

CREDIT OPINION

4 February 2020

Update

 Rate this Research

RATINGS

Barclays Bank PLC

Domicile	United Kingdom
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Barclays Bank PLC

Update post rating action

Summary

[Barclays Bank PLC](#) (Barclays Bank) is a global systemically important bank with large capital markets operations, based in the [United Kingdom](#) (Aa2 negative). Barclays Bank is the non ring-fenced bank of the Barclays group (Barclays PLC, LT senior unsecured debt rating: Baa2 stable).

Barclays Bank's A1 long-term senior unsecured debt and deposit ratings reflect 1) the bank's credit profile, as mapped in our Baseline Credit Assessment (BCA) and include 2) extremely low advanced Loss Given Failure (LGF), resulting in a three-notch uplift and 3) our moderate assessment of government support translating into a further one-notch uplift.

Barclays Bank's baa2 adjusted BCA benefits from one notch of affiliate support from its parent Barclays PLC. Its baa3 BCA reflects its (1) significant exposure to capital markets earnings (2) stable shock absorbers from retail, commercial and corporate transaction banking and stabilising level of profitability in the capital markets business (3) good regulatory capitalisation (4) a high level of liquidity, which protect the bank against unexpected market shocks and (5) weakening in the UK economic performance leading to an expectation of a moderate increase in asset risk.

Credit strengths

- » Regulatory capitalisation is good
- » Sound liquidity mitigates funding market shocks
- » Our Advanced LGF analysis indicates an extremely low loss given failure for junior depositors and senior unsecured creditors, resulting in a three-notch uplift to the relevant ratings from the bank's baa2 adjusted BCA
- » The long-term deposit and senior unsecured debt ratings incorporate one notch of government support uplift

Credit challenges

- » Risks from investment banking and capital market activities weigh on asset risk
- » Weak historical profitability, which we expect will continue to improve

Rating outlook

The stable outlook on Barclays Bank's ratings reflects Moody's expectation of a stabilisation of its operating performance, liquidity and capital positions.

Factors that could lead to an upgrade

Barclays Bank's baa3 BCA could be upgraded if the bank were to increase profitability to a higher level on a sustainable basis. Lower reliance on confidence-sensitive wholesale funding, a decreased exposure to capital markets earnings or more diversified sources of earnings would also be positive for the BCA. However, an upgrade of the BCA would not likely lead to a ratings upgrade, due to the loss of affiliate support offsetting the upgrade of the BCA, unless the BCA of the holding company was also upgraded.

Factors that could lead to a downgrade

Barclays Bank's baa3 BCA could be downgraded in the case of (1) a deterioration in the operating environment beyond our current expectations, (2) a material risk management failure or increase in risk appetite or leverage, and/ or (3) a material deterioration in the bank's liquidity or capital positions. A downgrade of the bank's BCA would not result in a ratings downgrade absent downgrade of the parent's notional BCA. A downgrade of Barclays Bank's ratings could result from a downgrade of the BCA of Barclays (the holding company) due to a reduction of parental support notching to zero.

The ratings for Barclays Bank could be downgraded in the case of a lower degree of protection for its creditors from the stock of bail-in-able debt, which we assess through its Advanced LGF analysis.

Profile

Barclays Bank is the non ring-fenced bank of the Barclays group, accounting for around 80% of the group's total assets, following the transfer of the group's retail and small business banking operations to Barclays Bank UK on 1 April 2018. The bank houses the group's corporate and investment banking activities together with other non-capital markets activities including payments, wealth management, and international consumer and cards activities. The bulk of the bank's operations are split between the group's key markets of the UK and US but it also has a presence in continental Europe and other major global financial centres.

Detailed credit considerations

Regulatory capitalisation in line with peers

Our assigned score of aa2 for Capital in our scorecard reflects the bank's high "Tangible Common Equity / Risk Weighted Assets" ratio of 30.8%, which includes high-trigger Additional Tier 1 (AT1) and some legacy instruments.

The bank reported a common equity tier 1 (CET1) ratio of 13.4%, and a CRR leverage ratio of 3.8%, as at end-1H 2019. We expect the firm's regulatory capitalisation to stabilise at current levels. The bank has settled the RMBS related litigation with the US Department of Justice, and the SFO charges against the bank were dismissed by the UK High Court. Operating capital generation will be mitigated by organic and regulatory risk-weighted assets increases and dividends.

Sound liquidity mitigates funding market shocks

We assign a baa3 Combined Liquidity Score to reflect the firm's strong liquidity resources mitigating its high reliance on confidence-sensitive market funding.

Barclays Bank has a large amount of confidence-sensitive wholesale funding. An increasing portion of bail-in-able liabilities issued to the holding company and good degree of diversification of its wholesale funding market sources by investor type and currency partly mitigate refinancing risk. Deposits of around £215 billion at end-1H 2019, largely relate to its corporate deposit book, and are well in excess of the customer loan book (we calculate a gross loan-to-deposit ratio of 67%).

We assign a Funding Structure score of b1, in line with the initial score. The firms' long-term debt has a favourable maturity profile; however, long-term debt only represents 40% of total market funds.

Liquidity is a credit strength: the bank had a sizeable liquid asset pool of GBP191 billion, at end-June 2019. The size and quality of its liquidity buffer are higher than those of some of its large domestic and European peers. This reflects the conservative UK transitional liquidity standards and the bank's conservative liquidity risk management framework. The bank's liquidity coverage ratio (LCR) of 141% as at end-1H 2019 also evidences its good liquidity.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

We assign an aa3 Liquidity Resources score, two notches below the initial score: one negative notch to reflect our expectation of lower liquid assets going forward, and one negative notch to reflect higher-than-peer encumbered assets.

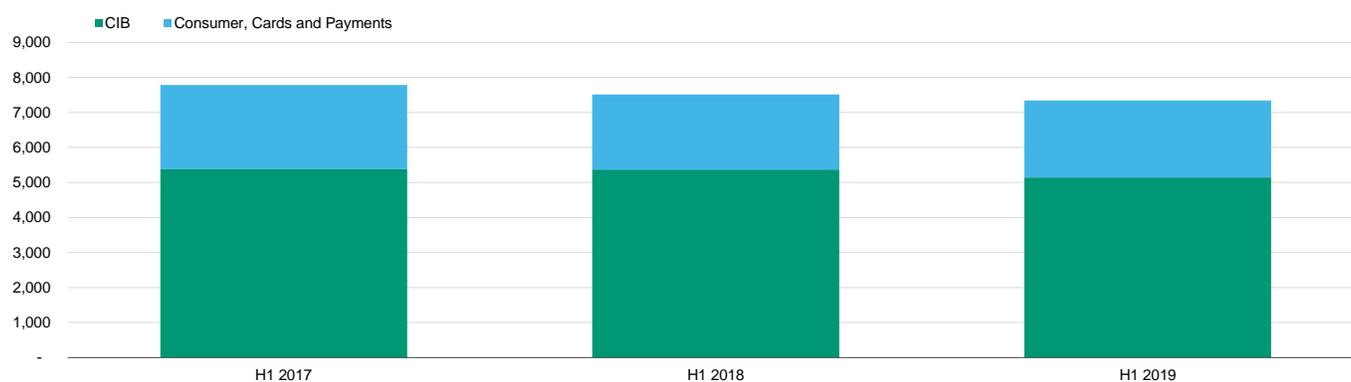
Weak historical profitability, which we expect will continue to improve

Barclays Bank's profitability, to which we assign a score of ba1 in our scorecard, represents the bank's key credit weakness.

The bank reported £1.5 billion net income in 1H 2019 (£431 million in 1H 2018). Revenues decreased 2%: Corporate and Investment Bank revenues - around 70% of total - decreased 4% (markets revenues decreased 6%, banking revenues decreased 8%); Consumer, Cards and Payments revenues - around 30% of total - increased 3% (Exhibit 1). Operating expenses decreased 23%, mostly due to £1.4 billion RMBS charges in the prior year; adjusted operating expenses increased 2%. Credit charges increased to £510 million (1H 2018: £156 million) due to the non-recurrence of favourable macro forecast write backs in the prior year.

Exhibit 1

Barclays International: revenues breakdown by business segment



CIB: Corporate and Investment Bank

Source: company data

We expect Barclays Bank profitability to improve in 2020 due to a moderate increase in corporate and investment banking revenue and a more modest increase in operating costs. The retreat of some European GIBs has provided a strategic opening for the firm to expand its customer base and gain market share, moving the bank further to the right on the industry returns curve. However, with overall market growth slowing, the revenue growth plan entails some execution risk, especially since any revenue gains in capital markets activities would also increase potential earnings volatility in the event of adverse market conditions.

Risks from investment banking and capital market activities weigh on asset risk

Our baa3 Asset Risk score incorporates Barclays Bank's strong credit quality and takes into account the risks associated with the group's capital markets activities issues. We make a negative two notch adjustment for market risk and a further negative adjustment for operational risk.

The group credit quality is in line with its European peers but lower than its US peers'. The firm reported a non-performing loans ratio of 2.9% at end-1H 2019.

Capital markets activities carry tail risk and give rise to market, counterparty credit and operational risks, in particular from the bank's large stock of financial assets and derivatives. Risk weighted assets (RWA) allocated to the CIB business account for around three quarters of total RWA's (which includes Head Office). These factors constrain the credit profile of Barclays Bank and that of its global peers, and are reflected in a one-notch negative adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard.

Environmental, social and governance considerations

Environmental risks exposure is low for BB plc, in line with our general view for the banking sector. BB plc is exposed to some high-carbon emission sectors, which are prone to environmental risks. However, BB plc's exposures are well-diversified geographically and

on a single name basis. We consider that such risk exposure is unlikely to translate into a meaningful credit impact in the outlook horizon. Please refer to our [Environmental risks heatmap](#) for further information.

Social considerations are relevant to BB plc. However, the firm is less exposed than traditional universal banks to social risk, given its business is mostly institutional. Please refer to our [Social risks heatmap](#) for further information.

Governance is highly relevant to BB plc, as it is to all banks. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. The bank's risk governance infrastructure is adequate and has not shown any shortfall in recent years. Nonetheless, the appointment of Jes Staley (group CEO) as interim CEO of Barclays Bank PLC - the non-ring fenced bank of the group housing the Corporate and Investment Bank divisions - is unusual and requires ongoing monitoring.

Support and structural considerations

Loss given failure and additional notching

We apply our advanced LGF analysis to Barclays Bank because the bank is incorporated in the UK, which we consider to be an operational resolution regime because it is subject to the EU Bank Recovery and Resolution Directive. For this analysis, we assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. We also assume that the junior proportion of Barclays Bank plc's deposits are consistent with our standard assumption of 26%. Finally, we assign a 25% probability to deposits being preferred to senior unsecured debt.

The introduction of UK ring-fencing has led us to perform separate advanced LGF analysis for Barclays, Barclays Bank and Barclays Bank UK.

Our advanced LGF analysis indicates an extremely low loss given failure for junior depositors and senior unsecured creditors, (resulting in a three-notch uplift) and a high loss given failure for junior creditors. We also incorporate an additional negative notching for junior subordinated and preference share instruments, reflecting coupon suspension risk ahead of failure.

Affiliate support

Barclays Bank's adjusted BCA benefits from one notch of affiliate support. We assess the firm's parent company Barclays PLC to provide a "High" level of support, should this be required.

Government support

We assess a moderate probability of government support for Barclays Bank's junior depositors and senior unsecured creditors, resulting in a further one-notch uplift incorporated in the relevant A2 ratings. For junior securities, we continue to assess a low support probability, resulting in no uplift for government support included in these ratings.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 2

Barclays Bank PLC

Macro Factors							
Weighted Macro Profile		Strong +	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	3.3%	a3	↔	baa3	Operational risk	Market risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	30.8%	aa1	↔	aa2	Stress capital resilience		
Profitability							
Net Income / Tangible Assets	0.3%	ba2	↑	ba1	Expected trend		
Combined Solvency Score		a2		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	47.0%	b1	↔	b1			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	71.7%	aa1	↓	aa3	Asset encumbrance		
Combined Liquidity Score		baa2		baa3			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				-1			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aa2			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
Assigned BCA				baa3			
Affiliate Support notching				1			
Adjusted BCA				baa2			

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a2 (cr)
Deposits	-	-	-	-	-	-	-	3	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	3	0	a2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa3
Junior subordinated bank debt	-	-	-	-	-	-	-	-1	-1	ba1
Cumulative bank preference shares	-	-	-	-	-	-	-	-1	-1	ba1
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	1	A1	A1
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1(cr)	
Deposits	3	0	a2	1	A1	A1

Senior unsecured bank debt	3	0	a2	1	A1	A1
Dated subordinated bank debt	-1	0	baa3	0	Baa3	Baa3
Junior subordinated bank debt	-1	-1	ba1	0	Ba1 (hyb)	Ba1 (hyb)
Cumulative bank preference shares	-1	-1	ba1	0	Ba1 (hyb)	Ba1 (hyb)
Non-cumulative bank preference shares	-1	-2	ba2	0		Ba2 (hyb)

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 3

Category	Moody's Rating
BARCLAYS BANK PLC	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa3
Jr Subordinate	Ba1 (hyb)
Pref. Stock	Ba1 (hyb)
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-1
Other Short Term -Fgn Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

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