FitchRatings

Barclays plc

Update

Banks
Universal Commercial Banks
United Kingdom

Key Rating Drivers

Diversified Group: Barclays plc's (Barclays) ratings reflect the group's strong franchises in UK retail banking, UK and US credit cards, corporate banking and investment banking, which provide earnings diversification by product and geography. The ratings also factor in the group's sizeable trading and capital market businesses, which can result in earnings volatility. The ratings are also underpinned by Barclays' solid capitalisation and strong funding and liquidity.

Two Main Opcos: The Viability Ratings (VRs) of Barclays' main operating companies (opcos), Barclays Bank plc (BBplc) and Barclays Bank UK PLC (BBUK), include ordinary support from the group. BBUK, a UK-focused retail and SME bank, has solid asset quality and stable funding dominated by granular deposits. BBplc, the larger bank when measured by total assets, houses the large corporate and investment bank, and international cards and payments businesses.

Opco Rating Uplift: BBplc and BBUK's Long-Term Issuer Default Ratings (IDRs) and long-term senior debt ratings are one notch above their respective VRs and one notch above Barclays' Long-Term IDR. This reflects the group's large buffers of junior and holdco debt that can protect both opcos' external senior unsecured creditors from default in the event of failure.

Moderate Impaired Loans, Rising LICs: Barclays' impaired (Stage 3) loan ratio has held up well, at 2.1% at end-2023. Conservative underwriting standards, combined with routine use of risk transfer transactions, should ensure manageable loan losses in UK mortgage and corporate lending. However, the loan impairment charges (LICs)/gross loans ratio rose significantly to 50bp in 2023 (2022: 32bp), driven mainly by US cards, reflecting an increase in delinquency rates from the low levels seen since the pandemic, as well as targeted US card balance growth.

Fitch Ratings expect the group's impaired loan ratio to remain below 3% through 2024, but expects further LIC increases to weigh on operating profitability.

Reasonable Profitability: Barclays' operating profit/risk-weighted assets (RWAs) of 1.9% in 2023 (2022: 2.1%) was reasonable, but below the large European banks' average. Weaker revenue in investment banking, which had benefitted from very strong global markets performance in 2022, partly offset higher net interest income. Higher structural hedge income should continue to partially compensate for declining net interest margins in 2024, and the relatively high interest rates should further provide a substantial buffer to absorb rising LICs.

Adequate Capital Buffers: The bank's end-2023 common equity Tier 1 (CET1) ratio of 13.8% (13.7% excluding IFRS 9 transitional relief) is comparable with that of global trading and universal bank peers. We expect organic capital generation to allow the CET1 ratio to remain within the bank's 13%–14% target, even in a more challenging operating environment.

Strong Liquidity: Barclays' funding profile is stable and diversified, underpinned by a strong UK retail deposit franchise that funds retail assets, and good market access to fund wholesale operations. We expect the group's Fitch-calculated loans/deposits ratio (65% at end-2023) to normalise upwards as savings rates moderate and as loan book growth resumes. Liquidity is conservatively managed, with a liquidity coverage ratio of 161% at end-2023.

Holdco's VR Equalised with Opcos': We equalise the VR of Barclays, the group's holding company (holdco), with that of its main opcos. This reflects moderate Fitch-calculated common equity double leverage (end-2023: 111%), and our expectation that the holdco's liquidity will continue to be managed prudently.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns

Sovereign Risk (United Kingdom)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Non-Bank Financial Institutions Rating Criteria (January 2024)

Related Research

Barclays' Plan to Improve Profitability Comes with Added Risk (February 2024)

Large European Banks Quarterly Credit Tracker (March 2024)

Major UK Banks - Peer Review 2024 (February 2024)

DM100 Banks Tracker (December 2023)

Global Trading and Universal Banks - Peer Review 2023 (December 2023)

Fitch Affirms Barclays at 'A'; Outlook Stable (July 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Barclays' ratings are primarily sensitive to a sharp deterioration in asset quality, particularly if combined with weakened capital generation that would result in capital erosion. The ratings would likely be downgraded if the gross impaired loan ratio exceeded 3% for a sustained period and the CET1 ratio (excluding IFRS 9 transitional relief) fell below 13% without a clear path to swiftly restoring it. The ratings would also come under pressure if profitability weakened and we no longer expected the group to generate an operating profit/RWAs ratio sustainably above 1.5%.

The ratings could also come under pressure if the operating environment deterioration is more severe than we expect, resulting in structurally weaker financial metrics. A rising risk appetite would also weigh on the ratings, particularly if this occurred during a period of weaker economic prospects for the group's main markets. This could be indicated by a significant increase in RWAs allocated to investment banking activities or towards higher-risk credit exposures.

BBUK and BBplc's VRs would come under pressure if the subsidiaries' financial profiles weakened and we believed that ordinary support from the group was not available to offset these weaknesses. BBUK's ratings could withstand a one-notch downgrade of Barclays' ratings provided that BBUK's financial profile at that point was significantly stronger than that of the rest of the group.

The one-notch uplift applied to the IDRs of BBplc and BBUK is also sensitive to Barclays' maintenance of a clear and credible role as the resolution entity for the group.

The ratings are also sensitive to holdco double leverage exceeding 120%, without a clear path to reducing it below that threshold.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Over the medium term, upside potential to Barclays' ratings would require evidence that the group is able to generate strong operating profitability in a weakened operating environment. Maintaining operating profit/RWAs materially above 1.5% through a full economic cycle could result in upwards pressure on ratings if the bank also maintained healthy asset quality and increased its CET1 ratio above its 13%–14% target range.

BBUK and BBplc's VRs are closely linked to Barclays' VR and could be upgraded if Barclays' financial profile strengthened materially.

Other Debt and Issuer Ratings

Debt Rating Classes

Rating level	Barclays plc	Barclays Bank UK PLC	Barclays Bank plc	Barclays Capital Inc.
Senior unsecured	A/F1	A+/F1	A+/F1	F1
Senior secured (GCMTN)	-	-	A+/F1	-
Tier 2 subordinated debt	BBB+	-	BBB+	-
Legacy upper Tier 2 debt	-	-	BBB	-
Additional Tier 1 notes, preference shares	BBB-	-	BBB-	-

Source: Fitch Ratings

The senior unsecured debt ratings are aligned with the respective issuers' IDRs. The ratings of BBplc's global collateralised medium-term note (GCMTN) programme and notes under the programme are aligned with BBplc's senior unsecured debt ratings. This is because the terms of the notes do not allow for a one-notch uplift of the ratings due to the wide range of eligible collateral used.

Barclays and BBplc's Tier 2 debt ratings are two notches below their respective VRs, reflecting this class of debt's poor recovery prospects. BBplc's legacy upper Tier 2 instruments are rated lower, at three notches below the VR, due to incremental non-performance risk in addition to poor recovery prospects.

Additional Tier 1 instruments and preference shares with no constraints on coupon omission are rated four notches below the relevant VRs. The issues are notched down twice for loss severity, reflecting their deep subordination and poor recoveries as the instruments can be converted into equity or written down well ahead of resolution. In addition, they are notched down twice for high non-performance risk due to fully discretionary coupon omission. The notching of these instruments is supported by our expectation that the group will maintain a buffer of at least 100bp over the minimum capital requirements which, whose breach would trigger coupon omission on the bonds.

Issuer Ratings

Rating level	Barclays plc	Barclays Bank UK PLC	Barclays Bank plc	Barclays Bank Ireland plc	Barclays Capital Inc.
Long-Term IDR/Outlook	A/Stable	A+/Stable	A+/Stable	A+/Stable	A+/Stable
Short-Term IDR	F1	F1	F1	F1	F1
Viability Rating	a	a	a	-	-
Shareholder Support Rating	-	a	-	a+	a+
Government Support Rating	no support	-	no support	-	-
Derivative Counterparty Rating	-	A+(dcr)	A+(dcr)	A+(dcr)	A+(dcr)

Source: Fitch Ratings

Issuer Ratings

BBUK's Shareholder Support Rating (SSR) of 'a' reflects our view of an extremely high probability of shareholder support from Barclays, and indirectly from BBplc if needed, given the ring-fenced bank's strategic role in the group and reputational considerations. We believe that support would be manageable, despite its size, as we expect capital support to be moderate compared with the size of the group.

Barclays Bank Ireland plc (BBI) and Barclays Capital Inc.'s (BCI) SSRs of 'a+' and their Long- and Short-Term IDRs of 'A+' and 'F1', respectively, are equalised with those of their intermediate parent, BBplc, which reflects our view of an extremely high likelihood that the subsidiaries would be supported if needed. Their Long-Term IDRs are equalised with BBplc's IDR rather than its VR because we expect sufficient internal loss-absorbing buffers to protect the subsidiaries' senior creditors if the group fails.

Fitch views BCI and BBI's businesses as core to the group, in particular to the corporate and investment banking client relationships and strategy. In our view, this provides a strong incentive for BBplc to support both entities. BBI and BCI are highly integrated within BBplc's management, governance and group risk policies. Regulatory requirements mean that capital and liquidity are not fully fungible, but balance sheet and funding integration is significant.

The Derivative Counterparty Ratings (DCRs) of BBUK, BBplc, BBI and BCI are aligned with their respective Long-Term IDRs, because derivative counterparties in the UK have no preferential status over other senior obligations in a resolution.

Significant Changes from Last Review

Barclays 2023 Results and Strategy Update

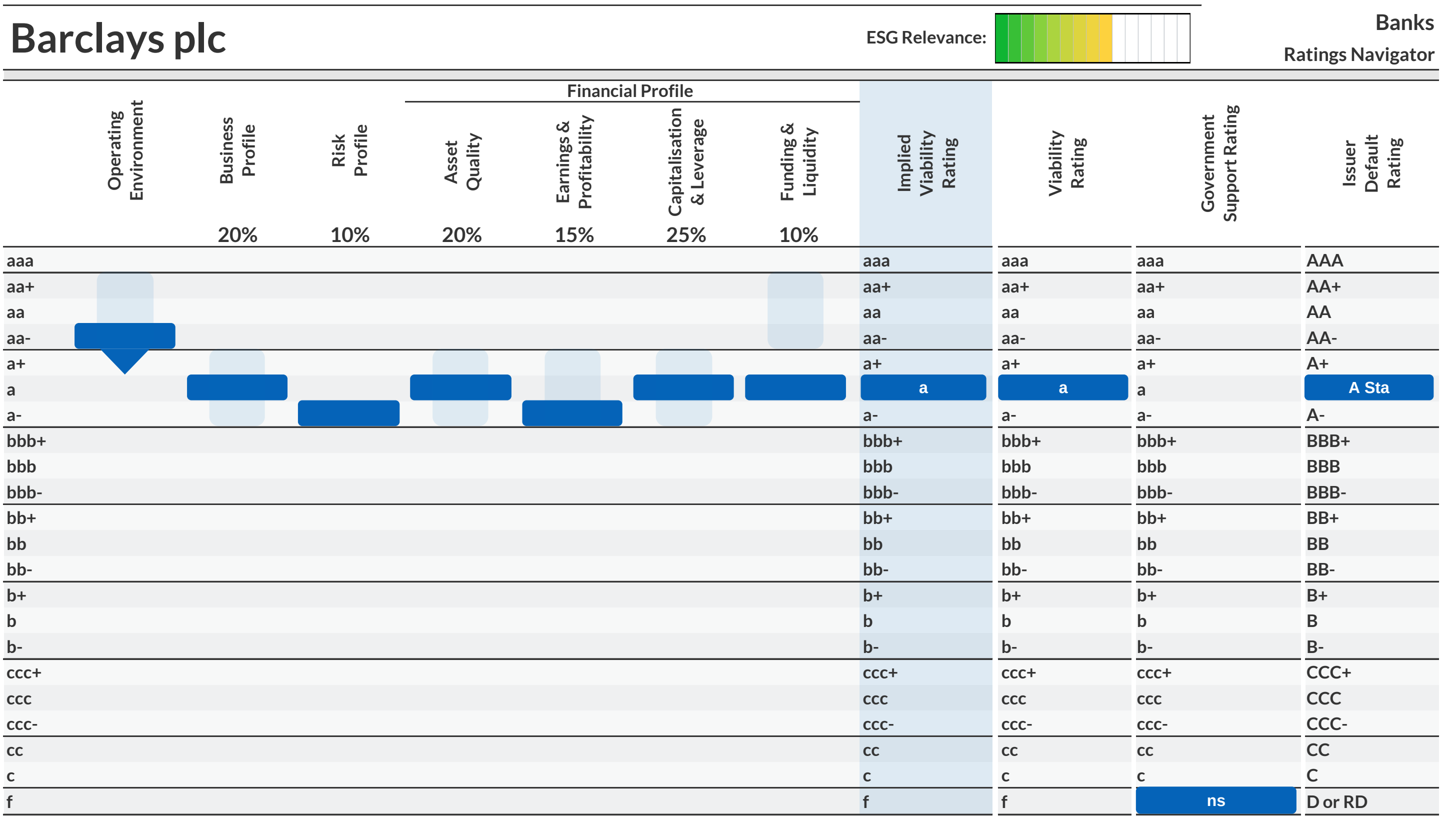
Barclays reported a pre-tax profit of GBP7.5 billion in 2023 (-3% yoy), excluding GBP927 million of restructuring costs in 4Q23 on revenues that were higher yoy, driven by higher net interest income and higher US credit card balances. However, profitability suffered from subdued trading and investment banking activity, and pressure on the US credit card portfolio as LICs were increased materially in anticipation of loan growth and a further rise in delinquencies (loan loss rate on US cards as calculated by Barclays: 636bp in 4Q23, above the 400bp long-term average).

Barclays presented its updated strategy, which aims to generate higher and more stable returns, and a return on tangible equity (RoTE) of at least 12% by 2026. The group intends to reallocate capital largely towards Barclays UK and the UK Corporate Bank, which are relatively profitable, and strengthen and stabilise profitability in its investment bank, which has underperformed, compared to other business units, on a RoTE basis over the past three years.

We believe that Barclays' plan to expand unsecured retail lending and higher-LTV UK mortgages, and to increase UK corporate lending as the economy recovers, will increase credit risk. This could weaken the bank's overall risk profile and asset quality, if credit metrics weaken materially. Barclays is also targeting GBP2 billion of cost efficiencies by 2026, of which GBP1 billion is likely to be realised in 2024, with modest incremental costs to achieve following the GBP927 million booked in 4Q23. We believe the reorganisation and cost savings initiatives carry only modest execution risk due to the incremental nature of the planned changes. The acquisitions of Kensington Mortgages, completed in 2023, and of Tesco Bank's portfolio, due later this year, are relatively small compared to Barclays.

The group also announced a reorganisation to five business units, from three, with the UK Corporate Bank separated from the Investment Bank, and the former Consumer, Cards and Payments Division disaggregated into Private Banking & Wealth Management and the US Consumer Bank.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The outlook on the operating environment score for domestic UK banks was negative at the time of the last rating committee but was revised to stable on 25 March 2024, following the revision of the Outlook on the UK's 'AA-' sovereign rating to Stable.

The funding and liquidity score of 'a' has been assigned below the 'aa' implied category score due to the following adjustment reason: historical and future metrics (negative).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	16,091	12,709	10,603	8,093	8,159
Net fees and commissions	8,266	6,529	6,599	7,674	6,571
Other operating income	7,774	6,140	7,828	6,173	7,036
Total operating income	32,131	25,378	25,030	21,940	21,766
Operating costs	21,436	16,931	16,730	14,439	13,886
Pre-impairment operating profit	10,683	8,438	8,306	7,761	7,886
Loan and other impairment charges	2,382	1,881	1,220	-653	4,838
Operating profit	8,302	6,557	7,086	8,414	3,048
Other non-operating items (net)	n.a.	n.a.	-74	n.a.	17
Tax	1,562	1,234	1,039	1,188	604
Net income	6,739	5,323	5,973	7,226	2,461
Other comprehensive income	1,337	1,056	-4,361	-2,218	-395
Fitch comprehensive income	8,076	6,379	1,612	5,008	2,066
Summary balance sheet					
Assets					
Gross loans	429,219	339,009	348,869	325,664	318,262
- Of which impaired	9,105	7,191	7,086	7,235	8,997
Loan loss allowances	7,243	5,721	5,592	5,742	8,335
Net loans	421,976	333,288	343,277	319,922	309,927
Interbank	11,976	9,459	10,015	9,698	8,900
Derivatives	325,180	256,836	302,380	262,572	302,446
Other securities and earning assets	588,618	464,906	419,982	398,104	384,346
Total earning assets	1,347,750	1,064,489	1,075,654	990,296	1,005,619
Cash and due from banks	284,409	224,634	256,351	238,592	191,127
Other assets	238,488	188,364	181,694	155,397	152,768
Total assets	1,870,646	1,477,487	1,513,699	1,384,285	1,349,514
Liabilities					
Customer deposits	663,838	524,317	525,803	501,614	463,693
Interbank and other short-term funding	361,270	285,341	260,814	243,477	230,594
Other long-term funding	222,302	175,580	182,122	164,918	142,266
Trading liabilities and derivatives	390,862	308,713	362,544	311,052	348,180
Total funding and derivatives	1,638,271	1,293,951	1,331,283	1,221,061	1,184,733
Other liabilities	141,388	111,672	113,128	92,658	97,591
Preference shares and hybrid capital	17,617	13,914	14,279	13,601	12,542
Total equity	73,370	57,950	55,009	56,965	54,648
Total liabilities and equity	1,870,646	1,477,487	1,513,699	1,384,285	1,349,514
Exchange rate		USD1 = GBP0.789827	USD1 = GBP0.828638	USD1 = GBP0.74438	USD1 = GBP0.745156

Source: Fitch Ratings, Fitch Solutions, Barclays plc

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.9	2.1	2.7	1.0
Net interest income/average earning assets	1.1	1.0	0.8	0.8
Non-interest expense/gross revenue	66.7	66.8	65.8	63.8
Net income/average equity	9.5	10.6	12.9	4.4
Asset quality				
Impaired loans ratio	2.1	2.0	2.2	2.8
Growth in gross loans	-2.8	7.1	2.3	0.1
Loan loss allowances/impaired loans	79.6	78.9	79.4	92.6
Loan impairment charges/average gross loans	0.5	0.3	0.0	1.2
Capitalisation				
Common equity Tier 1 ratio	13.8	13.9	15.1	15.1
Fully loaded common equity Tier 1 ratio	13.7	13.7	14.7	14.3
Tangible common equity/tangible assets	3.3	3.0	3.5	3.4
Basel leverage ratio	4.3	4.3	4.3	4.4
Net impaired loans/common equity Tier 1	3.1	3.2	3.1	1.4
Funding and liquidity				
Gross loans/customer deposits	64.7	66.4	64.9	68.6
Liquidity coverage ratio	161.0	165.0	168.0	162.0
Customer deposits/total non-equity funding	49.6	49.8	51.3	51.7
Net stable funding ratio	138.0	137.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Barclays plc

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Note: The Outlook on the UK's sovereign rating was Negative at the time of the last rating committee, but was revised to Stable on 22 March 2024.

Barclays and BBplc's Government Support Ratings (GSRs) of no support (ns) reflect Fitch's view that the opco and holdco's senior creditors cannot rely on extraordinary support from the sovereign in the event that Barclays or BBplc become non-viable. The UK's legislation and regulations are likely to require senior creditors to participate in losses for resolving even large banking groups. BBplc's GSR is based on government support because we believe that its role as non-ring-fenced bank and its size make shareholder support from Barclays, and indirectly from BBUK, unlikely.

Environmental, Social and Governance Considerations

FitchRatings **Barclays plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Barclays plc has 5 ESG potential rating drivers

- Barclays plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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