FitchRatings

Fitch Affirms 19 UK Banking Groups; off RWN

Fitch Ratings - London - 20 December 2019:

Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) of 19 UK banks and some of their subsidiaries. Their IDRs have been removed from Rating Watch Negative (RWN). All have been assigned Stable Outlooks, except Metro Bank Plc, which is on Negative Outlook. Other ratings are unaffected.

The affected banks are Bank of Ireland (UK) Plc, Barclays plc, Close Brothers Group PLC, The Co-operative Bank p.l.c, Coventry Building Society, HSBC Holdings plc, Investec Bank plc, Leeds Building Society, Lloyds Banking Group plc, Nationwide Building Society, Paragon Banking Group PLC, Principality Building Society, The Royal Bank of Scotland Group plc, Santander UK Group Holdings plc, Skipton Building Society, Tesco Personal Finance Group PLC, Virgin Money UK Plc, and Yorkshire Building Society.

Today's rating action reflects Fitch's view that the UK will now leave the EU in an orderly manner on 31 January 2020 with a withdrawal agreement in place and that the short-term risk of a disruptive 'no-deal' Brexit, has reduced. It follows Fitch's decision to remove the RWN and to affirm the 'AA' Long-Term IDR on the UK sovereign on 17 December 2019 (see Fitch Affirms the UK at 'AA'; Off Rating Watch Negative; Outlook Negative).

Fitch believes a reduction in Brexit uncertainty could bring a short-term boost to growth but that a more lasting benefit from plans to increase public investment will depend on how effectively this is targeted.

We consider that most UK banks have faced the challenges connected with Brexit from a position of strength and that these banks' ratings would remain resilient to a moderate deterioration in UK economic growth. Most UK banks are well-capitalised, with impaired loans at cyclical lows, and with sound liquidity buffers. Pressure on net profitability, particularly in the last quarter due to PPI-related customer redress but also competitive pressures on lending margins, is being addressed with cost-cutting measures. The factors that underpin banks' Viability Ratings (VR) and hence, either directly or indirectly, the IDRs, are mostly stable, which drives the Stable Outlooks.

The Negative Outlook on Metro Bank reflects continued risks to its business model and strategy caused by pressures on its earnings and growth ambitions.

The UK sovereign rating remains on Negative Outlook as, among other considerations, the risk of a disruptive 'cliff-edge' departure by the UK at end-2020 from its trading relationship with the EU has not disappeared. Consistent with our opinion when we placed the banks' Long-Term IDRs on RWN in March and depending on the economic fallout we believe we would be more likely to assign Negative Outlooks to some or all banks than to downgrade them in the event of a disruptive 'cliff-edge' departure by the UK.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
HBOS plc	LT IDR A+ Affirmed		A+
Virgin Money UK PLC	LT IDR		BBB+

	BBB+ Affirmed		
Barclays plc	LT IDR A Affirmed		A
Lloyds Banking Group plc	LT IDR A+ Affirmed		A+
HSBC Holdings plc	LT IDR A+ Affirmed		A+
Close Brothers Group PLC	LT IDR A Affirmed		A
Barclays Bank Ireland Plc	LT IDR A+ Affirmed		A+
The Hongkong and Shanghai Banking Corporation Limited	LT IDR AA- Affirmed		AA-
Ulster Bank Ltd.	LT IDR A+ Affirmed		A+
Close Brothers Limited	LT IDR A Affirmed		A
Yorkshire Building Society	LT IDR A- Affirmed		A-
Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH	LT IDR A Affirmed		A
Barclays Bank UK PLC	LT IDR A+ Affirmed		A+
Bank of Ireland (UK) Plc	LT IDR BBB Affirmed		BBB
Tesco Personal Finance PLC	LT IDR BBB Affirmed		BBB
HSBC UK Bank plc	LT IDR A+ Affirmed		A+
Paragon Banking Group PLC	LT IDR BBB Affirmed		BBB
Ulster Bank Ireland Designated Activity Company	LT IDR A- Affirmed		A-
Investec Bank plc	LT IDR BBB+ Affirmed		BBB+

HSBC Bank plc	LT IDR A+ Affirmed		A+
Tesco Personal Finance Group PLC	LT IDR BBB Affirmed		BBB
Skipton Building Society	LT IDR A- Affirmed		A-
Santander UK plc	LT IDR A+ Affirmed		A+
Principality Building Society	LT IDR BBB+ Affirmed		BBB+
Bank of Scotland Plc	LT IDR A+ Affirmed		A+
Barclays Bank plc	LT IDR A+ Affirmed		A+
Santander UK Group Holdings plc	LT IDR A Affirmed		A
NatWest Markets Plc	LT IDR A Affirmed		A
Barclays Capital Inc.	LT IDR A+ Affirmed		A+
Lloyds Bank plc	LT IDR A+ Affirmed		A+
Lloyds Bank Corporate Markets Public Limited Company	LT IDR A Affirmed		A
Nationwide Building Society	LT IDR A Affirmed		A
Clydesdale Bank PLC	LT IDR A- Affirmed		A-
Metro Bank Plc	LT IDR BB Affirmed		BB
	Viability bb Affirmed		bb
subordinated	LT BB- Affirmed		BB-
Senior preferred	LT BB		BB

	Affirmed		
Senior non-preferred	LT BB Affirmed		BB
NatWest Markets N.V.	LT IDR A Affirmed		A
The Royal Bank of Scotland Public Limited Company	LT IDR A+ Affirmed		A+
Santander Financial Services plc	LT IDR A Affirmed		A
The Royal Bank of Scotland Group plc	LT IDR A Affirmed		A
HSBC Latin America Holdings (UK) Limited	LT IDR A+ Affirmed		A+
NatWest Markets Securities Inc.	LT IDR A Affirmed		A
Leeds Building Society	LT IDR A- Affirmed		A-
National Westminster Bank Plc	LT IDR A+ Affirmed		A+
Royal Bank of Scotland International Limited	LT IDR A Affirmed		A
The Co-operative Bank p.l.c.	LT IDR B Affirmed		B
Coventry Building Society	LT IDR A- Affirmed		A-

Key Rating Drivers

METRO BANK PLC

The RWNs have been removed from Metro Bank's ratings because the short-term risk of a disruptive 'no-deal' Brexit has reduced. The Negative Outlook reflects challenges to its business model, which requires growth to become profitable, a stable retail deposit base but more confidence-sensitive wholesale funding, satisfactory capitalisation and good asset quality.

The bank is yet to reveal a new strategy and is undergoing leadership changes. A strategy with lower growth ambitions than in the past should be helpful for the bank's ability to preserve capital ratios, although it is yet unclear to what extent the strategy will delay the achievement of the bank's earnings targets, and whether the associated change in business mix will be significant. We believe that the heightened uncertainty around Metro

Bank's funding and liquidity, as well as a no-deal Brexit, have subsided as the bank has managed to raise the needed amount of non-preferred debt to meet its 2020 requirements, and deposit outflows have been stemmed.

The senior debt ratings of Metro Bank are rated in line with its IDR and its subordinated debt, one notch below its VR to reflect below-average recovery expectations.

BANK OF IRELAND (UK) PLC (BOI UK)

BOI UK's ratings reflect a modest franchise in the UK, acceptable asset quality and profitability, somewhat constrained by a narrow business model, and sound reported capital ratios.

BARCLAYS PLC, BARCLAYS BANK PLC, BARCLAYS BANK UK PLC, BARCLAYS BANK IRELAND, BARCLAYS CAPITAL INC

Barclays plc's ratings reflect our view that progress made on the group's restructuring and resolving legacy conduct matters will allow for a normalisation of earnings and maintenance of capital in line with that of peers and the group's targets. The group's sound capitalisation, funding, liquidity and asset quality are supportive of the ratings.

The IDRs of its two main operating banks, Barclays Bank Plc and Barclays Bank UK Plc, are based on their standalone credit profiles, but include the benefit of ordinary support from the group through continued capital and funding support, as well as benefits of common management, strategy and systems. They also reflect the availability of sufficient qualifying junior debt to protect senior creditors in case of failure.

The Long- Term IDRs of Barclays Bank Ireland, the Irish subsidiary housing EU business, and of Barclays Capital Inc, the US broker-dealer, are equalised with their parent Barclays Bank Plc's IDR, which reflects our view of an extremely high likelihood of support.

CLOSE BROTHERS GROUP PLC AND CLOSE BROTHERS LIMITED

The ratings of this group and its main operating subsidiary bank reflect the group's strong record of performance through economic cycles and sound capitalisation, which mitigate the group's appetite for higher-risk lending.

COVENTRY BUILDING SOCIETY

Coventry's ratings reflect the society's fairly undiversified business model, consistent strategy focused on overall low-risk mortgage lending, and healthy asset quality, albeit with low allowances against impaired loans compared with peers'. Underlying profitability has weakened in recent years, reflecting competitive pressures on asset yields, combined with increased investment spending. Capitalisation remains broadly commensurate with risk due to the low-risk nature of the society's loan book and steady internal capital generation. Funding benefits from a fairly stable retail customer base, and we assess the society's liquidity as strong.

THE CO-OPERATIVE BANK P.L.C.

The Co-operative Bank p.l.c.'s ratings primarily reflect the vulnerability of the bank's capital to continued losses. It also incorporates heightened execution risk as the bank continues to restructure amid economic uncertainty and competitive pressures in the market. The ratings also reflect the improvements the bank has been making on its risk controls and its resilient franchise.

HSBC HOLDINGS PLC (HSBC), HSBC BANK PLC, HSBC UK BANK PLC, HSBC LATIN AMERICA HOLDINGS (UK) LIMITED, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (HKSB)

HSBC's ratings are based on Fitch's assessment of the consolidated group, which reflects the operations of the holding company's banking subsidiaries. The ratings of HSBC reflect its presence in key global markets, which enables to group to offer products and services to its clients globally. Fitch believes that the decision to restructure some of the group's operation highlights challenges to the business model but expects the group's diversified businesses and global franchise to continue to enable HSBC to generate sound earnings, in line with similarly rated peers'. The ratings also reflect HSBC's strong asset quality and are underpinned by capitalisation, while funding and liquidity remain a rating strength.

The Long-Term IDRs of HSBC Bank plc, HSBC UK Bank plc and HSBC Latin America Holdings (UK) Limited are aligned with those of their ultimate parent HSBC and are based on our assessment of the likelihood that each would receive extraordinary support from HSBC, if needed. The Long-Term IDR of HKSB is one notch above its VR to reflect sufficient qualifying junior debt buffers and the high level of senior debt issued by HSBC, which we believe could be deployed to HKSB if needed.

INVESTEC BANK PLC

Investec Bank plc's ratings are underpinned by the bank's diversified business model, improving asset quality metrics, healthy capitalisation and a strong liquidity position. The ratings also factor in continued, albeit reduced, appetite for lending to higher-risk sectors and asset classes.

LLOYDS BANKING GROUP PLC (LBG), LLOYDS BANK PLC, BANK OF SCOTLAND PLC, HBOS PLC, LLOYDS BANK CORPORATE MARKETS PUBLIC LIMITED COMPANY (LBCM), LLOYDS BANK CORPORATE MARKETS WERTPAPIERHANDELSBANK GMBH (LBCMW)

LBG's VR is underpinned by the group's strong domestic retail franchise, above-sector average profitability, solid capitalisation and funding, and a moderate risk appetite. The Long-Term IDRs of LBG, Lloyds Bank and Bank of Scotland are one notch above their VRs because Fitch believes that LBG's buffer of qualifying junior debt is sufficiently large to recapitalise the bank after a resolution without imposing losses on senior creditors.

The IDRs of HBOS, LBCM, and LBCMW are based on our view that institutional support from LBG is highly likely. Their IDRs are equalised with LBG's VR as opposed to LBG's IDR to reflect insufficient certainty that the non-ring-fenced banks' senior creditors would benefit from LBG's qualifying junior debt buffer in a resolution of the group. This is primarily because we believe that in a resolution of the group, the resolution authority's main objective would be the protection of senior creditors of LBG's ring-fenced bank.

LEEDS BUILDING SOCIETY

Leeds' ratings reflect the society's profitability, good asset quality, albeit with an appetite for higher-risk specialist mortgages, solid capitalisation, and stable funding and liquidity. They also reflect the limited franchise of Leeds and the concentration of its business model on the UK housing market.

NATIONWIDE BUILDING SOCIETY

Nationwide's ratings reflect the society's strong franchise in UK mortgage lending, conservative risk appetite as well as a sound financial profile with healthy asset quality. Funding, liquidity and capitalisation are sound. The ratings also take into account the society's fairly undiversified business model, which is weighted towards domestic mortgages and savings, which while pan-UK, is undiversified compared with higher rated international peers' and constrain the society's ratings.

PARAGON BANKING GROUP PLC

Paragon's ratings reflect a fairly stable business model, sound franchise in buy-to-let mortgages and consistent performance track record. Its asset quality has remained reasonably stable through the economic cycle. The group maintains its capitalisation and leverage with satisfactory buffers over regulatory minimum levels. The ratings also reflect the group's limited diversification by industry, geography and revenue, as well as an increasing appetite for higher-risk lending.

PRINCIPALITY BUILDING SOCIETY

Principality's ratings reflect strong asset quality indicators, conservative underwriting standards, capitalisation and leverage that are commensurate with the society's risk profile, and a stable funding and liquidity profile. The ratings also reflect an undiversified business model, Principality's overall small size and modest market franchise and slightly weaker cost efficiency compared with peers'.

THE ROYAL BANK OF SCOTLAND GROUP PLC (RBSG); ROYAL BANK OF SCOTLAND PLC (RBS); NATIONAL WESTMINSTER BANK PLC (NATWEST BANK); NATWEST MARKETS PLC; ULSTER BANK LIMITED; ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED; NATWEST MARKETS SECURITIES INC; NATWEST MARKETS NV; ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY (UBI DAC)

RBSG's ratings reflect the group's strong capitalisation and funding and liquidity, as well as moderate, albeit improving, profitability and asset quality. Fitch assigns a common VR to RBS and NatWest Bank because these UK operating banks, which are part of the domestic ring-fenced group, are highly integrated with respect to capital, funding and liquidity, management and strategy and are large compared with group assets. The common VR of the ring-fenced banks and that of RBSG are at the same level because we believe that their risk profiles are very similar and highly correlated.

NatWest Bank's, RBS's and Ulster Bank Limited's Long-Term IDRs are rated one notch above the group's common VR because of a sufficient buffer of qualifying junior debt, plus internal structurally subordinated senior debt.

The IDRs of NatWest Markets Plc, NatWest Markets Securities Inc., NatWest Markets N.V. and Royal Bank of Scotland International Limited are equalised with their ultimate parent RBSG's IDRs to reflect a very high likelihood of support if needed. Ulster Bank Limited's IDR is equalised with direct parent NatWest Bank's, reflecting a very high likelihood of support.

UBI DAC's Long-Term IDR is one notch below RBSG's because the subsidiary operates in a different country; contribution to RBSG's core businesses has been weak to date and likely to remain modest.

SANTANDER UK GROUP HOLDINGS PLC (SGH), SANTANDER UK PLC (SAN UK) AND SANTANDER FINANCIAL SERVICES PLC (SFS)

SGH's ratings reflect the group's conservative risk appetite, a solid retail banking franchise, moderate impaired loans, adequate capitalisation, and a stable funding and liquidity profile. It also considers a less diversified business, slightly weaker profitability metrics than similarly rated peers' and above-average leverage. The Long-Term IDR and senior debt ratings of SGH's main banking subsidiary, San UK, are one notch higher than its VR because it benefits from a buffer of qualifying junior debt , which, in our opinion, is sufficient to restore San UK's viability without affecting external senior creditors should the group enter resolution.

SFS's IDRs are based on support and are equalised with those of SGH.

SKIPTON BUILDING SOCIETY

Skipton's ratings reflect the society's low risk appetite, good asset quality, solid capitalisation, stable funding and strong liquidity. The ratings also reflect the limited franchise of Skipton and the concentration of its business model on the UK housing market.

TESCO PERSONAL FINANCE GROUP PLC (TPFG) AND TESCO PERSONAL FINANCE PLC (TPF)

TPFG's ratings reflect a modest banking franchise within a large and concentrated UK market but also benefits from the bank's collaboration with Tesco PLC. The ratings also reflect the group's healthy asset quality, diversified revenue streams and sound capitalisation, which are counterbalanced by a focus on higher-risk unsecured credit and price-sensitive funding.

VIRGIN MONEY UK PLC AND CLYDESDALE BANK PLC

Virgin Money UK's ratings reflect the group's sound asset quality, strengthened capitalisation and stable funding and liquidity, as well as the execution risks associated with the acquisition of Virgin Money.

YORKSHIRE BUILDING SOCIETY

Yorkshire's ratings reflect conservative underwriting standards, healthy asset-quality indicators, capitalisation and leverage that are commensurate with the society's risk profile and a stable funding and liquidity profile. The ratings also consider a modest franchise, an undiversified business model and slightly weaker profitability compared with peers'.

RATING SENSITIVITIES

ALL BANKS AND SUBSIDIARIES (BAR METRO BANK)

The sensitivities of these banks' IDRs remain unchanged from those stated in the most recent rating action commentaries on each bank. All else equal, a disruptive 'cliff-edge' departure by the UK from its trading relationship with the EU could also result in a negative rating action on some or all of the banks, most likely with Negative Outlooks being assigned.

In addition, on 15 November 2019 Fitch published an exposure draft of its Bank Rating Criteria, which includes proposals to alter our approach to notching operating company ratings. If the final criteria are published in line with the exposure draft, the IDRs of some operating companies that are currently not notched above their holdco's VRs could be upgraded by one notch if we conclude that resolution plans are likely to result in external senior creditors being protected and avoiding default if the group fails.

METRO BANK PLC

The ratings of Metro Bank are sensitive to its ability to stabilise profitability, maintain satisfactory capital ratios and healthy asset quality, as well as to ongoing access to wholesale debt and capital markets to meet regulatory requirements. The ratings could be downgraded if deposit outflows pick up or if liquidity diminishes to such an extent that Fitch no longer considers it to be able to absorb additional liquidity stresses.

The ratings could also be downgraded if severe shortcomings in risk controls or in corporate governance are uncovered. Metro Bank's Outlook may be revised to Stable if the bank' new strategy presents credible prospects of a return to profitability without increasing risk appetite. Evidence of strengthened risk controls would also be positive. An upgrade is unlikely in the near-term, but over time could arise if the bank demonstrates the ability to build capital through earnings, asset-quality resilience in a weakening economic environment, continues to grow its deposit franchise and shows improved access to wholesale funding.

Metro Bank's subordinated debt rating could be downgraded by one notch if final criteria are published in line with the exposure draft.

The latest rating action commentaries on each bank and the exposure draft are available at www.fitchratings.com

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities.

Metro Bank

Metro Bank has an ESG Relevance Score of 4 for Corporate Governance due to weaknesses Fitch has identified, particularly in terms of board independence and control oversight, which we consider are currently weaker than at higher rated peers. Actions are being taken to rectify this but until improvements filter through, we have assigned a 4 ESG Relevance score for 'governance structure'. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Maria Shishkina
Associate Director
+44 20 3530 1379
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Krista Davies
Director
+44 20 3530 1579
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Konstantin Yakimovich
Senior Director
+44 20 3530 1789
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Ioana Sima
Director
+44 20 3530 1736
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Christian Scarafia
Senior Director
+44 20 3530 1012
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Marc Ellsmore
Director
+44 20 3530 1438
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Claudia Nelson
Senior Director
+44 20 3530 1191
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf
London E14 5GN

Primary Rating Analyst
Grace Wu
Senior Director
+852 2263 9919
Fitch (Hong Kong) Limited
19/F Man Yee Building 60-68 Des Voeux Road Central
Hong Kong

Primary Rating Analyst
Francesca Vasciminno
Senior Director
+39 02 879087 225
Fitch Italia Società Italiana per il rating, S.p.A.
Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8
Milan 20123

Secondary Rating Analyst
Francesca Vasciminno
Senior Director
+39 02 879087 225

Secondary Rating Analyst
Marc Ellsmore
Director
+44 20 3530 1438

Secondary Rating Analyst
Ioana Sima
Director
+44 20 3530 1736

Secondary Rating Analyst
Michael Bojko

Associate Director
+44 20 3530 2723

Secondary Rating Analyst
Christian Scarafia
Senior Director
+44 20 3530 1012

Secondary Rating Analyst
Krista Davies
Director
+44 20 3530 1579

Secondary Rating Analyst
Christopher Ogunleye
Analyst
+40 20 3530 1192

Secondary Rating Analyst
Claudia Nelson
Senior Director
+44 20 3530 1191

Secondary Rating Analyst
Maria Shishkina
Associate Director
+44 20 3530 1379

Committee Chairperson
Aslan Tavitov
Senior Director
+44 20 3530 1788

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)
Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status

Endorsement Policy

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