

Rating Action: Moody's affirms Barclays' Baa2 senior unsecured debt ratings; outlook changed to positive from stable

23 Nov 2021

London, 23 November 2021 -- Moody's Investors Service (Moody's) today affirmed all the ratings and assessments of Barclays PLC (Barclays), including the Baa2 senior unsecured and subordinated debt ratings, the Ba2(hyb) preferred stock non-cumulative ratings, the P-2 commercial paper rating, and the baa2 notional Baseline Credit Assessment (BCA). Moody's also changed the outlook on Barclays' Baa2 senior unsecured debt rating to positive from stable.

Moody's also affirmed all ratings and outlooks of Barclays' non-ring-fenced bank Barclays Bank PLC (Barclays Bank), and it maintained a stable outlook on Barclays Bank's A1 long-term deposit and senior unsecured debt ratings.

The outlook and ratings of ring-fenced bank Barclays Bank UK PLC (Barclays Bank UK, long-term deposit ratings A1 stable, BCA a3) were unaffected by this action.

The action reflects Moody's view that the level and stability of earnings for Barclays and Barclays Bank could further improve. Improved earnings at the group level could largely but not exclusively be driven by a higher level and greater stability of earnings coming from Barclays Bank and from an expectation of a diminishing level of extraordinary charges for regulatory, restructuring and litigation matters that the group and Barclays Bank had to book in recent years.

A list of affected credit ratings is available at the end of this press release.

RATINGS RATIONALE

-- BARCLAYS PLC

Moody's said that the affirmation of Barclays' Baa2 senior and subordinated debt ratings reflects the affirmation of the group's baa2 notional BCA, as well as the rating agency's unchanged assumption of moderate loss-given-failure and low probability of government support, which do not result in any uplift above the notional BCA for these instruments' ratings. The affirmation of the notional BCA reflects Barclays' good credit quality and capitalisation, and ample liquidity, but also the group's inherently risky large capital markets operations, and high reliance on wholesale funding.

Moody's said it changed the outlook on Barclays' Baa2 senior unsecured debt ratings to positive from stable, to reflect the rating agency's view that the level and stability of the group's earnings could further improve once global macroeconomic conditions stabilise; this is because Barclays will likely continue to benefit from balanced earnings streams and stable operating costs, yet it would not be expected to have to book large extraordinary charges such as those reported in recent years.

Although Barclays derives a significant part of its revenues from inherently volatile investment banking and capital markets (48% of total revenues in the first nine months of 2021 [1]), which have been relatively well performing and increasingly more stable, the group's business also includes a universal retail and commercial bank offering in the UK, and a large credit cards and other unsecured retail lending business focused predominantly in the EU and the US. This structure has allowed Barclays to report relatively stable quarterly revenues and operating costs in the last five years. For example, from the beginning of the pandemic, while earnings from the unsecured retail business was under pressure due to low volumes and lowered base rates, the capital markets business in the UK and US benefitted from market volatility resulting in improved profits for the corporate and investment banking division.

The group's pre-tax profitability, instead, has been volatile, due to several large charges that Barclays booked throughout the years related to conduct issues and strategic repositioning. For example, the group booked provisions against the cost of redress for payment protection insurance in the UK, the rundown of a non-core division, litigation costs for investigations in several jurisdictions, sell-down of the business in Africa, and costs to reshape the legal entities to comply with the ring-fencing legislation in the UK and with Brexit. The pandemic-

induced economic shock led to a sudden spike in charges for expected credit losses in 2020; Barclays is gradually releasing them, but it still maintains a material GBP2 billion post-model management overlay as of 30 September 2021 [2].

According to Moody's, since Barclays' most relevant restructuring and litigations have concluded, and as the global macroeconomic conditions stabilise, its balanced business model should allow the group to report higher and more stable net profits. For example, in the next two years, revenue from the retail and commercial banking business should increase as restrictions are lifted and credit demand increases, and interest rates rise. In the investment banking and capital market business, instead, client activity and market volatility will likely normalize to lower levels relative to the extremely high levels in 2020-21, while slower economic growth will pressure advisory revenue and client flow.

At the same time, there are still elements of uncertainty, which Moody's expects to become clearer during the outlook period. For example, demand for credit may be slower to materialise than what Moody's currently expects; restrictions on movements could be at least partially reintroduced, with a negative impact on the credit quality of Barclays' borrowers and lower unsecured lending balances; base rate increases could be delayed; or the favourable capital markets conditions could rapidly deteriorate while revenue from commercial banking remains subdued.

Moody's said that maintenance of a conservative risk appetite will be critical for upgrade potential. Moreover, in light of the recent replacement of the group CEO and other executive changes, Moody's will closely monitor the extent to which Barclays modifies or adheres to its strategy, and the positioning and stability of the investment banking and capital markets franchise.

-- BARCLAYS BANK PLC

The affirmation of Barclays Bank's A1 long-term deposit and senior unsecured debt ratings reflect the affirmation of the bank's baa3 BCA, Moody's unchanged assumption of a high probability of affiliate support resulting in a one-notch uplift to an Adjusted BCA of baa2, as well as the rating agency's unchanged assumption of extremely low loss-given-failure and moderate probability of government support, which provide a three- and one-notch uplift respectively to the A1 long-term deposit and senior unsecured debt ratings.

Moody's also believes that Barclays Bank's earnings could further improve from historical levels, which could eventually lead to a higher BCA. This is because the bank wouldn't need to book large extraordinary charges, and because earnings from corporate and transaction banking, and international credit cards and consumer lending will improve when macroeconomic conditions stabilise. In recent years, Barclays Bank gained market shares in its investment banking and capital markets businesses; if maintained, they should also result in improved income compared with pre-pandemic historical levels.

At the same time, however, the outlook on Barclays Bank's long-term deposit and senior unsecured debt ratings remain stable. This is because higher long-term deposit and senior unsecured ratings, prior to government support, would be only one notch below the Government of United Kingdom's Aa3 sovereign debt rating; higher unsupported long-term deposit and senior unsecured debt ratings would therefore not benefit from government support uplift due to the proximity to the sovereign debt ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

-- BARCLAYS PLC

Barclays' senior debt ratings could be upgraded following an upgrade of the group's notional BCA.

The group's notional BCA could be upgraded following a continued improvement in global macroeconomic conditions, and evidence of a further improvement in the level and stability of Barclays' net profits while maintaining a prudent risk appetite and management of risk.

A downgrade is unlikely, given the current positive outlook. However, Barclays' senior and subordinated debt ratings could be downgraded following a downgrade of the group's notional BCA. The group's notional BCA could be downgraded following a material deterioration of profitability, a reduction in capitalisation to levels below Barclays' medium-term guidance, a material increase in the group's risk appetite, or if there are any indications of control or risk management failures.

A modest reduction in the stock of junior subordinated debt (including additional tier 1 instruments), or a modest increase in tangible banking assets could also lead to a downgrade of Barclays' subordinated debt

ratings, because subordinated debt would be subject to higher losses in a failure scenario. A reduction in subordinated debt or a material increase in tangible banking assets could lead to a downgrade of Barclays' senior debt ratings.

-- BARCLAYS BANK PLC

There is limited upward pressure on Barclays Bank's long-term deposit and senior unsecured debt ratings. This is because higher unsupported ratings would not anymore benefit from the current one-notch government support uplift, due to the proximity to the UK's sovereign debt rating. Barclays Bank's subordinated debt ratings could however be upgraded following an upgrade of the bank's Adjusted BCA.

In line with the group, Barclays Bank's BCA could be upgraded following a continued improvement in global macroeconomic conditions, and evidence of a further improvement in the level and stability of Barclays Bank's net profits. Barclays Bank's Adjusted BCA could be upgraded following an upgrade of the bank's BCA and a one-notch upgrade of Barclays' notional BCA.

Additional issuance of bail-in-able debt to the group or to the market, or a larger stock on junior deposits would not result in further uplift to Barclays Bank's long-term deposit and senior unsecured debt ratings, because they already benefit from the maximum three-notch uplift that Moody's can assign under its advanced Loss Given Failure (LGF) analysis.

There is also limited downward pressure on Barclays Bank's long-term deposit and senior unsecured debt rating, reflecting the bank's potential for higher earnings and the positive outlook on Barclays' ratings. However, Barclays Bank's long-term deposit and senior debt ratings could be downgraded following a downgrade of the bank's BCA, a downgrade of Barclays' notional BCA, or a material reduction in the stock of deposits or bail-in-able debt.

In line with the group, Barclays Bank's BCA could be downgraded following a material deterioration of profitability, a reduction in capitalisation to levels below the bank's medium-term guidance, a material increase in risk appetite, or if there are any indications of control or risk management failures.

LIST OF AFFECTED RATINGS

..Issuer: Barclays PLC

Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed baa2

....Baseline Credit Assessment, Affirmed baa2

....Short-term Issuer Rating, Affirmed P-2

....Long-term Issuer Rating, Affirmed Baa2, Outlook Changed To Positive From Stable

....Other Short Term, Affirmed (P)P-2

....Subordinate Medium-Term Note Program, Affirmed (P)Baa2

....Subordinate Shelf, Affirmed (P)Baa2

....Senior Unsecured Shelf, Affirmed (P)Baa2

....Pref. Stock Non-cumulative, Affirmed Ba2 (hyb)

....Subordinate Regular Bond/Debenture, Affirmed Baa2

....Commercial Paper, Affirmed P-2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2, Outlook Changed To Positive From Stable

Outlook Action:

...Outlook, Changed To Positive From Stable

..Issuer: Barclays Bank PLC

Affirmations:

...Adjusted Baseline Credit Assessment, Affirmed baa2

...Baseline Credit Assessment, Affirmed baa3

...Long-term Counterparty Risk Assessment, Affirmed A1(cr)

...Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

...Long-term Counterparty Risk Ratings, Affirmed A1

...Short-term Counterparty Risk Ratings, Affirmed P-1

...Long-term Issuer Rating, Affirmed A1, Outlook Remains Stable

...Long-term Bank Deposit Ratings, Affirmed A1, Outlook Remains Stable

...Short-term Bank Deposit Ratings, Affirmed P-1

...Junior Subordinated Regular Bond/Debenture, Affirmed Baa3 (hyb)

...Pref. Stock, Affirmed Ba1 (hyb)

...Pref. Stock Non-cumulative, Affirmed Ba2 (hyb)

...Subordinate Regular Bond/Debenture, Affirmed Baa2

...Commercial Paper, Affirmed P-1

...BACKED Commercial Paper, Affirmed P-1

...Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

...Senior Unsecured Regular Bond/Debenture, Affirmed A1, Outlook Remains Stable

...Other Short Term, Affirmed P-1

...Other Short Term, Affirmed (P)P-1

Outlook Action:

...Outlook, Remains Stable

..Issuer: Barclays Bank PLC, Cayman Branch

Affirmation:

...Commercial Paper, Affirmed P-1

Outlook Action:

...No Outlook

..Issuer: Barclays Bank PLC, New York Branch

Affirmations:

...Long-term Counterparty Risk Assessment, Affirmed A1(cr)

...Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

...Long-term Counterparty Risk Ratings, Affirmed A1

...Short-term Counterparty Risk Ratings, Affirmed P-1

...Commercial Paper, Affirmed P-1

Outlook Action:

...Outlook, Changed To No Outlook From Stable

..Issuer: Barclays US CCP Funding LLC

Affirmation:

...Commercial Paper, Affirmed P-1

Outlook Action:

...No Outlook

..Issuer: Woolwich plc

Affirmations:

...BACKED Junior Subordinated Regular Bond/Debenture, Affirmed Baa3 (hyb)

Outlook Action:

...Outlook, Changed To No Outlook From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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REFERENCES/CITATIONS

[1] Public Interim Financial Statements 30-Sep-2021.

[2] Public Interim Financial Statements 30-Sep-2021.

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