

# RatingsDirect®

---

## Barclays Bank UK PLC

**Primary Credit Analyst:**

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

**Secondary Contact:**

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

### Table Of Contents

---

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

# Barclays Bank UK PLC

## Major Rating Factors

|   |
|---|
| <b>Global Scale Ratings</b>                       |
| <b>Issuer Credit Rating</b><br>A/Negative/A-1     |
| <b>Resolution Counterparty Rating</b><br>A+/-/A-1 |

| <b>Strengths:</b>   | <b>Weaknesses:</b>   |
|---|--|
| <ul style="list-style-type: none"><li>• Core subsidiary of the Barclays group.</li><li>• Solid market position across U.K. retail and business banking.</li><li>• Defensively positioned residential mortgage portfolio supports overall asset quality.</li></ul> | <ul style="list-style-type: none"><li>• Significant hit to asset quality from the sharp recession resulting from the COVID-19 pandemic.</li><li>• Pressure on revenue from margin compression following the Bank of England's interest rate cuts and lower customer transactional activity.</li><li>• Concentrated exposure to the leveraged U.K. household sector, including a material consumer credit portfolio</li></ul> |

## Outlook

S&P Global Ratings' negative outlook on Barclays Bank UK PLC (BBUK) mirrors that on parent Barclays PLC (Barclays). It reflects increased downside risks to asset quality and earnings from the economic and market impact of the COVID-19 pandemic. Although we view positively Barclays' significant revenue diversity, robust balance sheet profile, and the unprecedented fiscal and monetary response, a deep and extended economic downturn could result in sustained earnings pressures over our two-year outlook horizon.

Our ratings on BBUK will move in tandem with those on Barclays as long as we continue to view BBUK as a core subsidiary of the group.

### Downside scenario

There is headroom at the current rating level to withstand a marked deterioration in earnings. Nevertheless, we could lower the ratings on Barclays and BBUK if we think the adverse economic environment is likely to result in a prolonged weakening of 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 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.

We could lower the ratings on BBUK independently of a rating action on Barclays if we saw BBUK becoming less integral to the parent's strategy, which is not a likely scenario.

### Upside scenario

We could revise the outlook on Barclays and BBUK to stable if Barclays' earnings and balance sheet demonstrate resilience relative to similarly rated peers.

## Rationale

We view U.K.-incorporated BBUK as a core subsidiary of Barclays due to its significant contributions to the group's financials and strategy. We therefore position our long-term issuer credit rating on BBUK in line with the 'a' group credit profile on Barclays, which includes a two-notch uplift for additional loss-absorbing capacity, and we do not assign a stand-alone credit profile to BBUK.

BBUK is Barclays' ring-fenced bank. The majority of the group's domestic retail and commercial banking businesses were transferred to it from sister entity Barclays Bank PLC (the non-ring-fenced bank) in April 2018. On a consolidated basis, BBUK accounted for 28% of the group's total income in the first half of 2020, and 24% of total equity at June 30, 2020. The closest rating peers include other U.K. ring-fenced banks, particularly HSBC UK Bank plc, Lloyds Bank plc, National Westminster Bank Plc, and Santander UK PLC, as well as Nationwide Building Society.

BBUK's business activities are spread across U.K. retail banking, wealth management, and business banking, and it

ranks among the market leaders in these segments. We expect that BBUK's business diversity and market position will remain broadly stable and it will maintain a relatively cautious risk appetite and pricing strategy. BBUK's near-term priorities are supporting customers, optimizing earnings, and maintaining a resilient balance sheet through the economic disruption triggered by the COVID-19 pandemic. Improving cost efficiency is also an established objective, but we expect progress will be somewhat delayed by the effects of the pandemic.

BBUK reported a £2 million pretax loss for the first half of 2020, a sharp fall from a £922 million profit in the prior year period. Total income was 9% lower due to margin compression, customer-support actions following the COVID-19 outbreak, and reduced transaction volumes. Costs were broadly stable but International Financial Reporting Standard (IFRS) 9 impairment charges increased by over 150% due to the much weakened economic outlook.

We think that BBUK has been proactive in recognizing expected losses on its loan portfolio. Its impairment charges should steadily moderate as economic activity rebuilds, but a deeper recession or delayed recovery could prompt further material provisioning. BBUK had £209 billion gross loans at amortized cost at June 30, 2020, of which 1.8% were classified as stage 3 and 15.0% as stage 2. The latter ratio is high relative to most peers and partly reflects a comparatively low threshold for determining a significant increase in credit risk. As a result, 90% of stage 2 exposures at June 30, 2020, were not past due. We expect stage 3 and past-due stage 2 balances will increase as borrowers' cash flows remain under pressure and the U.K. government begins to taper fiscal measures. Residential mortgages represented 69% of BUK's gross lending, and we see this portfolio as defensively positioned relative to peers'. Consumer credit (10%) and corporate lending (21% of gross lending) are the main determinants of the impairment charges.

We consider that BBUK's funding and liquidity profiles are solid and compare well with peers'. For example, reported customer deposits were £226 billion at June 30, 2020, short-term wholesale funding usage is very limited, and the liquidity coverage ratio was 171%. The common equity Tier 1 ratio increased to 14.2% at June 30, 2020, and IFRS 9 transitional relief provided an 86-basis-point benefit.

## 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
- 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

- Barclays PLC, July 7, 2020
- COVID-19 Effects Might Quadruple U.K. Bank Credit Losses In 2020, May 4, 2020
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 24, 2020
- Outlooks Revised On Six U.K. Banks On Deepening COVID-19 Downside Risks, April 23, 2020

### Ratings Detail (As Of October 6, 2020)\*

#### Barclays Bank UK PLC

|                                |                |
|--------------------------------|----------------|
| Issuer Credit Rating           | A/Negative/A-1 |
| Resolution Counterparty Rating | A+/-/A-1       |
| Commercial Paper               | A-1            |
| Senior Secured                 | AAA/Stable     |
| Senior Unsecured               | A              |
| Short-Term Debt                | A-1            |

#### Issuer Credit Ratings History

|             |                |
|-------------|----------------|
| 23-Apr-2020 | A/Negative/A-1 |
| 13-Mar-2018 | A/Stable/A-1   |

#### 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                 |                       |
| <i>CaVal (Mexico) National Scale</i> | mxAAA/Negative/mxA-1+ |

##### Barclays Bank PLC

|                                |                |
|--------------------------------|----------------|
| Issuer Credit Rating           | A/Negative/A-1 |
| Resolution Counterparty Rating | A+/-/A-1       |
| Certificate Of Deposit         |                |
| <i>Foreign Currency</i>        | A/A-1/A-1      |

## Ratings Detail (As Of October 6, 2020)\*(cont.)

|  |                  |
|--|------------------|
| Commercial Paper                           |                  |
| <i>Local Currency</i>                      | 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-             |
| <b>Barclays Bank PLC (Cayman Branch)</b>   |                  |
| Commercial Paper                           | A-1              |
| <b>Barclays Bank PLC (New York Branch)</b> |                  |
| Commercial Paper                           | A-1              |
| <b>Barclays Capital Inc.</b>               |                  |
| Issuer Credit Rating                       | A/Negative/A-1   |
| Resolution Counterparty Rating             | A/--/A-1         |
| <b>Barclays Capital Luxembourg</b>         |                  |
| Issuer Credit Rating                       | A/Negative/A-1   |
| Resolution Counterparty Rating             | A+/--/A-1        |
| <b>Barclays Capital Trading Luxembourg</b> |                  |
| Issuer Credit Rating                       | A/Negative/A-1   |
| Resolution Counterparty Rating             | A+/--/A-1        |
| <b>Barclays Execution Services Ltd.</b>    |                  |
| Issuer Credit Rating                       | A/Negative/A-1   |
| <b>Barclays PLC</b>                        |                  |
| Issuer Credit Rating                       | BBB/Negative/A-2 |
| Commercial Paper                           | A-2              |
| Junior Subordinated                        | B+               |
| Senior Unsecured                           | BBB              |
| Subordinated                               | BB+              |
| <b>BARCLAYS US CCP FUNDING LLC</b>         |                  |
| Commercial Paper                           |                  |
| <i>Foreign Currency</i>                    | A-1              |
| <b>Barclays US Funding LLC</b>             |                  |
| 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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.