

Research Update:

Barclays PLC Upgraded To 'BBB+' On Business Diversification And Resilient Performance; Outlook Stable

May 19, 2023

Overview

- Barclays PLC's diversified international banking franchise has performed well against a difficult economic and financial backdrop.
- We expect Barclays to generate solid earnings over the next 12-24 months, even as interest rates approach their peak.
- Barclays' funding and liquidity are on a solid footing, with a material liquidity surplus and a granular and well-diversified funding base supporting ratings stability.
- We raised our long-term issuer credit rating on Barclays to 'BBB+' from 'BBB' and affirmed our 'A-2' short-term issuer credit rating. We took corresponding rating actions on all other issuer credit and issue ratings on group entities and their debt.
- The stable outlook indicates that we expect Barclays to maintain its resilient earnings and diversified international banking franchise, bolstered by a prudent funding and liquidity profile.

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Rating Action

On May 19, 2023, S&P Global Ratings raised its long-term issuer credit rating on Barclays PLC, the nonoperating holding company in the Barclays group, to 'BBB+' from 'BBB'. The outlook is stable. At the same time, we affirmed our 'A-2' short-term issuer credit rating on Barclays. We also:

- Raised the long-term issuer credit ratings to 'A+' and affirmed the 'A-1' short-term issuer credit ratings on the group's core operating subsidiaries. The core operating subsidiaries include Barclays Bank PLC, Barclays Bank UK PLC, Barclays Execution Services Ltd., and Barclays Bank Ireland PLC (for the complete list see the "Ratings List" section below).
- Raised the long- and short-term resolution counterparty ratings (RCRs) on the group's core operating subsidiaries to 'AA-/A-1+', except Barclays Capital Inc., for which we raised the long-term RCR to 'A+' and affirmed the 'A-1' short-term RCR; and

- Upgraded or affirmed all rated debt issuance from the group holding company and its subsidiaries in line with the above actions.

Rationale

Barclays' strong strategic execution, international diversification, and cautious balance-sheet management drive our rating actions.

Barclays' strategic and geographical diversification has borne fruit, enabling the bank to generate good earnings and maintain significant excess capital. At the same time, Barclays' balance sheet is in a good position to resist an uncertain global financial environment. Its liquidity pool is dominated by central bank reserves and had a weighted-average surplus of more than £100 billion throughout the first quarter of 2023. Alongside this, Barclays' lending book is also in a strong position, with low nonperforming loan balances and close management of idiosyncratic pockets of risk. While overarching complexity and operational risk will continue to weigh on the rating, Barclays' strengths give us confidence that it can sustain a higher rating.

Barclays is performing solidly, underpinned by proactive risk management and a good earnings outlook.

Barclays' strategic footing is the result of consistent execution. We believe that the U.K. franchise underpins the business, delivering good earnings stability and seeing rapid income growth as interest rates have risen sharply in the past year. Alongside this robust core, Barclays has successfully diversified its capital markets activity, broadening its footprint and winning market share in its target segments in the past five years. By our measures, its market share of global capital markets revenue was around 7% in 2022, up from around 5% in 2017. These strengths combine with Barclays' international cards and payments business to give the bank material breadth and stability of earnings in varied market conditions. This broad strategic platform and the earnings resilience it brings drive our rating actions.

Peaking interest rates and Barclays' strategic diversification drive a solid earnings outlook.

We expect Barclays' solid diversification to lead to a robust earnings outlook. Under our base case, we expect the net interest margin to peak in 2023, tapering off toward 2025, with solid noninterest income bolstering this. Earnings stability will be supported by good underlying cost control, even as Barclays continues to invest heavily in technology. This investment cycle keeps the cost-to-income ratio around 61%-63% across our three-year forecast period. In combination with a loan-loss rate of 45-60 basis points under our base case--with the U.S. cards business responsible for a material portion of our forecast impairment charges--we expect a return on tangible equity (RoTE) in excess of 10.0% between 2023 and 2025. This is a solid return and gives Barclays decent financial flexibility, even if it is lower than at domestically focused U.K. peers Lloyds and NatWest, which we expect to generate an RoTE in the mid-teens in the next few years.

The complex capital markets businesses and operational risk events weigh on our view of Barclays' risk position.

Despite broadly solid and proactive risk management, our view of Barclays' risk position reflects the high weighting of volatile and complex capital markets activities in its business model. The operational risk events that stem from this, such as Barclays' over-issuance of securities under a U.S. shelf program, have been manageable. Alongside this, Barclays has had limited credit losses in its lending book; closely manages idiosyncratic pockets of risk, like its hung leveraged finance or commercial real estate books; and has prioritized operational risk in recent years. Even so, and despite these supports, our view of Barclays' risk position will be an important ratings constraint in the medium term, absent a material narrowing

in the bank's risk profile, which we do not expect.

Barclays' funding and liquidity are on a solid footing, comfortably absorbing global macroeconomic pressure. Barclays has consistently maintained a cautious funding and liquidity position. On March 31, 2023, its liquidity buffer was £122 billion above the minimum regulatory requirement, with 82% of this in cash at central banks and 18% in government bonds. The cautious buffer positions Barclays' liquidity coverage ratio toward the upper end of the peer group of European global systemically important banks. The net stable funding ratio is on similarly stable ground and sits toward the upper end of the European peer group too. This solid funding and liquidity footing supports the stability of our ratings on Barclays throughout the cycle.

We believe that the higher rating on Barclays compares well with the ratings on its U.K. and international peers. Barclays' operational complexity and weaker risk-adjusted profitability are relative drags versus U.K.-focused peers with an 'a-' stand-alone credit profile (SACP). However, the combination of Barclays' business model diversification, revenue resilience, and prudent funding and liquidity offset this. This leaves the 'a-' SACP in a comfortable position relative to domestic peers. Versus higher-rated investment banking peers including JPMorgan Chase and Morgan Stanley, Barclays' lower 'a-' SACP considers its weaker strategic position in the corporate and investment banking business and generally narrower scope. For example, Barclays' capital markets wallet share is materially smaller than those of major incumbents, while Barclays also lacks the broader asset-gathering franchises of many global benchmark peers. By the same token, a globally diversified, tightly risk-controlled group like HSBC will continue to have a stronger credit profile than Barclays. This positions Barclays' SACP stably at 'a-', with limited upside over our two-year horizon. Downside rests mostly on Barclays' earnings performance, risk management, and funding stability.

Outlook

The stable outlook indicates that we expect Barclays' ratings profile to remain robust over our two-year horizon. We anticipate that its well-diversified business will generate solid, stable earnings, and that it will maintain its solid funding and liquidity profiles.

Downside scenario

We could lower the ratings if Barclays' performance weakens materially, whether as a consequence of significant adverse credit, market, or operational risk events, or broader macroeconomic pressures that weaken Barclays' asset quality and earnings materially. A sustained weakening in its funding and liquidity would also likely precipitate a negative rating action.

Upside scenario

A further upgrade is unlikely in the next 24 months. We could raise the ratings during our two-year outlook horizon if Barclays demonstrates exceptional asset quality and risk management, and if its risk-adjusted capital ratio moves above 15% on a sustained basis. We view this scenario as remote.

Ratings Score Snapshot

	To	From
Issuer Credit Rating*	A+/Stable/A-1	A/Positive/A-1
SACP	a-	bbb+
Anchor	bbb+	bbb+
Business position	Strong (+1)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	Neutral (0)	Neutral (0)
Support		
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	N/A	N/A

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. N/A--Not applicable.

*Issuer credit rating applies to core operating entities, which include Barclays Bank PLC, Barclays Bank UK PLC, Barclays Execution Services Ltd., and Barclays Bank Ireland PLC.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook U.K. Q2 2023: Growth Eludes This Year Even As Inflation Eases, March 27, 2023
- Interest Income Fuels Bumper U.K. Bank Profits As Rates Near Their Peak, March 10, 2023
- The 2023 Credit Outlook For U.K. Banks: Higher Rates Buttress Earnings As Loan Losses Rise, Jan. 5, 2023
- Banking Industry Country Risk Assessment: United Kingdom, Dec. 12, 2022
- Update: Barclays PLC, Dec. 2, 2022
- U.K. Banks' Funding And Liquidity Are On A Solid Footing As They Navigate A Turn In The Cycle, Dec. 1, 2022

Ratings List

***** Barclays PLC *****

Ratings Affirmed

Barclays PLC

Commercial Paper	A-2
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Barclays Bank PLC

Short-Term Debt	A-1
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Certificate Of Deposit	A-1
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Commercial Paper	A-1
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Barclays Bank PLC (Cayman Branch)

Commercial Paper	A-1
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Barclays Bank PLC (New York Branch)

Commercial Paper	A-1
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Barclays Bank UK PLC

Commercial Paper	A-1
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Barclays U.S. Funding Corp.

Commercial Paper	A-1
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Barclays Capital Inc.

Commercial Paper	A-1
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Upgraded

	To	From
Barclays Bank Ireland PLC		
Barclays Capital Trading Luxembourg		
Barclays Capital Luxembourg		
Barclays Bank UK PLC		
Barclays Bank PLC		
Barclays Bank Ireland PLC, Sucursal en Espana (Madrid Branch)		
Barclays Bank Ireland PLC (Milan Branch)		
Resolution Counterparty Rating	AA-/--/A-1+	A+/--/A-1
Barclays Bank PLC		
Certificate Of Deposit		
Local Currency	A+	A
Barclays PLC		
Senior Unsecured	BBB+	BBB
Subordinated	BBB-	BB+
Junior Subordinated	BB-	B+
Barclays Bank Ireland PLC		
Senior Unsecured	A+	A
Barclays Bank PLC		
Resolution Counterparty Liability	AA-	A+
Resolution Counterparty Liability	A-1+	A-1
Senior Unsecured	A+	A
Senior Unsecured	A+p	Ap
Subordinated	BBB	BBB-
Junior Subordinated	BB+	BB
Junior Subordinated	BBB-	BB+
Junior Subordinated	BBB	BBB-
Preference Stock	BB+	BB
Certificate Of Deposit	A+	A
Barclays Capital Inc.		
Resolution Counterparty Rating	A+/--/A-1	A/--/A-1
Upgraded; Outlook Action; Ratings Affirmed		
	To	From
Barclays PLC		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2

Barclays Bank Ireland PLC

Barclays Execution Services Ltd.

Barclays Capital Trading Luxembourg

Barclays Capital Luxembourg

Barclays Bank UK PLC

Barclays Bank PLC

Barclays Bank Ireland PLC, Sucursal en Espana (Madrid Branch)

Barclays Bank Ireland PLC (Milan Branch)

Barclays Capital Inc.

Issuer Credit Rating	A+/Stable/A-1	A/Positive/A-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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