Fitch Ratings

04 JUL 2023

Fitch Affirms Barclays at 'A'; Outlook Stable

Fitch Ratings - London - 04 Jul 2023: Fitch Ratings has affirmed Barclays plc's (Barclays, the holding company) Long-Term Issuer Default Rating (IDR) at 'A' with a Stable Outlook and Viability Rating (VR) at 'a'.

Fitch has also affirmed the Long-Term IDRs of Barclays' subsidiaries, Barclays Bank plc (BBplc) and Barclays Bank UK PLC (BBUK), at 'A+' and their VRs at 'a'. The Long-Term IDRs of Barclays Bank Ireland plc (BBI) and Barclays Capital Inc. (BCI) have been affirmed at 'A+'. The Outlooks are Stable.

A full list of rating actions is below.

Key Rating Drivers

Diversified Banking Group: Barclays' ratings reflect the group's strong franchises in UK retail banking, in UK and US credit cards, and in corporate and investment banking (CIB). These franchises have increasingly allowed the group to benefit from earnings diversification by product and geography. The ratings also factor in the group's sizeable trading and capital market businesses, which can result in earnings volatility. Barclays' ratings are underpinned by solid capitalisation and a strong funding and liquidity profile.

Two Main Opcos: The VRs of Barclays' main operating banks, BBplc and BBUK, include ordinary support from the group. BBUK, a domestically-focused retail and SME bank, has solid asset quality and stable funding dominated by granular deposits. BBplc, the larger bank by balance-sheet size, houses the CIB and the international cards and payments businesses.

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

Weaker Economic Outlook: Fitch expects UK banks' performance to weaken in the next 12-18 months given potential recession risks, materially higher interest rates, high inflation and a rise in unemployment, and for credit losses to rise from low levels. Net interest income growth will slow as higher funding costs weigh on net interest margins. Loan growth is likely to slow as higher interest rates dampen demand and borrower confidence remains weak due to affordability pressures and market uncertainty.

Sound Asset Quality: Asset quality metrics have held up well so far, with an end-2022 impaired (Stage 3) loan ratio of 2% (end-2021: 2.2%). The loan impairment charges (LICs)/gross loans ratio increased to

56bp in 1Q23 (2022: 32bp), mainly driven by US cards, reflecting a normalisation of delinquency rates from the low levels seen during the pandemic and targeted US card balance growth. We expect LICs to continue to increase, moderating further upside to operating profitability.

However, the group's conservative underwriting standards in domestic mortgage loans and corporate lending, including the routine use of risk transfer deals, should ensure loan losses are manageable, and we expect the impaired loan ratio to remain below 3% through 2024.

Underlying Business Sound Profitability: Barclays generated operating profit of 2.1% of risk-weighted assets (RWAs) in 2022 (2021: 2.7%), despite the impact of litigation and conduct costs relating to the over-issuance of securities under Barclays' US shelf programme. We expect CIB revenue to decline moderately in 2023 after a very strong global markets performance in 2022. Rising interest rates should continue to provide some uplift to the bank's earnings, which should provide an additional buffer for rising loan impairment charges.

Adequate Capital Buffers: Barclays' end-1Q23 common equity Tier 1 (CET1) ratio of 13.6% (13.5% excluding IFRS 9 transitional relief) is comparable with that of global trading and universal bank peers. We expect organic capital generation to remain strong and for the CET1 ratio to remain within the bank's 13%-14% target, even in a more challenging operating environment.

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. We expect the group's Fitch-calculated loans/deposits ratio of 66% at end-2022 to return to more normalised levels as savings rates moderate and the loan book expands. Liquidity is conservatively managed, with a liquidity coverage ratio of 163% at end-1Q23. Its 'F1' Short-Term IDR is the lower of two possible options mapping to a Long-Term IDR of 'A' because the group's funding and liquidity score of 'a' is not sufficient to achieve a higher Short-Term IDR.

Holdco VR Equalised with Opcos': Barclays' VR is equalised with that of its main operating companies. This reflects moderate Fitch-calculated common equity double leverage (end-2022: 112%) and the agency's expectation that liquidity at the holding company will continue to be managed prudently.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

Barclays' ratings are primarily sensitive to a sharp deterioration in asset quality, particularly if this occurs in combination with weakened internal capital generation that results in capital erosion. Barclays' ratings would likely be downgraded if its gross impaired loan ratio exceeded 3% for a sustained period and the group's CET1 ratio (excluding IFRS 9 transitional relief) fell below 13% without a clear path to swiftly restoring it. The ratings would also come under pressure if profitability weakened and we no longer expected the group to generate an operating profit/RWAs ratio above 1.5% on a sustained basis.

The ratings could also come under pressure if the operating environment deterioration is more severe than we currently expect, resulting in structurally weaker financial metrics. An increase in risk appetite to strengthen profitability would also weigh on the ratings, particularly if this occurred during a period of weaker economic prospects for the main economies the group operates in. This could be indicated by a significant increase in RWAs allocated to investment banking activities or towards higher-risk credit exposures.

BBUK's and BBplc's VRs would come under pressure if the subsidiaries' financial profiles weakened and we believed that ordinary support from the group was not available to offset these weaknesses. BBUK's ratings could withstand a one-notch downgrade of Barclays' ratings provided that BBUK's financial profile at that point was significantly stronger than that of the rest of the group.

The one-notch uplift applied to the IDRs of BBplc and BBUK are also sensitive to Barclays' maintenance of a clear and credible role as the resolution entity for the group.

Barclays' ratings are also sensitive to holdco double leverage exceeding 120%, without a clear path to reducing it below that threshold.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade is unlikely in the near term given the negative outlooks on the UK banks' operating environment score and the UK sovereign rating. Over the medium term, upside potential to Barclays' ratings would require evidence that the group is able to generate strong operating profitability in a weakened operating environment. Maintaining operating profit/RWAs materially above 1.5% through a full economic cycle, could result in upwards pressure on ratings if the bank also maintained healthy asset quality and increased its CET1 ratio above its current 13%-14% target range.

BBUK's and BBplc's VRs are closely correlated with Barclays' VR. They could be upgraded if Barclays' financial profile strengthened materially.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SENIOR DEBT RATINGS

Senior unsecured debt ratings are aligned with the respective issuer's IDRs. The ratings of BBplc's global collateralised medium-term note (GCMTN) programme and notes under the programme are aligned with BBplc's senior unsecured debt ratings. This is because the terms of the notes do not allow for a one-notch uplift of the ratings due to the wide range of eligible collateral used.

SUBORDINATED DEBT

Barclays' and BBplc's Tier 2 ratings are two notches below their respective VRs, reflecting this class of debt's low recovery prospects. BBplc's legacy upper Tier 2 instruments are rated lower, at three notches below the VR, due to incremental non-performance risk in addition to poor recovery prospects.

ADDITIONAL TIER 1 INSTRUMENTS

Additional Tier 1 instruments and preference shares with no constraints on coupon omission are rated four notches below the relevant VRs. The issues are notched down twice for loss severity, reflecting their deep subordination and poor recoveries as the instruments can be converted into equity or written down well ahead of resolution. In addition, they are notched down twice for high non-performance risk due to fully discretionary coupon omission. The rating of these instruments is supported by our expectation that the group will maintain at least a 100bp capital buffer over capital requirements that would trigger coupon omission on the bonds.

DERIVATIVE COUNTERPARTY RATINGS

The Derivative Counterparty Ratings (DCRs) of BBUK and BBplc are at the same level as their Long-Term IDRs because derivative counterparties in the UK have no definitive preferential status over other senior obligations in a resolution. The DCRs for BBI and BCI are also equalised with their respective Long-Term IDRs.

No Government Support Expected: Barclays' and BBplc's Government Support Ratings (GSRs) of 'ns' 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. BBplc's support is based on government support because we believe that its role as a non-ring-fenced bank and its size mean that institutional support from Barclays, and indirectly from BBUK, is unlikely.

Shareholder Support for BBUK: BBUK's Shareholder Support Rating (SSR) of 'a' 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 as we expect capital support to be moderate compared with the size of the group.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

A change in an issuer's IDR would trigger a change in its senior debt rating, and changes in an issuing entity's VR would result in a change in the rating of AT1 and Tier 2 debt. The rating of AT1 debt could also be downgraded on heightened risk of capital cushions above maximum distributable amount trigger points falling below 100bp. The DCRs are primarily sensitive to changes in the Long-Term IDRs.

An upgrade of the GSR would be dependent on an increased propensity of the UK authorities to provide support to banks, which we do not expect. BBUK's SSR is sensitive to changes in Barclays' and BBplc's ability to provide support, and a change in the support providers' ratings would be reflected in BBUK's SSR.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

BBI's and BCI's SSRs of 'a+' and their Long- and Short-Term IDRs of 'A+' and 'F1', respectively, are equalised with those of their intermediate parent, BBplc, 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 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.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

BCI's and BBI's ratings are primarily sensitive to a change in BBplc's Long-Term IDR, with which their SSRs and IDRs are equalised. Their ratings are also sensitive to a change in their role in the group, which we do not expect.

VR ADJUSTMENTS

The 'aa-' operating environment scores of Barclays, BBplc and BBUK are in line with the 'aa' category implied score. The UK sovereign rating was identified as a relevant negative factor in the assessment.

The 'a' funding & liquidity score of Barclays is below the 'aa' category implied score due to the following adjustment reason: historical and future metrics (negative).

The 'a' asset quality score of BBplc is above the 'bbb' category implied score due to the following adjustment reason: non-loan exposure (positive).

The 'a' funding & liquidity score of BBplc is below the 'aa' category implied score due to the following adjustment reason: non-deposit funding (negative).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

The IDRs of BBI and BCI are driven by support from BBplc.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visitwww.fitchratings.com/esg.

Fitch Ratings Analysts

Roderic Finn
Director
Primary Rating Analyst
+44 20 3530 1139
Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Patrick Rioual
Senior Director
Secondary Rating Analyst
+33 1 44 29 91 21

Alan Adkins
Managing Director
Committee Chairperson
+44 20 3530 1702

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Barclays Bank UK PLC	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a	Affirmed		a

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	DCR	A+(dcr)	Affirmed		A+(dcr)
	Shareholder Support	a	Affirmed		a
• senior unsecured	LT	A+	Affirmed		A+
• senior unsecured	ST	F1	Affirmed		F1
Barclays plc	LT IDR	A	Affirmed		A
	ST IDR	F1	Affirmed		F1
	Viability	a	Affirmed		a
	Government Support	ns	Affirmed		ns
• senior unsecured	LT	A	Affirmed		A
• subordinated	LT	BBB+	Affirmed		BBB+
• subordinated	LT	BBB-	Affirmed		BBB-
• senior unsecured	ST	F1	Affirmed		F1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Barclays Bank plc	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a	Affirmed		a
	DCR	A+(dcr)	Affirmed		A+(dcr)
	Government Support	ns	Affirmed		ns
• subordinated	LT	BBB	Affirmed		BBB
• subordinated	LT	BBB-	Affirmed		BBB-
• senior secured	LT	A+	Affirmed		A+
• senior unsecured	LT	A+	Affirmed		A+
• subordinated	LT	BBB+	Affirmed		BBB+
• senior unsecured	ST	F1	Affirmed		F1
• senior	ST	F1	Affirmed		F1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
secured					
Barclays Capital Inc.	LT IDR	A+ ⊙	Affirmed		A+ ⊙
	ST IDR	F1	Affirmed		F1
	DCR	A+(dcr)	Affirmed		A+(dcr)
	Shareholder Support	a+	Affirmed		a+
• senior unsecured	ST	F1	Affirmed		F1
Barclays Bank Ireland Plc	LT IDR	A+ ⊙	Affirmed		A+ ⊙
	ST IDR	F1	Affirmed		F1
	DCR	A+(dcr)	Affirmed		A+(dcr)
	Shareholder Support	a+	Affirmed		a+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◈	◆
STABLE	⊙	

Applicable Criteria

Bank Rating Criteria (pub.07 Sep 2022) (including rating assumption sensitivity)

Non-Bank Financial Institutions Rating Criteria (pub.05 May 2023) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Barclays Bank Ireland Plc	UK Issued, EU Endorsed
Barclays Capital Inc.	UK Issued, EU Endorsed
Barclays plc	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.