

## 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 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 the expectation of 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 the recent shareholder capital increase demonstrates the willingness and ability of the shareholders to provide capital support. DBRS Morningstar also notes that due to its ownership and the expectation of support, UCI's ratings are positioned multiple notches above the entity's intrinsic creditworthiness.

DBRS Morningstar sees UCI's profitability during the next quarters affected by uncertainty amid higher interest rates, tighter financial conditions and a weaker macroeconomic environment than previously anticipated. In addition, DBRS Morningstar considers that unlike some other financial institutions, UCI will not benefit from higher interest rates, given that UCI's liabilities will reprice at around the same pace than UCI's loan book.

### 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 <https://www.dbrsmorningstar.com/research/403310/dbrs-morningstar-confirms-banco-santander-sas-long-term-issuer-rating-at-a-high-stable-trend>

### 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-2021. UCI operates mainly in Iberia with 87% of its loan book related to Spanish borrowers and 11% to Portuguese borrowers at end-2021.

## Earnings:

DBRS Morningstar views UCI's earnings power as constrained due to the lack of revenue diversification as its income is concentrated mainly in net interest income from its mortgage book. DBRS Morningstar recognises that UCI's commercial activity remains solid. However, one-off regulatory items have affected UCI's profitability recently. UCI posted a EUR 34.4 million net attributable profit in 2021 reaching a RoE of 7.4% compared with a Pro-forma loss of EUR 30 million in 2020. Results in 2020 were affected by two one-off items. First, the first time implementation of IFRS9, new provisioning standards were applied through the Bank of Spain's Anejo IX of Circular 4/2016. Second, 2020 results were affected by a supervisory reclassification of loans, which impacted the proportion of loans under Stage 2 and 3, thus increasing the required levels of provisions. This exercise finished in 2021, but the Bank reported the 2020 Pro-forma figures including this impact in their 2021 annual accounts.

## Risk:

UCI's risk profile is mainly driven by its loan book and foreclosed assets, and has an elevated Non-Performing Asset ratio of 17.7% at end-June 2022. UCI's NPL ratio worsened recently due to the introduction of IFRS9 and the supervisory reclassification of loans. As a result, the Pro-forma 2020 NPL ratio (including both impacts) stood at 19.7% but was reduced to 15.5% at end-June 2022. UCI's NPL ratio remains very high compared to the aggregate mortgage NPL ratio of the Spanish banking system of 2.9% at end-March 2022. However, DBRS Morningstar notes that the majority of the NPLs are related to loans originated prior 2008 and UCI's new lending has, to date, shown better performance. 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-June 2022, 40% 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. However, despite the positive impetus from the ECJ ruling, DBRS Morningstar believes that this litigation remains costly 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-June 2022, 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 2022, UCI issued EUR 565 million RMBS, representing its 11th RMBS deal since 2015.

## Capitalisation:

UCI's capital ratios were recently affected by the entry into force of the Directive 2013 and the Capital Requirements Regulation 2013 (the so-called CRD IV package) for NBFIs in Spain. As a result, for the first time, the Bank of Spain set UCI's P2R at 2.0% under the SREP in January 2022. As a result, the Overall Capital Requirement of UCI was set at 12.5% for both the Group and UCI E.F.C. In addition, following the introduction of the CRD IV, the Bank of Spain reviewed the application of the directive to NBFIs in Spain. In particular it decided that the excess spread not yet recognised from the securitisation funds had to be deducted from the UCI EFC equity. In order to comply with these requirements UCI E.F.C has received on a net basis EUR 452 million of regulatory

capital from their shareholders since December 2021. As a result, the Pro-Forma Total Capital ratio of UCI E.F.C stood at June-2022 at 15.7%, above its capital requirements. DBRS Morningstar notes that UCI's EFC capital ratios were below capital requirements at end-2021; however these were restored following the new capital raised from their shareholders and since March-2022 the institution is again complying with its capital requirements.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Credit rating actions on Banco Santander SA are likely to have an impact on this credit rating.

There were no Environmental/ Social/ Governance factor(s) that had a significant or relevant effect on the credit analysis

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/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>. (17 May, 2022)

### Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 June 2022) - <https://www.dbrsmorningstar.com/research/398692/>

Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (17 May 2022) <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> and the Global Methodology for Rating Non-Bank Financial Institutions (2 September 2022).<https://www.dbrsmorningstar.com/research/402314/global-methodology-for-rating-non-bank-financial-institutions>

The sources of information used for this rating include Morningstar Inc. and Company Documents, Santander 2021 & H1 2022 Presentations, Santander 2021 & H1 2022 Press Releases, Santander 4Q 2021 & 2Q 2022 Report, Santander 2021 Annual Accounts, and UCI Annual Report. 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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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: <https://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/403638>

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

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For more information on this credit or on this industry, visit [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com).

## Ratings

### Unión de Créditos Inmobiliarios (UCI)

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
05-Oct-22	Long-Term Issuer Rating	Confirmed	A (low)	Stb	<b>EU</b> <b>U</b>
05-Oct-22	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	<b>EU</b> <b>U</b>

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