

Research Update: Barclays Bank PLC Ratings Lowered To 'A+/A-1' From 'AA-/A-1+' On Bank Criteria Change; Outlook Stable

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Overview

- Following a review of Barclays Bank PLC (Barclays) under Standard & Poor's revised bank criteria (published on Nov. 9, 2011), we have lowered our long-term counterparty credit rating to 'A+' from 'AA-'. At the same time, we lowered the short-term counterparty credit rating to 'A-1' from 'A-1+'. The outlook is stable.
- The rating on Barclays' perpetual subordinated debt was lowered to 'BBB' from 'A-', and the rating on its dated subordinated debt was lowered to 'BBB+' from 'A'. Other rating actions on debt issues and subsidiaries are listed below.
- Our ratings on Barclays reflect our view of its 'bbb+' anchor, strong business position, adequate capital and earnings, adequate risk position, average funding, and adequate liquidity. Our ratings also reflect our view of Barclays' high systemic importance in the U.K.
- The stable outlook reflects our view that Barclays will likely further improve its core capital position, mostly through retained earnings, and maintain a strong business position.

Rating Action

As we previously announced on Nov. 29, 2011, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on Barclays Bank PLC (Barclays) to 'A+/A-1' from 'AA-/A-1+'. The outlook is stable. In addition, we lowered the issue ratings on Barclays' perpetual subordinated debt to 'BBB' from 'A-', and lowered the ratings on its dated subordinated debt to 'BBB+' from 'A'.

The long-term counterparty credit rating on group holding company Barclays PLC was lowered to 'A' from 'A+' and the short-term counterparty credit rating was affirmed at 'A-1'. The ratings on core subsidiaries Barclays Capital Inc. and Barclays Private Clients International Ltd. were lowered to 'A+/A-1' from 'AA-/A-1+', and the ratings on core subsidiary Barclays Bank Ireland PLC were affirmed at 'A-/A-2'. The group status of Spanish subsidiary Barclays Bank S.A. was revised to "highly strategic", and the ratings were lowered to 'A/A-1' from 'AA-/A-1+'. The outlook on all these ratings is stable.

Rationale

Standard & Poor's bases its ratings on Barclays' 'bbb+' anchor, "strong" business position, "adequate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity, as our criteria define those terms. The stand-alone credit profile (SACP) is 'a-'.

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk in the countries in which Barclays operates, based on the geographic distribution of its customer loan exposures--the U.K. (50%), Spain (5%), Italy (5%), the rest of Europe (10%), the U.S. (10%), South Africa (10%), and the rest of the world (10%). The weighted-average economic risk score for these territories is close to '4' on a scale of 1-10 (1 is the lowest risk and 10 is the highest). The industry risk score for Barclays is based solely on its home market of the U.K. Our assessment of industry risk in the U.K. is underpinned by the depth of its capital markets, strong government systemwide support, and moderation in the sector's risk appetite. The reactive approach of the financial regulator during the expansionary environment prior to 2007 continues to constrain our assessment of the institutional framework, although we recognize

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the measures taken over recent years to strengthen the supervisory regime.

Our assessment of Barclays' business position as "strong" is based on our view of its good franchise in its core markets, its reasonably diversified revenue profile, and its stable management and strategy. These attributes are partly offset in our view by the scale of the investment banking activity undertaken by the Barclays Capital (BarCap) division. In retail and commercial banking, Barclays is an established leader in the U.K. and has steadily expanded internationally over a number of years. BarCap is one of the dominant players in global fixed income and is leveraging the 2008 acquisition of Lehman's North American assets to increase its presence in equities and advisory. The volatility inherent in investment banking is mirrored in BarCap's uneven contribution to group earnings, but the more predictable earnings of Barclays' other businesses have helped to stabilize Barclays' overall performance. BarCap represented 38% of underlying group revenues in the first nine months of 2011, and we expect its share to remain around that level in the medium term. Accordingly, we consider that Barclays' business position will remain sensitive to conditions in securities markets.

We view Barclays's capital and earnings as "adequate". We consider that its balance sheet has steadily strengthened in recent years, and we anticipate a continuation of this trend as Basel III and other regulatory changes draw nearer. Before diversification adjustments, we expect Barclays' risk-adjusted capital (RAC) ratio (based on our updated hybrid and BICRA criteria) will rise into the 7.0%-7.5% range by year-end 2012. Its current earnings are below potential, in our view, reflecting difficult economic and market conditions. However, it is steadily improving its core capital position through retained earnings, supported by a manageable dividend pay-out ratio, and close management of the balance sheet. Our assessment of the quality of earnings combines a generally positive view of Barclays' retail and commercial banking and wealth management activities with the cyclicity of BarCap's sales and trading revenues.

We consider Barclays' risk position to be "adequate" and believe that the RAC framework captures the nature of its exposures. There are substantial valuation and liquidity risks associated with BarCap's trading inventory, as illustrated by its £17.1 billion of write-downs and impairments on credit market assets in 2007-2009. These legacy credit market assets have steadily reduced in size but remain material (£16.6 billion as at Sept. 30, 2011). We view Barclays' large loan portfolios as well-controlled for the most part, but it has incurred outsized loan losses outside the U.K. At 83 basis points (bps), Barclays' long-run average loan loss rate reflects the weight of relatively higher risk, higher margin businesses such as credit cards, commercial banking, and subsidiaries in Africa. In the current economic cycle, the loan loss rate peaked at 156 bps in 2009 and moderated to 74 bps in the first nine months of 2011 as credit conditions and asset values generally improved. We see potential for renewed asset quality pressures as economic growth slows into 2012, but we believe that Barclays' disciplined underwriting approach in recent years should support its risk position. Barclays undertakes retail and commercial banking activities in pressured eurozone countries, principally Spain and Italy. Most of this exposure is through residential mortgages, which are performing relatively well, and it has already booked material impairment provisions on higher risk portfolios such as Spanish commercial real estate.

We regard Barclays' funding as "average" and its liquidity position as "adequate". The funding profile is underpinned by Barclays' strong deposit franchise, but BarCap is also an active borrower in confidence-sensitive wholesale markets. Deposit growth and subdued lending activity reduced Barclays' reported loan-to-deposit ratio to 116% at Sept. 30, 2011. BarCap funded 78% of its inventory on a secured basis as at June 30, 2011, and its short-term unsecured borrowing primarily funds Barclays' liquidity portfolio. This portfolio of unencumbered cash, central bank deposits, and government and supranational bonds increased to £166 billion at Sept. 30, 2011, which exceeded by £20 billion the volume of wholesale debt maturing in the following

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12 months.

The long-term counterparty credit rating is two notches higher than the SACP, reflecting our view that Barclays has high systemic importance in the U.K. and the U.K. government is "supportive" of the banking sector, as defined by our criteria.

In accordance with our hybrid capital criteria, we lowered the rating on Barclays' perpetual subordinated debt issues to 'BBB', two notches below the SACP, from 'A-'. We lowered the rating on its dated subordinated issues to 'BBB+', one notch below the SACP, from 'A'.

The "highly strategic" group status of Spanish subsidiary Barclays Bank S.A. balances ongoing support provided by the parent with the subsidiary's poor profitability and relatively modest size in the context of the wider group.

Outlook

The stable outlook reflects our view that Barclays will likely improve its core capital position further, mainly through retained earnings, and maintain a strong business position. We believe that its earnings could remain under pressure in 2012 from subdued sales and trading revenues, the sustained low interest rate environment, and the potential for impairment losses to rise if the economic recovery falters. In these circumstances, we anticipate that Barclays will continue to manage its balance sheet and cost base proactively.

A negative rating action could occur if Barclays is unable to raise its capital ratio before diversification adjustments above 7%, as measured by our RAC framework, by year-end 2012, or if a significantly adverse change in credit quality or asset values leads us to revise down our assessment of its risk position. In addition, a negative rating action could be triggered by a prolonged closedown of wholesale funding markets, leading to a weakening of liquidity metrics or material reliance on central bank funding. As they move forward, we will also review the rating implications of proposed regulatory reforms such as the recommendations made by the U.K. Independent Commission on Banking. A positive rating action is not considered likely in the foreseeable future, but could be triggered if Barclays demonstrates a superior risk management performance based on proven diversification across its businesses.

Ratings Score Snapshot

Issuer Credit Rating	A+
SACP	a-
Anchor	bbb+
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	2
GRE Support	0
Group Support	0
Sovereign Support	2
Additional Factors	0

Related Criteria And Research

- [Banks: Rating Methodology And Assumptions](#), Nov. 9, 2011
- [Group Rating Methodology And Assumptions](#), Nov. 9, 2011
- [Banking Industry Country Risk Assessment Methodology And Assumptions](#), Nov. 9, 2011
- [Bank Hybrid Capital Methodology And Assumptions](#), Nov. 1, 2011

Ratings List

Downgraded; CreditWatch/Outlook Action

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	To	From
Barclays Bank PLC		
Barclays Capital Inc.		
Counterparty Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
Barclays Bank S.A.		
Counterparty Credit Rating	A/Stable/A-1	AA-/Negative/A-1+
Barclays Private Clients International Ltd.		
Counterparty Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
Downgraded; CreditWatch/Outlook Action; Ratings Affirmed		
	To	From
Barclays PLC		
Counterparty Credit Rating	A/Stable/A-1	A+/Negative/A-1
Downgraded		
	To	From
Barclays Bank PLC		
Certificate Of Deposit		
Foreign Currency	A+/A-1	AA-/A-1+
Local Currency	A+/A-1	AA-/A-1+
Barclays Bank S.A.		
Certificate Of Deposit	A/A-1	AA-/A-1+
Barclays Private Clients International Ltd.		
Certificate Of Deposit	A+/A-1	AA-/A-1+
Barclays Bank PLC		
Senior Unsecured	A+	AA-
Subordinated	BBB+	A
Junior Subordinated	BBB	A-
Preference Stock	BBB	A-
Short-Term Debt	A-1	A-1+
Certificate Of Deposit	A-1	A-1+
Certificate Of Deposit	A+	AA-
Commercial Paper	A-1	A-1+
Barclays Financial LLC		
Senior Unsecured	A+	AA-
Barclays SLCSM Funding B.V.		
Senior Unsecured	A+	AA-
Junior Subordinated	BBB	A-
Barclays U.S. Funding Corp.		
Commercial Paper	A-1	A-1+
Barclays Bank PLC (Australian Branch)		
Commercial Paper	A-1	A-1+
Barclays Bank PLC (Hong Kong Branch)		
Commercial Paper	A-1	A-1+
Barclays Bank PLC (Singapore Branch)		
Commercial Paper	A-1	A-1+
Barclays Bank PLC (Tokyo Branch)		
Commercial Paper	A-1	A-1+
Barclays US Funding LLC		
Commercial Paper	A-1	A-1+
Ratings Affirmed		

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Barclays Bank Ireland PLC

Counterparty Credit Rating

Certificate Of Deposit

A-/Stable/A-2

A-/A-2

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