Barclays PLC
Issuer Rating Report

SCOPE A+ STABLE

Overview

Scope Ratings assigns an Issuer Rating of A+ to Barclays PLC, Barclays Bank PLC and Barclays Bank UK PLC. All ratings have a Stable Outlook.

Following changes in the group's legal structure to implement UK ring-fencing requirements, Scope affirmed on 8 May 2018 the A+ Issuer Rating of Barclays Bank PLC and assigned first-time A+ Issuer Ratings to Barclays PLC and to Barclays Bank UK PLC. For further details on Scope's views on ring-fencing, please refer to the report "UK Bank Ring-Fencing: Credit and Rating Implications", February 2018.

The ratings were not solicited by the issuer. Both ratings and analysis are based solely on publicly available information. The issuer has participated in the process.

Highlights

- Barclays' ratings are driven by the group's progress in adapting its business model to a changing operating environment. After the sell down of Barclays Africa, nearly half of the group's revenues stem from consumer businesses with strong franchises (UK retail and business banking, credit cards). Meanwhile, the investment banking business has been reduced and refocused.
- On 1 July 2017, the Non-Core unit was closed (six months early) and on 1 April 2018, the UK ring-fenced bank was successfully set-up. The various businesses have demonstrated encouraging resilience although profitability could be improved.
- Management has a track record of strengthening the group's capital and liquidity and funding positions.
- Certain material legal and conduct issues have been recently resolved but further potential reputational and litigation costs remain a risk.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- Progress made in adapting the group's business model to evolving operating conditions.
- Resilience of core businesses although profitability could be improved.
- Continued management attention to maintaining appropriate levels of capital and liquidity.
- Reputational and conduct issues remain risks.

Ratings & Outlook

Issuer Rating	A+
Outlook	Stable
Senior unsecured debt (non-TLAC/MREL eligible)	A+
Senior unsecured debt (TLAC/MREL eligible)	A
Tier 2 securities	BBB+
AT1 securities	BB+
Short-term debt	S-1+

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Bloomberg: SCOP

Rating change drivers

A track record of sustainable and more consistent earnings underpinned by management's strategy to maintain a balanced mix of consumer and wholesale businesses.

Further and substantial conduct costs. These may pose not only financial risks but also reputational risks.

Inability to effectively manage potential disruptions to or weakening of business conditions due to Brexit. The group plans to expand the capabilities of Barclays Bank Ireland, a wholly-owned subsidiary of Barclays Bank PLC, to continue serving European clients. Barclays Bank Ireland is expected to fall under the supervision of the Central Bank of Ireland and the ECB, and to be able to serve clients through passporting.

Rating drivers (details)

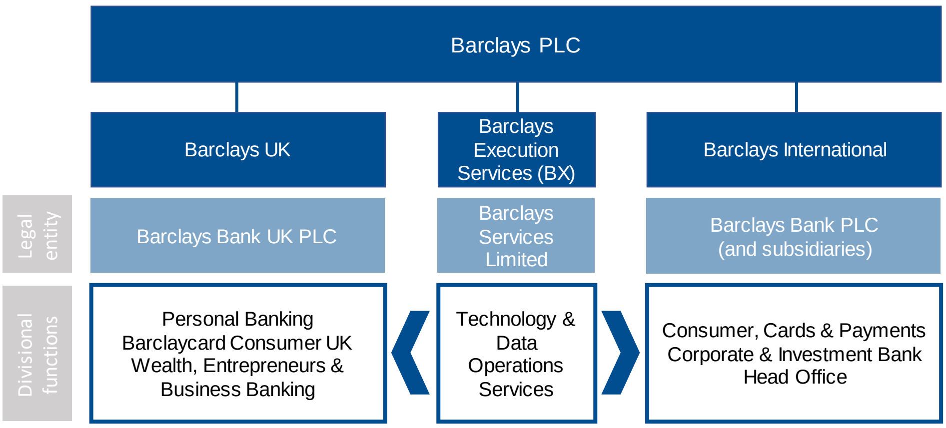
Progress made in adapting the group's business model to evolving operating conditions

Since its May 2014 strategy update, the group has been in transition, adapting its business model with the aim to generate long-term sustainable returns. At the time, the focus was on repositioning and rebalancing Barclays; notably to reduce the weight of the investment banking business to about a third of group RWAs. In December 2015, the CEO announced further initiatives to accelerate the strategy and to prepare for regulatory ring-fencing requirements. This included exiting Africa and hastening the reduction of Non-Core.

Starting in 1Q 2016, the group aligned its business organization and reporting to be consistent with its strategy of being a transatlantic consumer, corporate and investment bank anchored in two home markets, the UK and the US. As shown in Figure 1, the group is organized along two core divisions – Barclays UK and Barclays International.

To comply with UK ring-fencing requirements, which take effect from 1 January 2019, Barclays successfully changed its legal structure on 1 April 2018 to implement ring-fencing. Barclays Bank PLC, previously the main operating bank of the group, now encompasses the group's corporate and investment banking as well as international consumer, cards and payments activities. Meanwhile, Barclays Bank UK PLC, the newly created ring-fenced bank, comprises UK retail and business banking activities.

Figure 1: Group structure



Source: Company data

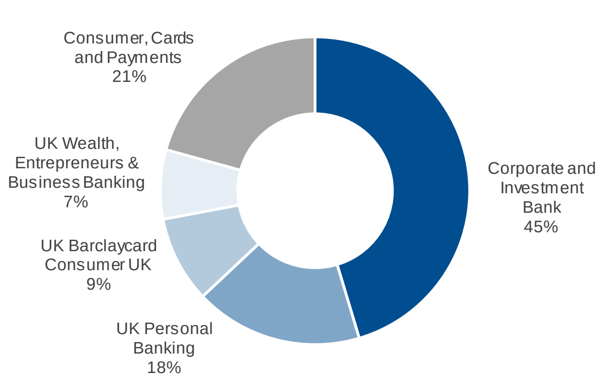
A new group service company, with around 42,000 employees, has been established to support the various businesses. Barclays Services Limited is a separate legal entity with its own board of directors and is a key part of the group's solution to UK ring-fencing requirements. The shared architecture being developed incorporates features such as enhanced data analytics, centralized global cyber security, enhanced control and risk management and centralized client contact centres and collections. Management believes that there are significant opportunities to reduce the duplication of effort and costs.

As of end-2017, the group's income distribution was quite balanced with nearly half being derived from consumer businesses and the rest primarily from the Corporate and Investment Bank (Figure 2). Management has communicated that diversification by business, as well as geography, is a key part of the group's strategy.

The group's remaining 14.9% stake in Barclays Africa Group Ltd (BAGL) is reported as a financial asset and for regulatory reporting purposes is treated on a proportional consolidated basis. Management expects full regulatory deconsolidation by end-2018 which would add an additional 10bps to the group's CET1 capital ratio.

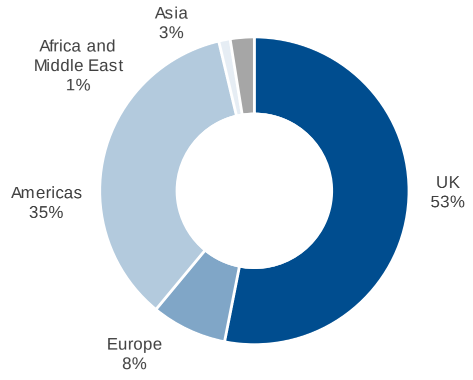
Barclays' Non-Core unit was closed on 1 July 2017, six months earlier than planned, and with residual assets and liabilities being reintegrated into the group. Formed in 2014 with a peak of approximately GBP110bn in RWAs and representing 25% of the group's total at the time, this was reduced to around GBP 23bn when closed.

Figure 2: Income by business



Notes: Data as of end-2017. Income of GBP 22bn excluding Head Office and Non-Core. Source: Company data, Scope Ratings

Figure 3: Income by geography



Notes: Data as of end-2017. Group income of GBP 21bn. Source: Company data, Scope Ratings

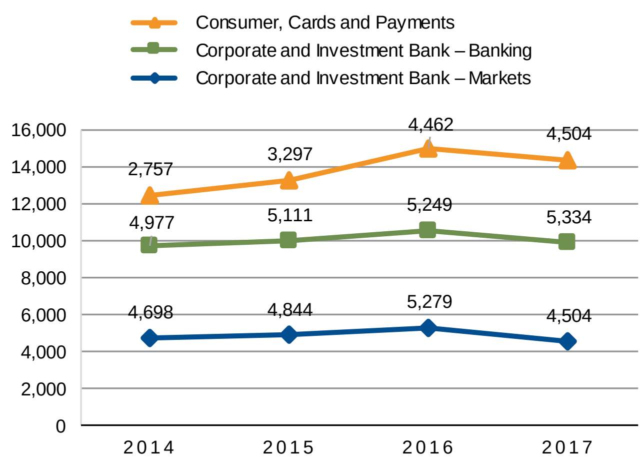
Resilience of core businesses although profitability could be improved

During this period of restructuring, the group's core businesses have demonstrated encouraging resilience (Figures 4 and 5). Within Barclays UK, customer deposits have increased by nearly 15% to GBP 193bn over the last three years while the number of active mobile banking customers has increased by over 35% to 6.4m over the last two years.

Within the Consumer, Cards and Payments business, the group offers branded and co-branded consumer credit cards, lending and deposit accounts primarily to customers in the US and Germany, and payment solutions to clients mainly in the UK. Over the last two years, the value of payments processed by Barclays has increased by over 18% to GBP 322bn. In April 2018, Barclays announced a partnership with PayPal. Initiatives will focus on enhancing digital payment experiences, expanding mobile payments options, and strengthening security against online fraud for UK and US consumers as well as UK SME clients.

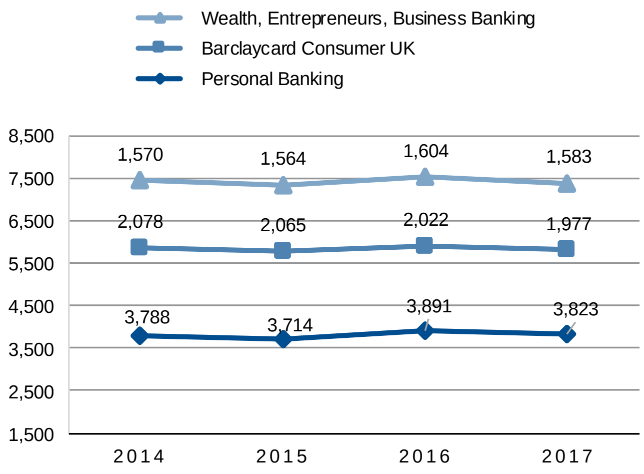
Within the Corporate and Investment Bank, the investment banking business in 2017 achieved its highest global fee share in three years and was the number one ranked bank in the UK for the first time since 2012 (Dealogic).

Figure 4: Barclays Intl – income development (GBP m)



Source: Company data, Scope Ratings

Figure 5: Barclays UK – income development (GBP m)



Source: Company data, Scope Ratings

The group's profitability in recent years, however, has been negatively impacted by restructuring and litigation and conduct costs. In 2017, the group reported an attributable loss of GBP 1.9bn which included the impact of GBP 1.2bn in litigation and conduct costs, a GBP 2.5bn loss related to the sell down of BAGL, and a GBP 0.9bn re-valuation of US deferred tax assets.

For Q1 2018, the group reported an attributable loss of GBP 764m. Excluding litigation and conduct costs, attributable profit was GBP 1.2bn and the return on average tangible shareholders' equity (RoTE) was 11%; with Barclays UK generating a RoTE of 15.7% and Barclays International a RoTE of 13.6%.

As the group has been significantly restructured and legacy conduct issues are being resolved, Scope expects earnings to improve. Management targets a group RoTE greater than 9% in 2019 and greater than 10% in 2020, excluding litigation and conduct costs, and based on a CET1 ratio of about 13%.

Continued management attention to maintaining appropriate levels of capital and liquidity

Management has consistently focused on bolstering the group's solvency position to more reassuring levels over the last few years. Actions taken include a rights issue, the issuance of Additional Tier 1 securities, shrinking the balance sheet and reducing temporarily the dividend to shareholders.

Following the 2016 BoE stress test, where the group suffered 450bps of stress losses after management actions, Barclays communicated that its future CET1 ratio position would take into consideration future minimum requirements and CRD IV buffers plus a management buffer of 150 to 200bps (previously 100-150bps), rather than a fixed target. The ability to successfully pass Bank of England (BoE) stress tests is a key part of the group's capital planning.

The group now has an end-state expectation of circa 13% for the CET1 ratio. This includes the management buffer, a 1.5% G-SIB buffer and the latest Pillar 2A Individual Capital Guidance of about 4.3% of which 2.4% is required to be held in CET1 capital. As of end-2017, the group's fully loaded CET1 capital ratio was 13.3%, up from 12.4% in the prior year. The group's average UK leverage ratio was 4.9% (2016: 4.5%), well above the expected end-state requirement of about 4.0%.

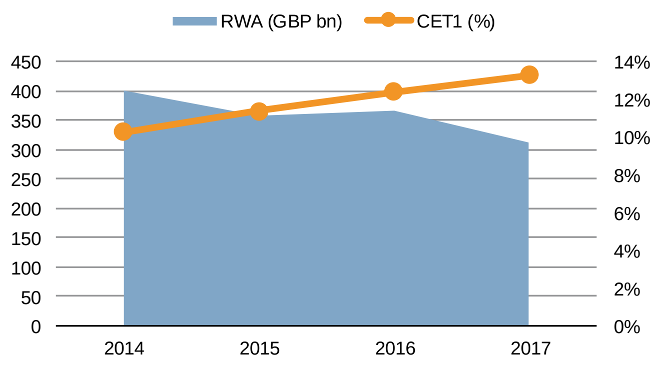
MREL and TLAC

In November 2016, the Bank of England finalized its approach to setting MREL, incorporating a longer transitional period. UK G-SIBs will not have separate TLAC requirements as the Bank of England is using MREL to implement the FSB's TLAC standard.

Barclay's estimated MREL requirement is 29.1% from January 2022, comprised of a loss absorption amount of 12.3% to be met with CET1, AT1 and T2 capital and a recapitalization amount of 12.3% to be met with MREL-eligible debt. In addition, a combined buffer of 4.5% will need to be met with CET1 capital. At end-2017, Barclays' reported MREL position was 28.2% on a transitional basis including eligible operating company instruments while on a holding company basis this was 25% (Figure 7).

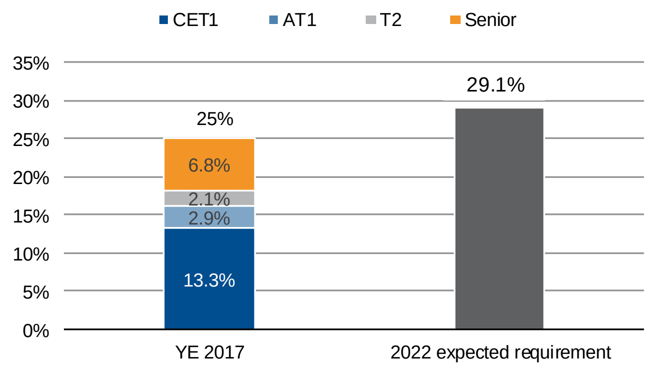
Having issued the equivalent of GBP 11.5bn in MREL-eligible securities (senior, Tier 2 and AT1) in 2017, Barclays expects to issue about GBP 10bn in 2018. The group continues to refinance operating company debt and capital instruments as they mature or become callable at the holding company level.

Figure 6: CET1 and RWA development



Source: Company data, Scope Ratings

Figure 7: Holding company MREL positioning



Source: Company data, Scope Ratings

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

Barclays recognizes the need to maintain a solid funding structure and has improved its funding profile over the years by increasing customer deposits and reducing reliance on wholesale unsecured funding. This holds true not only at the group level but at the level of the two core divisions, Barclays UK and Barclays International, where the end-2017 loan-to-deposit ratios were 95% and 62%, respectively. In addition, the group maintains a high-quality liquidity pool of GBP 220bn, equivalent to more than three times the wholesale funding maturing within one year. The group is well positioned against LCR and NSFR requirements, which were 154% and above 100%, respectively at end-2017.

Reputational and conduct issues remain risks

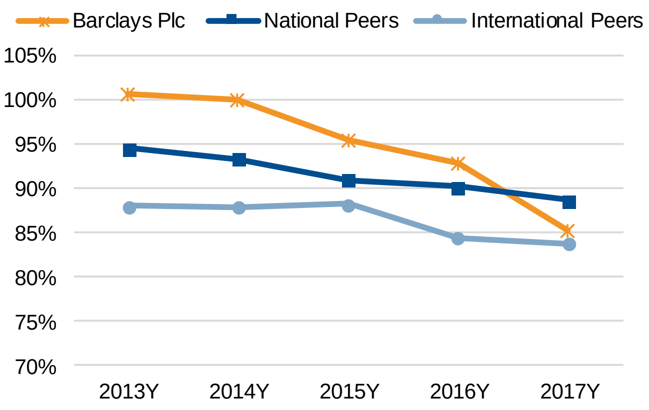
Scope views positively the recent resolution of two material conduct issues. In March 2018, the group reached a GBP 1.4bn equivalent settlement with the US Department of Justice related to RMBS sold between 2005 and 2007. In April 2018, UK regulators concluded their investigation into a whistleblowing incident related to the CEO.

Over the last five years, Barclays has incurred over GBP 10bn in provisions for litigation and conduct risks. The group continues to face ongoing investigations and litigation concerning various matters including advisory services agreements with Qatar Holding LLC, alternative trading systems such as dark pools, LIBOR and, foreign exchange. In May 2018, charges brought by the Serious Fraud Office (SFO) regarding Barclays' capital raisings in 2008 were dismissed by the Crown Court. Barclays, however, has stated that the SFO is likely to seek to re-instate these charges by applying to a High Court Judge.

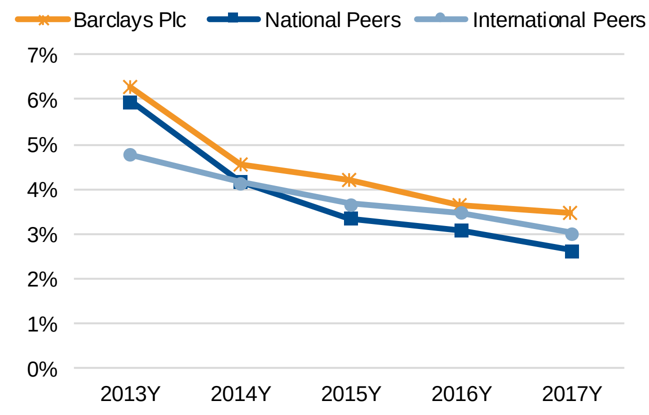
As of end-2017, the group held GBP 2.7bn in provisions for customer redress and legal matters.

I. Appendix: Peer comparison

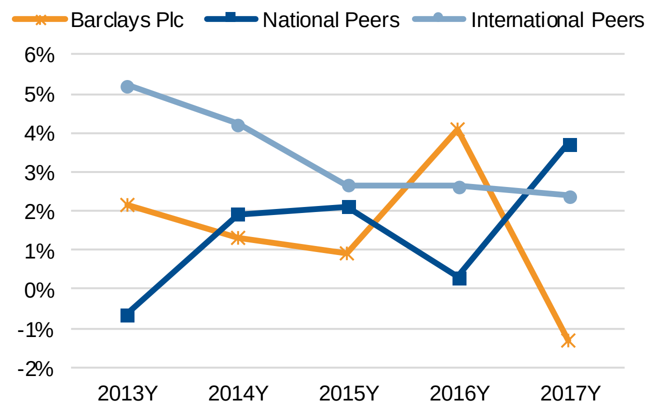
Net loans % Deposits



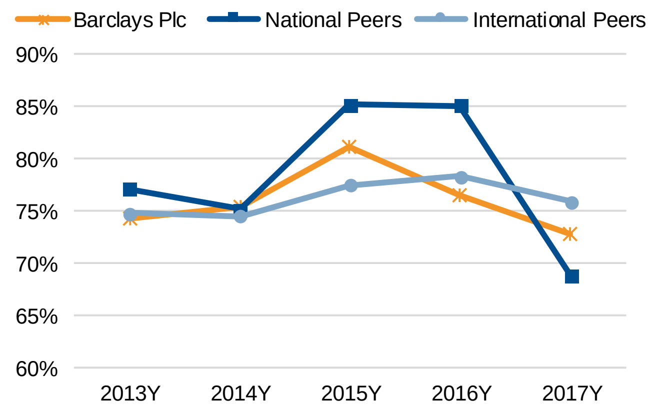
NPLs % Loans



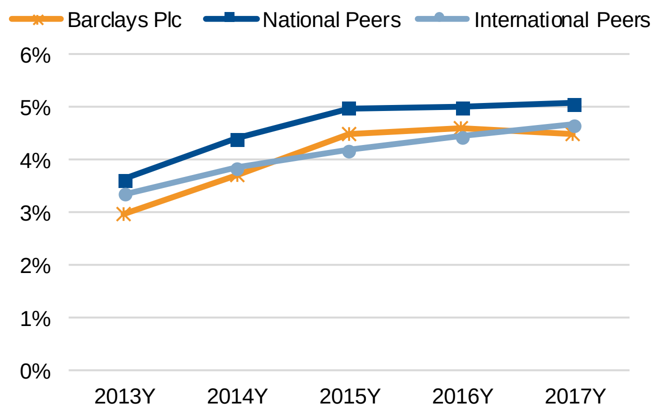
Return on average equity (ROAE) (%)



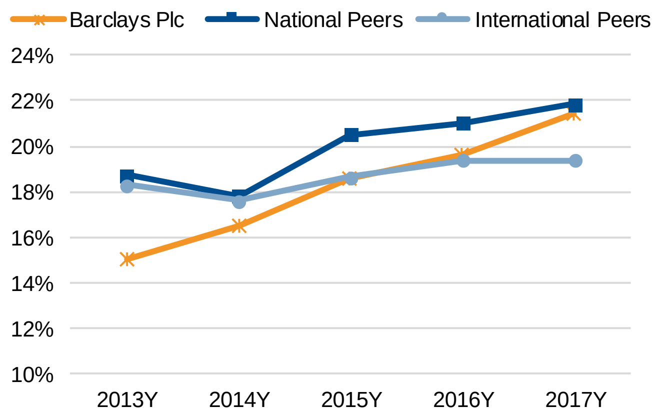
Cost income ratio (%)



Tier 1 leverage ratio (%, Basel 3)



Total capital ratio (%, transitional)



National peers: Barclays, HSBC, Lloyds Banking Group, RBS.
International peers: BNP Paribas, Societe Generale, Deutsche Bank, Credit Suisse, UBS, Barclays, HSBC.
Source: SNL

II. Appendix: Selected financial information – Barclays PLC group

	2013Y	2014Y	2015Y	2016Y	2017Y
Balance sheet summary (GBP m)					
Assets					
Cash and interbank assets	85,318	83,016	92,071	147,071	208,898
Total securities	754,565	787,854	579,954	568,751	524,995
of which, derivatives	324,335	439,909	327,709	346,626	237,669
Net loans to customers	450,257	450,658	419,604	406,278	379,729
Other assets	22,127	36,378	28,383	91,026	19,626
Total assets	**1,312,267**	**1,357,906**	**1,120,012**	**1,213,126**	**1,133,248**
Liabilities					
Interbank liabilities	56,193	59,567	48,093	48,850	38,169
Senior debt	378,436	287,135	203,185	213,229	311,951
Derivatives	320,634	439,320	324,252	340,487	238,345
Deposits from customers	435,973	434,910	424,271	428,447	433,569
Subordinated debt	21,695	21,153	21,467	23,383	23,826
Other liabilities	35,387	49,863	32,880	87,365	21,372
Total liabilities	**1,248,318**	**1,291,948**	**1,054,148**	**1,141,761**	**1,067,232**
Ordinary equity	53,322	55,245	54,505	58,424	54,964
Equity hybrids	2,063	4,322	5,305	6,449	8,941
Minority interests	8,564	6,391	6,054	6,492	2,111
Total liabilities and equity	**1,312,267**	**1,357,906**	**1,120,012**	**1,213,126**	**1,133,248**
Core tier 1/Common equity tier 1 capital	46,784	40,870	40,741	45,204	41,565
Income statement summary (GBP m)					
Net interest income	11,600	10,086	10,608	10,537	9,845
Net fee & commission income	8,731	7,122	6,859	6,768	6,814
Net trading income	7,149	4,381	4,506	3,462	4,311
Other income	172	649	-445	479	169
Operating income	**27,652**	**22,238**	**21,528**	**21,246**	**21,139**
Operating expense	20,535	16,781	17,473	16,243	15,373
Pre-provision income	**7,117**	**5,457**	**4,055**	**5,003**	**5,766**
Credit and other financial impairments	3,071	1,821	1,762	2,373	2,336
Other impairments	228	153	252	95	80
Non-recurring items	-950	-2,170	-895	695	191
Pre-tax profit	**2,868**	**1,313**	**1,146**	**3,230**	**3,541**
Discontinued operations	0	653	626	591	-2,195
Other after-tax Items	0	0	0	0	0
Income tax expense	1,571	1,121	1,149	993	2,240
Net profit attributable to minority interests	757	769	672	748	389
Net profit attributable to parent	**540**	**76**	**-49**	**2,080**	**-1,283**

Source: SNL

III. Appendix: Ratios – Barclays PLC group

	2013Y	2014Y	2015Y	2016Y	2017Y
Funding and liquidity					
Net loans/deposits (%)	100.6%	100.0%	95.5%	92.8%	85.2%
Liquidity coverage ratio (%)	101.6%	124.4%	133.6%	130.7%	153.6%
Net stable funding ratio (%)	94.0%	102.0%	106.0%	>100%	>100%
Asset mix, quality and growth					
Net loans/assets (%)	34.3%	33.2%	37.5%	33.5%	33.5%
NPLs/Net Loans (%)	6.3%	4.6%	4.2%	3.6%	3.5%
Loan-loss reserves/NPLs (%)	26.9%	28.0%	29.5%	32.5%	36.6%
Net loan growth (%)	0.7%	-0.8%	-6.9%	-3.2%	-6.5%
NPLs/Tangible Equity and Reserves (%)	42.4%	30.8%	26.7%	20.9%	20.2%
Asset growth (%)	-11.8%	1.1%	-17.5%	8.3%	-6.6%
Earnings and profitability					
Net interest margin (%)	1.4%	1.3%	1.6%	1.7%	1.6%
Net interest income/average RWAs (%)	3.0%	2.5%	2.8%	2.9%	2.9%
Net interest income/operating income (%)	41.9%	45.4%	49.3%	49.6%	46.6%
Net fees & commissions/operating income (%)	31.6%	32.0%	31.9%	31.9%	32.2%
Cost/income ratio (%)	74.3%	75.5%	81.2%	76.5%	72.7%
Operating expenses/average RWAs (%)	5.4%	4.1%	4.6%	4.4%	4.5%
Pre-impairment operating profit/average RWAs (%)	1.9%	1.3%	1.1%	1.4%	1.7%
Impairment on financial assets /pre-impairment income (%)	43.2%	33.4%	43.5%	47.4%	40.5%
Loan-loss provision charges/net loans (%)	0.7%	0.4%	0.4%	0.6%	0.6%
Pre-tax profit/average RWAs (%)	0.8%	0.3%	0.3%	0.9%	1.0%
Return on average assets (%)	0.1%	0.1%	0.0%	0.2%	-0.1%
Return on average RWAs (%)	0.3%	0.2%	0.2%	0.8%	-0.3%
Return on average equity (%)	2.1%	1.3%	0.9%	4.1%	-1.3%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	9.1%	10.3%	11.4%	12.4%	13.3%
Common equity tier 1 ratio (%, transitional)	9.1%	10.2%	11.4%	12.4%	13.3%
Tier 1 capital ratio (%, transitional)	11.3%	13.0%	14.7%	15.6%	17.2%
Total capital ratio (%, transitional)	15.0%	16.5%	18.6%	19.6%	21.5%
Basel III leverage ratio (%)	3.0%	3.7%	4.5%	4.6%	4.5%
Asset risk intensity (RWAs/total assets, %)	27.0%	29.6%	32.0%	30.1%	27.6%
Market indicators					
Price/book (x)	0.8x	0.7x	0.7x	0.6x	0.6x
Price/tangible book (x)	1.0x	0.9x	0.8x	0.7x	0.7x
Dividend payout ratio (%)	176.3%	NA	NA	30.0%	NA

Source: SNL

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