Financial Institutions Ratings
Barclays PLC – AT1 rating report

Security ratings

Outlook	Stable
8.25% USD 2bn perpetual subordinated contingent convertible securities	BB+
8% EUR 1bn perpetual subordinated contingent convertible securities	BB+
7% GBP 698m fixed rate resetting perpetual subordinated contingent convertible securities	BB+
6.5% EUR 1.1bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
6.625% USD 1.2bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
7.875% GBP 1bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
7.875% USD 1.5bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
7.25% GBP 1.25bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+
5.875% GBP 1.25bn fixed rate resetting perpetual subordinated contingent convertible securities	BB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates at BB+ with Stable outlook the above referenced perpetual subordinated contingent convertible securities issued by Barclays PLC. The ratings are based on the following considerations:

- Senior unsecured debt rating (eligible for MREL/TLAC): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch stems from two factors: (1) the relatively demanding stance of the UK regulator; e.g. requesting 7% CET1 fully loaded triggers on AT1 securities and comparatively high Pillar 2 requirements, and (2) compared to peers, Barclays has room to further increase the headroom to growing capital requirements.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 8 May 2018. For further information on the last rating action and regulatory information please click here.

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Issuer credit profile

The Issuer Rating of A+ for Barclays is 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.

We take comfort in management's 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.

Summary terms

Issuer	Barclays PLC
Issue Date	**November 2013**
Amount	USD 2bn
Coupon	• 8.25% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap rate plus 6.705% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable December 2018 and every five years thereafter
Conversion price	USD 2.64 per conversion share
ISIN	US06738EAA38

Issue Date	December 2013
Amount	EUR 1bn
Coupon	• 8% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap rate plus 6.75% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable December 2020 and every five years thereafter
Conversion price	EUR 1.99 per conversion share
ISIN	XS1002801758

Issue Date	June 2014
Amount	GBP 698m
Coupon	• 7% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap rate plus 5.084% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1068561098

Issue Date	June 2014
Amount	EUR 1.1bn
Coupon	• 6.5% fixed until first call date, reset every 5 years thereafter • From first call date at Mid Market Swap Rate plus 5.875% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
Conversion price	EUR 2.02 per conversion share
ISIN	XS1068574828

Issue Date	June 2014
Amount	USD 1.2bn
Coupon	• 6.625% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 5.022% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2019 and every five years thereafter
Conversion price	USD 2.77 per conversion share
ISIN	US06738EAB11

Issue Date	August 2015
Amount	GBP 1.0bn
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 6.099% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2022 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1274156097

Issue Date	August 2016
Amount	USD 1.5bn
Coupon	• 7.875% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 6.772% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2022 and every five years thereafter
Conversion price	USD 1.99 per conversion share
ISIN	XS1481041587

Issue Date	March 2017
Amount	GBP 1.25bn
Coupon	• 7.25% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 6.462% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2023 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1571333811

Issue Date	August 2017
Amount	GBP 1.25bn
Coupon	• 5.875% fixed until first call date, reset every 5 years thereafter • From first call date at Mid-Market Swap Rate plus 4.91% • Payable quarterly in arrears
Format	Perpetual subordinated contingent convertible securities, callable 2024 and every five years thereafter
Conversion price	GBP 1.65 per conversion share
ISIN	XS1658012023

Main Risks	
Coupon Cancellation	• Fully discretionary • Agreement to potential interest cancellation • Mandatory if there are insufficient distributable items to pay full or partial coupons on these securities after taking in to account any other planned or previously made payments affecting distributable items or the solvency condition is not satisfied in respect of such coupon payment
Principal Loss Absorption	• Full and automatic conversion into ordinary shares upon trigger breach at conversion price subject to conversion shares offer • Regulatory action, including at the point of non-viability or in the event a bank or investment firm of the group is failing or likely to fail
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7% on fully loaded basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the security are fully discretionary and are subject to distribution restrictions

Coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay full or partial coupons on these securities, after taking in to account any other planned or previously made payments affecting distributable items. We, however, do not consider distributable items to be a limiting factor for Barclays to pay coupons. At end-2017, Barclays PLC had GBP 6.7bn in distributable reserves.

In addition, the issuer must be solvent immediately after making payments related to the AT1 securities. The issuer is considered solvent if it can pay debts owed to senior creditors as they fall due and if the value of its assets is at least equal to the value of its liabilities.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable.

To determine whether the maximum distributable amount (MDA) needs to be calculated, a bank should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR. For UK banks, Pillar 2 capital requirements are referred to as Pillar 2A requirements. At least 56% of the requirement must be met with CET1 capital and no more than 25% with Tier 2 capital. We note that the Pillar 2 requirements of UK banks are often higher than those for ECB-supervised banks, even when comparing only the CET1 component.

Barclays' Pillar 2A requirement for 2018 is 4.3%, of which 2.4% should be met with CET1 capital. Meanwhile, the group's combined buffer is comprised of the 2.5% capital conservation buffer and a 1.5% G-SIB buffer, both of which are being phased-in between 2016 and 2019. From June 2018, Barclays has also been subject to a countercyclical buffer requirement for its UK exposures. We assume this will result in a 0.5% countercyclical buffer requirement for Barclays as the UK countercyclical buffer rate is expected to increase to 1% from November 2018.

When assessing the headroom to requirements, capital ratios which incorporate the transitional arrangements of IFRS 9 and the grandfathering of CRR non-compliant capital instruments have been used.

Table 1: Estimated capital requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**7.8%**	**10.4%**	**11.4%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.00%	1.10%	1.50%
- Countercyclical [1]	0.00%	0.50%	0.50%
Pillar 2 CET1 requirement	2.30%	2.40%	2.40%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Barclays PLC CET1, transitional (%) [2]	13.3%	12.7%	
Distance to CET1 requirement incl. CBR (%)	**5.5%**	**2.3%**	
Distance to CET1 requirement incl. CBR (GBP bn)	**17.1**	**7.2**	
Barclays PLC Tier 1, transitional (%) [3]	16.1%	16.4%	
Required Tier 1 incl. CBR (%)	11.3%	12.7%	13.7%
Distance to Tier 1 requirement incl. CBR (%)	**4.8%**	**3.7%**	
Barclays PLC total capital, transitional (%) [3]	20.7%	20.3%	
Required total capital, incl. CBR (%)	14.3%	15.8%	16.8%
Distance to total capital requirement incl. CBR (%)	**6.3%**	**4.5%**	
RWAs (GBP bn)	313	318	

Notes: 1. Countercyclical buffer requirement has been in place since June 2018 and is assumed to be 0,5% based on a 1% UK countercyclical buffer rate and 50% of group exposure to the UK. 2. Includes IFRS 9 transitional arrangements. 3. Includes IFRS 9 transitional arrangements and the grandfathering of CRR non-compliant capital instruments. Source: Company data, Scope Ratings

By 2019, we estimate that Barclays will need to maintain a CET1 ratio above 11%, a Tier 1 capital ratio of nearly 14%, and a total capital ratio of nearly 17% to avoid distribution restrictions on its AT1 securities (Table 1). This assumes that various components of the combined buffer as well as the Pillar 2A requirement remain unchanged.

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.

Consequently, the group targets a CET1 ratio of about 13%, 150-200 bps above the regulatory minimum.

As of 1Q 2018, the group's CET1 capital ratio was 12.7%[1], compared to 13.3% as of end-2017. During the quarter, litigation and conduct charges related to a USD 2bn RMBS settlement with the US Department of Justice and PPI (61 bps) offset to a large degree organic capital generation from earnings (42 bps).

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

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is full conversion into shares.	The securities have one trigger: • Consolidated group CET1 ratio < 7% on fully loaded basis.

Under the terms of the securities, there is full and automatic conversion into shares when the trigger level is breached. The trigger level is breached when Barclays' consolidated CET1 ratio is less than 7% on a fully loaded basis. We note that AT1 capital instruments issued by UK banks generally have fully loaded CET1 triggers while non-UK banks have transitional CET1 triggers.

For AT1 securities issued prior to 2015, investors in these securities agree and consent to the exercise of any UK bail-in power by the relevant UK relevant resolution authority that may result in the cancellation of all, or a portion, of the principal amount of and/or conversion of all or a portion of the principal amount of the securities into shares or other securities. The UK introduced bail-in provisions in January 2015, ahead of the January 2016 deadline contained in the Bank Recovery and Resolution Directive. From 2015, the offering documents for the AT1 securities issued by Barclays include explicit reference to the bail-in tool and the point of non-viability as well as the PRA's broad powers.

[1] The 12.7% CET1 ratio excludes the impact of IFRS 9 transitional arrangements; otherwise the CET1 ratio would be 12.2%.

Distance to trigger

We expect the group's fully loaded CET1 ratio to remain solidly above the 7% trigger level on the securities as management intends to maintain a 150-200bp buffer above minimum CET1 capital requirements – estimated to be more than 11% in 2019.

Table 2: Distance to trigger

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
Barclays PLC CET1, fully loaded (%) [1]	13.3%	12.2%	
Distance to trigger (%)	**6.3%**	**5.2%**	
Distance to trigger (GBP bn)	**19.7**	**16.7**	

Note: 1. Fully loaded CET1 ratio excludes IFRS 9 transitional arrangements.
Source: Company data, Scope Ratings

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