MOODY'S
INVESTORS SERVICE

CREDIT OPINION
15 April 2024

Update

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RATINGS

Barclays Bank UK PLC

Domicile	London, United Kingdom
Long Term CRR	Aa3
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

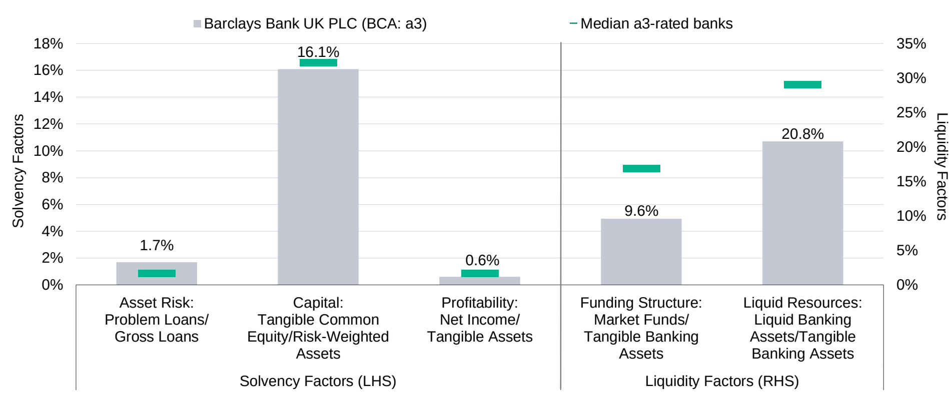
Update to credit analysis

Summary

Barclays Bank UK PLC's (Barclays Bank UK) long-term deposit ratings of A1, with a stable outlook, reflect the bank's standalone creditworthiness, illustrated by a Baseline Credit Assessment (BCA) of a3, and very low loss given failure under our Advanced Loss Given Failure (LGF) analysis, which results in a two-notch uplift. Our assessment of a high probability of support for Barclays Bank UK from its holding company Barclays PLC (Barclays, Baa1 stable, baa1[1]) and a moderate probability of support from the Government of the UK (Aa3 stable) does not lead to any additional uplift.

Barclays Bank UK's a3 BCA reflects the bank's strong capitalisation, stable deposit funding and strong liquidity, as well as its high reliance on revenue from unsecured personal lending. The bank's BCA is positioned one notch above the baa1 notional BCA of Barclays and is unconstrained, reflecting the ring-fenced nature of Barclays Bank UK according to the local regulation.

Exhibit 1
Rating Scorecard - Key financial ratios
As of 31 December 2023



Ratios are from Moody's banking scorecard. The capital ratio is as of the most recent period; the asset risk and profitability ratios are the worse of the most recent year-to-date period or the average of the last three years and the most recent year-to-date; the funding structure and liquid resources ratios are as of the most recent year-end.
Source: Moody's Ratings

Credit strengths

» Good asset quality

» Good risk-weighted capitalisation

» Stable deposit funding and strong liquidity

Credit challenges

» Pressures on some households' and businesses' debt servicing capacity due to inflation and higher rates

» High reliance on revenue from credit card and other personal unsecured lending

» Relatively weak leverage according to our metrics

Outlook

The outlook on Barclays Bank UK's long-term deposit ratings is stable, reflecting our expectation of a broad stability in the solvency and liquidity metrics, despite a weak macroeconomic environment and that the improved profitability will be sustained.

Factors that could lead to an upgrade

Barclays Bank UK's long-term deposit ratings could be upgraded following an upgrade of the bank's BCA. Barclays Bank UK's BCA could be upgraded following a stabilisation or reduction in problem loans, while maintaining a low stock of credit card lending.

An upgrade of the UK's sovereign rating could also lead to an upgrade of Barclays Bank UK's long-term deposit ratings via the introduction of a notch of government support; this is however unlikely given the current negative outlook on the UK's sovereign rating.

Factors that could lead to a downgrade

Barclays Bank UK's long-term deposit ratings could be downgraded following a downgrade of the bank's BCA, or failure to increase the stock of its bail-in-able liabilities in line with the bank's plans. Barclays Bank UK's BCA could be downgraded following a deterioration in the bank's asset quality, profitability, capitalisation or liquidity.

A downgrade of the group's notional BCA may not lead to a downgrade of Barclays Bank UK's BCA, because Barclays Bank UK is ring-fenced from the rest of the group

Key indicators

Exhibit 2
Barclays Bank UK PLC (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (GBP Billion)	293.6	312.2	319.7	287.5	257.6	3.3[4]
Total Assets (USD Billion)	374.2	375.5	431.5	393.0	341.2	2.3[4]
Tangible Common Equity (GBP Billion)	11.6	10.8	11.5	10.5	12.8	(2.5)[4]
Tangible Common Equity (USD Billion)	14.8	12.9	15.5	14.3	17.0	(3.4)[4]
Problem Loans / Gross Loans (%)	1.7	1.7	1.8	1.9	1.8	1.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.1	14.8	16.1	14.5	17.1	15.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	25.5	27.9	28.2	28.0	23.2	26.6[5]
Net Interest Margin (%)	2.1	1.8	1.6	1.8	2.3	1.9[5]
PPI / Average RWA (%)	4.1	3.8	2.4	2.3	4.0	3.3[6]
Net Income / Tangible Assets (%)	0.6	0.6	0.5	0.1	0.1	0.4[5]
Cost / Income Ratio (%)	60.4	62.3	73.5	73.2	59.3	65.7[5]
Market Funds / Tangible Banking Assets (%)	9.6	9.3	10.0	4.9	8.9	8.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.8	24.7	27.1	22.0	19.9	22.9[5]
Gross Loans / Due to Customers (%)	83.9	79.4	80.0	85.2	94.9	84.7[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Barclays Bank UK PLC (Barclays Bank UK) is the ring-fenced bank of the Barclays group, accounting for around 20% of the group's risk-weighted assets as of 31 December 2023.

The bank houses the group's retail and small business activities in the UK, mainly residential mortgages, credit cards and personal unsecured loans, and small business loans, following the transfer of the group's UK retail and small business banking operations from Barclays Bank PLC (A1/A1 stable, baa2 stable) in 2018.

Detailed credit considerations

Solid asset quality but with potential of moderate deterioration in medium-term

We assign an a3 Asset Risk score to Barclays Bank UK, two notches below the Macro Adjusted score to reflect the risk of a potential increase in its problem loans, and its moderate exposure to credit cards and personal unsecured lending.

At year-end 2023, Barclays Bank UK's loan book (excluding debt securities) comprised residential mortgages (80% of gross loans), credit cards and other retail loans (7%), and corporate loans (13%). The level of credit cards and unsecured loans is higher than that of many of Barclays Bank UK's local peers, but still small in the context of Barclays Bank UK's loan book.

Barclays Bank UK reported a relatively low level of Stage 3 loans as of 31 December 2023, equivalent to 1.5% of its overall loan book (December 2022: 1.5%). Stage 2 loans, at 12.0% of gross loans, were moderately lower compared to the prior year (December 2022: 12.3%), reflecting a somewhat more stable but still-uncertain operating environment and a high portion of unsecured loans (Stage 2 credit cards and consumer: 20% of total credit card and consumer lending exposure as of the end of December 2023).

There is a risk that Barclays Bank UK's loan book could deteriorate moderately over the next 12-18 months. This is because of the still uncertain macroeconomic environment and a potentially persistent high inflation in the UK[2], which will negatively impact households' and businesses' debt servicing capacity. At the same time, the bank's loan book has been adequately provisioned, and the increase in problem loans is not likely to lead to a further significant spike in loan loss charges.

Good risk-weighted capitalisation but relatively weak leverage

We assign an a1 Capital score to Barclays Bank UK, two notches below the Macro Adjusted score to reflect weak leverage according to our metrics.

Barclays Bank UK reported a strong 14.8% Common Equity Tier 1 (CET1) ratio as of 31 December 2023. We expect the bank's CET1 ratio to remain good and well in excess of regulatory requirements.

As of 31 December 2023, Barclays Bank UK reported a 5.2% leverage ratio, calculated using the guidelines from the Bank of England. As of the same date, we estimate that the bank's tangible common equity / tangible banking assets was 4.0%, which is weak[3].

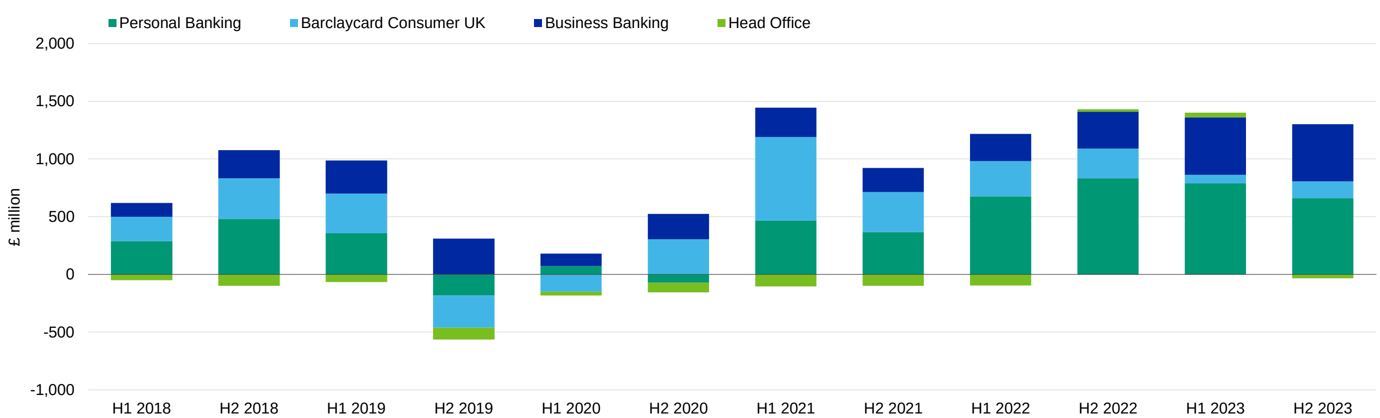
High reliance on earnings from credit cards and other personal unsecured lending

We assign a baa2 Profitability score to Barclays Bank UK, in line with the Macro Adjusted score and the score implied by the bank's 2023 return on tangible assets, to reflect our expectation that the bank's profits will remain strong as a result of higher volumes and improved margins on the back of the higher interest rate environment.

In 2023, Barclays Bank UK reported a profit of £1.9 billion after tax, up from £1.8 billion a year ago reflecting higher revenues on flat operating expenses. Revenue increased 4% from last year primarily due to higher net interest income, up 14% in 2023, from the higher rate environment in the UK. We expect Barclays Bank UK's profitability to remain strong in 2024, but below the peak of 2023 due to compressing net interest margins.

The majority of Barclays Bank UK's profitability comes from retail mortgages, which also represent the bulk of the bank's loan book. The contribution of Barclay Bank UK's credit card business is volatile in nature and linked with consumer spending and debt servicing capacity. For example, the portfolio represents around 7% of the bank's loan book; nevertheless, it contributed for 7% of Barclays Bank UK's pretax profit in 2023, 22% in 2022, and 50% in 2021.

Exhibit 3
Personal banking generated a majority of profits in 2023 and 2022
Pretax profit by division from H1 2018 to H2 2023



Source: Company and Moody's Ratings

Stable deposits funding and strong liquidity

We assign an a2 Funding Structure score, one notch below the Macro Adjusted score to reflect that market funding will remain around 10% of the bank's tangible banking assets.

Barclays Bank UK is predominantly retail funded, which we expect to continue. Customer deposits, which are inherently more stable than market funds, are significantly higher than loans; we calculate a loan-to-deposit ratio of 84% as of the end of December 2023.

Market funds were just 9.6% as of the end of December 2023 (year-end 2022: 8.3%). Most of Barclays Bank UK's wholesale funding is in the form of bail-in-able liabilities issued to the parent company, as required by regulation. As of year-end 2023, Barclays Bank UK had outstanding borrowings of £15 billion under the Bank of England's Term Funding Scheme with additional incentives for SMEs

(TFSME), which accounted for 5.2% of its tangible banking assets (4.8% in December 2022). We expect Barclays Bank UK to gradually repay its TFSME borrowings via a combination of new issuance and new deposits between 2024 and 2027.

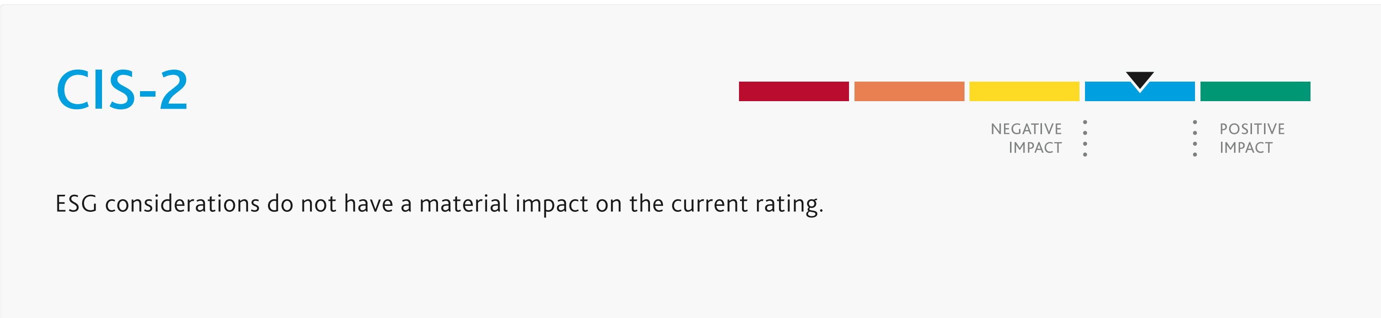
We assign a baa1 Liquid Resources score to Barclays Bank UK, in line with the Macro Adjusted scores to reflect that liquidity will remain strong.

Liquidity at Barclays Bank UK is strong, supported by a large and high-quality liquid asset pool of £65 billion as of the end of December 2023. The bank's ample liquidity is also reflected in its strong liquidity coverage ratio of 180% as of the same reporting date.

ESG considerations

Barclays Bank UK PLC's ESG credit impact score is CIS-2

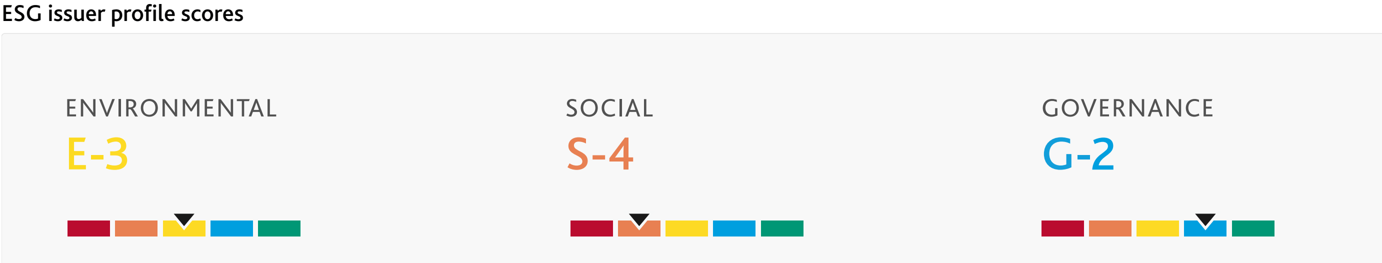
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Barclays Bank UK's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Barclays Bank UK faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk. In line with peers, it is facing mounting business risks and stakeholder pressure to meet more demanding carbon transition targets. In response, the entire Barclays group is actively engaging in developing its comprehensive risk management and climate risk reporting frameworks and transitioning its lending and investment portfolios to carbon neutrality targets.

Social

Barclays Bank UK faces high social risks from customer relations, because of considerable focus on consumer protection in the UK, exposing banks to potential fines from regulators and litigation from customers as well as cyber risk and the financial and reputational implications of data breaches. The bank's developed policies and procedures help manage associated credit risks. The bank also faces moderate social risks related to potential competition from technology firms and other disruptors.

Governance

Barclays Bank UK has strong corporate governance practices, and prudent capital, liquidity and risk management policies and procedures. Barclays Bank UK is effectively controlled by Barclays PLC, which fully owns it. Therefore, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities. Six out of the current eight Board members of Barclays Bank UK, including the Chair, are independent non-executive directors (the others are the CEO and CFO). As a ring-fenced bank, Barclays Bank UK is subject to separate governance arrangements compared with the rest of the group; Barclays Bank UK's board acts independently from the group, and it prioritises the interests of Barclays Bank UK over those of Barclays PLC and Barclays Bank PLC.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support considerations

We expect a high probability of support from Barclays; this does not lead to any uplift to Barclays Bank UK because Barclays' group notional BCA is below the BCA of Barclays Bank UK.

Our assessment reflects the importance of the UK retail and SME business in the context of the group's broader strategy.

Loss Given Failure (LGF) analysis

Barclays Bank UK is subject to the UK's implementation of the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime.

We apply our advanced Loss Given Failure (LGF) analysis to Barclays Bank UK, considering the bank's consolidated tangible assets, the debt issued to the group, and its deposits; Barclays Bank UK has not issued bail-in-able debt externally.

Our analysis assumes a residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets and a 25% runoff of junior wholesale deposits, and we assign a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in line with our standard assumptions. We also assume the proportion of deposits considered junior at 10%, compared with our standard assumption of 26%, because of the nature of its depositor base, focused on retail and SMEs.

Our LGF analysis indicates that Barclays Bank UK's deposits are likely to face very low loss given failure because of the loss absorption provided by bail-in-able debt downstreamed from the holding company and the volume of deposits themselves. This results in a two-notch uplift for the long-term deposit ratings from the bank's Adjusted BCA.

Government support considerations

Because of the systemic importance of Barclays Bank UK to the UK economy, reflecting its large market share in retail and SME lending, and deposits in the country, there is a moderate probability of government support for the bank's deposits. However, there is no uplift to the long-term deposit ratings because they are only one notch below the sovereign debt rating.

Counterparty Risk (CR) Assessment

Barclays Bank UK's CR Assessments are Aa3(cr)/Prime-1(cr)

The long-term CR Assessments, before government support, are three notches above the banks' Adjusted BCA of a3. The uplift results from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. A moderate probability of government support does not result in any uplift. The main difference from the Advanced LGF approach that is used to determine the instrument rating is that the CR Assessment captures the probability of default on certain senior obligations, rather than the expected loss. Therefore, we focus purely on subordination and take no account of the volume of the instrument class.

Counterparty Risk Ratings (CRRs)

Barclays Bank UK's CRRs are Aa3/Prime-1

The long-term CRRs, before government support, are three notches above the bank's Adjusted BCA of a3. The uplift derives from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. A moderate probability of government support does not result in any uplift. Although Barclays Bank UK is likely to have more than a nominal volume of CRR liabilities at failure, this has no impact on the CRRs because the significant level of subordination below the CRR liabilities at the bank already provides the maximum amount of uplift under our rating methodology.

About Moody's 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 6

Barclays Bank UK PLC

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.7%	a1	↓	a3	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	16.1%	aa2	↓	a1	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.6%	baa2	↔	baa2	Return on assets	
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.6%	a1	↓	a2	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.8%	baa1	↔	baa1	Stock of liquid assets	
Combined Liquidity Score		a2		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				Aa3		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	**in-scope (GBP Million)**	**% in-scope**	**at-failure (GBP Million)**	**% at-failure**
Other liabilities	25,277	8.7%	42,162	14.6%
Deposits	241,218	83.3%	224,333	77.4%
Preferred deposits	217,096	74.9%	206,241	71.2%
Junior deposits	24,122	8.3%	18,091	6.2%
Senior unsecured bank debt	200	0.1%	200	0.1%
Dated subordinated bank debt	11,853	4.1%	11,853	4.1%
Preference shares (bank)	2,450	0.8%	2,450	0.8%
Equity	8,691	3.0%	8,691	3.0%
Total Tangible Banking Assets	289,689	100.0%	289,689	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	14.3%	14.3%	14.3%	14.3%	3	3	3	3	0	aa3
Counterparty Risk Assessment	14.3%	14.3%	14.3%	14.3%	3	3	3	3	0	aa3 (cr)
Deposits	14.3%	7.9%	14.3%	8.0%	2	2	2	2	0	a1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	2	0	a1	0	A1	A1

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

Ratings

Exhibit 7

Category	Moody's Rating
BARCLAYS BANK UK PLC	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Commercial Paper	P-1
PARENT: BARCLAYS PLC	
Outlook	Stable
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate	Baa1
Pref. Stock Non-cumulative	Ba1 (hyb)
ST Issuer Rating -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

Endnotes

1 Unless otherwise noted, the bank ratings shown in this report are the long-term deposit rating, the senior unsecured debt rating (where available) and the standalone baseline credit assessment (BCA).

2 For our latest macroeconomic forecasts, please refer to Global Macro Outlook 2024-25 (February 2024 Update): Growth for G-20 economies to stabilize at modestly lower levels in 2024, published on 29 February 2024.

3 The main differences between our tangible common equity/tangible assets and the leverage ratio calculated using the guidelines from the Bank of England are the inclusion of high-trigger additional tier 1 instruments in the numerator and the exclusion of certain exposures to central banks in the denominator for the latter. We usually apply a one-notch negative adjustment for Capital for banks with leverage ratios below 5%.

REPORT NUMBER 1405039

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