

Research Update:

# Santander UK Group Holdings Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed

April 23, 2020

## Overview

- Despite governments' and central banks' measures to contain the COVID-19 pandemic, global economies face an unprecedented challenge and there are substantial downside risks.
- We are therefore revising our outlook on Santander UK Group Holdings PLC (the intermediate non-operating holding company or NOHC) and Santander UK PLC to negative from stable.
- The outlooks reflects our expectation that the negative economic environment will weigh on asset quality and earnings.
- We are affirming our issuer and issue ratings because we believe Santander UK's good position in U.K. retail banking and its conservative risk profile underpin its creditworthiness at the current rating level.

### PRIMARY CREDIT ANALYST

**John Wright**  
London  
(44) 20-7176-0520  
john.wright@spglobal.com

### SECONDARY CONTACT

**Nigel Greenwood**  
London  
(44) 20-7176-1066  
nigel.greenwood@spglobal.com

## Rating Action

On April 23, 2020, S&P Global Ratings revised its outlook on Santander UK Group Holdings PLC to negative from stable, and affirmed its 'BBB/A-2' long- and short-term issuer credit ratings.

At the same time, we revised our outlook on Santander UK PLC to negative from stable, and affirmed our 'A/A-1' issuer credit rating.

Finally, we affirmed the 'A+/A-1' resolution counterparty ratings on Santander UK PLC, and the issue ratings on the hybrid instruments issued by Santander UK PLC and Santander UK Group Holdings.

## Rationale

The revision of the outlooks to negative from stable reflects our view that economic stress triggered by the COVID-19 pandemic is likely to pressure the group's asset quality and earnings.

In addition to the human cost, the pandemic has caused large parts of the global economy to grind to a halt. With isolation strategies still very much in force, our economists expect a sharp economic contraction in 2020 followed by a rebound in 2021. GDP is expected to decline by 6.3% in 2020 followed by a +6.6% recovery in 2021 (see "COVID-19 Deals A Larger, Longer Hit To Global GDP," published on April 16, 2020). Even under this base case, the effects of COVID-19 will be evident for long after the pandemic subsides.

We have affirmed the ratings because we think the group's good position in U.K. retail banking and conservative risk profile underpin its creditworthiness at the current rating level, and will enable it to overcome the adverse operating environment.

That said, we expect the bank will continue to face a constrained earnings environment and execution of its transformation program will likely be prolonged. We believe that balance sheet metrics--specifically capitalization, the funding and liquidity profiles, and asset quality--are broadly in line with those of domestic U.K. peers and we expect Santander UK will maintain its healthy profile.

## Santander UK Group Holdings PLC

The negative outlook reflects our expectation that, despite its good market position, Santander UK will endure weakened performance over our two-year outlook horizon as a result of the deteriorating economic environment and COVID-19-related physical restrictions.

### Downside scenario

We could lower the ratings if Santander UK's asset quality and profitability deteriorate more significantly than expected, or if a material earnings recovery in the short to medium term appears less likely due to structural reasons.

### Upside scenario

We could revise the outlook to stable if management is able to successfully navigate the economic downturn and demonstrate progress with its transformation program including the prospect of improved earnings.

## Santander UK PLC

The negative outlook on Santander UK PLC is consistent with that on the NOHC. We currently assume that the two-notch uplift to its ratings from its large ALAC buffer will persist.

## Ratings Score Snapshot

### Ratings Score Snapshot

	To	From
NOHC Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
Opco Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
Group SACP	bbb+	bbb+

## Ratings Score Snapshot (cont.)

	To	From
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+2	+2
ALAC Support	+2	+2
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

NOHC—Santander UK Group Holdings. Opco—Santander UK PLC. ALAC--Additional loss-absorbing capital. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Outlooks Revised On Six U.K. Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- Industry Report Card: U.K. Banks' Strong Balance Sheets Should See Them Through Another Difficult Stretch, March 12, 2020
- Nationwide Building Society, Feb. 13, 2020
- Nationwide Building Society Ratings Affirmed On Increased Loss-Absorbing Capacity; Outlook Remains Positive, Jan. 20, 2020
- U.K. Banks Ease, Rather Than Roar Into The 2020s, Jan. 7, 2020
- U.K. Banks' Latest Stress Tests Confirm Balance Sheet Resilience, Dec. 17, 2019
- United Kingdom Outlook Revised To Stable; 'AA/A-1+' Ratings Affirmed, Dec. 17, 2019
- Banking Industry Country Risk Assessment: United Kingdom, Dec. 5, 2019

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.