)' maintained on RWP
Long-term senior unsecured debt, including programme ratings 'A' maintained on RWP
Short-term senior unsecured debt, including programme ratings, commercial paper and certificates of deposits: affirmed at 'F1'
Lower Tier 2 debt: affirmed at 'A-'
Upper Tier 2 debt: affirmed at 'BBB'
Additional Tier 1 and preference shares with no constraints on coupon omission: affirmed at 'BB+'
Other hybrid Tier 1 instruments: affirmed at 'BBB-'
Tier 2 contingent capital notes (US06740L8C27): affirmed at 'BBB-'

Barclays Bank UK plc
Long-Term IDR: 'A' maintained on RWP
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '1'
Derivative Counterparty Rating: 'A(dcr)' maintained on RWP

Contact:
Primary Analyst
Claudia Nelson
Senior Director
+44 20 3530 1191
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Ioana Sima
Associate Director
+44 20 3530 1736

Committee Chairperson
Christopher Wolfe
Managing Director
+1 212 908 0771

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023430)

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