

CREDIT OPINION

8 October 2018

Update

 Rate this Research

RATINGS

Barclays Bank PLC

Domicile	United Kingdom
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
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 PLC

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

Summary

[Barclays Bank PLC](#) (Barclays Bank) is a global systemically important bank with large capital markets operations, based in the [United Kingdom](#) (Aa2 stable). Barclays Bank is the non ring-fenced bank of the Barclays group (Barclays PLC, LT senior unsecured Baa3 stable), since 1 April 2018, when Barclays implemented the required structural changes to comply with UK ring-fencing rules, ahead of the legislation coming into force on 1 January 2019.

Barclays Bank's baa3 BCA is supported by its (1) good regulatory capitalisation and its (2) adequate funding and sound liquidity, which protect the bank against unexpected market shocks. The bank's BCA is constrained by (3) risks from investment banking and capital market activities, and (4) weak historical profitability, which we expect to continue to improve but to fully restore on a sustainable basis only beyond the next 12-18 months.

Barclays Bank's A2 long-term senior unsecured debt and deposit ratings include a three-notch uplift resulting from our advanced Loss Given Failure (LGF) analysis. The uplift reflects our view that the bank's junior depositors and senior unsecured creditors face an extremely low loss given failure. In addition, our moderate assessment of government support translates into a further one-notch uplift to these ratings.

Credit strengths

- » Regulatory capitalisation is good
- » Adequate funding and sound liquidity protect the bank against unexpected market shocks
- » Our advanced LGF analysis indicates an extremely low loss given failure for junior depositors and senior unsecured creditors of Barclays Bank, resulting in a three-notch uplift to the relevant ratings from the bank's baa3 adjusted BCA
- » The long-term deposit and senior unsecured debt ratings of Barclays Bank incorporate one notch of government support uplift

Credit challenges

- » Risks from investment banking and capital market activities weigh on asset risk
- » Profitability will continue to improve gradually but we expect it will only be fully restored on a sustainable basis beyond the next 12-18 months

Rating outlook

The ratings for Barclays Bank 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 the stock of bail-in-able liabilities, over the next 12-18 months. The stable outlook already incorporates a gradual improvement in profitability, which, however, we expect will only be fully restored on a sustainable basis beyond the next 12-18 months.

Factors that could lead to an upgrade

Barclays Bank's baa3 BCA could be upgraded if the bank were to restore its profitability on a sustainable basis. Higher capitalisation levels, lower reliance on confidence-sensitive wholesale funding and a reduction in the size of capital markets activities would also be positive for the BCA. An upgrade of the BCA would likely lead to a ratings upgrade.

Factors that could lead to a downgrade

Barclays Bank's baa3 BCA could be downgraded in the case of (1) a deterioration in the operating environment beyond our current expectations, (2) residual conduct and investigation related costs are settled beyond our estimates, (3) a material risk management failure or increase in risk appetite or leverage, and (4) a material deterioration in the group's liquidity or capital positions. A downgrade of the bank's BCA would likely lead to a ratings downgrade. The ratings for Barclays Bank could be downgraded in the case of a lower degree of protection for its creditors from the stock of bail-in-able debt, which we assess through its advanced LGF analysis.

Profile

Barclays Bank is the non ring-fenced bank of the Barclays group, accounting for around 80% of the group's total assets, following the transfer of the group's retail and small business banking operations to Barclays Bank UK on 1 April 2018. The bank houses the group's corporate and investment banking activities together with other non-capital markets activities including payments, wealth management, and international consumer and cards activities. The bulk of the bank's operations are split between the group's key markets of the UK and US but it also has a presence in continental Europe and other major global financial centres.

The Bank's narrower business mix, following ring-fencing implementation, has led us to remove the positive adjustment for Business Diversification in the qualitative section of the bank's BCA scorecard in April 2018.

The first full set of financials for Barclays Bank following ring-fencing implementation related to the first-half of 2018. However, Barclays adopted segmental reporting in line with its ring-fencing structure since 2016 and published the pro-forma financials for 2017, providing good insight into the financial position of Barclays Bank post ring-fencing implementation, prior to 2018.

Detailed credit considerations

Regulatory capitalisation is good

Our assigned score of a1 for Capital reflects the bank's good regulatory capitalisation and leverage. The bank had a common equity tier 1 (CET1) ratio of 13.0% and a CRR leverage ratio of 4.1%, as at the end of June 2018.

We expect Barclays Bank's capitalisation to stabilise at current levels. The bank has settle the RMBS related litigation with the US Department of Justice, however SFO criminal investigation could negatively impact the banks capital beyond our estimates.

Adequate funding and liquidity protect the bank against unexpected market shocks

Barclays Bank had deposits of around £194 billion as of the end of June 2018, largely relating to its corporate deposit book, well in excess of the customer loan book (we calculate a gross loan-to-deposit ratio of 69% as of the same reporting date). Following the transfer of the retail and small business banking deposit book to Barclays Bank UK, Barclays Bank has increased its reliance on confidence-sensitive wholesale funding.

Our b1 assigned score for Funding Structure reflects a relatively large amount of confidence-sensitive wholesale funding. An increasing portion of bail-in-able liabilities issued to the parent company and good degree of diversification of its wholesale funding market sources by investor type and currency partly mitigate refinancing risk.

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.

Liquidity is a credit strength: the bank had a sizeable liquid asset pool of GBP171 billion, as of end-June 2018. The size and quality of its liquidity buffer are higher than those of some of its large domestic and European peers. This reflects the conservative UK transitional liquidity standards and the bank's conservative liquidity risk management framework. The bank's liquidity coverage ratio (LCR) of 145% as at end-June 2018, also evidences its good liquidity. We assign an aa3 score to the Liquidity Resources factor of our BCA Scorecard to reflect these factors.

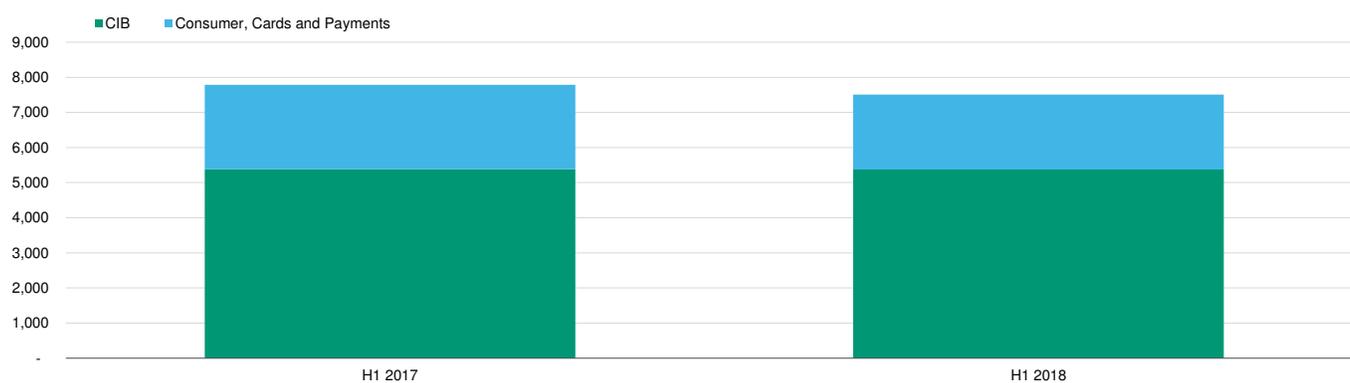
Profitability will continue to improve gradually but we expect it will only be fully restored on a sustainable basis, beyond the next 12-18 months

Barclays Bank's profitability, to which we assign a score of b3 in our BCA Scorecard, represents the bank's key credit weakness. Following the transfer of the group's retail and small business banking activities to Barclays Bank UK on 1 April 2018, Barclays Bank has become more reliant on riskier wholesale and capital markets activities, which we expect to lead to higher earnings volatility, relative to traditional retail and commercial banking activities.

Corporate and Investment Banking (CIB) activities generated 72% of total income in the first half of 2018. Barclays Bank also houses other activities such as International cards, payments and wealth management, which accounted for the remaining around 28% (Exhibit 1).

Exhibit 1

Barclays International: revenues breakdown by business segment



CIB: Corporate and Investment Bank
Source: company data.

We expect Barclays Bank to deliver profitability below management targets over the next 12-18 months, as the group builds revenues and addresses volatility. We also expect a deterioration in the operating conditions in the UK to pose additional profitability challenges.

In the longer term, the current business plan, if successfully delivered, will lead to stronger profitability. However, we expect the bank's greater portion of CIB earnings to result in a higher degree of volatility in the bank's earnings because they are more dependent on market conditions.

Risks from investment banking and capital market activities weigh on asset risk

The baa3 score for the Asset Risk factor of our BCA Scorecard incorporates Barclays Bank's strong credit quality, reflected in a low non-performing loans ratio of 3.0% as at H1 2018, but also takes into account the risks associated with the group's capital markets activities and residual investigation and conduct issues.

Capital markets activities carry tail risk and give rise to market, counterparty credit and operational risks, in particular from the bank's large stock of financial assets and derivatives. These factors constrain the credit profile of Barclays Bank and that of its global peers, and are reflected in a one-notch negative adjustment for Opacity and Complexity in the qualitative section of our BCA scorecard.

Risk weighted assets (RWA) allocated to the CIB business account for around three quarters of total RWA's (which includes Head Office). CIB will refocus on less capital intensive customer flow business, thus generating higher risk-adjusted returns; however the greater proportion of CIB earnings could nevertheless lead to a higher degree of volatility in the group's earnings, a credit negative.

We consider the Q1 2018 settlement of the civil litigation with the US Department of Justice over retail mortgage-backed securities as a positive credit development, as it reduced litigation and conduct risk. The Serious Fraud Office has applied to the high court to revive its case against Barclays Bank regarding matters which arose in the context of Barclays' capital raisings in 2008 and the outcome is unclear.

Support and structural considerations

Loss given failure and additional notching

We apply our advanced LGF analysis to Barclays Bank 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 the junior proportion of Barclays Bank plc's deposits are consistent with our standard assumption of 26%. Finally, we assign a 25% probability to deposits being preferred to senior unsecured debt.

The introduction of UK ring-fencing has led us to perform separate advanced LGF analysis for Barclays, Barclays Bank and Barclays Bank 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 an extremely low loss given failure for junior depositors and senior unsecured creditors of Barclays Bank, resulting in a three-notch uplift to the relevant ratings from the firm's Adjusted BCA of baa3. For the senior unsecured creditors of Barclays, our LGF analysis shows a moderate loss given failure, resulting in no uplift from the bank's Adjusted BCA of baa3.

For junior creditors of Barclays Bank, our advanced LGF analysis shows a high loss given failure. We also incorporate an additional notching for junior subordinated and preference share instruments, reflecting coupon suspension risk ahead of failure.

Government support

We assess a moderate probability of government support for Barclays Bank's junior depositors and senior unsecured creditors, resulting in a further one-notch uplift incorporated in the relevant A2 ratings. For junior securities, we continue to assess a low support probability, resulting in no uplift for government support included in these 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

Barclays Bank PLC

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>	--	--	--	baa3	Market risk	Operational risk
Capital						
<i>TCE / RWA</i>	--	--	--	a1	Expected trend	
Profitability						
<i>Net Income / Tangible Assets</i>	--	--	--	b3	Return on assets	Expected trend
Combined Solvency Score		--		baa2		
Liquidity						
Funding Structure						
<i>Market Funds / Tangible Banking Assets</i>	--	--	--	b1	Deposit quality	
Liquid Resources						
<i>Liquid Banking Assets / Tangible Banking Assets</i>	--	--	--	aa3	Quality of liquid assets	
Combined Liquidity Score		--		baa3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				-1		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aa1		
Scorecard Calculated BCA range				baa2 - ba1		
Assigned BCA				baa3		
Affiliate Support notching				--		
Adjusted BCA				baa3		
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Counterparty risk assessment	3	--	a3(cr)	1	A2(cr)	--
Deposits	3	--	a3	1	A2	A2
Senior unsecured bank debt	3	--	a3	1	A2	A2
Dated subordinated bank debt	-1	--	ba1	--	Ba1	Ba1
Junior subordinated bank debt	-1	-1	ba2	--	Ba2(hyb)	Ba2(hyb)
Preference shares bank - cumulative	-1	-1	ba2	--	Ba2(hyb)	Ba2(hyb)
Preference shares bank - non cumulative	-1	-2	ba3	--	--	Ba3(hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 3

Category

Moody's Rating

BARCLAYS BANK PLC

Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Subordinate	Ba1
Jr Subordinate	Ba2 (hyb)
Pref. Stock	Ba2 (hyb)
Pref. Stock Non-cumulative	Ba3 (hyb)
Commercial Paper	P-1
Other Short Term -Fgn Curr	(P)P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

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