

## CREDIT OPINION

14 March 2023

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 following affirmation of A1 long-term deposit ratings

### Summary

[Barclays Bank UK PLC's](#) (Barclays Bank UK) long-term deposit ratings of A1 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 and our assessment, which results in a one-notch uplift. Our assessment of a high probability of support for Barclays Bank UK from its holding company [Barclays PLC](#) (Barclays, Baa1 stable, baa1 <sup>1</sup>) and a moderate probability of support from the [Government of the UK](#) (Aa3 negative) does not lead to any additional uplift.

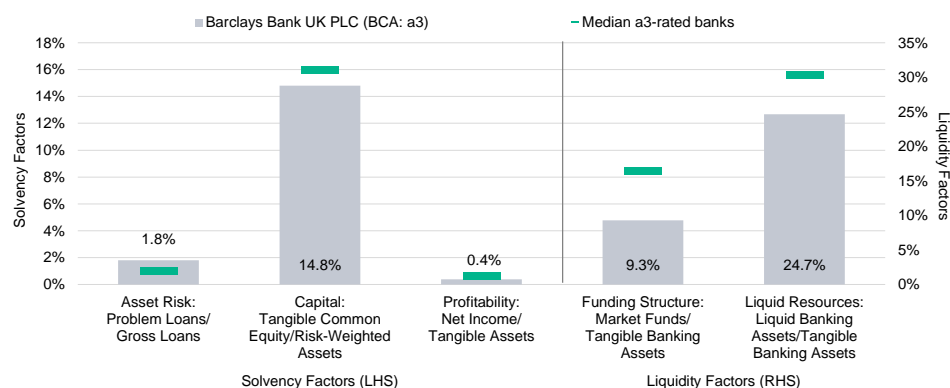
Barclays Bank UK's a3 BCA reflects the bank's strong capitalisation, stable deposit funding and strong liquidity, as well as its high reliance on revenue from unsecured personal lending.

The outlook on Barclays Bank UK's A1 long-term deposit ratings is stable.

On 10 March 2022, we affirmed Barclays Bank UK's A1 long-term deposit ratings, and maintained a stable outlook.

Exhibit 1

### Rating Scorecard - Key financial ratios As of December 2022



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 Investors Service

## Credit strengths

- » Good asset quality and capitalisation
- » Improving profitability
- » 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

## Outlook

The outlook on Barclays Bank UK's long-term deposit ratings is stable.

The stable outlook reflects our expectation of a broad stability in the solvency and liquidity metrics, despite a weak macroeconomic environment.

## 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Barclays Bank UK PLC (Consolidated Financials) [1]

	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (GBP Billion)	312.2	319.7	287.5	257.6	250.9	5.6 <sup>4</sup>
Total Assets (USD Billion)	375.5	431.5	393.0	341.2	319.5	4.1 <sup>4</sup>
Tangible Common Equity (GBP Billion)	10.8	11.5	10.5	12.8	13.3	(5.2) <sup>4</sup>
Tangible Common Equity (USD Billion)	12.9	15.5	14.3	17.0	17.0	(6.6) <sup>4</sup>
Problem Loans / Gross Loans (%)	1.7	1.8	1.9	1.8	2.3	1.9 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	14.8	16.1	14.5	17.1	17.7	16.0 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	27.9	28.2	28.0	23.2	26.5	26.8 <sup>5</sup>
Net Interest Margin (%)	1.8	1.6	1.8	2.3	3.5	2.2 <sup>5</sup>
PPI / Average RWA (%)	3.8	2.4	2.3	4.0	2.9	3.0 <sup>6</sup>
Net Income / Tangible Assets (%)	0.6	0.5	0.1	0.1	0.4	0.3 <sup>5</sup>
Cost / Income Ratio (%)	62.3	73.5	73.2	59.3	61.0	65.8 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	9.3	10.0	4.9	8.9	9.3	8.5 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	24.7	27.1	22.0	19.9	21.5	23.1 <sup>5</sup>
Gross Loans / Due to Customers (%)	79.4	80.0	85.2	94.9	96.5	87.2 <sup>5</sup>

[.] 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 Investors Service 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 total assets as of 31 December 2022.

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

### Good asset quality but subject to moderate deterioration

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.

As of 31 December 2022, Barclays Bank UK's loan book comprised residential mortgages (73% of gross loans), credit cards and other personal unsecured loans (6%), and loans to small and medium-sized enterprises (SMEs, 21%). 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 2022, equivalent to 1.5% of its overall loan book (December 2021: 1.7%). Stage 2 loans, were modestly higher compared to the prior year at 12.3% of the bank's gross loans (December 2021: 11.1%), reflecting the still-uncertain operating environment and a high portion of unsecured loans (Stage 2 credit cards and consumer: 23% of total credit card and consumer lending exposure as of the end of December 2022).

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<sup>2</sup>, 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 capitalisation

We assign an a3 Capital score to Barclays Bank UK, one notch below the Macro Adjusted score to reflect weak leverage according to our metrics.

Barclays Bank UK reported a strong 14.7% Common Equity Tier 1 (CET1) ratio as of 31 December 2022. We expect the bank's CET1 ratio to remain good and well in excess of regulatory requirements.

As of 31 December 2022, Barclays Bank UK reported a 5.3% 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 3.5%, which is weak<sup>3</sup>.

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

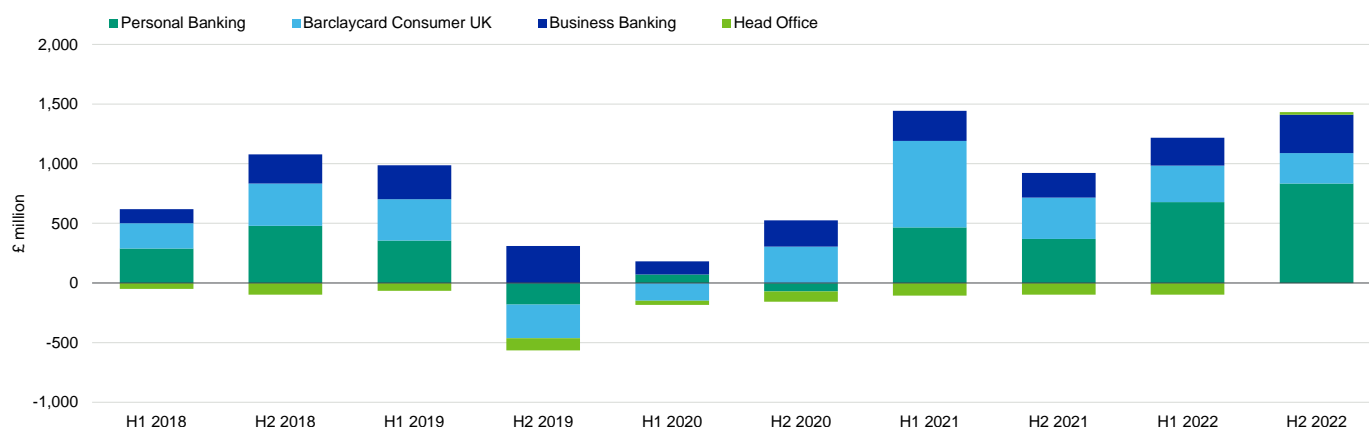
We assign a baa2 Profitability score to Barclays Bank UK, two notches above the Macro Adjusted score and in line with the score implied in the bank's 2022 return on tangible assets, to reflect our expectation that the bank's revenue will remain strong as a result of higher volumes and improved margins on the back of recent and expected rate rises.

Despite accounting for only 6% of gross loans, Barclays Bank UK's credit card and other personal unsecured lending represents a large portion of the bank's profit. For example, in 2022, the segment contributed 18% of the bank's pre-tax profit. Unsecured personal lending has better margins than residential mortgages; however, the business carries higher risks, and income from the business is more volatile and linked with consumer spending and debt servicing capacity.

Exhibit 3

#### Personal banking generated a majority of profits in 2022

Pretax profit by division from H1 2018 to H2 2022



Source: Company and Moody's Investors Service

In 2022, Barclays Bank UK reported a profit of £1.8 billion after tax, down from £1.9 billion a year ago reflecting a stabilization of provisions against expected credit loss. At the same time, the bank's revenues improved by 14% from a year ago as of 31 December 2022 primarily driven by a material improvement in net interest income due to the rising rate environment in the UK.

We expect Barclays Bank UK's profitability to remain strong in 2023, reflecting higher consumer spending, further growth in the net interest margin (albeit at a slower pace than in the last couple of years), partially offset by the negative impact of inflationary pressures on some households' and businesses' debt servicing capacity.

### 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 79% as of the end of December 2022.

Market funds were just 9.3% as of the end of December 2022 (year-end 2021: 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 2022 (latest available data), 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 4.8% of its tangible banking assets (4.7% in December 2021).

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.

Barclays Bank UK has strong liquidity, supported by a large and high-quality liquid asset pool of £81 billion as of the end of December 2022. The bank's ample liquidity is also reflected in its strong liquidity coverage ratio of 183% as of the same reporting date.

## ESG considerations

### Barclays Bank UK PLC's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

#### ESG Credit Impact Score

# CIS-2

## Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Barclays Bank UK's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting limited credit impact from environmental and social factors on the rating to date, and low governance risks.

Exhibit 5

#### ESG Issuer Profile Scores

### ENVIRONMENTAL

## E-3

### Moderately Negative



### SOCIAL

## S-4

### Highly Negative



### GOVERNANCE

## G-2

### Neutral-to-Low



Source: Moody's Investors Service

### 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 industrywide social risks related to customer relations, relating to regulatory risk, litigation exposure and high compliance standards. As for all banks, cybersecurity risk and the financial and reputational implications of data breaches are high.

## Governance

Barclays Bank UK has strong corporate governance practices, and prudent capital, liquidity and risk management policies. 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 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.

Using historical financials as of December 2022, our Advanced LGF analysis indicates that Barclays Bank UK's deposits are likely to face low loss given failure, which would lead to a one-notch uplift from the Adjusted BCA. However, on a forward-looking basis, we expect Barclays Bank UK's deposits to face very high loss given failure, leading to a two-notch uplift.

### 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	1.8%	a1	↓	a3	Sector concentration	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	14.8%	a1	↔	a2	Nominal leverage		
Profitability							
Net Income / Tangible Assets	0.4%	ba1	↑	baa2	Expected trend		
Combined Solvency Score		a2		a3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	9.3%	a1	↓	a2	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	24.7%	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			
<b>Balance Sheet</b>		<b>in-scope (GBP Million)</b>	<b>% in-scope</b>	<b>at-failure (GBP Million)</b>	<b>% at-failure</b>		
Other liabilities		30,033	9.7%	48,098	15.6%		
Deposits		258,058	83.6%	239,994	77.8%		
Preferred deposits		232,252	75.2%	220,640	71.5%		
Junior deposits		25,806	8.4%	19,354	6.3%		
Senior unsecured bank debt		100	0.0%	100	0.0%		
Junior senior unsecured bank debt		4,857	1.6%	4,857	1.6%		
Dated subordinated bank debt		3,768	1.2%	3,768	1.2%		
Preference shares (bank)		2,575	0.8%	2,575	0.8%		
Equity		9,260	3.0%	9,260	3.0%		
Total Tangible Banking Assets		308,651	100.0%	308,651	100.0%		



Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF	Notching	Rating
	volume +	ordination	volume +	ordination			Guidance	notching		Assessment
	subordination		subordination				vs.			
							Adjusted			
							BCA			
Counterparty Risk Rating	12.9%	12.9%	12.9%	12.9%	3	3	3	3	0	aa3
Counterparty Risk Assessment	12.9%	12.9%	12.9%	12.9%	3	3	3	3	0	aa3 (cr)
Deposits	12.9%	6.6%	12.9%	6.7%	1	1	1	2	0	a1

Instrument Class	Loss Given		Additional	Preliminary Rating	Government	Local Currency	Foreign
	Failure	notching					
	notching		notching	Assessment	Support	Rating	Currency
					notching		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 Investors Service

## Ratings

Exhibit 7

Category	Moody's Rating
<b>BARCLAYS BANK UK PLC</b>	
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
<b>PARENT: BARCLAYS PLC</b>	
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)
Commercial Paper	P-2
Other Short Term	(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 2023-24 \(February 2023 Update\): Global economy risks persist despite recent positive surprises](#), published on 28 February 2022.
- 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%.

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