

DBRS Morningstar Confirms Unión de Créditos Inmobiliarios, E.F.C (UCI) at A (low), Trend Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Unión de Créditos Inmobiliarios, E.F.C (UCI or the entity), including the 'A' (Low) Long-Term Issuer Rating of and the R-1 (low) Short-Term Issuer Rating. The trend on all ratings is Stable. The rating action follows the confirmation of the ratings of Banco Santander SA (Santander). UCI is a specialised mortgage lender in Spain and Portugal, and a 50:50 Joint Venture (JV) between Banco Santander S.A (Santander) and BNP Paribas Group (BNPP).

KEY RATING CONSIDERATIONS

DBRS Morningstar maintained the SA1 support assessment for UCI, which implies the expectation of predictable support from its shareholders. DBRS Morningstar has an A (high) Long-Term Issuer Rating with a Stable Trend on Santander and a Long-Term Issuer Rating of AA (low) with a Stable Trend on BNPP. The Issuer Rating for UCI is two notches below the Issuer Rating of Santander (the lower rated shareholder), reflecting both the expectation predictable and timely parental support in case of need, as well as that UCI is a non-bank subsidiary in which neither shareholder has a majority stake. DBRS Morningstar notes that due to its ownership and the expectation of support, UCI's ratings are positioned multiple notches above the entity's intrinsic creditworthiness.

As a monoline mortgage lender, DBRS Morningstar views UCI's earnings power as constrained due to the lack of revenue diversification as its income is concentrated mainly on net interest income from its mortgage book. Additionally, one-off regulatory items in 2020 have resulted in the entity recording a EUR 25 million loss in FY2020. DBRS Morningstar expects that further regulatory changes will increase UCI's capital requirements at the end of 2021. UCI will likely need to draw capital from its shareholders in coming months in order to comply with those. DBRS Morningstar does not expect this to be a challenge, given the demonstrated willingness and ability of the shareholders to provide capital support.

DBRS Morningstar recognises that despite COVID-19, UCI's commercial activity has remained solid, given the strong market dynamics in the Spanish mortgage sector. The COVID-19 economic shock led to a significant deterioration in the Spanish and Portuguese economies in 2020 and despite the economic rebound in 2021, risks are still present. DBRS Morningstar's Baseline Macroeconomic Scenarios (latest set published 8th September 2021) still anticipate the Spanish and Portuguese unemployment rate in 2022 will be higher than in 2019. Nevertheless, DBRS Morningstar sees that as of end-June 2021, the COVID-19 impact on UCI's asset quality has been limited (excluding regulatory impact). However, following the full removal of government support measures, and the expiration of the loans under moratoria, DBRS Morningstar expects UCI's asset quality could deteriorate.

RATING DRIVERS

Given the SA1 designation, which implies the expectation of predictable support from the shareholders, UCI's ratings will generally move in tandem with the ratings of its lower rated shareholder. An upgrade or a positive rating action on Santander SA would be reflected in UCI's ratings.

Similarly, a downgrade or a negative rating action on Santander SA would be reflected in UCI's ratings. However, the ratings of UCI may deviate from those of the shareholders if, in DBRS Morningstar's opinion, the likelihood of support was to reduce or if the ownership structure were to change.

For more information on the rating drivers of Santander, see the separate press release ([Link to the Santander's PR](#)).

RATING RATIONALE

Franchise:

UCI is a JV between Santander and BNPP with both groups holding a 50% stake. UCI S.A. is a holding company which in turn owns 100% of UCI E.F.C., the rated entity. UCI's franchise focuses on the mortgage market, with total gross loans of around EUR 11 billion and a mortgage market share in Spain and Portugal of around 2% at end-2020. UCI operates mainly in Iberia with 78% of loans to Spanish borrowers and 22% to Portuguese borrowers at end-2020.

Earnings:

DBRS Morningstar views UCI's earnings power as constrained due to the lack of revenue diversification as its income is concentrated mainly on net interest income from its mortgage book. DBRS Morningstar recognises that despite COVID-19, UCI's commercial activity remained solid, given the strong market dynamics in the Spanish mortgage sector. As a result, during 2020 UCI recorded the highest new lending volumes since 2008. However, despite solid commercial activity, the entity recorded a net loss of EUR 25 million in 2020 (vs. net profit of EUR 14.6 million in 2019), driven by one-off regulatory items in 2020. Similar to the implementation of IFRS9 to Spanish banks in early 2018, new provisioning standards were applied through the Bank of Spain's Anejo IX of Circular 4/2016. DBRS Morningstar understands that out of the EUR 101.3 million of LLPs recorded in 2020, around EUR 57 million are due to this one-off exercise. DBRS Morningstar expects additional LLPs in 2021 due to a supervisory reclassification of loans.

Risk:

DBRS Morningstar notes that COVID-19 impact on UCI's asset quality has been limited to date (excluding regulatory items). UCI's risk profile is mainly driven by its loan book, which has an elevated Non-Performing Assets ratio of 15.2% at end-2020. UCI's NPL ratio (+90 days and unlikely to pay) worsened to 12.6% at end-2020, up from 12.0% at end-2019. However, +90 days NPLs have decreased by around 9% compared to pre-COVID levels. Nevertheless, UCI's NPL ratio remains very high compared to the aggregate mortgage NPL ratio of the Spanish banking system of 3.1% at end-2020. UCI granted EUR 1.1 billion worth of moratoria throughout the COVID-19 pandemic, corresponding to 10% of their gross loan book. As of end-June 2021, existing moratoria accounted for around 2% of its loan portfolio of which 36% is in Spain and the balance in Portugal.

DBRS Morningstar also considers in its analysis the potential litigation risks related to the transparency of the sale of consumer mortgages linked to the IRPH index (Índice de Referencia de Préstamos Hipotecarios). As of end-September 2021, 43% of UCI's loan book was referenced to the IRPH index. DBRS Morningstar considers that the March 2020 European Court of Justice (ECJ) ruling on IRPH mortgages removes uncertainty and understands the potential impact of the ruling on UCI should be limited (for more details see DBRS Morningstar's commentary "ECJ Decision on Spanish Mortgages Positive for Banks"). Moreover, the large majority of cases have ruled favorably for UCI. Despite the positive impetus from the ECJ ruling, and the proportion of cases won, DBRS Morningstar believes that this litigation remains costly and time consuming, and is expected to continue for multiple years.

Funding and Liquidity:

DBRS Morningstar notes that UCI has, with crucial liquidity support from its shareholders, managed a challenging economic and financial environment during the 2008 financial crisis. At end-2020, funding from credit institutions (mainly from its shareholders) accounted for around 66% of total funding with the rest of the entity's funding coming from Residential Mortgage Backed Securities (RMBS). During 2020, UCI issued EUR 392 million of RMBS in Portugal [Green Belém No.1]. UCI has committed to using an

amount equal to the issuance proceeds of the Class A notes to originate mortgage loans for residential properties in Spain and Portugal that satisfy the Green Bond Initiative's sector-specific criteria for low carbon buildings. Further, in November 2020, UCI Issued EUR 515 million under the 'Prado VII' programme, followed up by EUR 480 million in May 2021 under the 'Prado VIII' programme, which includes also a commitment of use of proceeds similar to the one included on Green Belém No.1.

Capitalisation:

As a non-bank institution, historically, UCI's capitalisation requirements were lower than for banks. However, new legislation effective since July 2020 results in UCI needing to comply with the Credit Institutions Directive 2013 and the Capital Requirements Regulation 2013 (the so-called CRD IV package). This increases UCI's Total Capital requirement to 10.5%. Moreover, DBRS Morningstar considers that after the application on UCI of the new capital regulations, the institution is now part of the SREP process by the Bank of Spain, which likely will imply new capital requirements in the form of P2R and P2G. UCI will likely need to draw on capital from its shareholders to comply with those requirements. DBRS Morningstar does not expect this to be a challenge, given the demonstrated willingness and ability of the shareholders to provide capital support. UCI E.F.C.'s Total Capital ratio at end-2020 was 10.9% .

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021) - <https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>

Other applicable methodologies include DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021): <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-toenvironmental-social-and-governance-risk-factors-in-credit-ratings>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include Confidential Company Documents, Santander 2020 & H1 2021 Presentations, Santander 2020 & H1 2021 Press Releases, Santander 4Q 2020 & 2Q 2021 Report, Santander 2020 Annual Accounts, European Banking Authority Risk Dashboard, Bank of Spain, 2020 UCI Annual Report, and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/385453>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Pablo Manzano, Vice President, Global FIG

Rating Committee Chair: Elisabeth Rudman, Managing Director - Global FIG

Initial Rating Date: April 16, 2018

Last Rating Date: October 6, 2020

DBRS Ratings GmbH, Sucursal en España

Calle del Pinar, 5

28006 Madrid

Spain

Tel. +34 (91) 903 6500

DBRS Ratings GmbH

Neue Mainzer Straße 75

60311 Frankfurt am Main Deutschland

Tel. +49 (69) 8088 3500

Geschäftsführer: Detlef Scholz

Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Unión de Créditos Inmobiliarios (UCI)

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
05-Oct-21	Long-Term Issuer Rating	Confirmed	A (low)	Stb	EU U
05-Oct-21	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRSMORNINGSTAR.COM.

Contacts

Pablo Manzano, CFA

Vice President - Global FIG

+34 91903 6502

pablo.manzano@dbrsmorningstar.com

Elisabeth Rudman

Managing Director, Head of European FIG - Global FIG

+44 20 7855 6655

elisabeth.rudman@dbrsmorningstar.com

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2021 DBRS Morningstar. All Rights Reserved.

The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among <https://www.dbrsmorningstar.com/disclaimer/> others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <https://www.dbrsmorningstar.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <https://www.dbrsmorningstar.com>. Users may, through hypertext or other computer links, gain access to websites operated by persons other than DBRS Morningstar. Such hyperlinks are provided for convenience only, and are the exclusive responsibility of the owners of such websites. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.