

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

24 June 2019

#### Update

 Rate this Research

#### RATINGS

##### Santander UK plc

|                   |  |
|-------------------|--|
| Domicile          | United Kingdom                         |
| Long Term CRR     | Aa2                                    |
| Type              | LT Counterparty Risk Rating - Fgn Curr |
| Outlook           | Not Assigned                           |
| Long Term Debt    | Aa3                                    |
| Type              | Senior Unsecured - Fgn Curr            |
| Outlook           | Positive                               |
| Long Term Deposit | Aa3                                    |
| Type              | LT Bank Deposits - Fgn Curr            |
| Outlook           | Positive                               |

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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## Santander UK plc

### Update to credit analysis

#### Summary

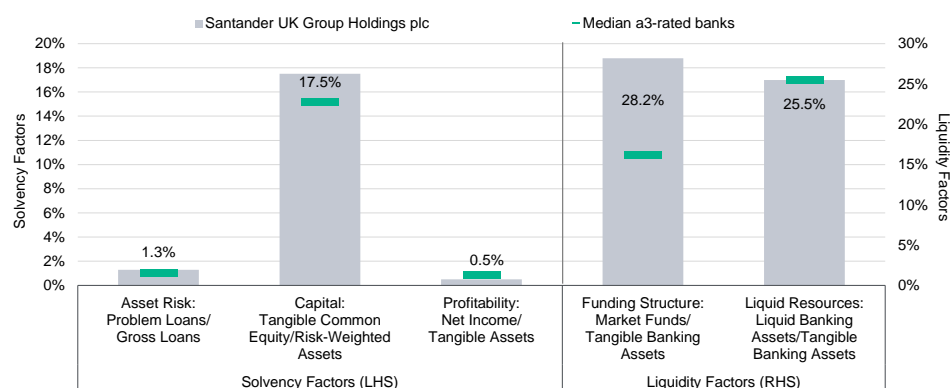
The Aa3 long-term deposit and senior debt ratings of [Santander UK plc](#) (Santander UK) reflect (1) the bank's standalone creditworthiness, reflected in its a3 Baseline Credit Assessment (BCA); (2) limited financial and direct operational connections to its parent, [Banco Santander S.A.](#) (Banco Santander, A2/A2 stable, baa1), which shields Santander UK from a potential deterioration in its parent's creditworthiness; (3) very low loss-given-failure, which provides two notches of uplift under our Advanced Loss Given Failure (LGF) analysis; and (4) our assessment of a moderate probability of support from the [Government of United Kingdom](#) (Aa2 stable), which provides another one notch of uplift to the ratings.

The Baa1 senior unsecured debt issued by [Santander UK Group Holdings plc](#) (Santander UK Group) reflects the instrument's high loss-given-failure, resulting in a rating one notch below the BCA; low probability of government support does not provide any uplift.

We also assign a notional BCA of a3 to Santander UK Group and an a3 BCA to the group's non-ring-fenced bank [Abbey National Treasury Services plc](#) (ANTS); the BCAs and ratings of Santander Group and ANTS are in line with those of Santander UK, reflecting the predominance of Santander UK within the group. Santander UK's a3 BCA reflects, on one hand, its low stock of problem loans, good risk-weighted capitalisation and low earnings volatility, and on the other, weak leverage ratio and profitability under pressure.

Exhibit 1

#### Rating Scorecard - Key financial ratios



We assign a BCA to Santander UK based on the consolidated financials of Santander UK Group. The chart above shows the financial ratios of Santander UK Group.

Source: Moody's Investors Service

## Credit strengths

- » Low stock of problem loans
- » Good risk-weighted capitalisation
- » Low earnings volatility

## Credit challenges

- » Weak leverage ratio
- » Profitability under pressure

## Outlook

The positive outlook on Santander UK's long-term deposit and senior unsecured debt ratings, and on Santander UK Group's senior unsecured debt rating reflects the group's expected issuance plan to meet its minimum requirement for own funds and eligible liabilities (MREL). A larger stock of bail-in-able debt would reduce the loss-given-failure of senior debt issued by Santander UK or Santander UK Group, and that of junior deposits, potentially leading to higher ratings over the outlook horizon.

## Factors that could lead to an upgrade

Santander UK's BCA could be upgraded if the bank improves its profitability while maintaining a low level of problem loans and reduces its moderate reliance on market funding.

An upgrade of Santander UK's BCA would likely lead to an upgrade of Santander UK Group's senior holdco rating; given their proximity to the UK's sovereign debt rating, an upgrade of Santander UK's BCA might be offset by a lower uplift from government support and not lead to an upgrade of the bank's long-term deposit and senior debt ratings.

Similarly, an increase in the debt issuance from the holding company, in line with the group's funding plan, will likely lead to an upgrade of Santander UK Group's senior holdco rating, but not necessarily an upgrade of the bank's long-term deposit and senior debt ratings.

## Factors that could lead to a downgrade

Santander UK's BCA could be downgraded because of an unexpected significant deterioration in its asset-quality metrics, a material weakening in profitability that would reduce the bank's going-concern loss-absorption capacity or a deterioration in the bank's funding and liquidity position, including a further reduction in the quantity or quality of its liquidity buffer.

A downgrade of Santander UK's BCA would likely result in downgrade of all its ratings. Santander UK's long-term deposit and senior debt ratings, and Santander UK Group's senior holdco debt rating could also be downgraded following a material reduction in the volume of bail-in-able debt; this scenario is, however, unlikely because of the forthcoming MREL.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Santander UK plc (Consolidated Financials) [1]

|  | 12-18 <sup>2</sup> | 12-17 <sup>2</sup> | 12-16 <sup>2</sup> | 12-15 <sup>2</sup> | 12-14 <sup>2</sup> | CAGR/Avg <sup>3</sup> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|-----------------------|
| Total Assets (GBP Billion)                                       | 263.9              | 295.3              | 280.1              | 260.1              | 253.0              | 1.1 <sup>4</sup>      |
| Total Assets (USD Billion)                                       | 336.1              | 399.4              | 346.2              | 383.4              | 394.5              | (3.9) <sup>4</sup>    |
| Tangible Common Equity (GBP Billion)                             | 13.3               | 13.8               | 12.8               | 12.7               | 11.4               | 4.0 <sup>4</sup>      |
| Tangible Common Equity (USD Billion)                             | 17.0               | 18.6               | 15.9               | 18.7               | 17.8               | (1.1) <sup>4</sup>    |
| Problem Loans / Gross Loans (%)                                  | 1.2                | 0.6                | 0.7                | 0.7                | 1.0                | 0.8 <sup>5</sup>      |
| Tangible Common Equity / Risk Weighted Assets (%)                | 17.0               | 15.8               | 14.6               | 14.8               | 13.9               | 15.2 <sup>5</sup>     |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 16.9               | 8.8                | 10.1               | 10.8               | 14.3               | 12.2 <sup>5</sup>     |
| Net Interest Margin (%)  | 1.3                | 1.3                | 1.3                | 1.4                | 1.4                | 1.4 <sup>5</sup>      |
| PPI / Average RWA (%)  | 2.3                | 2.8                | 2.6                | 2.5                | 2.5                | 2.5 <sup>6</sup>      |
| Net Income / Tangible Assets (%)                                 | 0.5                | 0.5                | 0.8                | 0.3                | 0.7                | 0.6 <sup>5</sup>      |
| Cost / Income Ratio (%)  | 57.2               | 50.3               | 51.1               | 52.5               | 54.3               | 53.1 <sup>5</sup>     |
| Market Funds / Tangible Banking Assets (%)                       | 20.6               | 27.3               | 25.3               | 25.2               | 27.5               | 25.2 <sup>5</sup>     |
| Liquid Banking Assets / Tangible Banking Assets (%)              | 21.8               | 25.5               | 21.4               | 19.5               | 21.0               | 21.8 <sup>5</sup>     |
| Gross Loans / Due to Customers (%)                               | 113.8              | 110.2              | 114.3              | 122.6              | 125.2              | 117.2 <sup>5</sup>    |

[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 due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

## Profile

Santander UK plc (Santander UK) is a retail and commercial bank that operates exclusively in the UK. It is a large subsidiary of Banco Santander, accounting for 22% of the group's assets as of December 2018 and contributing around 13% of the group's 2018 net profit.

In the UK, Santander UK is the fifth-largest residential mortgage provider and has the sixth-largest stock of customer deposits.

As part of the implementation of the ring-fencing legislation in the UK, in 2018, Santander UK transferred its small corporate and investment banking division to the London branch of Banco Santander, and its branches in the Crown Dependencies to its sister company ANTS, which became the non-ring-fenced bank of Santander UK Group. At present, in addition to the branches in the Crown Dependencies, ANTS retains a small portfolio of legacy assets.

## Detailed credit considerations

We assign a BCA to Santander UK based on the consolidated financials of Santander UK Group. The financial data in the following sections are sourced from Santander UK Group's consolidated financial statements, unless otherwise stated.

### Low stock of problem loans

The assigned a1 Asset Risk score is one notch below the aa3 Macro-Adjusted score, reflecting our expectation that problem loans will increase mildly as a result of a slowdown of the UK economy<sup>1</sup>.

The loan book of Santander UK has a low risk profile, largely comprising residential mortgages (79% of the total loan book), with a relatively low average loan-to-value ratio of 47%. Buy-to-let mortgages are low, representing just 5% of Santander UK's loan book.

Compared with other large UK banks, Santander UK's consumer finance business is small, representing just 4% of the bank's loan book. Lending to corporate and small and medium-sized enterprises at 12% of the loan book is also relatively low compared with that of its peers although the bank aims to gradually increase its market share.

The bank reported a low stock of problem loans, which as of the end of March 2019 was 1.3% of the loan book and in line with that in December 2018.

### Good risk-weighted capitalisation, but weak leverage ratio

The assigned aa3 Capital score is one notch below the aa2 Macro-Adjusted score, reflecting Santander UK's weak leverage ratio.

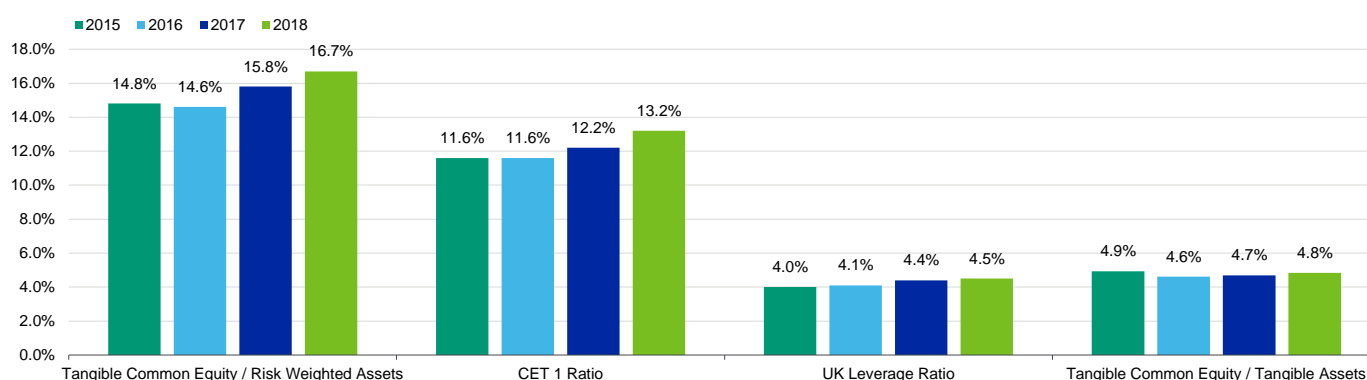
Santander UK reported good risk-weighted capital ratios, with a 13.3% Common Equity Tier 1 (CET1) capital ratio as of March 2019 (December 2018: 13.2%), reflecting the bank's concentration in the low-risk sector of residential mortgages. Santander UK's CET1 ratio has been improving in recent years (2016: 11.6%; 2017: 12.2%), reflecting low but stable retained earnings and a material decrease in risk-weighted assets, mainly driven by a reduction in the exposure towards commercial real estate companies.

Nevertheless, Santander UK's leverage ratio is weak: tangible common equity is 4.8% of tangible assets, and the leverage ratio calculated according to the recommendation of the UK Prudential Regulation Authority (the so-called UK leverage ratio) is of 4.5%; these ratios drives our negative adjustment on capital<sup>2</sup>.

Exhibit 3

#### Santander UK's increase in CET1 ratio mainly reflects lower risk-weighted assets

##### Santander UK's main capital ratios



Regulatory ratios on a fully loaded basis.

Sources: Moody's Investors Service, company reports

### Low earnings volatility, but profitability under pressure

The assigned ba2 Profitability score is one notch below the ba1 Macro-Adjusted score, based on our expectation that profitability will decline slightly, reflecting competition-driven pressure on the net interest margin and the need for large investments in technology that will at least partially offset the bank's cost-cutting initiatives.

In line with its concentration in residential mortgages and a smaller impact from legacy issues such as payment protection insurance (PPI) redress than that of its peers, Santander UK's profitability is relatively stable. In the last five years, the average return on tangible assets has been 0.6%, which is good. Still in line with its concentration in residential mortgages, the bank's net interest income continued to account for a large part of total revenue (81%), and its reported cost-to-income ratio was high compared with that of its peers at 56% in 2018.

In the first quarter of 2019, Santander UK reported a modest £198 million net profit, down 35% from a year earlier, to reflect (1) a different perimeter following the transfer of the corporate and investment banking business to the London branch of Banco Santander in Q4 2018, (2) transformation costs, and (3) pressure on the banking net interest margin (1.72% in Q1 2019 compared with 1.83% in Q1 2018 and 1.77% in Q4 2018).

Compared with other large UK banks, the charges for mis-selling payment PPI in recent years have been modest for Santander UK. The bank did not book any additional charges in 2018 or in 2019; we expect any residual provisions to be relatively small.

We expect Santander UK's net interest margin to decrease further, given:

- » slower economic growth during a prolonged period of low interest rates;
- » continued very high competition among UK banks on new mortgage pricing;
- » higher funding costs as the holding company issues wholesale debt to meet the MREL; and
- » a lower proportion of higher-yielding standard variable rate loans.

### Stable retail funding profile

The baa2 Funding Structure score and the a3 Liquid Resources score are in line with their respective Macro-Adjusted scores.

Being primarily a retail bank, customer deposits are Santander UK's main source of funding, accounting for about 68% of total funding as of the end of March 2019; the bank's net loan-to-deposit ratio was 116% as of the same date. Santander UK has been replacing more price-sensitive deposit customers with current accounts, which are generally more stable and usually have more than one product with the bank.

Santander UK's reliance on wholesale funding is moderate, representing 26% of tangible banking assets as of December 2018. We do not expect the ratio to materially increase; additional wholesale debt that Santander UK Group will issue to meet its MREL will be offset by repayment of the UK government's £10.8 billion Term Funding Scheme. Santander UK expects its MREL to be around 27.2% of risk-weighted assets (including capital buffers) as of 1 January 2022. The bank will issue £4.4 billion of senior unsecured debt through its holding company to meet this target, which will be on top of the £6.3 billion already issued debt outstanding in 2022.

Santander UK has a large stock of liquid assets, representing 35% of the bank's tangible banking assets as of December 2018. As a further mitigating factor, Santander UK has a large £52.5 billion stock of loans that are eligible for repurchase agreements with the Bank of England.

The bank reported a strong 142% liquidity coverage ratio as of March 2019. The liquidity coverage ratio-eligible liquidity pool was £45 billion as of the same date, covering 2.6x the wholesale funds with a residual maturity of less than one year.

## Support and structural considerations

### Affiliate support

We expect a high probability of support coming from Banco Santander, based on the size of Santander UK within the group and reputational risk to its parent. Our assumptions do not lead to any uplift, because the BCA of Santander UK is higher than that of Banco Santander.

### Loss Given Failure (LGF) analysis

Santander UK is subject to the UK implementation of the EU Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. Our analysis assumes residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and it assigns 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%, relative to our standard assumption of 26%, because of the more retail, and small and medium-sized enterprise-oriented depositor base.

Our LGF analysis indicates that Santander UK's junior deposits and senior debt are likely to face very low loss given failure because of the loss absorption provided by limited subordinated debt and the volume of deposits and senior debt. This results in a two-notch uplift from the bank's BCA. For the senior unsecured debt of the holding company Santander UK Group, our LGF analysis shows high loss-given-failure, resulting from the combination of its own limited volume of debt and the amount of debt subordinated to it. This results in ratings that are one notch below Santander UK Group's BCA.

The Additional Tier 1 high-trigger contingent convertible perpetual preferred securities issued in June 2015 by Santander UK Group are rated Ba1 (hyb), reflecting our approach to the rating of high-trigger contingent capital securities, under which we rate the lower of a model-based outcome and the bank's non-viability security rating, which is positioned based on our LGF analysis. This method captures

the credit risk associated with the distance to trigger breach and the credit risk of these securities' non-viability component, which also captures the risk of coupon suspension on a non-cumulative basis. The model-based outcome indicates a rating of Ba1 (hyb), which is one notch below the bank's non-viability security rating of Baa3 (hyb).

### Government support

We expect a moderate probability of government support for Santander UK's deposits and senior debt, reflecting the bank's high market share for deposits and residential mortgages in the UK. This results in a one-notch uplift to the long-term deposit and senior unsecured ratings.

For junior securities, and for the senior debt of the holding company, we believe that potential government support is low, and these ratings do not include any related uplift.

### Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

#### Santander UK's CR Assessment is positioned at Aa2(cr)/Prime-1(cr)

The long-term CR Assessment, before government support, is three notches above Santander UK's BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. Moderate probability of government support results in a one-notch additional uplift. The main difference from the Advanced LGF approach that is used to determine 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)

Our CRRs are opinions on the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

#### Santander UK's CRRs are positioned at Aa2/Prime-1

The long-term CRR, before government support, is three notches above Santander UK's BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. Moderate probability of government support results in a one-notch additional uplift.

### About Moody's Bank 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 4

### Santander UK Group Holdings plc

#### Macro Factors

**Weighted Macro Profile**      **Strong +**      **100%**

| Factor   | Historic Ratio | Macro Adjusted Score | Credit Trend | Assigned Score | Key driver #1            | Key driver #2 |
|--|----------------|----------------------|--------------|----------------|--------------------------|---------------|
| Solvency   |                |                      |              |                |                          |               |
| Asset Risk   |                |                      |              |                |                          |               |
| Problem Loans / Gross Loans  | 1.3%           | aa3                  | ↓            | a1             | Expected trend           |               |
| Capital  |                |                      |              |                |                          |               |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | 17.5%          | aa2                  | ↔            | aa3            | Nominal leverage         |               |
| Profitability  |                |                      |              |                |                          |               |
| Net Income / Tangible Assets   | 0.5%           | ba1                  | ↓            | ba2            | Earnings quality         |               |
| Combined Solvency Score  |                | a1                   |              | a2             |                          |               |
| Liquidity  |                |                      |              |                |                          |               |
| Funding Structure  |                |                      |              |                |                          |               |
| Market Funds / Tangible Banking Assets                                   | 28.2%          | baa2                 | ↔            | baa2           | Market funding quality   |               |
| Liquid Resources   |                |                      |              |                |                          |               |
| Liquid Banking Assets / Tangible Banking Assets                          | 25.5%          | a3                   | ↔            | a3             | Quality of liquid assets |               |
| Combined Liquidity Score   |                | baa1                 |              | baa1           |                          |               |
| Financial Profile  |                |                      |              | a3             |                          |               |
| Qualitative Adjustments  |                |                      |              | Adjustment     |                          |               |
| Business Diversification   |                |                      |              | 0              |                          |               |
| Opacity and Complexity   |                |                      |              | 0              |                          |               |
| Corporate Behavior   |                |                      |              | 0              |                          |               |
| Total Qualitative Adjustments  |                |                      |              | 0              |                          |               |
| Sovereign or Affiliate constraint  |                |                      |              | Aa2            |                          |               |
| Scorecard Calculated BCA range   |                |                      |              | a2 - baa1      |                          |               |
| Assigned BCA   |                |                      |              | a3             |                          |               |
| Affiliate Support notching   |                |                      |              | 0              |                          |               |
| Adjusted BCA   |                |                      |              | a3             |                          |               |

| Balance Sheet                            | In-scope (GBP Million) | % In-scope | At failure (GBP Million) | % At failure |
|--|------------------------|------------|--------------------------|--------------|
| Other liabilities                        | 68,842                 | 24.2%      | 81,226                   | 28.6%        |
| Deposits                                 | 176,913                | 62.2%      | 164,529                  | 57.9%        |
| Preferred deposits                       | 159,222                | 56.0%      | 151,261                  | 53.2%        |
| Junior Deposits                          | 17,691                 | 6.2%       | 13,268                   | 4.7%         |
| Senior senior unsecured bank debt        | 0                      | 0.0%       | 0                        | 0.0%         |
| Senior unsecured bank debt               | 16,853                 | 5.9%       | 16,853                   | 5.9%         |
| Junior senior unsecured bank debt        | 0                      | 0.0%       | 0                        | 0.0%         |
| Dated subordinated bank debt             | 1,498                  | 0.5%       | 1,498                    | 0.5%         |
| Junior subordinated bank debt            | 574                    | 0.2%       | 574                      | 0.2%         |
| Preference shares (bank)                 | 593                    | 0.2%       | 593                      | 0.2%         |
| Senior unsecured holding company debt    | 9,214                  | 3.2%       | 9,214                    | 3.2%         |
| Dated subordinated holding company debt  | 1,185                  | 0.4%       | 1,185                    | 0.4%         |
| Junior subordinated holding company debt | 0                      | 0.0%       | 0                        | 0.0%         |
| Preference shares(holding company)       | 0                      | 0.0%       | 0                        | 0.0%         |
| Equity                                   | 8,526                  | 3.0%       | 8,526                    | 3.0%         |
| Total Tangible Banking Assets            | 284,198                | 100.0%     | 284,198                  | 100.0%       |

| Debt Class                                       | De jure waterfall                       |                    | De facto waterfall                      |                    | Notching |          | LGF<br>notching<br>guidance<br>versus<br>BCA | Assigned<br>LGF<br>notching | Additional<br>notching | Preliminary<br>Rating<br>Assessment |
|--|---|--------------------|---|--------------------|----------|----------|--|-----------------------------|------------------------|-------------------------------------|
|  | Instrument<br>volume +<br>subordination | Sub-<br>ordination | Instrument<br>volume +<br>subordination | Sub-<br>ordination | De jure  | De facto |  |                             |                        |                                     |
| Counterparty Risk Rating                         | 18%                                     | 18%                | 18%                                     | 18%                | 3        | 3        | 3  | 3                           | 0                      | aa3                                 |
| Counterparty Risk Assessment                     | 18%                                     | 18%                | 18%                                     | 18%                | 3        | 3        | 3  | 3                           | 0                      | aa3(cr)                             |
| Deposits   | 18%                                     | 8%                 | 18%                                     | 14%                | 2        | 3        | 2  | 2                           | 0                      | a1                                  |
| Senior unsecured bank debt                       | 18%                                     | 8%                 | 14%                                     | 8%                 | 2        | 1        | 2  | 2                           | 0                      | a1                                  |
| Senior unsecured holding company debt            | 8%                                      | 4%                 | 8%                                      | 4%                 | -1       | -1       | -1   | -1                          | 0                      | baa1                                |
| Dated subordinated bank debt                     | 4%                                      | 3%                 | 4%                                      | 3%                 | -1       | -1       | -1   | -1                          | 0                      | baa1                                |
| Dated subordinated holding company debt          | 4%                                      | 3%                 | 4%                                      | 3%                 | -1       | -1       | -1   | -1                          | 0                      | baa1                                |
| Junior subordinated bank debt                    | 3%                                      | 3%                 | 3%                                      | 3%                 | -1       | -1       | -1   | -1                          | -1                     | baa2                                |
| Cumulative bank preference shares                | 3%                                      | 3%                 | 3%                                      | 3%                 | -1       | -1       | -1   | -1                          | -1                     | baa2                                |
| Non-cumulative bank preference shares            | 3%                                      | 3%                 | 3%                                      | 3%                 | -1       | -1       | -1   | -1                          | -2                     | baa3                                |
| Holding company non-cumulative preference shares | 3%                                      | 3%                 | 3%                                      | 3%                 | -1       | -1       | -1   | -1                          | -3                     | ba1                                 |

| Instrument Class                                 | Loss Given |          | Additional<br>notching | Preliminary Rating<br>Assessment | Government<br>Support notching | Local Currency rating | Foreign<br>Currency<br>rating |
|--|------------|----------|------------------------|----------------------------------|--------------------------------|-----------------------|-------------------------------|
|  | Failure    | notching |                        |                                  |                                |                       |                               |
| Counterparty Risk Rating                         | 3          | 0        |                        | aa3                              | 1                              | Aa2                   | Aa2                           |
| Counterparty Risk Assessment                     | 3          | 0        |                        | aa3(cr)                          | 1                              | Aa2(cr)               |                               |
| Deposits   | 2          | 0        |                        | a1                               | 1                              | Aa3                   | Aa3                           |
| Senior unsecured bank debt                       | 2          | 0        |                        | a1                               | 1                              | Aa3                   | Aa3                           |
| Senior unsecured holding company debt            | -1         | 0        |                        | baa1                             | 0                              | Baa1                  | Baa1                          |
| Dated subordinated bank debt                     | -1         | 0        |                        | baa1                             | 0                              | Baa1                  | Baa1                          |
| Dated subordinated holding company debt          | -1         | 0        |                        | baa1                             | 0                              |                       | Baa1                          |
| Junior subordinated bank debt                    | -1         | -1       |                        | baa2                             | 0                              | Baa2 (hyb)            | Baa2 (hyb)                    |
| Cumulative bank preference shares                | -1         | -1       |                        | baa2                             | 0                              | Baa2 (hyb)            |                               |
| Non-cumulative bank preference shares            | -1         | -2       |                        | baa3                             | 0                              | Baa3 (hyb)            |                               |
| Holding company non-cumulative preference shares | -1         | -3       |                        | ba1                              | 0                              | Ba1 (hyb)             |                               |

[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 5

| Category                                       | Moody's Rating  |
|--|-----------------|
| <b>SANTANDER UK PLC</b>                        |                 |
| Outlook  | Positive        |
| Counterparty Risk Rating                       | Aa2/P-1         |
| Bank Deposits                                  | Aa3/P-1         |
| Baseline Credit Assessment                     | a3              |
| Adjusted Baseline Credit Assessment            | a3              |
| Counterparty Risk Assessment                   | Aa2(cr)/P-1(cr) |
| Issuer Rating                                  | Aa3             |
| Senior Unsecured                               | Aa3             |
| Subordinate                                    | Baa1            |
| Jr Subordinate                                 | Baa2 (hyb)      |
| Pref. Stock -Dom Curr                          | Baa2 (hyb)      |
| Pref. Stock Non-cumulative -Dom Curr           | Baa3 (hyb)      |
| Commercial Paper                               | P-1             |
| Other Short Term                               | (P)P-1          |
| <b>PARENT: SANTANDER UK GROUP HOLDINGS PLC</b> |                 |
| Outlook  | Positive        |
| Baseline Credit Assessment                     | a3              |
| Adjusted Baseline Credit Assessment            | a3              |
| Issuer Rating -Dom Curr                        | Baa1            |
| Senior Unsecured                               | Baa1            |
| Subordinate                                    | Baa1            |
| Pref. Stock Non-cumulative -Dom Curr           | Ba1 (hyb)       |
| Pref. Shelf Non-cumulative                     | (P)Ba1          |
| Other Short Term                               | (P)P-2          |
| <b>ABBEY NATIONAL TREASURY SERVICES PLC</b>    |                 |
| Outlook  | Positive        |
| Counterparty Risk Rating                       | Aa2/P-1         |
| Bank Deposits                                  | Aa3/P-1         |
| Baseline Credit Assessment                     | a3              |
| Adjusted Baseline Credit Assessment            | a3              |
| Counterparty Risk Assessment                   | Aa2(cr)/P-1(cr) |
| Issuer Rating                                  | Aa3             |
| ST Issuer Rating                               | P-1             |

Source: Moody's Investors Service

## Endnotes

- <sup>1</sup> For our macroeconomic forecasts, see [Global Macro Outlook: 2019-20](#), 6 June 2019. Our forecasts compare with real GDP growth of 1.8% in 2017 and 1.4% in 2018.
- <sup>2</sup> We usually apply at least one notch of negative adjustment on capital for those banks with a tangible common equity over tangible assets are below 5%.

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