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## Santander UK plc

	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
Long-term rating	A	A1	A
Long-term rating outlook	Stable	Stable	Positive
Short-term rating	A-1	P-1	F1
Latest rating report*	<a href="#">19-01-2016 (PDF)</a>	<a href="#">16-09-2015 (PDF)</a>	<a href="#">16-07-2015 (PDF)</a>

## Santander UK Group Holdings plc

	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
Long-term rating	BBB	Baa1	A
Long-term rating outlook	Stable	Stable	Positive
Short-term rating	A-2	P-2	F1

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## Research Update:

# Santander UK PLC Outlook Revised To Stable; 'A/A-1' Ratings Affirmed; Three Hybrids Upgraded

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## Research Update:

# Santander UK PLC Outlook Revised To Stable; 'A/A-1' Ratings Affirmed; Three Hybrids Upgraded

## Overview

- Since its creation a year ago, Santander UK Group Holdings PLC has issued meaningful amounts of additional tier 1, tier 2, and--more recently--senior unsecured debt.
- We therefore see only a remote possibility that the additional loss-absorbing capacity (ALAC) buffer of its subsidiary, Santander UK, will fall short of our projection of at least 8%, in the next 12-18 months.
- We are therefore revising our outlook on Santander UK to stable from negative and affirming the 'A/A-1' long- and short-term counterparty credit ratings. We continue to include two notches of ALAC uplift in the long-term rating.
- The stable outlook on Santander UK reflects our expectation that it will see continued gradual strengthening of capitalization over the next two years and continued issuance of a meaningful amount of senior debt at the holding company level.
- We have raised by one notch to 'BB' our ratings on three legacy deferrable hybrid instruments, reflecting our view of a lower risk of coupon deferral.

## Rating Action

On Jan. 19, 2016, Standard & Poor's Ratings Services revised the outlook on Santander UK PLC to stable from negative and affirmed its 'A/A-1' long- and short-term counterparty credit ratings on the bank.

At the same time, we affirmed the 'BBB/A-2' counterparty credit ratings on nonoperating holding company (NOHC) Santander UK Group Holdings PLC (or the UK NOHC). The outlook is stable.

We also raised to 'BB' from 'BB-' our rating on three legacy instruments (ISIN XS0124569566, XS0188550114, and XS0502105454) issued by Santander UK and affirmed the ratings on all other hybrid instruments.

## Rationale

The revision of our outlook on Santander UK's long-term rating incorporates the significant amount of debt that the UK NOHC has issued externally since April 2015. As a result, we see a smaller risk that the U.K. banking group's issuance of additional loss-absorbing capacity (ALAC) buffer may fall short of

our projections.

We continue to include two notches of uplift in the long-term rating on Santander UK because we consider it is likely to increase ALAC above our 8% threshold over the next two years. We estimate that the bank's buffer was close to 6% at end-2015. The projected increase is mainly attributable to expected senior unsecured issuance by Santander UK's intermediate holding company, Santander UK Group Holdings. We observe, for instance, the latter's benchmark US\$1 billion senior unsecured bond issuance in October 2015, and its US\$1 billion and £500 million issuance in January 2016. We expect continued market appetite for these instruments in 2016. We therefore believe that Santander UK's ALAC buffer will exceed 8% by end-2016, based mostly on further senior unsecured issuance by the UK NOHC.

Consistent with our criteria, we continue to rate Santander UK above its parent Banco Santander (A-/Stable/A-2) as a result of ALAC. This is because we believe that the subsidiary is clearly subject to a separate resolution process; that 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 that Santander UK's ALAC cannot be used to recapitalize another part of the Banco Santander group.

We have maintained the unsupported group credit profile (GCP) at 'bbb+', reflecting the Santander UK group's sound capitalization and risk position, and the gradual strengthening of its franchise. We expect that the bank's risk-adjusted capital (RAC) ratio will be in the 9.25%-9.75% range in the next two years, with sound earnings generation offsetting a sustained growth in exposures and the distribution of about half the net income through dividends. Therefore, our projected RAC edges toward the upper-end of the 7%-10% range we typically ascribe to an adequate assessment of capital and earnings. Our projection does not incorporate any possible subsequent AT1 issuance or refinancing of legacy issues currently excluded from our ratio.

The upgrade of three legacy tier 1 instruments reflects our view of a lower risk of coupon deferral. We rate most of Santander UK's legacy tier 1 instruments four notches below the stand-alone credit profile. We previously rated these three instruments one notch lower, with the extra notch reflecting our view that--given their fully discretionary nature--coupon payments could be deferred in the event of coupon deferral on instruments issued by Banco Santander, which are themselves subject to earnings tests. The upgrade considers, among other things, our continued expectation of sound earnings generation by the bank and its parent, and the upgrade of Banco Santander and its hybrids in the fourth quarter of 2015.

## Outlook

## **Santander UK PLC**

The stable outlook on Santander UK reflects our expectation of continued gradual strengthening in capitalization over the next two years and the continued issuance of a material buffer of senior debt at the holding company level.

We could lower the ratings if the Santander UK group's issuance of ALAC-eligible instruments in the next 18 months--including NOHC senior debt--were to fall materially short of our expectations. We currently project that most of the ALAC progression to above 8% over the next 18 months will stem from holding company senior debt issuance. We see limited downside risk to Santander UK's stand-alone creditworthiness.

Although unlikely at this stage, we could raise our rating on Santander UK if the successful implementation of its corporate banking strategy led to materially improved diversification of its revenue streams. Further capital strengthening, with a RAC ratio remaining above 10%, could exert positive pressure on the unsupported GCP; but we would not expect this to lead us to raise the ratings on Santander UK as this would likely result in a related one-notch reduction in the ALAC uplift.

## **Santander UK Group Holdings PLC**

The stable outlook on Santander UK Group Holdings reflects our view of the stable stand-alone creditworthiness of the Santander UK group.

We could raise the rating on Santander UK Group Holdings if we revised upward the unsupported GCP, as mentioned above.

We see limited downside risk to the ratings on the UK NOHC, reflecting our view of the Santander UK group's resilient intrinsic creditworthiness.

## **Rating Score Snapshot**

Issuer Credit Rating\*: A/Stable/A-1

SACP: bbb+

Anchor: bbb+

- Business Position: Adequate (0)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Average and Adequate (0)

Support: +2

- ALAC Support: +2
- GRE Support: 0
- Group Support: 0

*Research Update: Santander UK PLC Outlook Revised To Stable; 'A/A-1' Ratings Affirmed; Three Hybrids Upgraded*

- Sovereign Support: 0

Additional Factors: 0

\*Santander UK PLC.

## Related Criteria And Research

### Related criteria

- 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: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Banks: Commercial Paper I: Banks, March 23, 2004

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
Santander UK PLC		
Counterparty Credit Rating	A/Stable/A-1	A/Negative/A-1
Subordinated	BBB-	BBB-
Junior Subordinated	BB	BB
Junior Subordinated	BB+	BB+
Preference Stock	BB	BB

Upgraded

Santander UK PLC		
Junior Subordinated	BB	BB-
Preferred Stock	BB	BB-
Preference Stock	BB	BB-

Affirmed

*Research Update: Santander UK PLC Outlook Revised To Stable; 'A/A-1' Ratings Affirmed; Three Hybrids Upgraded*

Santander UK Group Holdings PLC	
Counterparty Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
Subordinated	BB+
Junior Subordinated	B+
Abbey National Capital Trust I	
Preferred Stock	BB
Abbey National North America LLC	
Commercial Paper*	A-1
Abbey National Treasury Services PLC	
Senior Unsecured*	A
Certificate Of Deposit*	A-1
Commercial Paper*	A-1
Abbey National Treasury Services PLC (Hong Kong branch)	
Certificate Of Deposit*	A/A-1

\*Guaranteed by Santander UK PLC.

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