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Barclays Bank UK PLC

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Barclays Bank UK PLC

Major Rating Factors

Global Scale Ratings
Issuer Credit Rating A/Negative/A-1
Resolution Counterparty Rating A+/-/A-1

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

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

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