S&P Global
Ratings

RatingsDirect®

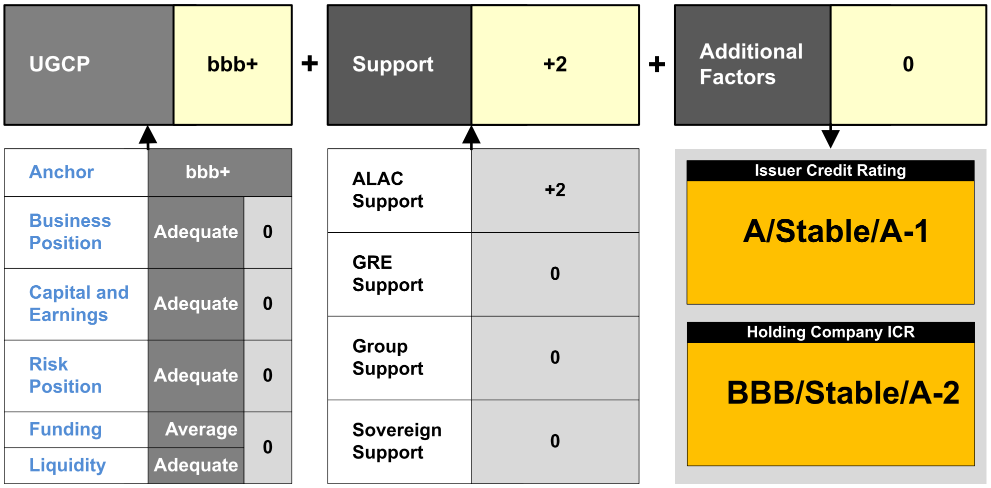
Santander UK Group Holdings PLC

Primary Credit Analyst:
Joseph Godsmark, London (44) 20-7176-7062; joseph.godsmark@spglobal.com

Secondary Contact:
Nigel Greenwood, London (44) 20-7176-1066; nigel.greenwood@spglobal.com

Table Of Contents

Santander UK Group Holdings PLC



UGCP--The unsupported group credit profile of the Santander UK group. The bank holding company ICR shown applies to Santander UK Group Holdings PLC, and is one notch below the UGCP. The ICR shown applies to Santander UK Group Holdings PLC's core bank operating subsidiary, Santander UK PLC. ALAC--Additional loss-absorbing capacity. ICR--Issuer credit rating.

Major Rating Factors

Issuer Credit Rating
BBB/Stable/A-2

Strengths:	Weaknesses:
• Good position in U.K. retail banking. • Long track record of stable earnings. • Conservative risk profile, including a relatively cautious pace of credit growth.	• Lower revenue diversification than its larger U.K. competitors. • Market shares and franchise in business and commercial banking lag behind direct peers. • Concentrated exposure to the leveraged U.K. household sector.

Outlook

Santander UK Group Holdings PLC

The stable outlook reflects our view that the bank will continue to steadily grow its market position in both U.K. retail banking and U.K. business and commercial banking over our two-year outlook horizon, while maintaining its stable earnings, supportive risk appetite, and adequate capitalization. It also reflects our view that Banco Santander will continue to provide ongoing group support, despite the uncertainty for extraordinary group support in a severe stress scenario given its multiple point of entry approach to resolution.

We would most likely only raise the ratings if we revised upward the unsupported group credit profile (UGCP). This could occur if we considered that Santander UK was making sustainable progress to materially improve the diversification of its revenue streams while maintaining predictable earnings performance, or if we believed Santander UK's risk-adjusted capital (RAC) ratio were to remain comfortably and consistently above our 10% threshold.

We could lower the ratings if we revised downward the UGCP. At this time, we see limited downward pressures on Santander UK's credit characteristics. However, we could lower the ratings if asset quality significantly deteriorated due to a weakening in the external environment, or if we perceived a step change in risk appetite.

Santander UK PLC

The stable outlook on the main operating subsidiary reflects our view of the UGCP as described above. It also assumes that its additional loss-absorbing capacity (ALAC) buffer will remain supportive of the issuer credit rating by remaining comfortably above 8%.

We would most likely raise or lower the ratings if the UGCP strengthened or deteriorated, or if we expected the ALAC ratio to fall below 8%, which would most likely be due to material credit growth or capital distributions beyond our current expectations.

Rationale

As Santander UK is one of the six largest financial institutions focused on the U.K. banking market, we believe the bank's good position in U.K. retail banking, stable earnings, and conservative risk profile underpin its creditworthiness at the current rating level. However, the bank's franchise and market shares in business and commercial banking lag behind some of Santander UK's closest peers, which leads to higher revenue concentrations. The demanding operating environment for U.K. banks, including the prolonged low-interest-rate environment, increasing competitive dynamics, and a series of regulatory and associated cost initiatives, also currently constrains Santander UK's creditworthiness. We believe that balance sheet metrics--specifically capitalization, the funding profile, and asset quality--are broadly in line with those of domestic U.K. peers.

Our 'A' rating on Santander UK PLC includes two notches of uplift for its ALAC. The bank's ALAC buffers do not positively impact the rating on Santander UK Group Holdings PLC. The 'BBB' rating on the nonoperating holding company (NOHC) is one notch lower than the 'bbb+' UGCP, reflecting the structural subordination of holding company creditors.

Anchor: 'bbb+' for banks operating in the U.K.

The economic risk trend for the U.K. is stable. To be clear, this is not an indication that we view the U.K. economy as being on a firmer path. In fact, we do not expect the economic backdrop for the U.K.'s domestic banking sector to improve significantly in the next two years. In 2018, we anticipate that the economy will slow further as the travails of Brexit negotiations affect consumer confidence and business investment. That said, the downside risks we highlighted in the immediate aftermath of the Brexit vote in June 2016--a significant correction in asset prices, elevated credit losses, or flights of foreign capital--have not yet materialized, nor do we believe they will in the next several months under our base-case scenario.

We view the U.K. banking industry risk trend as stable. The domestic reform agenda is well advanced and banks have increasing clarity on their future regulatory environment, more so than in many continental European countries. We assume that past changes in regulatory structures will better support market discipline, constrain risk appetites, curb adventurous management strategies, encourage a better conduct and compliance agenda, and, over time, still enable the banking industry to yield adequate profitability. We see limited downside to our industry risk assessment, though implicit in our assessment is the expectation that the industry will soon be able to demonstrate better statutory profitability and a return to earnings above the cost of capital.

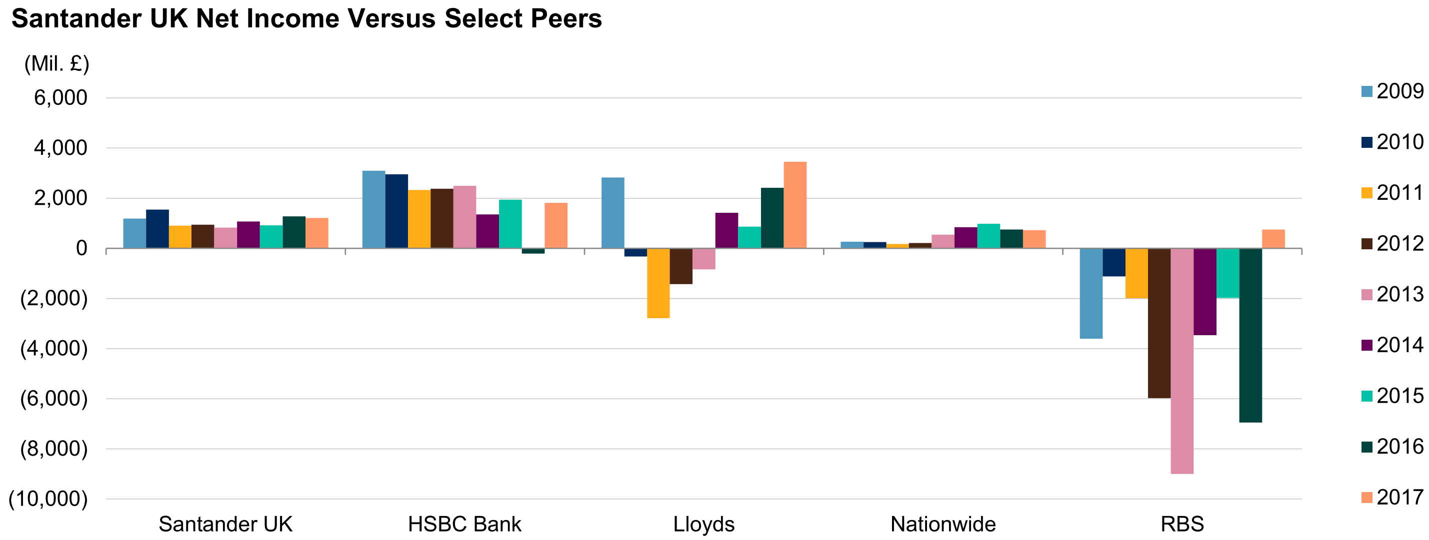
Table 1

Santander UK Group Holdings PLC Key Figures					
	--Year-ended Dec. 31--				
(Mil. £)	2017	2016	2015	2014	2013
Adjusted assets	313,018	300,825	279,178	273,790	267,951
Customer loans (gross)	208,838	204,821	202,699	193,046	188,555
Adjusted common equity	11,442	11,058	10,866	10,603	9,784
Operating revenues	4,864	4,676	4,577	4,468	3,998
Noninterest expenses	2,595	2,558	2,580	2,574	2,342
Core earnings	1,256	1,270	1,257	1,300	899

Business position: Steady expansion of franchise

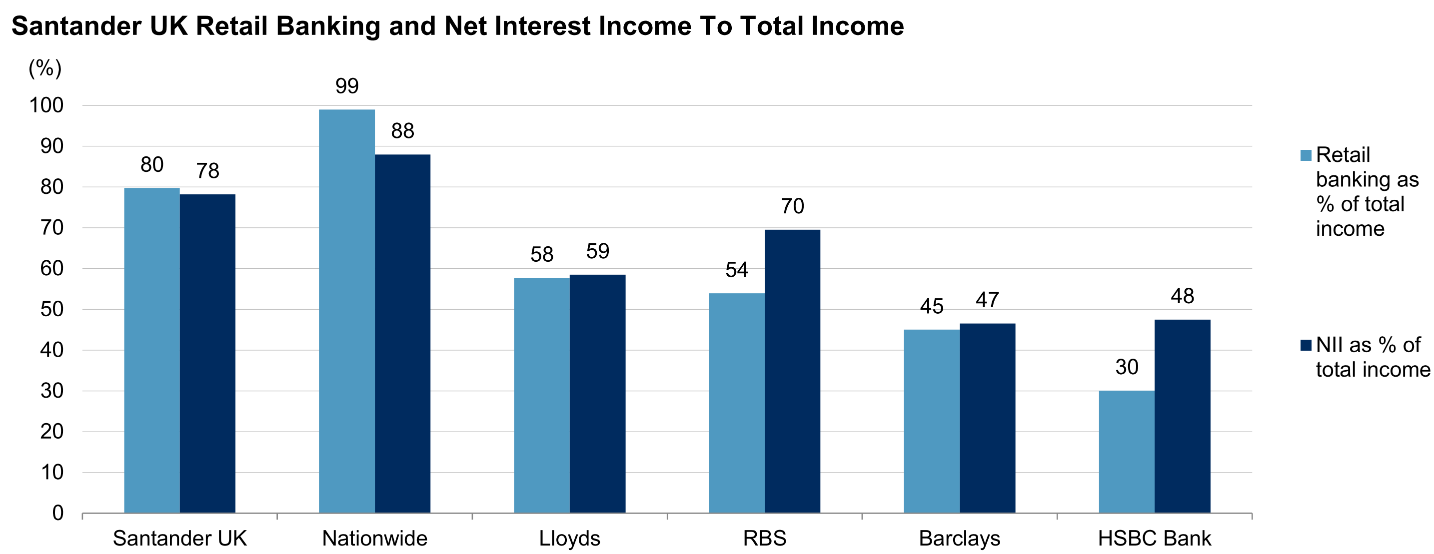
Our assessment of Santander UK's business position reflects the strength of its retail banking franchise and earnings stability (see chart 1), offset by its lower business and revenue diversification compared with its closest peers (see chart 2). We think that Santander UK's relatively high earnings concentration and exposure to the leveraged U.K. household sector make it harder to achieve a higher business position assessment (see chart 3)--the same principle applies to Nationwide. Currently, we believe that only Lloyds and HSBC have stronger business profiles among the peer group.

Chart 1



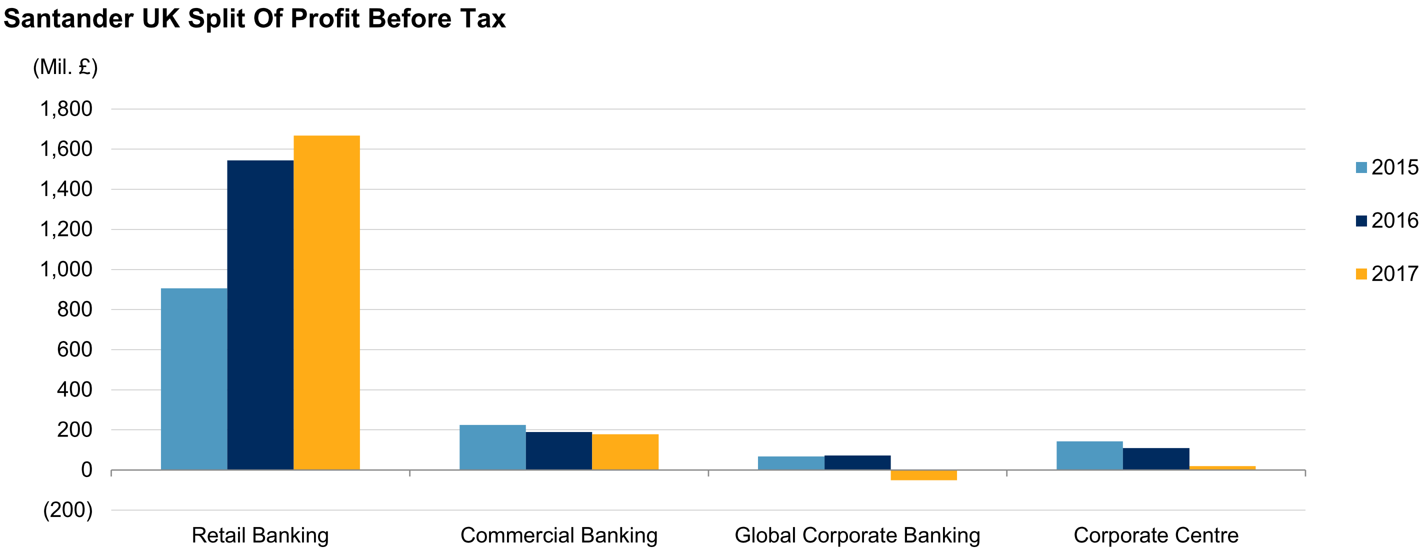
Source: S&P Global Ratings database.

Chart 2



Source: S&P Global Ratings database.

Chart 3



Source: Company accounts.

We believe that Santander UK's management is taking a creditor-friendly strategic approach, including a focus on organic growth and below-system-average credit growth. The bank's focus on attracting retail customers deemed to be loyal--with a particular focus on its current account franchise--appears to be progressing well. Similarly, the growth in the commercial bank (where the scope for market share growth is greater) is being sensibly managed, in our view. That said, we believe that Santander UK's larger peers are now better positioned to compete than they have been, especially in light of new ring-fencing requirements that have increased funding available for the larger U.K. banks' retail operations.

In July 2018, Santander UK expects to complete relevant business transfers in order to comply with the ring-fencing requirements in the U.K., which have to be met by Jan. 1, 2019. Rather than create a non-ring-fenced bank, like the four largest U.K. banking groups are doing, the existing Santander UK PLC legal entity will be the ring-fenced bank. Activities that are not permissible within the ring-fenced bank will transfer to Banco Santander, in particular its London branch. The impact of the transfer in terms of a reduction in the diversity of Santander UK's revenues, customer base, and balance sheet profile, will be marginal. We see no impact from ring-fencing on our prospective business position assessment, nor indeed on the overall ratings.

Santander UK is one of the U.K.'s leading banks by deposits and mortgage loan balances, and it has a nationwide network of branches. We estimate that Santander UK's share of the U.K. residential mortgage stock at end-2017 stood at about 11%. We note that Santander UK's share of the U.K. retail current account market continues to increase steadily, such that it now ranks close to HSBC in fourth position.

Nonetheless, the bank has remained underweight in its business, commercial, and corporate banking franchises relative to peers. Reported commercial banking (and global corporate banking) gross customer loans represented 16%

of total customer loans at Dec. 31, 2017, up from 12% at Dec. 31, 2013. The slow pace of change indicates both the cautious approach of management and the fact that franchise growth in U.K. commercial banking is a long-term process. Over time, our central scenario is that its commercial banking franchise will offer greater revenue diversification and resilience, including a higher net interest margin (NIM). We believe this growth could be accelerated if Santander UK were to be successful in its bid for a pool of the Alternative Remedies Package, which is the September 2017 agreement between the Royal Bank of Scotland and the European Commission to dispose of Williams & Glyn.

Table 2

Santander UK Group Holdings PLC Business Position					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (currency in millions)	4,912	4,795	4,577	4,470	4,031
Commercial banking/total revenues from business line	9.5	10.2	12.4	10.9	9.8
Retail banking/total revenues from business line	79.7	77.9	76.6	81.7	82.8
Commercial & retail banking/total revenues from business line	89.3	88.1	89.0	92.6	92.6
Trading and sales income/total revenues from business line	8.9	8.4	8.3	7.9	8.6
Other revenues/total revenues from business line	1.8	3.6	2.7	(0.4)	(1.2)
Investment banking/total revenues from business line	8.9	8.4	8.3	7.9	8.6
Return on equity	7.5	8.1	5.9	8.2	N/A

N/A--Not applicable.

Capital and earnings: Continued strengthening of capitalization

Santander UK's capitalization has gradually strengthened over recent years, and is broadly in line with its domestic peers. We calculate Santander UK's risk-adjusted capital (RAC) ratio to be 9.3% as of Dec. 31, 2017, and we project that it will be in the 9.25%-9.75% range by end-2019. This implies that Santander UK may be reasonably close to pushing up against the 10% threshold that could lead to a stronger assessment. However, we are not yet confident that the ratio will be maintained comfortably and consistently above that level.

The base-case RAC ratio projection over the next two years incorporates our expectations of:

- Pre-provision operating income to decline in 2018 by 5%-10%, reflecting pressure on the NIM from competition and standard variable rate product attrition, and higher operating costs from various different regulatory initiatives and the continued need to invest in the business. We also assume only 2% loan growth in both 2018 and 2019, slightly below our forecast for systemwide credit growth.
- The loan loss rate to rise in 2018 to about 15 basis points (bps) and a little higher in 2019 (it was 10 bps in 2017 and 3 bps in 2016). We have tailored these levels to be better than our base-case loan loss rate for the U.K. industry and note that reported impairment levels in the first quarter of 2018 remained very low.
- Additional conduct-related provisions to be relatively modest in both 2018 and 2019.
- A dividend policy to distribute one-half of earnings.
- A reduction in S&P Global Ratings' risk-weighted assets (RWAs) to capture the movement of certain commercial and corporate banking activities to Banco Santander. The group estimates this is about 9% of regulatory RWAs but we expect the net effect on our RAC ratio will be broadly credit neutral. After the transfer of assets, underlying

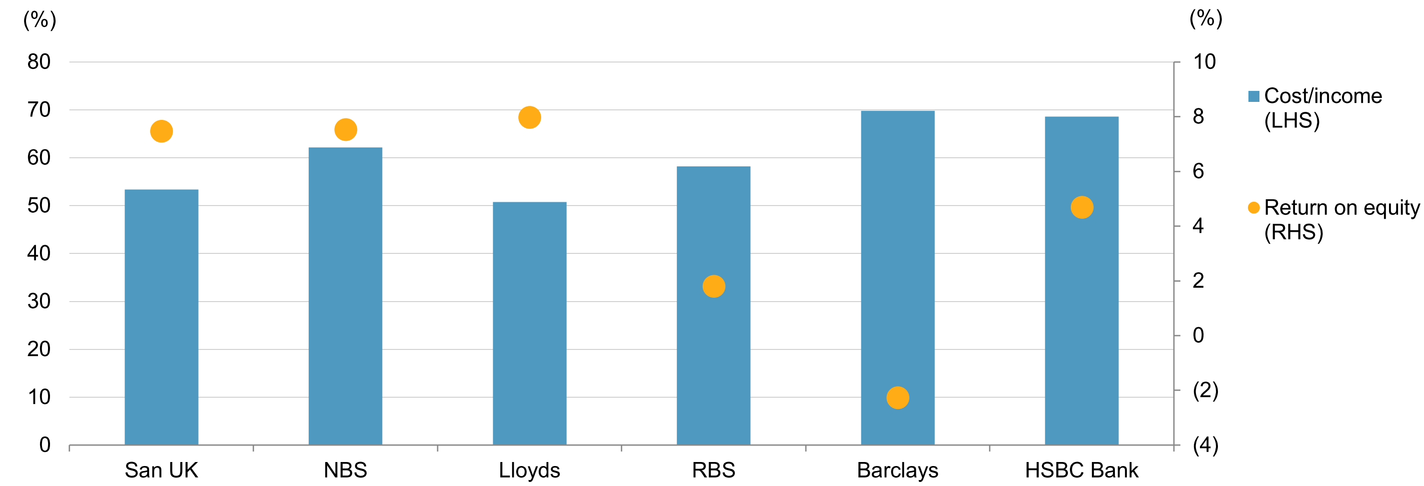
credit growth means that we forecast RWAs to increase at a moderate pace.

We expect the quality of capital will remain a neutral credit factor, with adjusted common equity likely to be about 85% of total adjusted capital (TAC) at end-2019, similar to its current level and that of many peers.

Santander UK reported a regulatory fully loaded Common Equity Tier 1 (CET1) ratio of 12.2% at Dec. 31, 2017, which was up to 12.5% in the first quarter of 2018. Management targets a 12% ratio, but we expect it will trend closer to 13%, which is more in line with U.K. peers. The bank revised its financial targets in light of Brexit. For example, it now targets a cost-to-income ratio of 50%-52% in 2018, up from a previous target of less than 50%, reflecting a lower NIM and lower loan growth assumptions. Although we expect marginal improvements, Santander UK's earnings and efficiency do not make it a significant positive outlier versus its peers (see chart 4).

Chart 4

Santander UK's Return On Equity And Cost To Income Ratio Versus Peers



Source: S&P Global Ratings database.

We do not believe that management's risk appetite, as measured by its adjusted return on tangible equity target of 8%-10% in 2018, is particularly aggressive. Santander UK's earnings profile is reasonably predictable, it faces lower conduct and litigation risk than the four largest U.K. banks, and its track record of attributable profit is sound.

Table 3

Santander UK Group Holdings PLC Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	2017	2017	2010	N/A	N/A
Tier 1 capital ratio	15.0	14.0	14.1	14.0	N/A
S&P Global Ratings RAC ratio before diversification	9.3	8.6	8.9	N/A	N/A
S&P RAC ratio after diversification	8.9	8.2	9.4	N/A	N/A

Table 3

Santander UK Group Holdings PLC Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted common equity/total adjusted capital	84.8	87.6	87.5	92.7	97.0
Double leverage	100.0	100.0	100.0	100.0	N.M.
Net interest income/operating revenues	78.2	76.6	78.1	76.9	74.1
Fee income/operating revenues	16.6	16.5	15.6	16.5	19.0
Market-sensitive income/operating revenues	3.6	4.6	5.4	5.7	8.8
Noninterest expenses/operating revenues	53.4	54.7	56.4	57.6	58.6
Preprovision operating income/average assets	0.7	0.7	0.7	0.7	N/A
Core earnings/average managed assets	0.4	0.4	0.5	0.5	N/A

N/A--Not applicable. N.M.--Not meaningful. RAC--Risk-adjusted criteria.

Table 4

Santander UK Group Holdings PLC Risk-Adjusted Capital Framework Data

(Mil. £)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	45,059	0	0	412	1
Of which regional governments and local authorities	19	0	0	1	4
Institutions and CCPs	4,676	479	10	583	12
Corporate	39,226	27,788	71	34,938	89
Retail	180,860	37,028	20	75,507	42
Of which mortgage	163,511	25,750	16	59,731	37
Securitization§	5,626	950	17	1,329	24
Other assets†	16,846	7,175	43	13,799	82
Total credit risk	292,312	73,419	25	126,568	43
Credit valuation adjustment					
Total credit valuation adjustment	--	2,200	--	4,633	--
Market risk					
Equity in the banking book	97	313	322	728	750
Trading book market risk	--	2,550	--	5,031	--
Total market risk	--	2,863	--	5,759	--
Operational risk					
Total operational risk	--	7,513	--	8,634	--
(Mil. £)		**Basel III RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		86,203		145,594	100
Total diversification/concentration adjustments		--		6,511	4

Table 4

Santander UK Group Holdings PLC Risk-Adjusted Capital Framework Data (cont.)				
RWA after diversification	86,203		152,105	104
(Mil. £)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	13,067	15.2	13,497	9.3
Capital ratio after adjustments‡	13,067	15.0	13,497	8.9

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes deferred tax assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counterparty. RAC--Risk-adjusted capital. RW--Risk weight. RWA--Risk-weighted assets. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

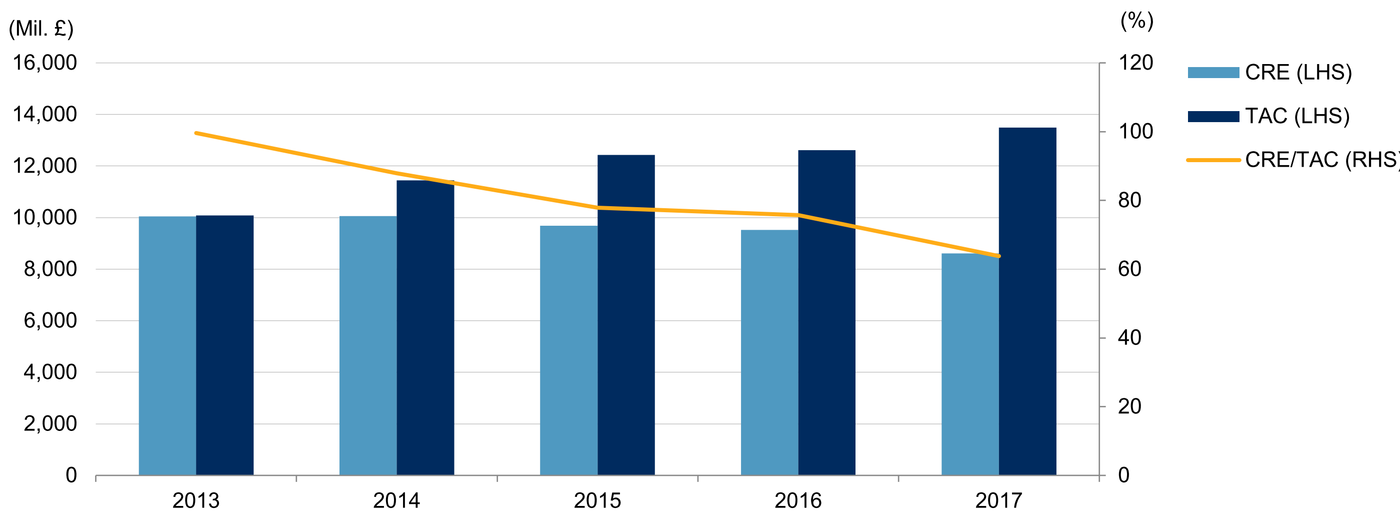
Risk position: Solid mortgage book and controlled growth in other segments

Our assessment of Santander UK's risk position reflects our view that the bank's capital and earnings adequately capture the bank's exposure to, and capacity to absorb, unexpected losses. Risk is primarily of a credit nature, with minimal market risk, reflecting the small scale of Santander UK's financial market operations. Overall, we consider that the profile and credit quality of Santander UK's loan book is broadly in line with peers.

We take some comfort from Santander UK's relatively cautious approach to credit growth. In particular, retail loan growth has been slower than the market in recent times and we are not expecting a large shift in this respect. Further evidence of recent caution is the reduction in the absolute size of the bank's commercial real estate (CRE) exposure (see chart 5). One of the side effects of growing a commercial banking franchise is that it tends to be biased toward property, and not all clients will have primary relationships with the bank (which affects returns). The weighting of CRE to TAC of 64% at Dec. 31, 2017, remains higher than that of U.K. peers.

Chart 5

Santander UK's Commercial Real Estate Exposure To Total Adjusted Capital



CRE--Commercial real estate. TAC--Total adjusted capital. Source: S&P Global Ratings database and company accounts.

Santander UK's credit exposures remain heavily biased toward residential mortgages, which constituted about 78% of the gross customer loan book at end-2017. Conversely, Santander UK's loan book exposure to consumer credit is relatively modest.

We believe that Santander UK's underwriting record compares satisfactorily with its U.K. peers'. The bank reported a decrease in retail banking nonperforming loans to 1.25% at March 31, 2018, from 1.51% in 2015. For instance, buy-to-let mortgages, although growing in terms of new lending, still represent only 4% of the mortgage book, well below the industry stock figure of about 16%. This partly explains why mortgage asset quality appears to be worse than that reported by some peers, because current buy-to-let industry arrears are less than one-half owner-occupier mortgages.

Santander UK reports that only 1% of the mortgage book showed negative equity at Dec. 31, 2017, with a further 4% having an indexed loan-to-value ratio of 85%-100%. We consider these figures to be fairly typical for U.K. mortgage lenders. Furthermore, the proportion of standard variable-rate and variable-rate mortgages continued to reduce during 2017 to 34% of the mortgage portfolio, compared with 46% as of 2015.

The 5% RAC diversification benefit is relatively modest compared with that of peers. That said, the U.K. is a large economy and Santander UK's exposures are well diversified geographically. The RAC framework does not capture the nontrading market risk of Santander UK's large defined-benefit pension fund exposure. The fair value of postretirement scheme assets was £11.7 billion at year end-2017.

Table 5

Santander UK Group Holdings PLC Risk Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	2.0	1.0	5.0	2.4	N.M.
Total diversification adjustment / S&P RWA before diversification	4.5	4.7	(4.9)	N/A	N/A
Total managed assets/adjusted common equity (x)	27.5	27.4	25.9	26.0	27.6
New loan loss provisions/average customer loans	0.1	0.0	0.0	0.1	N/A
Net charge-offs/average customer loans	0.1	0.1	0.2	0.2	N/A
Gross nonperforming assets/customer loans + other real estate owned*	1.9	2.1	3.2	4.0	4.4
Loan loss reserves/gross nonperforming assets	23.6	22.5	17.6	18.7	18.6

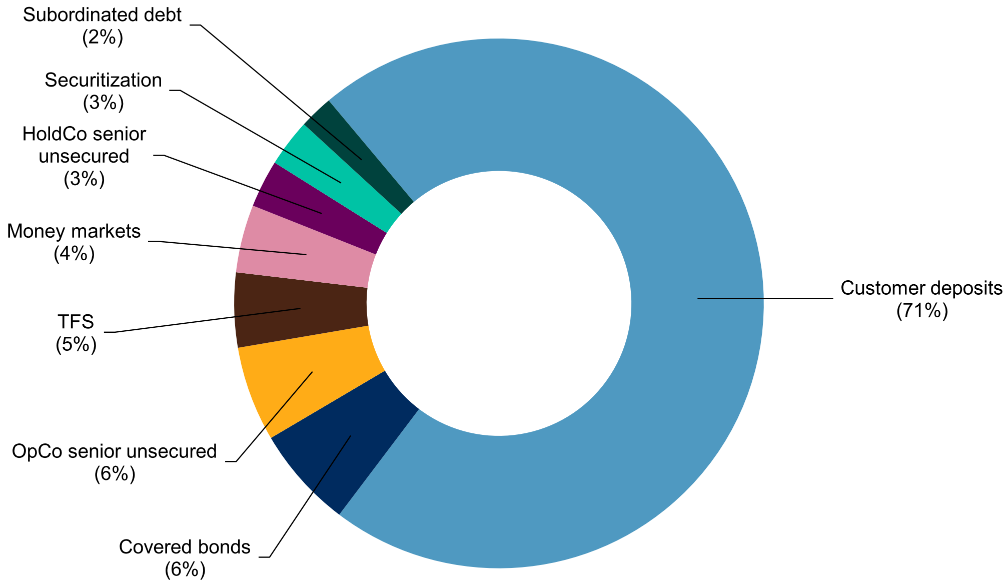
*Impaired loans plus 90 days past due loans and renegotiated loans. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Granular deposit franchise and access to diversified funding sources

Santander UK's large deposit base is supported by a suite of well-managed wholesale funding activities (see chart 6), and we believe that our key funding metrics are broadly in line with the U.K. bank averages. The bank adequately manages its liquidity position and is able to withstand an extended period of market or idiosyncratic stress. Santander UK has no structural reliance on group funding and is self-supporting from a liquidity standpoint.

Chart 6

Split Of Santander UK's Funding On March 31, 2018



Source: Company accounts.

Post ring-fencing, we expect that the loan-to-deposit ratio will continue to be at the upper end of the range for the main U.K. peers, reflecting Santander UK's proportionately greater use of securitized funding. Santander UK remains one of the largest issuers of residential mortgage-backed securities and covered bonds in the U.K. It means that Santander UK's loan-to-deposit ratio of 117% is above the median of 110% for the top 25 U.K. banks. It also means that asset encumbrance tends to be higher at Santander UK than at other U.K. banks. However, we observe that the encumbrance has reduced significantly in recent years, and the bank has stated it expects a further reduction in 2018. Its stable funding ratio of 103% is also broadly in line with the average of 107% for the top 25 UK banks. We believe that the continued strong capacity of the unencumbered mortgage book could generate additional liquidity if needed.

The liquidity position is satisfactory given the bank's restrained use of short-term wholesale funding, its stock of liquid assets, and its ability to further monetize its mortgage book. Our measure of broad liquid assets to short-term wholesale funding was a comfortable 1.3x at year-end 2017. The bank states that its liquidity coverage ratio (LCR) ratio was 132% at March 31, 2018, and that its LCR for its eligible liquidity pool covers short-term wholesale funding by about 2.9x.

Table 6

Santander UK Group Holdings PLC Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	63.8	66.5	67.8	65.2	62.3
Customer loans (net)/customer deposits	117.5	118.0	123.4	124.4	127.2
Long term funding ratio	82.2	87.0	87.9	87.5	85.4
Stable funding ratio	105.9	106.3	102.0	103.1	103.3
Short-term wholesale funding/funding base	18.7	13.7	12.8	13.1	15.2
Broad liquid assets/short-term wholesale funding (x)	1.3	1.5	1.3	1.3	1.3
Net broad liquid assets/short-term customer deposits	9.8	10.4	6.3	7.0	6.7
Short-term wholesale funding/total wholesale funding	50.5	40.0	39.0	37.4	40.1
Narrow liquid assets/three-month wholesale funding (x)	1.7	2.0	1.7	1.9	1.8

Support: Two notches of ALAC support

In our view, Santander UK has high systemic importance in the U.K., primarily due to its very strong position in the U.K. retail banking market. Since June 2015, we have regarded the prospect of extraordinary government support for U.K. banks as uncertain in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for notching uplift for possible future U.K. government support.

However, we view the U.K. resolution regime as effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. Therefore, we factor in two notches of uplift to the long-term rating on Santander UK PLC, based on our view that its ALAC ratio is likely to be consistently above our 8% threshold.

We include all of the consolidated Santander UK group's junior instruments in our ALAC assessment because we believe they have the capacity to absorb losses without triggering a default on Santander UK PLC's senior obligations. We also include senior unsecured issuance by the NOHC. On this basis, we calculate that ALAC was 8.9% of S&P Global Ratings RWAs at year-end 2017 (see table 7).

Table 7

Summary Of ALAC Calculation As Of Dec. 31, 2017			
		(Bil. £)	**% of S&P Global Ratings' RWAs**
A	Adjusted common equity	11,442	
B	Hybrids in TAC	2,055	
C (A+B)	Total adjusted common equity	13,497	9.3
D	TAC in excess of our 7% threshold	3,305	2.3
E	ALAC-eligible instruments	9,647	6.6
	of which NOHC senior	6,000	
	of which dated subordinated	2,382	
	of which minimal equity content hybrids	811	
	of which other	247	
F (=D+E)	ALAC buffer	12,952	8.9

Table 7

Summary Of ALAC Calculation As Of Dec. 31, 2017 (cont.)		
	(Bil. £)	**% of S&P Global Ratings' RWAs**
S&P Global Ratings RWA	145,594	

ALAC--Additional loss-absorbing capacity. TAC--Total adjusted capital. NOHC--Nonoperating holding company. RWAs--Risk-weighted assets. Source: S&P Global Ratings' database.

We could potentially rate Santander UK PLC above its parent Banco Santander (they are currently both rated at the same level) as a result of ALAC because we believe that:

- The subsidiary is clearly subject to a separate resolution process;
- The subsidiary will be able to continue operating without defaulting on its senior unsecured obligations in the event of a resolution of the parent; and
- Santander UK's ALAC cannot be used to recapitalize another part of the Banco Santander group.

Additional rating factors: None

No additional factors affect the ratings.

On April 30, 2018, we completed our Resolution Counterparty Ratings (RCRs) jurisdictional assessment for the U.K. (see "Resolution Counterparty Ratings Jurisdictional Assessment For The U.K. Completed"). In the coming weeks, we will complete our analysis of the rated banking group entities to which we may assign RCRs under our new criteria. An RCR may be relevant to Santander UK PLC under these criteria.

Group status: Core subsidiary of Banco Santander

We consider Santander UK to be a core subsidiary of Banco Santander. Despite the Spanish parent's recent upgrade to the same level as Santander UK PLC, we continue to incorporate ALAC support into the U.K. subgroup's ratings where applicable, rather than group support. This is because of the broader group's multiple point of entry approach to bank resolution, which means that we view the UK subgroup as more likely to self-support through bailing in its subordinated debt instruments for loss absorption and recapitalization, rather than relying on group support. While we understand that Banco Santander may provide support to Santander UK in certain circumstances, we do not envisage this to be the case in all scenarios--it is especially uncertain in the extreme scenario whereby the U.K. subgroup needs to be resolved, given the severity of the associated stress.

Holding company rating

We regard Santander UK Group Holdings as an intermediate NOHC. The ratings on Santander UK Group Holdings PLC are based on our view of the UGCP. We do not include notches of uplift for ALAC support in the ratings on NOHCs because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario.

We rate the NOHC one notch below the UGCP to reflect our view that NOHC creditors are structurally subordinated to those of operating company creditors.

Rating on hybrid instruments

We rate the nondeferrable subordinated debt issued by Santander UK PLC two notches below the UGCP, reflecting the debt's contractual subordination as a Tier 2 instrument and our view that the Bank Recovery and Resolution Directive (BRRD) creates the equivalent of a contractual write-down clause. We rate similar issuance by the NOHC a notch lower, reflecting our view of structural subordination.

We rate all legacy Additional Tier 1 (AT1) instruments four notches below the UGCP, reflecting:

- One notch because the notes are contractually subordinated;
- Two notches because the notes have AT1 regulatory capital status; and
- One notch because we consider that the BRRD creates the equivalent of a contractual write-down clause.

AT1: The 'B+' issue rating is six notches below the UGCP, reflecting:

- One notch because the notes are contractually subordinated;
- Two notches because the notes have AT1 regulatory capital status;
- One notch because the notes contain a contractual write-down clause;
- One notch because the instrument contains a going-concern write-down trigger (defined as CET1 falling below 7%), and we expect that the distance to the trigger will remain within a range of 301 bps-700 bps. (Santander UK's CET1 stood at 12.5% at March 31, 2018); and
- One notch because the notes are issued by a NOHC, where we see potential structural subordination and we consider it unclear whether Santander UK Group Holdings PLC would avoid defaulting on this instrument if Santander UK PLC was to default on an equivalent hybrid instrument.

Related Criteria

- General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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: Guarantee Criteria, Oct. 21, 2016
- Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Resolution Counterparty Ratings Jurisdictional Assessment For The U.K. Completed, April 30, 2018
- Largest U.K. Banking Groups Boast Higher Statutory Pre-Tax Profits But Returns Disappoint, March 8, 2018
- Cheap Central Bank Funding Has Stimulated, Not Hooked, U.K. Banks, March 1, 2018
- The Adoption Of IFRS 9 And Bank Ratings, Feb. 19, 2018
- European Economic Snapshots: 1Q 2018, Feb. 16, 2018
- S&P Global Ratings Economists Say A Soft Landing Is In Sight For Europe's Housing Markets, Feb. 7, 2018
- U.K. Banks: What's On The Cards For 2018, Jan. 9, 2018
- Everyone Passed: Stress Test Results Reflect Strengthening U.K. Bank Balance Sheets, Nov. 29, 2017
- Various U.K. Bank Ratings Affirmed; Outlooks Revised To Stable Or Positive On Balance Sheet Strengths, But Risks Remain, Nov. 15, 2017
- Fast-Growing U.K. Consumer Credit Should Raise Red Flags For Lenders, Oct. 24, 2017
- Reflecting Ring-Fencing In U.K. Bank Ratings: An Update, Oct. 19, 2017
- Industry Report Card: U.K. Banks Deliver Solid First-Half Earnings, But Their Quest Continues For Consistent Double-Digit Returns, Aug. 8, 2017
- Which Way Now: The U.K.'s "Challenger Banks" Reach A Fork In The Road, July 10, 2017

Ratings Detail (As Of June 4, 2018)	
Santander UK Group Holdings PLC	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	B+
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+
Issuer Credit Ratings History	
10-Apr-2015	BBB/Stable/A-2
Sovereign Rating	
United Kingdom	AA/Negative/A-1+
Related Entities	
Abbey National Capital Trust I	
Preferred Stock	BB
Banco Popular Espanol S.A.	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (As Of June 4, 2018) (cont.)	
Banco Santander (Brasil) S.A.	
Issuer Credit Rating	BB-/Stable/B
Brazil National Scale	brAA-/Stable/brA-1+
Junior Subordinated	CCC
Subordinated	B-
Banco Santander-Chile S.A.	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A
Subordinated	A-
Banco Santander S.A.	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	
Local Currency	A-1
Senior Subordinated	A-
Senior Unsecured	A
Subordinated	BBB+
Banco Santander S.A. (New York Branch)	
Commercial Paper	
Foreign Currency	A-1
Banco Santander Totta S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
PSA Banque France	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	A-2
Senior Unsecured	BBB
Santander Bank, N.A.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB+
Santander Consumer Bank AG	
Issuer Credit Rating	A-/Stable/A-2
Senior Subordinated	BBB+
Santander Consumer Finance S.A.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB

Ratings Detail (As Of June 4, 2018) (cont.)	
Santander Holdings U.S.A Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Santander UK PLC	
Issuer Credit Rating	A/Stable/A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Preference Stock	BB
Preferred Stock	BB
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB-
Sovereign Real Estate Investment Trust	
Preferred Stock	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com