

Research Update:

Barclays PLC Outlook Revised To Positive On Improving Business Stability And Earnings Prospects; Ratings Affirmed

June 24, 2021

Overview

- We think Barclays' stable management and strategy are more effectively realizing the potential of its diversified business model.
- We think Barclays is well-placed to navigate the remainder of the COVID-19 pandemic due to its prudent credit loss provisions and balance sheet metrics.
- We revised our outlook on Barclays PLC and related entities to positive from stable, and affirmed all ratings.
- The positive outlook reflects our view that Barclays is delivering a stronger, more consistent business profile and financial performance.

Rating Action

As previously announced on June 24, 2021, S&P Global Ratings revised its outlook on Barclays PLC and related entities to positive from stable. The related entities include Barclays Bank PLC, Barclays Bank UK PLC, Barclays Bank Ireland PLC, Barclays Capital Inc., and Barclays Execution Services Ltd.

At the same time, we affirmed our issuer and issue ratings on Barclays PLC, its related entities, and their respective debt instruments.

Rationale

We think Barclays is more effectively delivering its strategy. The positive outlook reflects our view of the growing momentum in Barclays' franchise and creditworthiness resulting from its stable management and settled strategy. Its major legacy legal and regulatory cases appear to be resolved and it has shown relative resilience through the pandemic due to its diversified business

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model. We see greater potential for a more predictable performance and a stronger, more consistent business position as global economies recover from the pandemic.

Barclays is well-placed to navigate the remainder of this credit cycle. We see the bank's provision coverage as prudent and a mitigant to residual downside macroeconomic risks. Its impairment charges have declined substantially since mid-2020 as economic prospects brightened in its core markets of the U.K. and U.S. We anticipate a material release of modeled provisions in the second quarter of 2021. There remains uncertainty over the consequences of COVID-19 variants and the economic impact of eventual fiscal tapering. However, we think Barclays has sufficient flexibility to manage these risks, and we assume it will be more cautious in releasing its £1.2 billion International Financial Reporting Standard 9 management adjustments than its modeled provisions.

We project strong earnings growth this year. Lower impairment charges should provide a significant tailwind to profitability. We expect the loan loss rate will decline to about 15 basis points (bps) this year from 138 bps in 2020, and then begin to normalize toward about 40-50 bps in 2023. The bank's 2021 net earnings also stand to gain from a write-up of deferred tax assets in response to an increased tax rate. Overall, we think Barclays could exceed its 10% medium-term return on tangible equity target this year. Repeating this outcome in 2022-2023 will be tougher, depending on operating conditions, but we expect Barclays will continue to perform robustly.

We see differing prospects for divisional performance. We expect investment bank activity will remain generally favorable but revenue will likely run at a lower level than the past few quarters. We think revenue conditions will remain more challenging for the consumer businesses. U.K. mortgage volumes and pricing are attractive but we anticipate that higher margin credit card balances will rebuild slowly following the pandemic. Barclays has identified groupwide growth opportunities in payments that, if realized, would provide a tailwind to its medium-term earnings and franchise.

We expect Barclays will maintain sound capital, liquidity, and bail-in buffers. We project that our risk-adjusted capital ratio will remain close to its 11.0% year-end 2020 level. We assume the U.K. regulator will shortly remove the remaining constraint on shareholder distributions, leading to increased dividends and buybacks.

Outlook

The positive outlook reflects our view that Barclays is delivering a stronger, more consistent business profile and financial performance. In particular, we think its stable strategy and management team are more effectively realizing the potential of its diversified business model. Barclays has performed resiliently through the pandemic and we expect stronger earnings in 2021-2023 as global economies recover.

We think Barclays' provision coverage is prudent and appropriately anticipates increasing charge-offs as governments withdraw fiscal support measures. We project significantly lower impairment charges in 2021 assuming economic growth strengthens in line with our base case forecasts. We also expect Barclays will maintain robust capital, funding, and liquidity profiles.

Upside scenario

We could raise the long-term issuer credit rating during our two-year outlook horizon if Barclays demonstrates sustained competitive advantage in line with higher-rated global peers, continued stability in management and strategy, and healthy earnings contributions across all divisions. Achieving these attributes could improve our business position assessment and group stand-alone credit profile (SACP).

A one-notch upward revision of the group SACP and raising of the long-term issuer credit rating would result in a one-notch upgrade of all senior unsecured and subordinated debt issued by Barclays PLC and related entities.

Downside scenario

We could revise the outlook to stable if the economic recovery or Barclays' strategy implementation falter and we see weaker prospects for its risk profile, earnings, and capitalization.

Ratings Score Snapshot

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
Group SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	(+2)	(+2)
ALAC Support	(+2)	(+2)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Issuer credit rating shown applies to Barclays Bank PLC and other core operating entities. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Why The U.K.'s Worse Recession Should Turn Into A Stronger Recovery, May 12, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 23, 2021
- U.K. Bank Credit Losses Could Fall 40% In 2021, March 29, 2021
- Barclays PLC, March 15, 2021
- U.K. Banks' Poor 2020 Earnings Mask A Hint Of Optimism For Future Creditworthiness, March 9, 2021
- Barclays Outlook Revised To Stable On Relative Resilience To Pandemic-Related Stress; Ratings Affirmed, Feb. 26, 2021
- Banking Industry Country Risk Assessment: United Kingdom, Nov. 17, 2020

Ratings List

Ratings Affirmed

Barclays Bank Ireland PLC

Barclays Capital Trading Luxembourg

Barclays Capital Luxembourg

Barclays Bank UK PLC

Barclays Bank PLC

Barclays Bank Ireland PLC, Sucursal en Espana (Madrid Branch)

Barclays Bank Ireland PLC (Milan Branch)

Resolution Counterparty Rating	A+/-/A-1
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Barclays Bank PLC

Certificate Of Deposit	
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Local Currency	A
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Barclays Capital Inc.

Resolution Counterparty Rating	A/-/A-1
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Barclays PLC

Senior Unsecured	BBB
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Subordinated	BB+
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Junior Subordinated	B+
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Commercial Paper	A-2
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BARCLAYS US CCP FUNDING LLC

Commercial Paper	A-1
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Barclays Bank Ireland PLC

Senior Unsecured	A
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Barclays Bank PLC

Resolution Counterparty Liability	A+
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Senior Unsecured	A
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Senior Unsecured	Ap
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Subordinated	BB+
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Subordinated	BBB-
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Junior Subordinated	BB
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Junior Subordinated	BB+
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Junior Subordinated	BBB-
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Preference Stock	BB
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Short-Term Debt	A-1
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Certificate Of Deposit	A
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Certificate Of Deposit	A-1
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Commercial Paper	A-1
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Barclays Bank PLC (Cayman Branch)

Commercial Paper	A-1
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Barclays Bank PLC (New York Branch)

Commercial Paper	A-1
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Barclays Bank UK PLC

Commercial Paper	A-1
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Barclays Capital Inc.

Commercial Paper	A-1
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Barclays U.S. Funding Corp.

Commercial Paper	A-1
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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
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Barclays PLC

Issuer Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2
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Barclays Bank Ireland PLC

Barclays Execution Services Ltd.

Barclays Capital Trading Luxembourg

Barclays Capital Luxembourg

Barclays Capital Inc.

Barclays Bank UK PLC

Barclays Bank PLC

Barclays Bank Ireland PLC, Sucursal en Espana (Madrid Branch)

Barclays Bank Ireland PLC (Milan Branch)

Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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