



RATING ACTION COMMENTARY

Fitch Affirms Union de Creditos Inmobiliarios at 'BBB', Outlook Stable

Fri 02 Dec, 2022 - 6:41 AM ET

Fitch Ratings - Frankfurt am Main - 02 Dec 2022: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of UCI S.A. (UCI) and its fully-owned subsidiary Union de Creditos Inmobiliarios S.A. E.F.C. (UCI EFC) at 'BBB' with Stable Outlook. A full list of rating actions is at the end of this Rating Action Commentary.

KEY RATING DRIVERS

Support Drives Ratings: The ratings of UCI and UCI EFC are based on Fitch Ratings' expectation of a high probability of support from Banco Santander, S.A. (Santander; A-/Stable/F2/a-). Santander directly owns 50% of UCI's share capital. The balance is held by BNP Paribas S.A. (BNPP: A+/Stable/F1/a+) with 10% of the share capital directly and 40% through its fully owned consumer finance subsidiary, BNP Paribas Personal Finance SA.

Fitch considers UCI's standalone credit profile to be significantly weaker than the support-driven ratings because of UCI's tight capitalisation, limited franchise and weak asset quality - particularly because of legacy assets.

UCI Important to Santander: Fitch believes that extraordinary capital or funding support from Santander is highly probable, if needed. Support is less certain than that for fully-owned core subsidiaries of Santander due to UCI's joint-venture ownership structure and

Fitch's view that UCI is of limited strategic importance to Santander. This is reflected in Fitch notching UCI's Long-Term IDRs down twice from Santander's Viability Rating of 'a-'.

Complementary Sales Channel: UCI extends residential mortgage loans in Spain and Portugal through a network of real estate agents and online platforms. This complements Santander's branch network channel.

UCI Less Important to BNPP: UCI is of less strategic importance to BNPP, in Fitch's opinion, because there is a limited overlap in geographical and product coverage. Notwithstanding, BNPP is a material funding provider for UCI and has contributed to capital injections at par with Santander. We consider this extraordinary support from BNPP as possible, but in our view likely only together with Santander, which is why considerations of support from Santander drives UCI's ratings.

Long Record of Support: Santander and BNPP have an extensive record of providing funding and capital support to UCI as and when needed. Both shareholders have maintained sizeable credit lines for UCI since its establishment (EUR4 billion each at end-3Q22). In 2021 and during the first nine months of 2022, they equally subscribed to Tier 1 and Tier 2 capital injections of EUR182 million and EUR45 million, respectively. This was to support UCI's transition to stricter conditions of compliance of Capital Requirements Regulation.

UCI complies to new liquidity requirements introduced in 2022 by the Bank of Spain mainly via available undrawn credit lines from its shareholders. We expect support to continue if needed.

High Leverage Weighs on Profile: UCI's high leverage and the legacy portfolio's drag on profitability and asset-quality indicators weigh on its standalone creditworthiness. There is also relatively high reliance on non-equity funding from shareholders (about 50% at end-3Q22).

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade in Santander's ratings would likely trigger a downgrade in UCI's, but the resulting ratings of UCI would also depend on its relative importance and role in the BNPP group.

Any indication that UCI's residential mortgage sales channel has become less strategically important for Santander or Santander materially reducing its stake in UCI could lead to wider notching.

A significant reduction of available funding lines from parents could trigger a wider notching from Santander's VR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

UCI's ratings are sensitive to changes in Santander's ratings. A change in BNPP's ratings would not directly affect UCI's ratings, assuming BNPP's stake in UCI and level of non-equity funding remain broadly unchanged.

Santander acquiring a majority stake in UCI could lead to narrower notching and hence an upgrade of UCI.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

IDR is driven by support from Banco Santander (A-/Stable)

ESG CONSIDERATIONS

As support-driven issuers have strong linkages to their support providers, the ESG Credit-Relevance Score assigned to the 'supported' subsidiaries often mirrors those of their

corporate and financial institution parents. This reflects our opinion that many of the ESG elements at the parent level are credit relevant for the subsidiary. Therefore, UCI' scores are aligned with those of Banco Santander.

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 entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Union de Creditos Inmobiliarios S.A. E.F.C.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
		Affirmed		
	ST IDR	F2	Affirmed	F2
	Support	2	Affirmed	2
UCI S.A.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
		Affirmed		
	ST IDR	F2	Affirmed	F2
	Support	2	Affirmed	2

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APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

UCI S.A.

EU Issued, UK Endorsed

Union de Creditos Inmobiliarios S.A. E.F.C.

EU Issued, UK Endorsed

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Non-Bank Financial Institutions Europe Spain
