MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Barclays PLC's long-term issuer and senior unsecured ratings to Baa3 from Baa2 due to ongoing credit challenges and ring-fencing implementation, concluding review; outlook stable

Global Credit Research - 04 Apr 2018

Barclays Bank PLC's long-term deposit and senior unsecured ratings downgraded to A2 from A1, baseline credit assessment downgraded to baa3 from baa2

London, 04 April 2018 -- Moody's Investors Service ("Moody's") has downgraded the long-term issuer and senior unsecured debt ratings of Barclays PLC (Barclays) to Baa3 from Baa2, concluding the review for downgrade it announced on 22 February 2018. Barclays' short-term ratings were confirmed at Prime-3. Moody's has also assigned, for the first time, a baa3 notional Baseline Credit Assessment (BCA) to Barclays.

The standalone baseline credit assessment (BCA) of Barclays Bank PLC (Barclays Bank), the group's non ring-fenced bank, was downgraded to baa3 from baa2 and its long-term deposit and senior unsecured debt ratings were downgraded to A2 from A1. In addition, Barclays Bank's short-term ratings were confirmed at Prime-1 and the long-term counterparty Risk (CR) assessment was downgraded to A2(cr) from A1(cr). The bank's Prime-1(cr) short-term CR assessment was unaffected.

"The ratings downgrade for Barclays and Barclays Bank reflects Moody's assessment of the overall group's credit profile, particularly in light of its ongoing profitability challenges, and the impact on existing creditors of the implementation of ring-fencing", said Mr. Andrea Usai, Senior Vice President at Moody's.

Moody's has assigned a stable outlook on the ratings for Barclays and Barclays Bank.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_198923 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_198923 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Principal Methodology

On 1 April 2018, Barclays changed its legal structure as a result of the forthcoming requirement to separate its domestic retail and small business banking businesses from its other operations, under the UK's ring-fencing rules. Ring-fencing regulation aims to make economically vital banking services more resilient to financial shocks and will affect a small number of large UK banking groups, including Barclays. With today's rating actions, Moody's has reflected the impact of the ring-fencing implementation and ongoing credit weakness for the existing creditors of Barclays Bank and Barclays.

The rating agency has evaluated the expected loss for each instrument class issued by Barclays and Barclays Bank through its advanced Loss Given Failure (LGF) analysis. Ring-fencing implementation has resulted in Moody's performing separate advanced LGF analysis for the holding company, Barclays, and the two main UK operating companies, Barclays Bank and Barclays Bank UK. Previously, Moody's performed a single advanced LGF analysis on the Barclays' group, including all UK-domiciled entities.

BARCLAYS BANK PLC

Barclays Bank's BCA was downgraded to baa3 from baa2. Barclays Bank has become the group's non ring-fenced bank, following the transfer of the group's UK retail and business banking activities to the newly formed ring-fenced bank, Barclays Bank UK PLC (LT deposits A1 stable, BCA a3). Barclays Bank has therefore become more reliant on riskier wholesale and capital markets activities, increasing its risk profile and expected earnings volatility, as well as its dependence on wholesale funding, though its funding profile will remain diversified. Barclays Bank's baa3 BCA considers its (1) good regulatory capitalisation, which could still come under pressure if outstanding conduct and litigation issues are settled beyond our estimates, and its (2) adequate funding and sound liquidity, which protect the bank against unexpected market shocks. Barclays Bank's baa3 BCA is constrained by (3) risks from investment banking and capital market activities, and (4) Moody's expectation that the bank's net profitability will remain subpar and volatile over the next 12-18 months, as the group deals with legacy conduct and litigation issues and winds down its remaining, though reduced, legacy asset portfolio.

Barclays Bank's narrower business mix, following ring-fencing implementation, has led Moody's to remove the positive adjustment for Business Diversification in the qualitative section of the bank's BCA scorecard. However, Moody's has maintained a one-notch negative adjustment for Opacity and Complexity, as the rating agency consider the capital markets activities as inherently riskier, susceptible to market conditions and more opaque than traditional retail and commercial banking operations, constraining the credit profile of Barclays Bank and that of its global peers.

The rating agency has also determined that Barclays Bank does not benefit from affiliate support to a sufficient level from the rest of the group because it accounts for 80% of the group's total assets. In addition, Moody's believes that the transfer of financial resources from Barclays Bank UK to Barclays Bank will be in part constrained when UK ring-fencing rules will come into force on 1 January 2019.

Moody's advanced LGF analysis indicates an extremely low loss given failure for junior depositors and senior unsecured creditors of Barclays Bank, resulting in a three-notch uplift to the relevant ratings from the firm's adjusted BCA of baa3. For junior creditors of Barclays Bank, Moody's advanced LGF analysis shows a high loss given failure.

Moody's has also maintained its assessment of a moderate probability of government support for Barclays Bank's junior depositors and senior unsecured creditors, resulting in a further one-notch uplift incorporated in the relevant A2 ratings. For junior securities, the rating agency continues to assume a low support probability, resulting in no uplift for government support included in the ratings for these instruments.

BARCLAYS PLC

Moody's has assigned for the first time a notional BCA of baa3 to Barclays, which it derived from the standalone credit profile of its two main subsidiaries, Barclays Bank and Barclays Bank UK, accounting for around 80% and 20% of the group's total assets, respectively. On the back of the group's multi-year restructuring and simplification process, Barclays' baa3 notional BCA reflects its (1) strong franchises in UK retail, business banking and global credit cards, (2) moderate asset risk, driven by strong loan quality, which is partly offset by tail risks from residual legacy assets, and pending conduct and litigations, despite the recent settlement of the mortgage-backed securities litigation in the US, (3) improved regulatory capitalisation, which could come under pressure as outstanding conduct and litigation issues are settled, and; (4) diversified funding and sound liquidity. The group's credit profile is however constrained by weak net profitability, which the rating agency expects to persist over the next 12-18 months, as well as the risks stemming from the group's sizeable capital markets activities, carrying market, counterparty and operational risks. Moody's believes that these activities will expose the firm to higher earnings volatility than more traditional retail and commercial banking activities.

Barclays' baa3 notional BCA scorecard does not include a qualitative adjustment for Business Diversification. Moody's believes that its assessments of the group's asset risk and profitability already capture the degree of diversification of the group's operations, and the extent to which they will deliver higher and sustainable earnings over the cycle.

As a result of ring-fencing implementation, Moody's has performed a separate advanced LGF analysis on Barclays, in which it considers that its creditors will benefit from Barclays' externally-issued debt as well as subordinated and junior debt externally issued by Barclays Bank (Barclays Bank UK does not currently have outstanding debt). Moody's advanced LGF analysis indicates a moderate loss given failure for senior unsecured creditors of Barclays, resulting in no uplift to the relevant ratings from the firm's adjusted BCA of baa3. For junior creditors of Barclays, Moody's advanced LGF analysis shows a high loss given failure, positioning this rating at Ba1, one notch below its baa3 adjusted BCA.

Moody's has maintained its assumption of low probability of government support for Barclays' creditors, resulting in no further uplifts included in its ratings.

STABLE RATINGS OUTLOOK

The stable outlook on the ratings for Barclays Bank and Barclays indicates that Moody's expects the group's overall credit fundamentals and degree of protection for its creditors from the stock of bail-in-able liabilities, to remain broadly unchanged, over the next 12-18 months. The stable outlook already incorporates Moody's expectation of a moderate deterioration in the credit profile, as a result of deteriorating operating conditions for Barclays and the other UK banking groups, due to Brexit-related uncertainty.

WHAT COULD MOVE THE RATINGS UP/DOWN

Barclays' baa3 notional BCA could be upgraded, following an improvement of the standalone credit profiles of its two main subsidiaries Barclays Bank and Barclays Bank UK. An upgrade of Barclays' baa3 notional BCA would likely lead to a ratings upgrade. Barclays' ratings could also be upgraded if the group were to issue a substantially higher amount of bail-in-able liabilities or maintain excess financial resources at the level of the holding company, affording greater protection to its creditors.

Barclays' baa3 notional BCA could be downgraded following a deterioration of the standalone credit profiles of its two main subsidiaries Barclays Bank and Barclays Bank UK, which Moody's would likely reflect in downgrades of their respective BCAs. A lower notional BCA would likely lead to a downgrade of Barclays' long term ratings. Barclays' ratings could also be downgraded if Moody's were to assess a lower degree of protection from the stock of bail-in-able liabilities, which we assess through our advanced LGF analysis.

Barclays Bank's baa3 BCA could be upgraded if the bank were to make material progress in addressing legacy conduct and litigations, reducing the associated downside risks and restoring its profitability on a sustainable basis. Much higher capitalisation levels and lower reliance on confidence-sensitive wholesale funding would also be positive for the BCA. An upgrade of the BCA would likely lead to a ratings upgrade.

Barclays Bank's baa3 BCA could be downgraded in case of (1) a deterioration in the operating environment beyond our current expectations, (2) conduct and litigation charges that are materially higher than our current estimates, (3) a material risk management failure or increase in risk appetite or leverage, and (4) a material deterioration in the group's liquidity or capital positions. A downgrade of the bank's BCA would likely lead to a ratings downgrade. The ratings for Barclays Bank could be downgraded in case of a lower degree of protection for its creditors from the stock of bail-in-able debt, which Moody's assesses through its advanced LGF analysis.

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_198923 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Releasing Office

• Person Approving the Credit Rating

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Andrea Usai
Senior Vice President
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ana Arsov
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454