

CREDIT OPINION

5 October 2018

Update

 Rate this Research

RATINGS

Barclays Bank UK PLC

Domicile	United Kingdom
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Barclays Bank UK PLC

Update to credit analysis following the publication of the second-quarter 2018 financial results

Summary

[Barclays Bank UK PLC](#) (BB UK) is a domestic systemically important bank based in the [United Kingdom](#) (Aa2 stable). BB UK is the ring-fenced bank of Barclays PLC (LT senior unsecured Baa3 stable) since 1 April 2018, when Barclays implemented UK structural reforms ("ring-fencing").

On 3 April 2018, [we assigned](#) definitive long- and short-term deposit ratings of A1/Prime-1 to BB UK, and affirmed its standalone Baseline Credit Assessment (BCA) of a3 and Counterparty Risk (CR) assessment of Aa2(cr)/Prime-1(cr). The ratings assignment reflects our assessment of BB UK's moderate asset risk, robust capitalisation, good funding and liquidity.

BB UK's A1 long-term deposit rating considers the bank's a3 standalone BCA and incorporates a one-notch uplift resulting from our advanced Loss Given Failure (LGF) analysis. The A1 long-term deposit rating also includes one notch of government support, reflecting our assessment of a moderate probability of support for BB UK from the UK government, if needed.

Credit strengths

- » Robust capitalisation protects creditors from unexpected losses
- » Stable and predictable earnings from strong retail and small business banking franchises are exposed to residual conduct charges
- » Large and good quality deposit base results in limited reliance on confidence-sensitive wholesale funding; good liquidity protects the bank against unexpected market shocks
- » Our advanced LGF analysis indicates a low loss given failure for junior depositors of BB UK, resulting in a one-notch uplift to the relevant ratings from the bank's a3 adjusted BCA
- » The long-term deposit rating for BB UK incorporates one notch of government support uplift

Credit challenges

- » Asset risk is in line with peers. However, greater exposures to unsecured retail lending represents a tail risk

Rating outlook

The ratings for BB UK carry a stable outlook, indicating that we do not expect material changes in the bank's credit fundamentals and degree of protection for its creditors from its stock of

bail-in-able liabilities, over the next 12-18 months. The stable outlook already incorporates our expectation for a moderate increase of the bank's asset risk, as a result of deteriorating operating conditions for BB UK and the other UK banks, due to Brexit-related uncertainty.

Factors that could lead to an upgrade

An upgrade of BB UK's a3 BCA could result from a much lower asset risk, a considerable increase in profitability and liquidity. A higher BCA could lead to a rating upgrade.

An upgrade of BB UK's long-term deposit rating could also result from a higher stock of bail-in-able liabilities that would provide higher protection for the bank's junior depositors, beyond what we currently expect.

Factors that could lead to a downgrade

The a3 BCA could be downgraded in case of a deterioration in asset quality and weaker profitability, lower capitalisation or a deterioration in the bank's liquidity profile. A downgrade of the BCA would likely lead to a rating downgrade.

The rating could also be downgraded due to a reduction in the stock of bail-in-able liabilities that would reduce the degree of protection for junior depositors.

Profile

BB UK is the ring-fenced bank of the Barclays group, accounting for around 20% of the group's total assets, following the transfer of the group's retail and business banking operations from Barclays Bank on 1 April 2018. BB UK is one of the market leaders in the UK, with strong franchises in retail (including credit cards) and small business banking.

The first set of financials for BB UK following ring-fencing implementation relate to the first half of 2018. However, Barclays has adopted segmental reporting in line with its ring-fencing structure since 2016 and disclosed its pro-forma financials as at 31 December 2017, providing a good insight into the financial positions of BB UK prior to 1 January 2018.

Detailed credit considerations

Robust capitalisation protects creditors from unexpected losses

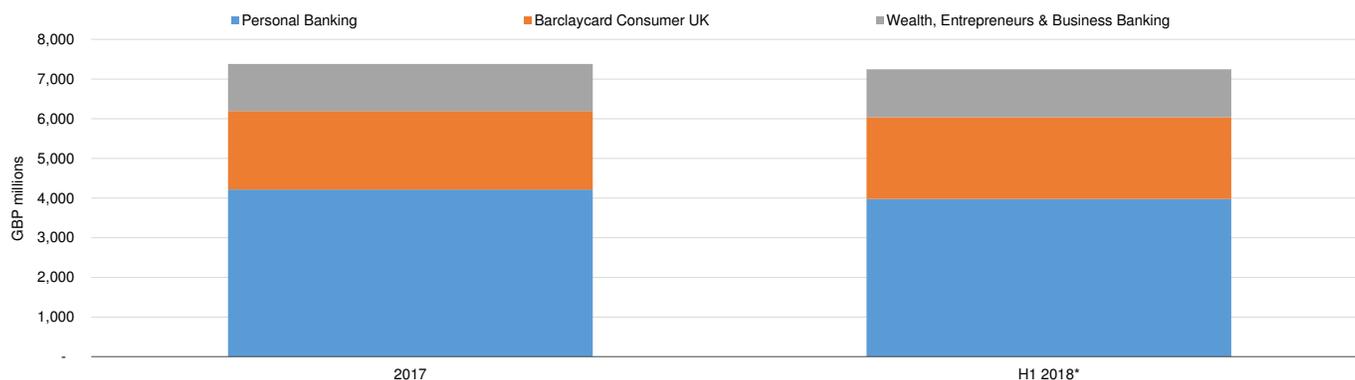
Our assigned score of aa3 for Capital reflects the bank's good regulatory capitalisation and leverage positions. BB UK had a common equity tier 1 (CET1) ratio of 14.1% and CRR leverage ratio of 5.1%, at end-June 2018. We expect the bank's regulatory capitalisation to remain robust and well ahead of its high minimum regulatory requirements, reflecting the UK authorities' desire to ensure ring-fenced banks are well capitalised to be able to continue to provide key banking services to the UK economy, in a stress. BB UK's good capital generation capacity is underpinned by its earnings generation capacity.

Stable and predictable earnings from strong retail and small business banking franchises are exposed to residual conduct charges

BB UK houses the group's core UK retail and small business banking operations, which we consider as a key credit strength. BB UK's operations are spread across three main segments: Personal Banking, Barclaycard Consumer UK and Wealth, Entrepreneurs & Business Banking. These segments contributed to around 55%, 28% and 17%, respectively, of total revenues in the Barclays UK segmental results in the first half of 2018 (see Exhibit 1).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 1

Barclays UK: revenues breakdown by business segment

* annualised

Source: company data.

Our baa2 assigned score for Profitability reflects our expectation of a mild deterioration in the bank's profitability over the next 12-18 months, against the backdrop of Brexit-related uncertainty. The results of Barclays' retail and business banking operations have been very volatile since 2014 reflecting high restructuring, and conduct and litigation costs. These included those related to customer redress for payment protection insurance (total of £9.6 billion provisioned to date across Barclays PLC, which is predominantly related to BB UK businesses). Residual conduct charges could hit the group's P&L over the next 12-18 months, although likely to be at a much lower level than that in recent years.

BB UK operates exclusively in the UK and, as such, the bank's Strong+ Macro Profile is in line with that of the UK.

Large and good quality deposit base results in limited reliance on confidence-sensitive wholesale funding; strong liquidity protects the bank against unexpected market shocks

BB UK had a large retail and small business banking deposit book of £195 billion as of the end of June 2018, well in excess of loans (we calculate a gross loan-to-deposit ratio of 96% as of the same date). BB UK has limited reliance on wholesale funding, which is represented by bail-in-able liabilities issued to its parent company and required by regulation. Moreover, Barclays has drawn from the [Bank of England's](#) Term Funding Scheme. This provides capacity to further diversify the funding mix of BB UK and support its net interest margin in the current very low interest rate environment. Our Funding Structure score of a1 is driven by our assessment of the bank's limited refinancing risk.

BB UK has a good liquidity profile, supported by its large high quality liquid asset pool of £43 billion at end-June 2018. The bank's good liquidity is also evidenced by a strong liquidity coverage ratio of 144%, as at the same reporting date. We assign a baa2 score to the Liquidity Resources, reflecting our assessment of the bank's good liquidity.

Proportion of problem loans in line with rated peers

Barclays had a problem loan ratio of 0.7% as at end-June 2018, which is in line with peers and below the average for the UK banking system. The bank's unsecured retail lending book included the UK card loan gross portfolio of £17.1 billion and the UK personal loan gross portfolio of £6.4 billion, as at end-June 2018.

Overall, we view BB UK's underwriting standards as conservative. As of end-June 2018, the bank's £134 billion UK mortgage book had an average loan-to-value ratio of around 50%, lower than that of its peers. We assign a score of baa1 for asset risk.

Support and structural considerations

Loss given failure and additional notching

We apply our advanced LGF analysis to BB UK because the bank is incorporated in the UK, which we consider to be an operational resolution regime because it is subject to the EU Bank Recovery and Resolution Directive. For this analysis, we assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5%

run-off in preferred deposits. We also assume that junior deposits represent 10% of total deposits, given that the bank's operations are predominantly retail and SME. We assign a 25% probability to deposits being preferred to senior unsecured debt.

The implementation of UK ring-fencing has led us to perform separate advanced LGF analysis for Barclays (the holding company), Barclays Bank (the non ring-fenced-bank; (LT senior unsecured A2 stable, bca baa3) and BB UK.

We assume that EU holding company senior obligations benefit from the subordination of both holding and bank-subordinated instruments. However, we believe that EU holding company senior unsecured debt is economically junior to bank senior unsecured debt, based on our forward-looking view that EU holding company senior unsecured debt, although legally pari passu to bank debt, will eventually fund bank senior unsecured debt, which is contractually, structurally or statutorily subordinated to operating company external senior debt.

Our advanced LGF analysis indicates a low loss given failure for junior depositors of BB UK, resulting in a one-notch uplift to the relevant ratings from the firm's adjusted BCA of a3.

Government support

We assess a moderate probability of government support for BB UK' junior depositors, resulting in a further one-notch uplift incorporated in the relevant A1 ratings.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 2

Macro Factors						
Weighted Macro Profile		Strong +				
Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
<i>Problem Loans / Gross Loans</i>	--	--	--	baa1	Quality of assets	Expected trend
Capital						
<i>TCE / RWA</i>	--	--	--	aa3	Stress capital resilience	Expected trend
Profitability						
<i>Net Income / Tangible Assets</i>	--	--	--	baa2	Earnings quality	Expected trend
Combined Solvency Score		--		a3		
Liquidity						
Funding Structure						
<i>Market Funds / Tangible Banking Assets</i>	--	--	--	a1	Deposit quality	
Liquid Resources						
<i>Liquid Banking Assets / Tangible Banking Assets</i>	--	--	--	baa2	Quality of liquid assets	
Combined Liquidity Score		--		a3		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa1		
Scorecard Calculated BCA range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				--		
Adjusted BCA				a3		
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Counterparty Risk Assessment	3	--	Aa3(cr)	1	Aa2(cr)	--
Deposits	1	--	A2	1	A1	A1

Source: Moody's Investors Service

Ratings

Exhibit 3

Category	Moody's Rating
BARCLAYS BANK UK PLC	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Deposit Note/CD Program	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Commercial Paper	P-1

Source: Moody's Investors Service

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