

CREDIT OPINION

6 April 2018

Update

Rate this Research >>

RATINGS

Barclays Bank UK PLC

Domicile	United Kingdom
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.

Contacts

Andrea Usai +44.20.7772.1058
Senior Vice President
andrea.usai@moodys.com

Maxwell Price +44.20.7772.1778
Associate Analyst
maxwell.price@moodys.com

Laurie Mayers +44.20.7772.5582
Associate Managing
Director
laurie.mayers@moodys.com

Ana Arsov +1.212.553.3763
Managing Director -
Financial Institutions
ana.arsov@moodys.com

Barclays Bank UK PLC

New issuer - robust capitalisation and good quality deposit base support A1 rating; stable outlook

Summary

[Barclays Bank UK PLC](#) (Barclays Bank UK) is a domestic systemically important bank based in the [United Kingdom](#) (Aa2 stable). Barclays Bank UK is the ring-fenced bank of the Barclays group (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 Barclays Bank UK, and affirmed its standalone Baseline Credit Assessment (BCA) of a3 and Counterparty Risk (CR) assessment of Aa3(cr)/Prime-1(cr). The ratings assignment reflects our assessment of Barclays Bank UK's moderate asset risk, robust capitalisation, good funding and liquidity.

Barclays Bank 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 Barclays Bank UK from the UK government, if needed.

Credit strengths

- » Robust capitalisation protects creditors from unexpected losses
- » Strong retail and small business banking franchises provide stable and predictable earnings, which are however still 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 Barclays Bank UK, resulting in a one-notch uplift to the relevant ratings from the bank's a3 adjusted BCA
- » The long-term deposit rating for Barclays Bank UK incorporates one notch of government support uplift

This report was republished on 12 April 2018 to include the scorecard on page 5.

Credit challenges

» Higher proportion of problem loans than rated peers partly reflects greater exposures to higher margin unsecured retail lending

Rating outlook

The ratings for Barclays Bank 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 Barclays Bank UK and the other UK banks, due to Brexit-related uncertainty.

Factors that could lead to an upgrade

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

An upgrade of Barclays Bank 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 bank's a3 BCA could be downgraded in case of a deterioration in operating conditions in the UK, beyond our current expectations, which would increase Barclays Bank UK's asset risk and weaken profitability. Lower capitalisation or a deterioration in the bank's liquidity profile could also lead to a lower BCA. A downgrade of the BCA would then 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

Barclays Bank 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. Barclays Bank UK is one of the market leaders in the UK, with strong franchises in retail (including credit cards) and small business banking.

A full set of financials for Barclays Bank UK following ring-fencing implementation will not be available until later in the year. However, Barclays has adopted segmental reporting in line with its ring-fencing structure since 2016, providing a good insight into the financial positions of Barclays Bank UK and disclosed its pro-forma financials as at 31 December 2017.

Detailed credit considerations

Robust capitalisation protects creditors from unexpected losses

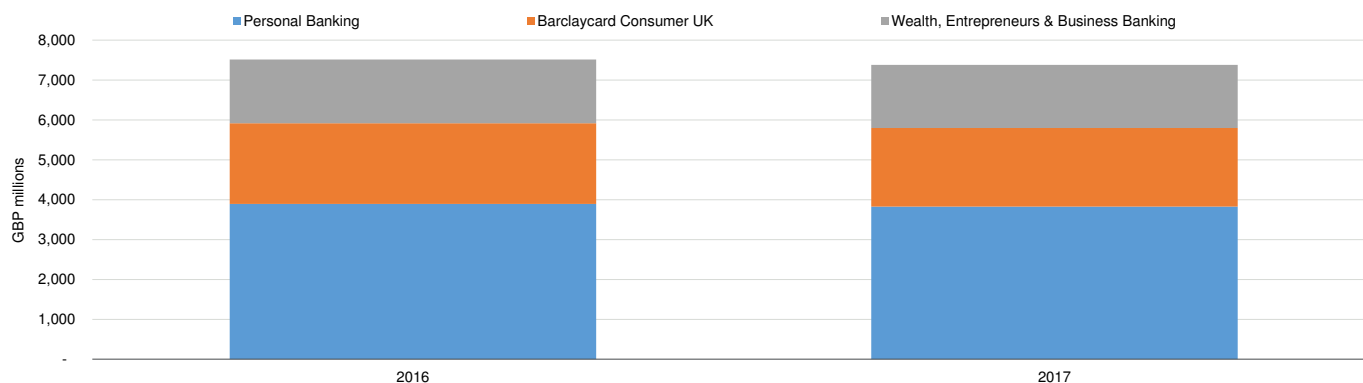
Our assigned score of aa3 for Capital reflects the bank's good regulatory capitalisation and leverage positions. We expect the bank's regulatory capitalisation to remain robust and well ahead of its high minimum regulatory requirements, reflecting the UK authorities' desire to ensure ring-fenced banks are well capitalised to be able to continue to provide key banking services to the UK economy, in a stress. Barclays Bank UK's good capital generation capacity is underpinned by its earnings generation capacity. Regulatory capital ratios for Barclays Bank UK have yet to be publicly disclosed.

Strong core retail and business banking franchises provide stable and predictable earnings, which are however exposed to residual legacy conduct and litigation charges

Barclays Bank UK houses the group's core retail and small business banking operations, which we consider as a key credit strength. Barclays Bank UK's operations are spread across three main segments: Personal Banking, Barclaycard Consumer UK and Wealth, Entrepreneurs & Business Banking. These segments contributed 52%, 27% and 21%, respectively, of total revenues in the Barclays UK segmental results in 2017 (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

Source: company data.

Our baa2 assigned score for Profitability reflects our expectation for 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 £9.2 billion provisioned to date across Barclays PLC, which is predominantly related to Barclays Bank UK businesses). The magnitude of conduct costs, as well as the relevant timings, is difficult to forecast and has given rise to unforeseen spikes. 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.

Barclays Bank 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; good liquidity protects the bank against unexpected market shocks

Barclays Bank UK had a large retail and small business banking deposit book of £193 billion as of the end of December 2017, well in excess of the loan book (we calculate a gross loan-to-deposit ratio of 95% as of the same reporting date). Barclays Bank 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 Barclays Bank 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.

We assign a baa2 score to the Liquidity Resources, reflecting our assessment of the bank's good liquidity.

Higher proportion of problem loans than rated peers partly reflects higher exposures to higher margin unsecured retail lending

We estimate a problem loan ratio for Barclays Bank UK at end-2017, which is higher than its domestic competitors, partly due to the bank's exposures to unsecured higher margin retail lending. The bank's unsecured retail lending book included the UK card loan gross portfolio of 17.7 billion and the UK personal loan gross portfolio of £6.3 billion, as at end-2017.

Overall, we view Barclays Bank UK's underwriting standards as conservative. As of year-end 2017, the bank's £132 billion UK mortgage book had an average loan-to-value ratio lower than that of its peers.

Support and structural considerations

Loss given failure and additional notching

We apply our advanced LGF analysis to Barclays Bank 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, 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 a low loss given failure for junior depositors of Barclays Bank 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 Barclays Bank 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
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)P-1

Source: Moody's Investors Service

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

Andrea Usai
Senior Vice President
andrea.usai@moody's.com

44-20-7772-1058