FitchRatings

Banks
Universal Commercial Banks
United Kingdom

Barclays plc

Update

Key Rating Drivers

Diversified Revenue Mix: Barclays plc's ratings are underpinned by the group's strong franchises in UK retail, cards and corporate & investment banking (CIB) and a diversified revenue mix by product and geography. This is counterbalanced by the group's reliance on capital markets businesses, which are inherently volatile and competitive. The ratings are also supported by solid capitalisation and a strong funding and liquidity profile.

Profitability Recovery in 2021: Barclays remained profitable in 2020 despite exceptionally high impairments, lower interest rates and weaker lending revenue. Fitch Ratings expects profitability to recover in 2021, helped by conducive market conditions for CIB and lower provisioning, and despite pressure from the low interest rate environment and fragile corporate borrower confidence.

Adequate Capital Buffers: Barclays' end-1H21 CET1 ratio of 15.1% (14.7% excluding the IFRS 9 transitional relief) was comparable with that of global trading and universal bank peers. We expect organic capital generation to remain strong and sufficient for the CET1 ratio to remain within the bank's 13%-14% target range. Challenges that could arise during 2021 include risk-weighted assets (RWAs) inflation from rating migrations and reduced benefit from IFRS9 transitional relief as more loans start to migrate to Stage 3.

Downside Risks to Asset Quality: Barclays' asset-quality metrics have held up well so far, with an end-1H21 impaired (Stage 3) loan ratio of 2.5%. As government support for borrowers in the UK and US is unwound, Stage 3 inflows are likely to increase in 2H21 although we believe the deterioration will be manageable. This is in the context of the improved economic outlook and the group's conservative underwriting standards in domestic mortgages and corporate lending, including the routine use of risk transfer deals to help mitigate losses.

Strong Liquidity: Barclays' funding profile is stable and diversified, underpinned by a strong UK retail franchise to fund retail assets and good market access to fund wholesale operations. The group's Fitch-calculated loan/deposit ratio of 65% at end-1H21 is unusually strong and reflects crisis-driven deposit inflow rates, although in line with peers, the ratio should return to the mean as savings rates normalise and loan growth picks up. Liquidity is conservatively managed, with a liquidity coverage ratio of 162% which is well above regulatory requirements.

Rating Sensitivities

Sensitive to Economic Recovery: Barclays' ratings are sensitive to an unexpected severe setback in the economic recovery in the group's key markets. We would be likely to downgrade Barclays' and subsidiaries' ratings if the group's CET1 ratio, excluding the IFRS 9 transitional relief, looks set to fall towards 12% while asset quality and profitability challenges persist from the pandemic shock to the economy. The ratings would also likely be downgraded if we no longer expected the group's operating profit/RWAs to rise above 1.5% on a sustained basis.

The ratings could also be downgraded if the group increases its risk appetite to boost profitability in the near term. Evidence of this could be a significant increase in RWAs allocated to investment banking activities or towards higher-risk credit exposures.

Upside Potential: Under more normal economic conditions, the most likely trigger for an upgrade of Barclays' ratings would be evidence that, on a sustained basis the group can maintain operating/profit comfortably above 1.5%, resulting in a stronger capacity to generate capital organically. This would be in the context of the group ensuring sufficiently robust risk appetite and controls in light of its focus on more volatile investment banking activities, while maintaining healthy capital metrics and consistently strong asset quality performance.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	No Floor
Sovereign Risk	
Long-Term Foreign-and Local Currency IDRs	AA-
Country Ceiling	AAA

Outlooks

Long-Term IDR	Stable
Sovereign Long-Term Foreign-and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Revises Barclays plc's Outlook to Stable; Affirms at 'A' (July 2021)

Fitch Ratings 2021 Outlook: Western European Banks (December 2020)

Large European Banks Quarterly Credit Tracker (June 2021)

Global Economic Outlook (June 2021)

Analysts

Konstanin Yakimovich
+44 20 3530 1789
konstantin.yakimovich@fitchratings.com

Christian Scarafia
+44 20 3530 1012
christian.scarafia@fitchratings.com

Issuer and Debt Ratings

Issuer Ratings

Rating level	Barclays plc	Barclays Bank UK PLC	Barclays Bank plc	Barclays Bank Ireland Plc	Barclays Capital Inc.
Long-Term IDR/Outlook	A/Stable	A+/Stable	A+/Stable	A+/Stable	A+/Stable
Short-Term IDR	F1	F1	F1	F1	F1
Viability Rating	a	a	a	n.a.	n.a.
Support Rating	5	1	5	1	1
Support Rating Floor	NF	n.a.	NF	n.a.	n.a.
Derivative Counterparty Rating	n.a.	A+(dcr)	A+(dcr)	A+(dcr)	A+(dcr)

Source: Fitch Ratings

The Viability Ratings (VRs) of Barclays' two main operating banks, Barclays Bank plc (BBplc) and Barclays Bank UK PLC (BBUK), reflect their standalone credit profiles, which include the benefit of ordinary support from the group. BBUK operates a simple, domestically focused, retail and SME banking business model, has solid asset quality and stable funding dominated by granular deposits. BBplc is the larger operating bank by balance sheet and houses the CIB and the international cards and payments businesses.

The Long-Term IDRs and senior debt ratings of BBplc and BBUK are rated one notch above their respective VRs, and one notch above the holdco's IDR. This is because of sufficiently large buffers of internal and external junior debt, which can protect both banks' external senior unsecured creditors from default in the event of failure.

BBUK's SR of '1' reflects our view of an extremely high probability of institutional support being made available from Barclays, and indirectly from BBplc if needed, given the ring-fenced bank's strategic role in the group and reputational considerations. Despite its size we believe that support would be manageable.

The Long and Short-Term IDRs of Barclays Bank Ireland Plc (BBI) and Barclays Capital Inc. (BCI) are equalised with those of their parent, BBplc's IDRs, which reflects our view of an extremely high likelihood that the subsidiaries would be supported if needed. Their Long-Term IDRs are equalised with BBplc's IDR rather than its VR because we expect sufficient internal loss= absorbing buffers to protect the subsidiaries' senior creditors if the group fails.

Fitch views the businesses conducted by BCI and BBI as core to the group and in particular to CIB's client relationships and strategy, which provides a strong incentive for BBplc to support them. BBI and BCI are highly integrated with BBplc in management, governance and common group risk policies. Regulatory requirements mean that capital and liquidity are not fully fungible, but balance sheet and funding integration is significant.

Debt Rating Classes

Rating level	Barclays plc	Barclays Bank UK PLC	Barclays Bank plc	Barclays Capital Inc.
Senior unsecured	A/F1	A+/F1	A+/F1	F1
Senior secured (GCMTN)	n.a.	n.a.	A+/F1	n.a.
Tier 2 subordinated debt	BBB+	n.a.	BBB+	n.a.
Legacy upper Tier 2 debt	n.a.	n.a.	BBB	n.a.
Additional Tier 1 notes, preference shares	BBB-	n.a.	BBB-	n.a.

Source: Fitch Ratings

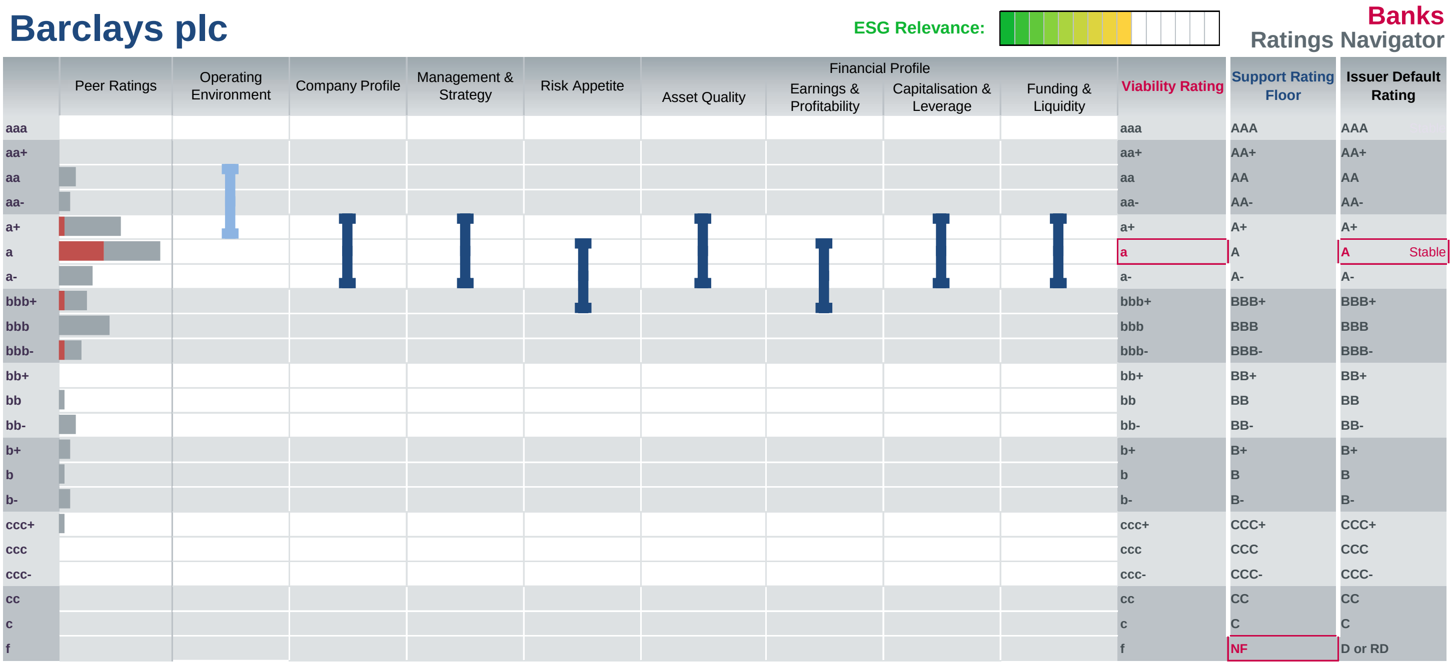
Senior unsecured debt is rated in line with the issuing entities' IDRs.

The long and short-term debt ratings on BBplc's global collateralised medium-term note (GCMTN) programme and notes are at the same level as that of BBplc's senior unsecured debt. This is because the terms of the notes issued do not allow for a one-notch uplift of the ratings under Fitch's criteria.

Subordinated debt and other hybrid capital issued by Barclays and BBplc 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.

FitchRatings

Ratings Navigator



Significant Changes

Outlook Stabilised

We revised the Outlook on Barclays' Long-Term IDR to Stable from Negative in July 2021 primarily because we believed the challenges to the UK and US economies from the coronavirus pandemic have subsided sufficiently to remove the negative outlook on the group's 'aa-' operating environment score. The revision reflects too the recent revision of the Outlook on the UK's 'AA-' IDR to Stable from Negative.

The Outlook revision also considers Fitch's view that Barclays' performance through the pandemic and its expected performance has increased rating headroom for the group to absorb pressure that could arise from remaining uncertainties caused by the pandemic. The group's diversified business model, which combines retail and corporate banking with investment banking, has enabled it to report resilient earnings since the start of the health crisis and maintain healthy capital ratios.

Improved Economic Prospects

Businesses have adapted increasingly to the economic restrictions of the pandemic, and private consumption and investment have also been much more resilient. These developments resulted in an upward revision of Fitch's UK real GDP growth estimate and forecast for 2020 and 2021 to minus 9.8% and 6.6%, respectively, moderating to 5.0% in 2022. We expect the unemployment rate to average just 5.4% in 2021, supported by the extension of income and job-support schemes and the continuation of fiscal and pandemic-related loan support to businesses.

The US economic outlook has also improved substantially in recent months, aided by the strong roll-out of vaccines and additional fiscal stimulus. This has led to the operating environment for banks operating in the US stabilising. Fitch recently revised up its US GDP growth for 2021 by 1.7pp to 6.2% amid the USD1.9 trillion coronavirus relief package and stronger-than-expected data for 1Q21.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
Higher influence
Moderate influence
Lower influence
Bar Arrows – Rating Factor Outlook
⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

Outlook on UK Sovereign Rating Revised to Stable

On 18 June 2021 Fitch affirmed the UK Long-Term IDR at 'AA-' and revised the Outlook to Stable from Negative. The stabilisation of the Outlook reflected recent macroeconomic, labour market and fiscal outturns since the start of 2021, showing the UK economy and public finances to be more resilient to the impact of the pandemic shock than Fitch had expected.

Factors Revised to Stable from Negative Trend

In light of improved expectations for the group's key markets, we now believe that downside risks to Barclays' earnings and asset quality have subsided which, combined with the bank's solid capitalisation and a strong funding and liquidity position, will continue to support the bank's VR, despite remaining uncertainties over the next few quarters.

We have revised the outlook on Barclays' 'a' asset-quality to stable from negative. This is because we expect the pick-up in Stage 3 inflows in 2H21, as government support for borrowers in the UK and US is unwound, to be more modest than previously expected. The reduced Stage 3 inflows reflect the improved economic outlook and the group's conservative underwriting standards in domestic mortgages and corporate lending, including the routine use of risk transfer deals to mitigate losses.

The outlook on Barclays' 'a-' earnings & profitability has also been stabilised as we expect the group to report operating profit/RWAs of between 1.5-2.0% over the next two years as the customer segments most affected by the pandemic (credit cards and payments) begin to recover owing to economic conditions becoming more normal. We expect market conditions (including still- high corporate capital and financing needs and continued economic uncertainty) to remain conducive for the CIB and for provisioning to come in materially lower than in 2020. This scenario is partly counterbalanced by pressure from the low interest rate environment and fragile corporate borrower confidence.

The stable outlook on capitalisation & leverage reflects our expectation the group will continue to maintain healthy capital ratios (within the bank's 13%-14% target range), underpinned by strong organic capital generation and lower-than-anticipated pro-cyclical RWAs inflation.

Lower Impairments Expected to Support Profitability Recovery in 2021

Barclays recorded a pre-tax profit of GBP2.6 billion in 2Q21 (return on tangible equity of 18%), compared to GBP0.4 billion in 2Q20, reflecting large model-driven provision releases on improved macroeconomic prospects. The pre-impairment operating profit of GBP1.8 billion was 26% lower qoq driven by a steep fall in the Fixed-Interest, Currencies and Commodities unit's trading income (minus 39% yoy) amid reduced trading activity, mitigated by a strong quarter for investment banking fees (+19%).

Improved IFRS9 economic assumptions and lower unsecured balances resulted in a net provision release of GBP0.8 billion in 2Q21 although management overlays of GBP1.9 billion (60bp of Fitch-calculated gross loans), provide a buffer to absorb increased impaired loans as government support is tapered in the coming quarters. Excluding provision releases, the group is on track to achieve its 10% ROTE target for 2021 and meet Fitch's forecast operating profit/RWAs of 1.5%-2.0%.

Assuming there is no set-back in the economic recovery, we expect the path to a medium-term ROTE of greater than 10% to be supported by favourable market conditions for the CIB, a stable underlying cost base and a pick-up in interest earning balances. Costs were slightly higher in 2Q21, including GBP0.3 billion of restructuring costs from the bank's real estate footprint review. Underlying costs (excluding structural cost actions and variable remuneration) are projected to remain flat in the coming quarters. Cost-cutting initiatives, including the optimisation of the retail bank's branch network, will act as a drag on near-term profits, however.

The CET1 ratio of 15.1% remains above the bank's 13%-14% target range. The group's management expects to remain above target during 2021, with additional share buybacks and a cautious approach given economic uncertainties and regulatory headwinds in 2022.

Summary Financials and Key Ratios

		30 Jun 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	6 Months - Interim	6 Months - Interim	Year End	Year End	Year End
	USDm	GBPm	GBPm	GBPm	GBPm
Summary Income Statement					
Net interest and dividend income	5.411	3.903,0	8.159,0	9.483,0	9.153,0
Net fees and commissions	5.138	3.706,0	6.571,0	6.760,0	6.809,0
Other operating income	5.351	3.860,0	7.042,0	5.450,0	5.088,0
Total operating income	15.899	11.469,0	21.772,0	21.693,0	21.050,0
Operating costs	10.024	7.231,0	13.886,0	15.434,0	16.243,0
Pre-impairment operating profit	5.875	4.238,0	7.886,0	6.259,0	4.807,0
Loan and other impairment charges	-1.029	-742,0	4.838,0	1.912,0	1.468,0
Operating profit	6.904	4.980,0	3.048,0	4.347,0	3.339,0
Other non-operating items (net)	-1	-1,0	17,0	10,0	155,0
Tax	1.052	759,0	604,0	1.003,0	911,0
Net income	5.850	4.220,0	2.461,0	3.354,0	2.583,0
Other comprehensive income	-2.218	-1.600,0	-395,0	-561,0	248,0
Fitch comprehensive income	3.632	2.620,0	2.066,0	2.793,0	2.831,0
Summary Balance Sheet					
Assets					
Gross loans	437.670	315.711,0	349.332,0	318.047,0	316.867,0
- of which impaired	10.776	7.773,0	8.997,0	7.923,0	8.503,0
Loan loss allowances	9.035	6.517,0	8.335,0	6.308,0	6.770,0
Net loans	428.635	309.194,0	340.997,0	311.739,0	310.097,0
Interbank	15.294	11.032,0	8.900,0	9.624,0	10.575,0
Derivatives	355.774	256.636,0	302.446,0	229.236,0	222.538,0
Other securities and earning assets	621.906	448.609,0	384.346,0	334.896,0	315.464,0
Total earning assets	1.421.610	1.025.471,0	1.036.689,0	885.495,0	858.674,0
Cash and due from banks	455.932	328.884,0	191.127,0	150.258,0	177.069,0
Other assets	30.468	21.978,0	121.698,0	104.476,0	97.540,0
Total assets	1.908.009	1.376.333,0	1.349.514,0	1.140.229,0	1.133.283,0
Liabilities					
Customer deposits	670.595	483.730,0	463.693,0	400.385,0	380.672,0
Interbank and other short-term funding	51.529	37.170,0	230.594,0	183.992,0	202.910,0
Other long-term funding	509.792	367.736,0	142.266,0	143.781,0	145.972,0
Trading liabilities and derivatives	421.463	304.020,0	348.180,0	266.120,0	257.525,0
Total funding	1.653.378	1.192.656,0	1.184.733,0	994.278,0	987.079,0
Other liabilities	160.202	115.561,0	97.591,0	79.988,0	78.903,0
Preference shares and hybrid capital	16.953	12.229,0	12.542,0	12.394,0	14.374,0
Total equity	77.476	55.887,0	54.648,0	53.569,0	52.927,0
Total liabilities and equity	1.908.009	1.376.333,0	1.349.514,0	1.140.229,0	1.133.283,0

Source: Fitch Ratings, Fitch Solutions, Barclays

Summary Financials and Key Ratios

	30 Jun 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios				
Profitability				
Operating profit/risk-weighted assets	3,3	1,0	1,5	1,1
Net interest income/average earning assets	0,8	0,8	1,0	1,0
Non-interest expense/gross revenue	63,9	63,8	71,4	77,4
Net income/average equity	15,4	4,4	6,1	4,9
Asset quality				
Impaired loans ratio	2,5	2,6	2,5	2,7
Growth in gross loans	-9,6	9,8	0,4	-0,4
Loan loss allowances/impaired loans	83,8	92,6	79,6	79,6
Loan impairment charges/average gross loans	-0,2	1,1	0,6	0,5
Capitalisation				
Common equity Tier 1 ratio	15,1	15,1	13,8	13,2
Fully loaded common equity Tier 1 ratio	14.7.	14,3	13,5	12,8
Tangible common equity/tangible assets	3,4	3,4	4,0	4,0
Basel leverage ratio	n.a.	4,4	4,5	4,3
Net impaired loans/common equity Tier 1	2,7	1,4	4,0	4,2
Funding and liquidity				
Loans/customer deposits	65,3	75,3	79,4	83,2
Liquidity coverage ratio	162,0	162,0	160,0	169,0
Customer deposits/funding	50,5	51,7	51,5	48,7

Source: Fitch Ratings, Fitch Solutions, Barclays

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

No Ratings Uplift from Sovereign Support Assessment

Barclays' and BBplc's SRs and Support Rating Floors 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 Barclays or BBplc become 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. BBplc's SR is based on sovereign support because we believe that its role as the non-ring-fenced bank and its size mean that institutional support from Barclays and, indirectly from BBUK, is unlikely.

Environmental, Social and Governance Considerations

FitchRatings **Barclays plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Barclays plc has 5 ESG potential rating drivers

- Barclays plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3'. ESG issues are credit-neutral or have only a minimal credit impact on Barclays and other group entities either due to their nature or the way in which they are being managed. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.