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Santander UK Group Holdings PLC

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Table Of Contents

Table Of Contents (cont.)

Santander UK Group Holdings PLC

Rating Score Snapshot

Issuer Credit Rating
BBB/Stable/A-2

SACP: bbb+ → **Support: +2** → **Additional factors: 0**

Anchor	bbb+	
Business position	Adequate	0
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
A/Stable/A-1
Resolution counterparty rating
A+/A-1
Holding company ICR
BBB/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Solid position in U.K. retail banking.	Lower revenue and business diversification than larger U.K. competitors.
Strong capitalization driven by solid earnings generation.	Difficult macroeconomic conditions in the U.K. could squeeze borrowers' credit quality.
Conservative loan book profile.	

Our rating on Santander UK Group Holdings PLC (SanUK) balances its deep but relatively narrow U.K. banking franchise against its solid capital base and well-diversified funding and liquidity profile. Although it has developed a deep U.K. prime mortgage business, SanUK's overall scope remains narrower than U.K.-focused peers Lloyds and NatWest, both of which run materially larger commercial lending franchises, or Barclays, which has built an internationally diversified investment banking and credit card franchise. At the same time, SanUK's narrower scope, well-managed balance sheet (in which corporate exposures have been steadily reduced), and focus on operating efficiency have enabled it to record resilient risk-adjusted earnings over the past 24 months. The combination of these factors also supports our view of SanUK's solid capitalization, with our risk-adjusted capital (RAC) ratio moving just above 10% at year-end 2023.

Higher interest rates and good cost discipline underpin a strong earnings outlook. The elevated interest rate environment in the U.K. will continue to support SanUK's revenues in 2024 and into 2025 due to strong margins. We believe this will be somewhat offset by persistent competition in the mortgage and deposit markets, with higher cost of deposits already driving earnings down in first-half 2024, as net interest income fell 11% compared with first-half 2023. Our measure of the net interest margin (NIM) for SanUK decreased by 18 basis points (bps) in first-half 2024 compared with year-end 2023. That said, we expect the increasing yield from the bank's structural hedge to offset downside pressures on the NIM, overall keeping it relatively stable over the next 12 months. SanUK's strengthened focus on efficiency and a disciplined lending strategy should continue, in our view, to generate solid earnings over our outlook horizon.

Our favorable view of SanUK's risk-adjusted capital (RAC) position is tempered by our expectation that it will upstream excess capital to its parent, Banco Santander, over the medium term. Solid earnings generation and a contained slowdown in lending led to an improvement in SanUK's RAC ratio in 2023, to 10.1% (2022: 9.8%). The RAC ratio has been hovering around 10% since 2021 and we forecast the bank will maintain a RAC ratio of 9.75%-10.25% over the next 24 months, with material excess capital generated under our base case likely to be released to SanUK's ultimate parent Banco Santander in the medium term. In summary, although SanUK's capital and earnings (C&E) are likely to remain solid and an overall strength to the rating, we do not expect the bank's RAC ratio to rise materially above our 10% threshold for a stronger C&E assessment.

SanUK's robust asset quality should provide a stable foundation in the face of a sluggish U.K. macroeconomic outlook. SanUK's mortgage-centric book and narrow, high-quality consumer unsecured and corporate businesses proved resilient throughout the pandemic and the cost-of-living pressures in the U.K. over the last 2 years. Stage 3 assets, as per our measure, have ticked up slowly since 2023 but remain contained at 1.49% of gross customer lending at the end of first-half 2024 (end-2023: 1.40%). Beyond these nonperforming exposures, the remainder of the loan book was conservatively positioned, in our view, with 10.9% (end-2023: 10.8%) of the book in Stage 2, with arrears remaining subdued as cost of risk remained flat at just 8bps in Q2-24. Even as SanUK continues to maintain its stock of provisions in the anticipation of any potential sustained economic deterioration, its nonperforming assets remain low with our S&P Global Ratings-adjusted nonperforming asset (NPA) ratio sitting at 1.45% at half-year 2024 (year-end 2023: 1.40%). All told, we believe the prudent staging of SanUK's narrow, high-quality loan book, and cautious lending appetite provide a solid foundation to withstand a deterioration in the U.K. economy.

Outlook

Santander UK Group Holdings PLC

The stable outlook reflects our view that SanUK will maintain robust credit quality that will support earnings. It also reflects our expectation that the bank will maintain a good position in U.K. retail banking and a conservative risk profile. We assume Banco Santander will provide ongoing group support, despite our view of uncertain extraordinary group support in a severe stress scenario given its multiple-point-of-entry approach to resolution. This means that we believe the U.K. subgroup is more likely to support itself by a bail-in of its subordinated debt instruments for loss absorption and recapitalization than by relying on group support.

Downside scenario

We could lower the ratings over our two-year horizon if the uncertain U.K. economic environment compromises SanUK's performance significantly beyond our base case.

Upside scenario

We could revise the outlook to positive if SanUK delivers a RAC ratio materially above 10% on a sustained basis. This would rest on the group's ability to generate strong earnings and capital generation from its robust U.K. mortgage business, alongside maintaining enough excess capital to support the sustainability of its RAC ratio above 10%, as opposed to returning the excess capital to its parent.

Santander UK PLC

The stable outlook on the main operating subsidiary reflects our view of the group stand-alone credit profile (SACP). It also assumes that the additional-loss-absorbing capacity (ALAC) buffer will remain supportive of the issuer credit rating above our 6% threshold.

We could raise or lower our rating if the group SACP strengthened or weakened. We could also lower the ratings if the ALAC ratio were to fall below our 6% threshold, which would most likely be caused by higher risk-weighted asset inflation beyond our current expectations.

Key Metrics

Santander UK Group Holdings Plc--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in operating revenue	12.1	3.3	(8.0-10.0)	2.4-2.9	1.4-1.9
Growth in customer loans	4.8	-5.6	(3.0-4.0)	0.8-1.2	1.8-2.2
Growth in total assets	-0.5	-3.5	(3.5-4.0)	0.9-1.1	1.7-2.1
Net interest income/average earning assets (NIM)	1.9	2.0	1.8-1.9	1.8-1.9	1.8-1.9
Cost to income ratio	47.3	48.0	54.2-56.2	52.7-54.7	52.9-54.9
Return on average common equity	9.5	11.6	8.2-8.7	8.5-9.0	8.5-9.0

Santander UK Group Holdings Plc--Key Ratios And Forecasts (cont.)					
	--Fiscal year ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
New loan loss provisions/average customer loans	0.2	0.1	0.1-0.2	0.1-0.2	0.1-0.1
Gross nonperforming assets/customer loans	1.7	1.4	1.4-1.5	1.4-1.6	1.4-1.5
Net charge-offs/average customer loans	0.1	0.2	0.2-0.2	0.1-0.2	0.1-0.2
Risk-adjusted capital ratio	9.8	10.1	9.8-10.2	9.8-10.2	9.9-10.3

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+', Reflecting SanUK's Strong Domestic Focus

We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine the anchor. The 'bbb+' anchor reflects the geographic mix of SanUK's total credit exposure. Given the bank's concentration to the U.K., this leads to a weighted average economic risk score of '4'.

The U.K. economy remains weak, characterized by low growth. Growth in 2023 crept in at 0.1%, and we anticipate only modest GDP expansion of 1% in 2024. With growth remaining at a trickle, we expect inflation will remain elevated on a tight labor market and persistent, if cooling, wage inflation (for more information, see "U.K. Economic Outlook Q4 2024: Disinflation And Rate Cuts Will Stimulate Growth," published Sept. 23, 2024, on RatingsDirect). Even so, we forecast that the Bank of England will begin cutting rates in second-half 2024 as inflation risk eases. Foundations of low unemployment, resilient house prices, and robust corporate asset quality give banks breathing room against this backdrop. This underpins our stable economic risk trend.

The industry risk trend is also stable. The Bank of England and government measures throughout the pandemic era speak to the U.K.'s well developed regulatory framework. As rates peaked, costs remained under control, and impairments were subdued in the U.K., so banks' earnings were strong in the past 18 months. In 2024, elevated rates will support earnings, even as deposits migrate to interest bearing products as depositors look to lock in higher rates; we expect costs to be stable, as investment continues at pace and service and wage inflation put strain on operating costs; and impairments look set to normalize steadily through the year as monetary policy tightening hits marginal borrowers (for more information, see "U.K. Banks Are Well Positioned For Sustained Strong Performance After First-Half Results," published Aug. 8, 2024). U.K. banks' funding and liquidity positions are also stable, and rated banks have relatively limited wholesale funding needs for the rest of 2024.

Business Position: A Deep U.K. Mortgage Franchise With Good Efficiency

Our assessment of SanUK's business position as adequate reflects the strength of its strong retail banking franchise, offset by its lower business and revenue diversification compared with its closest domestic peers.

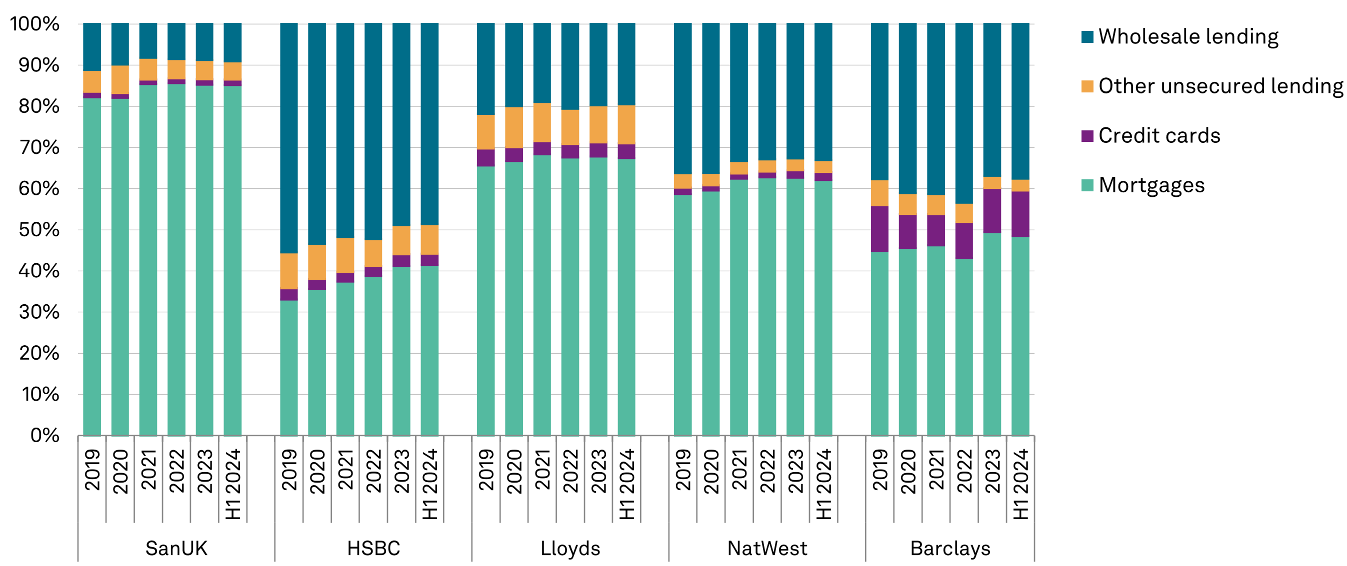
SanUK is one of the U.K.'s leading banks by deposits and mortgage loan balances. Indicative of its scale, the bank has about 14 million active customers as of June 30, 2024. This large customer base is a product of the group's consistent focus on winning U.K. retail current accounts, although its market share and retail deposit base appears to have plateaued to some degree in the past 18 months, as the bank has focused on disciplined pricing actions as opposed to growth in an uncertain economic backdrop. At the same time as shifting its focus to winning a material share of the U.K.'s current account market, SanUK has also positioned its balance sheet heavily toward the prime mortgage market in the last five years, with a market share of about 10% of outstanding U.K. mortgage stock as of first-half 2024.

SanUK has pared back and focussed its commercial lending book over the past five years through a combination of transfers of business to Banco Santander (London Branch) and managed the wind-down of unprofitable exposures. Furthermore, even as it reduces its commercial exposures, we see good evidence that SanUK is actively leveraging the parent's international franchise by targeting internationally-focused U.K. companies within its Corporate and Commercial Banking (CCB) segment. We expect this strategic shift will continue--although related income expansion will lag the initial investment. Taken together, SanUK's strong mortgage growth, and increasingly focused commercial book provide the group with a solid footing in the U.K. banking market. That said, relative to U.K. peers, we think that SanUK's balance sheet and earnings are slightly more concentrated within the resilient, but highly leveraged, U.K. household sector.

Chart 1

SanUK's mortgage franchise continues to underpin its balance sheet

Loan book split by percentage



Sources: S&P Global Ratings, company disclosures.

SanUK lacks the material commercial franchises of its closest domestic peers Lloyds Banking Group PLC ('a-' group SACP) and NatWest Group PLC ('a-'). Furthermore, when compared with U.K. ring-fenced banks like Barclays Bank UK PLC (parent SACP of 'a-') and HSBC UK Bank PLC (parent SACP of 'a') SanUK's franchise is clearly narrower--even though its depth and expertise in the U.K. mortgage and commercial lending market give it a solid foundation of competitive advantage and earnings stability. That said, SanUK has greater breadth from its commercial and consumer unsecured businesses than a narrowly-focused mortgage specialist like Nationwide ('a-'). Outside of the U.K., other retail-focused peers are ABN AMRO Bank N.V. ('bbb+'), Credit Mutuel Group ('a'), Danske Bank A/S ('a-'), and Nykredit Realkredit A/S ('a-').

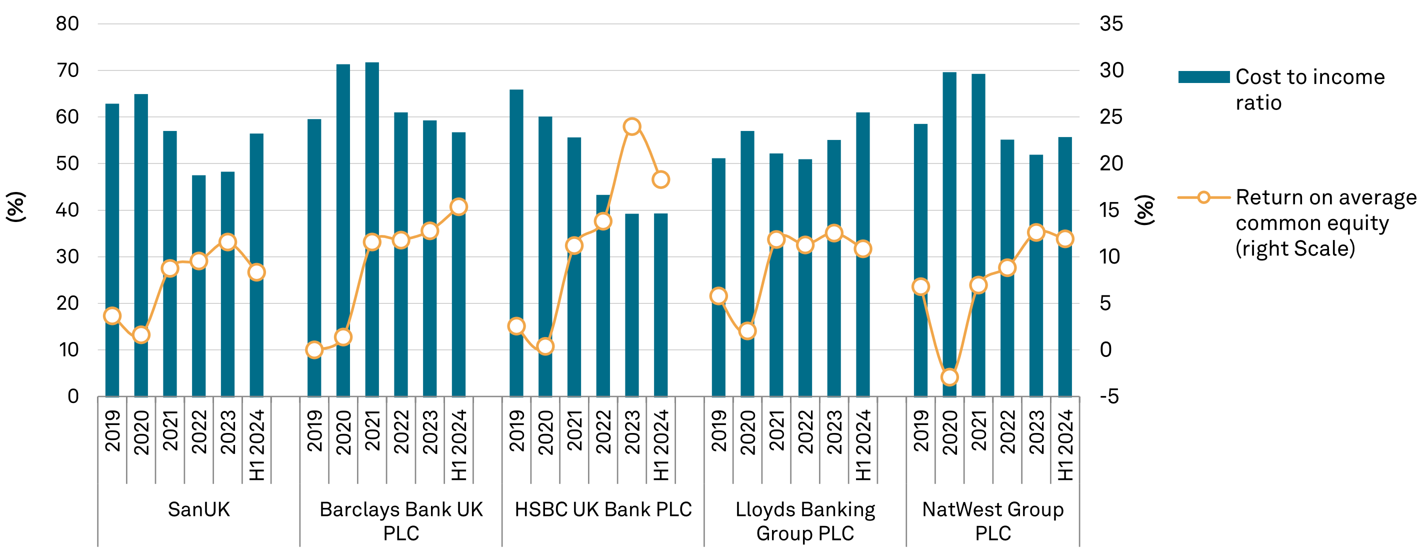
Although its scope is certainly narrower than larger U.K. banking groups, SanUK has performed well throughout the pandemic and in the stressed environment of persistent inflation and stagnant growth seen over the last two years. That said, the boon from higher rates is starting to fade as competition picks up and margins are put under pressure, even if NIMs have held up better than we anticipated (see "U.K. Banks Are Well Positioned For Sustained Strong Performance After First-Half Results", Aug. 8, 2024).

SanUK has been proactive in its cost control initiatives, with its multi-year transformation program continuing to reap benefits. These initiatives have translated into an S&P Global Ratings-adjusted cost-to income ratio of 56% at half-year 2024, which is in line with peers. We expect this to remain around 54%-58% over the next 12 months as the challenging environment for operating expenses persists.

Chart 2

SanUK's operating performance has been solid in recent years

Return on average common equity and cost to income ratio for SanUK and U.K. bank peers



Source: S&P Global Ratings.

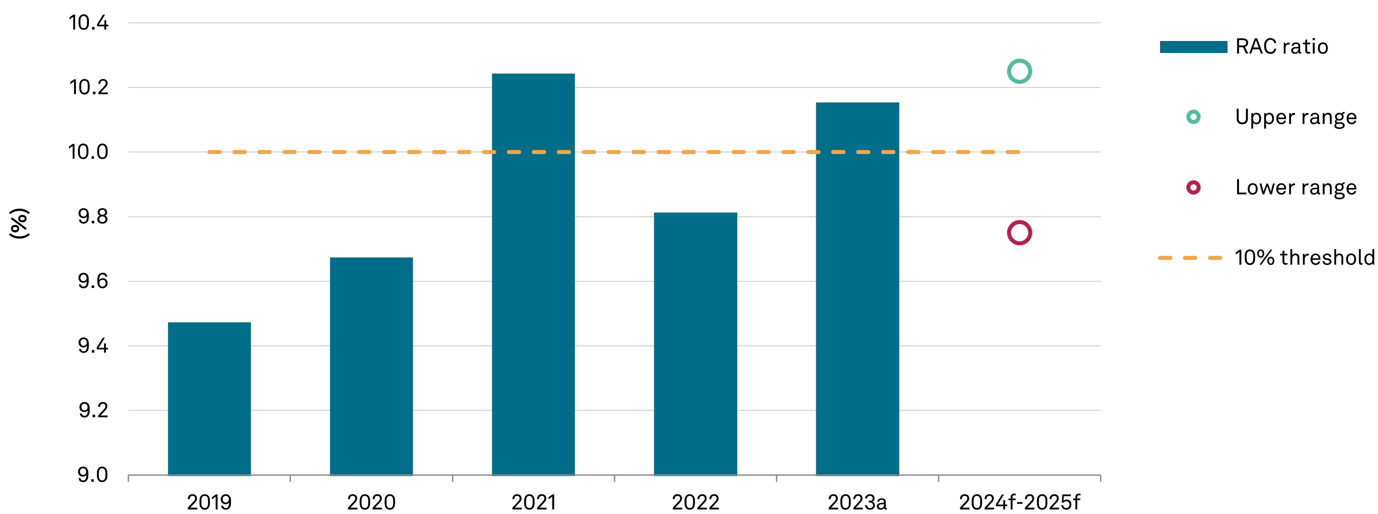
Capital And Earnings: A Robust RAC Position

Our RAC and regulatory capitalization ratios for SanUK have remained strong in recent years. We calculate the RAC ratio of 10.1% at Dec. 31, 2023, and project that it will remain around 9.75%-10.25% through our forecast horizon (see chart 3). The bank reported a regulatory Common Equity Tier 1 (CET1) ratio of 15.2% at half-year 2024, and a U.K. leverage ratio of 4.9% which is broadly in line with other domestic peers.

Chart 3

SanUK RAC ratio forecast

Historic and forecasted S&P Global Ratings-adjusted RAC ratio



S&P Global Ratings' RAC ratio before diversification. RAC--Risk-adjusted capital. a--Actual. f--Forecast.

Source: S&P Global Ratings.

We forecast SanUK's RAC ratio to hover around the 10% RAC threshold in the medium term, driven by strong capital generation and muted balance sheet growth. This would correspond to a stronger assessment of SanUK's capital position in our initial C&E assessment. That said, we do not expect the bank to materially exceed our 10% threshold, and as such we maintain SanUK's overall C&E assessment as neutral to the rating.

This primarily reflects our belief that a material portion of excess capital could be distributed to the parent given its status as a subsidiary of a larger banking group. Indeed, Banco Santander generally runs its subsidiaries with limited excess capital. As such, we see a realistic chance that SanUK's excess capital will continue to be distributed to the parent in the medium term, and expect any material distribution will move our forecast for the RAC ratio back toward or below 10%.

All said, we continue to see SanUK's solid capitalization and good earnings generation as a key strength in the rating, and expect the bank to continue generating a meaningful capital surplus and maintain material headroom above its regulatory requirements. As such, our C&E assessment, driven by the RAC ratio, remains one of the key factors in our rating upside scenario for the bank over our two-year outlook horizon.

The base-case RAC ratio projection incorporates our expectations of:

- Lower pre-provision operating income in 2024 as compared with 2023. This forecast reflects the down trend in the net interest margin from its peak in 2023, with continued pressure on margins due to higher deposit costs and aggressive mortgage market competition.
- We expect SanUK's loan book to reduce slightly in 2024 as mortgage de-risking continues along with a cautious approach toward commercial lending. We expect loan book growth to be positive in 2025 as the rate environment improves for lending.
- We expect the loan loss rate to increase to about 10bps-15bps in 2025 and stabilize at about 10bps in 2026 (it was a reported 8bps in H1 2024).
- Ongoing inflationary pressure on cost would weigh on statutory earnings in 2024, although we expect some savings due to recent restructuring and transformation. We expect the cost-to-income ratio to remain around 54%-58%.
- We assume a dividend policy to distribute 50% of earnings across our forecast. That said, we do see potential for an additional distribution of special dividends.
- We expect risk-weighted assets (RWAs) to decrease in 2024 in line with the negative loan growth before increasing modestly in 2025 as markets start to revive.

We expect the quality of capital will remain a neutral credit factor. Adjusted common equity was 83% of total adjusted capital (TAC) at December-2023, similar to that of peers.

Risk Position: Prime Mortgage Book And Disciplined Commercial Lending

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

SanUK's total loan book remains heavily biased toward residential mortgages, which constituted 85% of the gross customer loan book (excluding amounts due from Banco Santander affiliates) at first-half 2024. Conversely, relative to U.K. peers, SanUK's loan book exposure to unsecured consumer credit is relatively modest (see chart 4). A material portion (£4.9 billion) of SanUK's consumer credit book is auto finance, which can be particularly volatile during periods of economic downturn--that said, we note that the vast majority of such customer loans are secured.

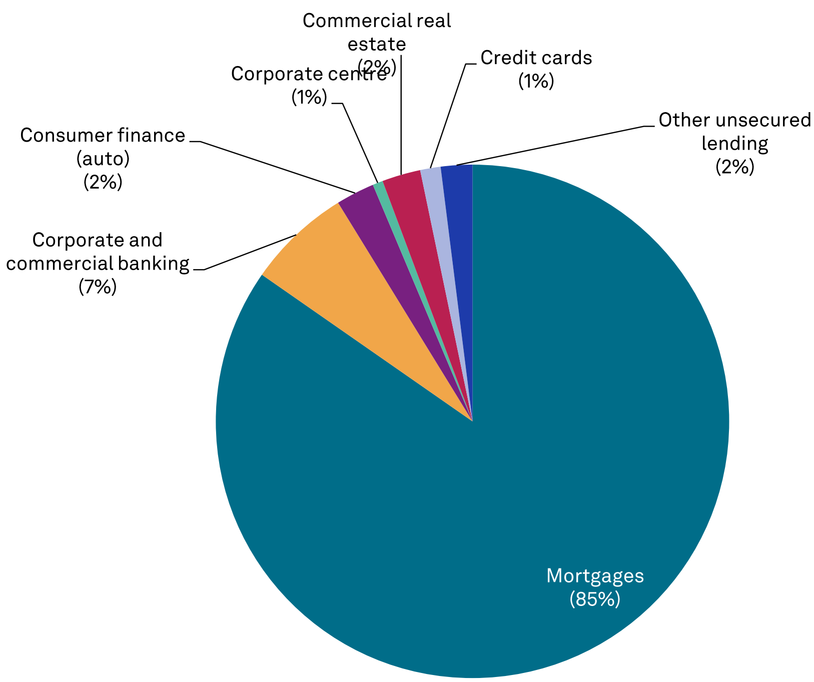
We note SanUK's relatively cautious approach to credit growth, reducing its commercial exposures, while expanding its strongly collateralized mortgage lending over the last 5 years. Within its efforts to pare down the size of its commercial lending, the bank has continued to reduce the absolute size of its commercial real estate (CRE) exposure, which had been something of a negative outlier. The CRE portfolio stood at £4.6 billion as at December 2023 (2018:

£6.7 billion).

Chart 4

SanUK's gross customer loans by segment

On balance sheet exposures as of first-half 2024



Source: Company accounts

We believe that SanUK's mortgage underwriting record compares adequately with its U.K. peers'. We also note that buy-to-let mortgages comprise only 9% of the mortgage stock, well below the industry average.

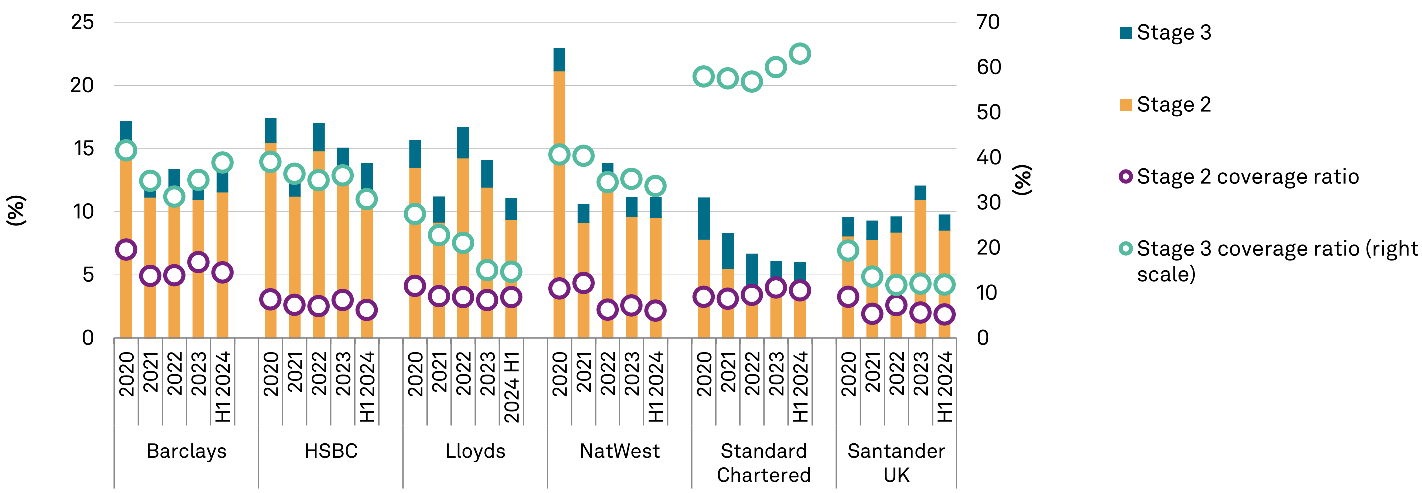
SanUK reports that less than 0.3% of the mortgage book showed negative equity at half-year 2024, with only 7% having an indexed loan-to-value (LTV) ratio of 80%-100%. The bank's reported simple average, nonindexed LTV for the portfolio is 51%. We consider these figures to be fairly typical for U.K. mortgage lenders. Furthermore, the proportion of interest only mortgages continues to reduce.

The stock of nonperforming and problematic loans remains low. SanUK reported that Stage 3 loans were £2.6 billion or 1.57% of gross loans at half-year 2024 (2023: 1.51%). Looking more broadly, total Stage 2 loans remain relatively low, partly owing to the bank's heavy mortgage book bias, with a slight increase in stages 2 and 3 balances coming from a smaller mortgage book and single name cases in the corporate and commercial banking segment, as well as changes to the bank's SICR criteria. Total Stage 2 and Stage 3 loans to total loans was around 12% at half-year 2024, which compares well with U.K. peers (see chart 5).

Chart 5

SanUK's asset quality remains robust

Stages 2 and 3 loans as percentages of total portfolio

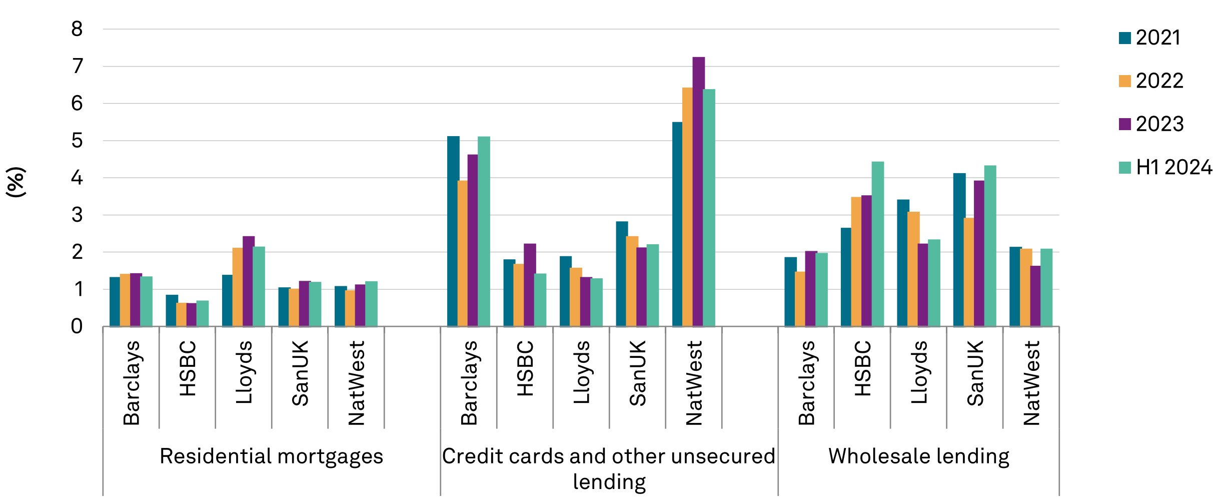


Source: S&P Global Ratings, company disclosures.

Chart 6

Loans in stage 3 remain broadly in line with peers

Big five banks' gross Stage 3 loans ratios by portfolio



Sources: S&P Global Ratings, company disclosures.

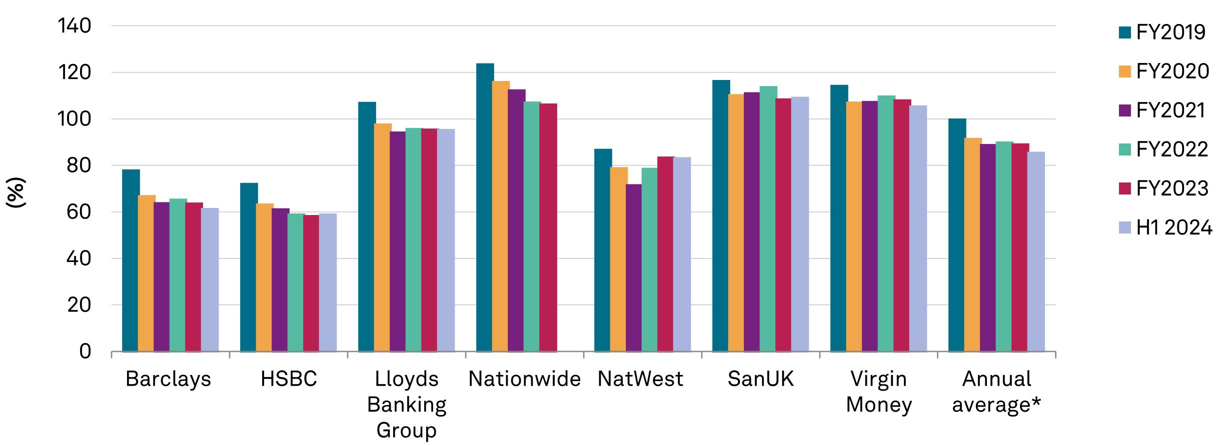
Funding And Liquidity: Stable Retail Deposit Franchise And Access To Diversified Funding Sources

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

As of half-year 2024, SanUK's loan-to-deposit ratio was 109%, having slightly fallen since its year-end 2022 value of 112%. This remains relatively high versus the peer set (see Chart 7). That said, our measure of the stable funding ratio of 111% remains solid and we continue to believe that SanUK has a high-quality deposit franchise.

Chart 7

SanUK's loan to deposit ratio has fallen in recent years, though remains higher than peers
Loan to deposit ratio of major U.K. banks



*Nationwide Building Society and Virgin Money UK PLC do not report for the period to Dec. 31, and such the annual average figures are an estimate. Data for Nationwide is as of April 2024, and Virgin Money is as of March, 2024. Source: S&P Global Ratings database.

Our measure of the bank's liquidity is robust, led by its restrained use of short-term wholesale funding (9% of the funding base at year-end 2023), 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 2.18x at half-year 2024. On top of this robust start point, we believe that the material unencumbered mortgage book could generate additional liquidity. At first-half 2024, SanUK's regulatory reported liquidity coverage ratio (LCR) was 147%, comfortably above regulatory requirements, and with the LCR eligible liquidity pool including ~£30 billion of cash and central bank reserves.

SanUK currently has £13.0 billion (2023: £17.0 billion) of term funding from the Bank of England with additional incentives for small and midsized entities (TFSME). Although the majority of this will mature over the next two years, we believe that SanUK's flexible balance sheet, with relatively limited asset encumbrance, a well-diversified wholesale funding franchise, and significant excess liquidity, will be sufficient to manage maturing liabilities.

Overall, we see SanUK's funding and liquidity profile as being broadly comparable with other U.K. and European peers, with its customer deposit base having grown 6% since 2019 despite conscious repricing actions in recent years to prioritize margins over growth. The bank has seen its deposits increase to 78% of its funding base from 71% in 2018--a solid support to an already well-diversified and stable funding base.

Support: Two Notches Of ALAC Support

Our ALAC ratio was 9.4% at year-end 2023. We expect our ALAC measure will remain above our 6% threshold on an ongoing basis since 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 SanUK.

In our view, SanUK has high systemic importance in the U.K., primarily due to its very strong position in the U.K. retail banking market. We regard 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.

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 nonoperating holding company (NOHC).

Group Status: Highly Strategic Subsidiary Of Banco Santander

We consider SanUK a highly strategic subsidiary of Banco Santander. We continue to incorporate ALAC support into the ratings on the U.K. subgroup 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 U.K. 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 SanUK 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.

Group Structure, Rated Subsidiaries, And Hybrids

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 group SACP. 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.

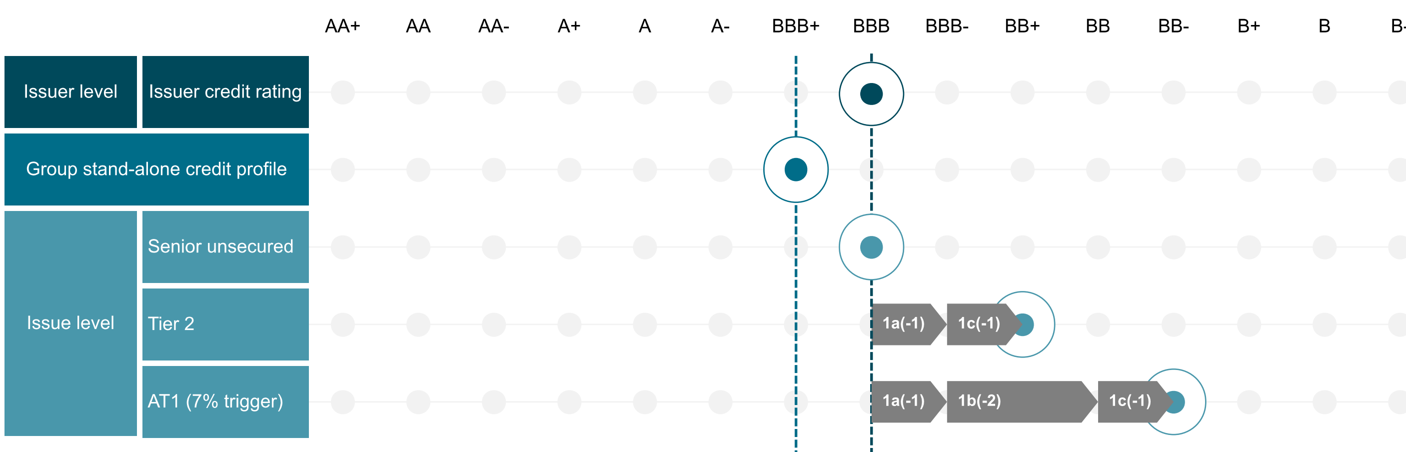
We rate the NOHC one notch below the group SACP to reflect our view that NOHC creditors are structurally subordinated to those of operating company creditors.

The group structure is relatively straightforward, mainly comprising the ring-fenced bank. We rate the non-ring fenced bank, Santander Financial Services PLC (SFS), one notch below the group credit profile (GCP) because we believe it is a highly strategic subsidiary and consider it tactically important rather than integral to the group. SFS principally conducts the business of the Jersey and Isle of Man branches, holds a small number of legacy business positions, and a mortgage portfolio.

Hybrid issue ratings

We rate hybrid instruments according to their respective features (see charts 9 and 10). We do not apply Step 2a notch for additional tier-1 instruments given our confidence that SanUK's CET1 ratio will continue to sustainably exceed the 14.0% necessary to meet the 700bps buffer in-excess of an instrument trigger. The CET1 ratio was 15.2% at half-year 2024, and we expect it will remain in excess of 14% beyond our two-year outlook horizon, notwithstanding dividend payments to its parent, given that the bank's binding constraint is the U.K. leverage ratio.

Santander UK Group Holdings plc: NOHC notching



Key to notching

---- Issuer credit rating
----- Group stand-alone credit profile
1a Contractual subordination
1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 2, 2022.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

Resolution Counterparty Ratings

We set 'A+/A-1' resolution counterparty ratings (RCR) on Santander UK PLC, one notch above its long-term issuer credit rating. The RCRs also reflect our jurisdiction assessment for the U.K.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Environmental, Social, And Governance Factors

We see ESG credit factors for SanUK as being broadly consistent with domestic peers--balancing its strong governance arrangements, and contained climate risk exposures.

Although SanUK has experienced less severe conduct and litigation charges than peers in recent times, the bank's core businesses remain exposed to conduct and compliance risk. For example, the bank may have some exposure in regards to the FCA's review into motor finance customers being overcharged because of past discretionary commission arrangements. As the digital transformation of the banking industry accelerates so do risks relating to cyber security, operational resilience, and financial crime.

Beyond its governance, SanUK has outlined a sustainability strategy that covers social and environmental aspects. To this end, since 2021 the bank has originated in excess of £13.3 billion of green finance, which includes projects to enhance energy efficiency, renewable energy projects, or electric vehicle financing. The bank has further committed to a £20 billion green finance target by 2025 across its business. At the same time as it is seeking to expand its sustainable lending, SanUK does remain exposed to climate-related risks--facing transition and physical risk across its loan book. In its mortgage book, the primary risk the group faces is that the assets it lends against become unmarketable, or marketable only at steep discount, as efforts to improve the energy efficiency of Britain's housing stock intensify. Furthermore, SanUK's largest physical risks tend to focus on flooding and coastal erosion. In the group's focused commercial lending book its risks will tend to reflect the risk to the creditworthiness of its borrowers from the climate transition.

Key Statistics

Table 1

Santander UK Group Holdings PLC--Key figures

		--Year-ended Dec. 31--			
(Mil. £)	**H1 2024**	**2023**	**2022**	**2021**	**2020**
Adjusted assets	269,924	280,535	290,693	292,131	297,415
Customer loans (gross)	207,872	212,493	225,112	214,885	214,094
Adjusted common equity	10,155	10,782	11,066	10,993	11,045

Table 1

Santander UK Group Holdings PLC--Key figures (cont.)

	--Year-ended Dec. 31--				
(Mil. £)	**H1 2024**	**2023**	**2022**	**2021**	**2020**
Operating revenues	2,301	5,176	5,013	4,471	3,958
Noninterest expenses	1,294	2,485	2,370	2,540	2,561
Core earnings	631	1,713	1,585	1,449	418

Table 2

Santander UK Group Holdings PLC--Business position

	--Year-ended Dec. 31--				
(%)	**H1 2024**	**2023**	**2022**	**2021**	**2020**
Total revenues from business line (currency in millions)	2,301	5,176	5,013	4,576	3,958
Commercial banking/total revenues from business line	19.56	18.86	14.48	11.15	14.65
Retail banking/total revenues from business line	82.83	82.40	85.00	87.11	87.92
Commercial & retail banking/total revenues from business line	102.39	101.26	99.48	98.25	102.58
Other revenues/total revenues from business line	-2.39	-1.26	0.52	1.75	-2.58
Return on average common equity	8.35	11.57	9.54	8.77	1.63

Table 3

Santander UK Group Holdings PLC--Capital and earnings

	--Year-ended Dec. 31--				
(%)	**H1 2024**	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	18.30	18.42	18.32	19.30	18.60
S&P Global Ratings' RAC ratio before diversification	N/A	10.15	9.81	10.24	9.67
S&P Global Ratings' RAC ratio after diversification	N/A	9.67	9.16	9.34	8.92
Adjusted common equity/total adjusted capital	82.86	83.08	83.44	83.38	83.13
Double leverage	N.M.	100.61	100.68	100.68	100.28
Net interest income/operating revenues	91.48	90.17	89.21	89.40	86.84
Fee income/operating revenues	5.43	5.72	6.46	6.26	9.68
Market-sensitive income/operating revenues	N/A	0.52	0.76	-0.09	1.92
Cost to income ratio	56.24	48.01	47.28	56.81	64.70
Preprovision operating income/average assets	0.73	0.94	0.90	0.65	0.48
Core earnings/average managed assets	0.46	0.60	0.54	0.49	0.14

N/A--Not applicable. N.M.--Not meaningful.

Table 4

Santander UK Group Holdings PLC--S&P Global Ratings risk-adjusted capital framework detailed results

	EAD	**Basel II RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Total credit risk	284,395.8	60,808.1	21.4	118,712.0	41.7
Equity in the banking book*	30.3	0.0	0.0	227.3	750.0
Trading book market risk	--	400.0	--	600.0	--
Total market risk	--	400.0	--	827.3	--

Table 4

Santander UK Group Holdings PLC--S&P Global Ratings risk-adjusted capital framework detailed results (cont.)

Total insurance risk	--	200.0	--	0.0	--
Total operational risk	--	7,800.0	--	8,347.5	--
RWA before diversification	--	69,208.1	--	127,886.7	100.0
Single name (on corporate portfolio)	--	--	--	195.5	0.9
Sector (on corporate portfolio)	--	--	--	(14.5)	(0.1)
Geographic	--	--	--	9,432.4	7.9
Business and risk type	--	--	--	(3,313.1)	(2.4)
Total diversification/ concentration adjustments	--	--	--	6,300.4	4.9
RWA after diversification	--	69,208.1	--	134,187.2	104.9

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments	12,720.0	18.4	12,978.0	10.1
Capital ratio after adjustments§	12,720.0	18.4	12,978.0	9.7

Note: Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. *Equity exposure includes the minority equity holdings in financial institutions. §For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). EAD--Exposure at default. RWA--Risk-weighted assets. RAC--Risk-adjusted capital.

Table 5

Santander UK Group Holdings PLC--Risk position

		--Year-ended Dec. 31--			
(%)	H1 2024	2023	2022	2021	2020
Growth in customer loans	-4.35	-5.61	4.76	0.37	2.50
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	4.93	7.11	9.66	8.39
Total managed assets/adjusted common equity (x)	26.73	26.16	26.41	26.71	27.08
New loan loss provisions/average customer loans	0.06	0.09	0.15	-0.11	0.30
Net charge-offs/average customer loans	0.14	0.19	0.13	0.13	0.18
Gross nonperforming assets/customer loans + other real estate owned	1.45	1.40	1.17	1.37	1.35
Loan loss reserves/gross nonperforming assets	28.52	30.79	35.31	28.16	44.99

N/A--Not applicable.

Table 6

Santander UK Group Holdings PLC--Funding and liquidity

		--Year-ended Dec. 31--			
(%)	H1 2024	2023	2022	2021	2020
Core deposits/funding base	75.25	74.17	72.14	70.54	69.48
Customer loans (net)/customer deposits	109.04	108.42	113.62	110.96	110.20
Long-term funding ratio	92.00	91.43	92.61	92.49	86.44
Stable funding ratio	108.23	111.09	112.77	116.01	108.55
Short-term wholesale funding/funding base	8.41	9.00	7.75	7.91	14.26
Regulatory net stable funding ratio	134.00	138.14	136.83	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	2.18	2.27	2.57	2.90	1.60

Table 6

Santander UK Group Holdings PLC--Funding and liquidity (cont.)

	--Year-ended Dec. 31--				
(%)	**H1 2024**	**2023**	**2022**	**2021**	**2020**
Broad liquid assets/total assets	17.01	19.03	18.62	21.32	21.20
Broad liquid assets/customer deposits	24.32	27.51	27.58	32.46	32.84
Net broad liquid assets/short-term customer deposits	13.34	15.60	17.07	21.54	12.52
Regulatory liquidity coverage ratio (LCR) (%)	147.00	162.41	162.78	N/A	N/A
Short-term wholesale funding/total wholesale funding	32.87	33.77	27.03	26.13	45.53

N/A--Not applicable.

Santander UK Group Holdings PLC--Rating component scores

Issuer Credit Rating (operating company)	**A/Stable/A-1**
SACP	bbb+
Anchor	bbb+
Economic risk	4
Industry risk	3
Business position	Adequate
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: United Kingdom, Oct. 24, 2024
- U.K. Banks Are Well Positioned For Sustained Strong Performance After First-Half Results, Aug. 09, 2024
- U.K. Economic Outlook Q3 2024: A Cooling Labor Market Paves The Way For Rate Cuts, June 24, 2024
- Tear Sheet: Santander UK Group Holdings PLC, March 19, 2024
- Banking Industry Country Risk Assessment: United Kingdom, Nov. 28, 2023

Ratings Detail (As Of October 24, 2024)*	
Santander UK Group Holdings PLC	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	BB-
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+
Issuer Credit Ratings History	
24-Jun-2021	BBB/Stable/A-2
23-Apr-2020	BBB/Negative/A-2
10-Apr-2015	BBB/Stable/A-2
Sovereign Rating	
United Kingdom	AA/Stable/A-1+
Related Entities	
Banco Santander (Brasil) S.A.	
Issuer Credit Rating	BB/Stable/B
Brazil National Scale	brAAA/Stable/brA-1+
Banco Santander-Chile S.A.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured	A-
Banco Santander S.A.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Foreign Currency	A-1
Junior Subordinated	BBB-
Preference Stock	BBB-
Senior Subordinated	A-

Ratings Detail (As Of October 24, 2024)*(cont.)	
Banco Santander SA (London Branch)	
Certificate Of Deposit	
Local Currency	A-1
Banco Santander S.A. (New York Branch)	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
Local Currency	A-1
Banco Santander Totta S.A.	
Issuer Credit Rating	A-/Positive/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Unsecured	A-
Banque Stellantis 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-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Senior Unsecured	A
Santander Consumer Finance S.A.	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Santander Financial Services PLC	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
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
Resolution Counterparty Rating	A+/--/A-1
Junior Subordinated	BB

Ratings Detail (As Of October 24, 2024)*(cont.)	
Junior Subordinated	BB+
Preference Stock	BB
Senior Secured	AAA/Stable
Senior Unsecured	A-1
Santander US Capital Markets LLC	
Issuer Credit Rating	A-/Stable/A-2

*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.