Santander UK Group Holdings plc

Update

Key Rating Drivers

Low-Risk, Undiversified Business Model: Santander UK Group Holdings plc's (SGH) Viability Rating (VR) is equalised with that of Santander UK plc (San UK), reflecting SGH's role as a holding company and low double leverage. The VRs reflect the group's low-risk business model, conservative risk profile, healthy asset quality, strong capitalisation, and stable funding and liquidity profiles. San UK's Long-Term Issuer Default Rating (IDR) is two notches above the VR because of very large available resolution debt buffers raised and downstreamed by SGH.

TSB Acquisition Adds Scale: San UK's recent acquisition of TSB Banking Group plc supports the group's market position and consolidates it as the UK's fourth largest mortgage lender. However, the combined group is still highly concentrated on the UK housing market and reliant on net interest income.

Conservative Risk Appetite; Integration Risks: SGH's risk profile is underpinned by its focus on low-risk residential mortgage lending, which accounts for the vast majority of total loans. The acquisition introduces moderate integration and execution risks, reflecting TSB's size. SGH expects material cost synergies to help offset these challenges.

Asset Quality to Remain Strong: Fitch Ratings expects SGH's asset quality to remain strong, given the high share of low loan-to-value mortgage lending. We forecast SGH's impaired loans ratio (end-1Q26: 1.2%) will rise only slightly to about 1.3% by end-2027, following the addition of TSB's loan book, due primarily to loan seasoning and increased unsecured and commercial lending. We expect the group's cost of risk to be only slightly structurally higher, given its mainly secured loans.

Profitability to Improve: Fitch expects SGH's operating profit/risk-weighted assets (RWAs) ratio (2.2% in 1Q26) to improve to about 2.7% in 2026 as integration and restructuring costs are excluded from operating profit and the group benefits from the lower cost of TSB deposits and structural hedge gains. The ratio should improve towards 3.1% in 2027 as synergies are gradually realised and income is supported by larger scale. Earnings will remain undiversified, given TSB's similar income profile.

Capital to Remain Commensurate: We forecast SGH's common equity Tier 1 (CET1) ratio (end-1Q26: 15.7%) to fall to 14.3% by end-2026, due to the net effects of the TSB acquisition. However, we expect the ratio to improve marginally in 2027, supported by SGH's stronger earnings. We view this level as consistent with SGH's low-risk business.

Capital has historically been managed to be consistent with a 5% UK leverage ratio (end-1Q26: 5.1%), given the loan book's low RWA density. We do not expect it to fall materially below this level.

Strong Funding and Liquidity: SGH is largely deposit-funded (end-1Q26: 75% of funding), and the loans/deposits ratio remained broadly stable at 108% at end-1Q26, as loan growth and customer deposit growth remained broadly flat. Its funding and liquidity stability is supported by proven wholesale funding access, ordinary support from its parent and access to the Bank of England's liquidity facilities. The TSB acquisition strengthened SGH's current account and savings offering, benefitting its cost of funding.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

SGH's ratings would come under pressure if material integration risks in relation to the TSB acquisition weighed on the group's strategic execution and financial performance.

Ratings would also come under pressure if risk appetite materially increased and resulted in material asset-quality deterioration, for example, if we expected the four-year average impaired loans ratio to increase above 2% on a sustained basis. This would have to be combined with a structural deterioration in operating profitability to consistently below 1.5% of RWAs. Acquisition impacts, rapid asset growth and weaker-than-expected profitability that resulted in the CET1 ratio falling materially below 13% and the UK leverage ratio sharply below 5%, without credible plans to swiftly restore them, would be negative for the ratings.

Santander UK plc's IDRs would be downgraded if its VR is downgraded, or if the group's resolution debt buffer falls below 15% of RWAs.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the VR is unlikely in the near term due to SGH's undiversified business model compared with that of higher-rated peers. In the long term, and with a successful integration of TSB, a significant strengthening of SGH's business profile (e.g. materially stronger revenue diversification), material improvements to operating profitability (to over 3% of RWAs), combined with healthy capital and liquidity buffers, could lead to a positive rating action.

Other Debt and Issuer Ratings

Rating Level	SGH	San UK
Deposits: long-term/short-term		AA-/F1+
Derivative Counterparty Rating		AA-(dcr)
Senior unsecured: long-term/short-term	A/F1	AA-/F1+
Subordinated Tier 2	BBB+	
Legacy upper Tier 2		BBB
Legacy dated lower Tier 2		BBB+
Additional Tier 1	BBB-	
Legacy Tier 1		BBB-

Source: Fitch Ratings

San UK's long-term senior unsecured debt rating, long-term deposit rating and Derivative Counterparty Rating are two notches above its 'a' VR, reflecting our view of creditor protection from SGH's very large resolution debt buffer (end-2025: 22.2%).

The senior unsecured debt instruments of SGH are rated in line with its VR.

The ratings of all subordinated debt and hybrid securities issued by SGH and San UK are notched down from their respective VRs, reflecting our expectation of below-average recoveries.

SGH's subordinated Tier 2 instruments are notched down twice from the VR to reflect poor recovery prospects in case of failure. Additional Tier 1 capital securities are rated four notches below the group's VR to reflect above-average loss severity risk (two notches) and higher risk of non-performance as coupon payments are fully discretionary (two notches).

Legacy upper Tier 2 securities are rated three notches below San UK's VR (two for loss severity and one for non-performance). Legacy dated lower Tier 2 instruments are notched down twice from the VR for loss severity.

Legacy Tier 1 securities issued by San UK are rated four notches below the bank's VR to reflect higher loss severity risk (two notches) and higher risk of non-performance due to discretionary coupon payments (two notches).

Significant Changes from Last Review

San UK completed the GBP2.65 billion all-cash acquisition of TSB Banking Group plc in April 2026. The group intends to integrate TSB Bank plc through a Part VII transfer in 1H27, subject to regulatory approvals.

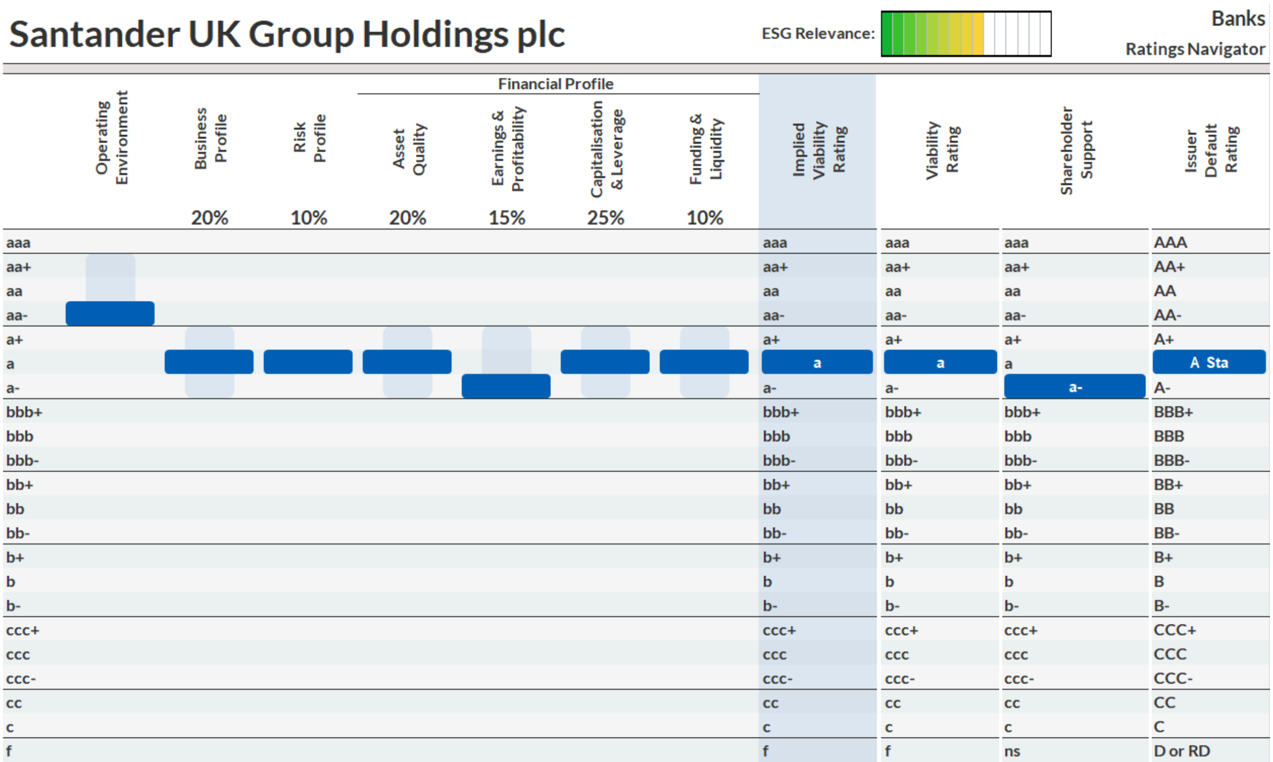
SGH's profitability modestly improved in 1Q26. Operating profit grew marginally to 2.25% of RWAs from 2.16% in 1Q25, primarily due to lower operating expenses. We expect profit to increase further in 2026 as TSB is consolidated and its profit is included on a pro-rata basis. The group will also benefit from its ongoing cost transformation programme and as integration synergies are realised. Loan impairment charges are likely to remain heightened. We forecast an increase to 17bp by end-2027, reflecting TSB's modestly higher-risk loan book, which includes unsecured and commercial lending. TSB's impaired loans ratio was 1.4% at end-2025, compared with SGH's 1.2%, reflecting this higher-risk mix.

SGH set aside an additional GBP179 million provision in 1Q26 related to historical motor finance commissions, bringing total provisions to GBP633 million. The ultimate cost may exceed current provisions, but we expect SGH's robust profitability to absorb any additional charges.

We expect SGH's loan growth to remain muted as TSB's book is consolidated.

SGH's liquidity coverage ratio decreased to 162% at end-1Q26 from 166% at end-2025, mainly reflecting loan growth. SGH had GBP3.9 billion of outstanding Term Funding Scheme with additional incentives for SMEs (TFSME) at end-1Q26, of which GBP2.5 billion matures in 2027 and GBP1.4 billion in 2031. We anticipate the group to comfortably refinance its TFSME, supported by its growing retail deposit franchise and established wholesale market access.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Financials

Financial Statements

	31 Dec 23	31 Dec 24	31 Dec 25	31 Mar 26	31 Dec 26F	31 Dec 27F
	12 months	12 months	12 months	1st quarter	12 months	12 months
	(GBPm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
Summary income statement						
Net interest and dividend income	4,667	4,326	4,423	1,102	-	-
Net fees and commissions	296	246	333	-	-	-
Other operating income	213	119	44	51	-	-
Total operating income	5,176	4,691	4,800	1,153	5,865	6,404
Operating costs	2,821	2,994	2,880	699	3,279	3,292
Pre-impairment operating profit	2,355	1,697	1,920	454	2,586	3,112
Loan and other impairment charges	206	72	227	73	349	418
Operating profit	2,149	1,625	1,693	381	2,237	2,694
Other non-operating items (net)	-	-295	-183	-179	-	-
Tax	553	380	395	56	-	-
Net income	1,596	950	1,115	146	1,154	2,021
Other comprehensive income	329	-289	458	-	-	-
Fitch comprehensive income	1,925	661	1,573	146	-	-
Summary balance sheet						
Assets						
Gross loans	212,514	204,059	206,970	208,527	247,065	252,007
– of which impaired	3,000	2,600	2,200	2,398	-	-
Loan loss allowances	937	808	757	827	-	-
Net loans	211,577	203,251	206,213	207,700	-	-
Interbank	1,216	1,101	1,154	-	-	-
Derivatives	842	526	982	-	-	-
Other securities and earning assets	21,610	23,190	27,213	29,500	-	-
Total earning assets	235,245	228,068	235,562	237,200	-	-
Cash and due from banks	40,523	33,067	32,599	33,200	-	-
Other assets	6,315	5,941	5,787	6,300	-	-
Total assets	282,083	267,076	273,948	276,700	324,082	330,928
Liabilities						
Customer deposits	195,149	185,775	192,358	192,800	232,131	239,095
Interbank and other short-term funding	16,059	16,124	15,884	14,600	-	-
Other long-term funding	51,224	46,991	45,522	48,100	-	-
Trading liabilities and derivatives	977	764	711	-	-	-
Total funding and derivatives	263,409	249,654	254,475	255,500	-	-
Other liabilities	3,160	2,781	3,400	5,700	-	-
Preference shares and hybrid capital	2,744	2,648	2,648	2,300	-	-
Total equity	12,770	11,993	13,425	13,200	-	-

Total liabilities and equity	282,083	267,076	273,948	276,700	-	-
Exchange rate	USD1= GBP0.7898	USD1= GBP0.7971	USD1= GBP0.7432	USD1= GBP0.7577	-	-

Source: Fitch Ratings, Fitch Solutions, SGH

Key Ratios

(%; annualised as appropriate)	31 Dec 23	31 Dec 24	31 Dec 25	31 Mar 26	31 Dec 26F	31 Dec 27F
Profitability						
Operating profit/risk-weighted assets	3.1	2.4	2.5	2.2	2.7	3.1
Net interest income/average earning assets	2.1	1.9	1.9	1.9	2.1	2.1
Non-interest expense/gross revenue	54.5	63.8	60.0	60.6	55.9	51.4
Net income/average equity	11.3	7.3	8.8	4.4	-	-
Asset quality						
Impaired loans ratio	1.4	1.3	1.1	1.2	1.2	1.3
Growth in gross loans	-5.5	-4.0	1.4	0.8	19.4	2.0
Loan loss allowances/impaired loans	31.2	31.1	34.4	34.5	29.5	30.4
Loan impairment charges/average gross loans	0.1	0.0	0.1	0.1	0.2	0.2
Capitalisation						
Common equity Tier 1 ratio	15.2	14.8	15.7	15.7	14.3	14.5
Tangible common equity/tangible assets	4.0	3.9	4.4	4.8	-	-
Basel leverage ratio	4.4	4.3	4.5	4.6	-	-
Net impaired loans/common equity Tier 1	19.6	18.2	13.5	14.5	-	-
Funding and liquidity						
Gross loans/customer deposits	108.9	109.8	107.6	108.2	106.4	105.4
Gross loans/customer deposits + covered bonds	101.1	100.5	97.8	98.9	97.0	96.1
Liquidity coverage ratio	162.4	156.0	166.0	162.0	-	-
Customer deposits/total non-equity funding	73.6	73.9	75.0	74.8	-	-
Net stable funding ratio	138.1	136.0	135.0	137.0	-	-

Source: Fitch Ratings, Fitch Solutions, SGH

Support Assessment

Shareholder Support	
Shareholder VR	a
Total Adjustments (notches)	-1
Shareholder Support Rating	a-
Shareholder ability to support	
Shareholder Rating	a
Shareholder regulation	1 Notch
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	Equalised
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment. Red= higher influence; Dark blue = moderate influence; Light blue = lower influence

The 'a-' Shareholder Support Ratings (SSRs) of SGH and San UK are one notch below Banco Santander, S.A.'s (Santander; A+/Stable) VR of 'a' because we view Santander's ability to provide support as constrained by the UK entities' large relative size. In our view, Santander has a strong propensity to support both SGH and San UK, given the strategic importance of the UK, as well as the high reputation risk Santander would face in the case of a default by its UK entities.

Santander Financial Services plc's (SFS) 'a' SSR is in line with SGH's IDR and reflects SGH's strong propensity to support SFS, given SFS's role in the group, and a strong ability to provide support, given SFS's small size. Fitch does not assign a VR to SFS as its business model and strong reliance on SGH prevent a meaningful standalone analysis of the entity. SFS's IDRs are based on support from SGH. We rate SFS's Long-Term IDR two notches above SGH's because we expect that the group's very large resolution debt buffers will protect SFS's third-party senior creditors should the group fail.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Shareholder Support Rating	a-
Sovereign Risk (United Kingdom)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

ESG and Climate

Highest ESG Relevance Scores	
Environmental	2
Social	3
Governance	3

Applicable Criteria

Bank Rating Criteria (May 2026)

Related Research

Global Economic Outlook (June 2026)
Fitch Takes Rating Actions on 11 UK Banking Groups Following Criteria Update (May 2026)
UK Bank Costs from Motor Finance Redress Scheme Fall in Final Estimate (April 2026)
Fitch Affirms United Kingdom at 'AA-'; Outlook Stable (February 2026)
Major UK Banks Are Hedged Against Macroeconomic Risks (November 2025)
Fitch Affirms Santander UK Group Holdings at 'A'; Outlook Stable (November 2025)

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