PRESS RELEASE

OCTOBER 01, 2025

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

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) 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 is a 50/50 Joint Venture (JV) between Banco Santander S.A (Santander; rated A (high) with Stable trend) and BNP Paribas Group (BNPP; rated AA (low) with Stable trend).

KEY CREDIT RATING CONSIDERATIONS

Morningstar DBRS' SA1 support assessment for UCI implies the expectation of predictable support from its shareholders. 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 nonbank subsidiary in which neither shareholder has a majority stake. Morningstar DBRS notes that the recent shareholder capital increase demonstrates the willingness and ability of the shareholders to provide capital support. Morningstar DBRS also notes that due to its ownership and the expectation of support, UCI's credit ratings are positioned multiple notches above the entity's intrinsic creditworthiness.

Morningstar DBRS expects UCI to continue operating with a high COR driven by NPL reduction. As a result, Morningstar DBRS continues to anticipate that UCI will continue to book losses in 2025, also because of its NII sensitivity to still high, albeit lower, interest rates and better basis in the short-term curve.

Nevertheless, Morningstar DBRS views that UCI's proactive management of legacy NPLs and REOs (Real Estate Owned Properties) has started to benefit asset quality metrics, a trend we expect to continue going forward. In addition, Morningstar DBRS views as positive the steps taken to improve UCI's capitalisation, with the help of its shareholders. In Morningstar DBRS's view, not only has this improved the overall capital position, but it has also given UCI's flexibility to absorb additional losses and keep its high rate of NPL reduction. This should provide leeway for UCI to break even in terms of profitability over the short term and reach more normalised levels of asset quality over the medium term.

CREDIT RATING DRIVERS

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

Similarly, a downgrade or a negative rating action on Santander SA would be reflected in UCI's credit ratings. However, UCI's credit ratings may decouple those of the shareholders and are likely to decline if the likelihood and/or predictability of support were 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://dbrs.morningstar.com/research/463681/morningstar-dbrs-confirms-banco-santander-sas-long-term-issuer-rating-at-a-high-and-short-term-issuer-rating-at-r-1-middle-with-stable-trends

CREDIT RATING RATIONALE

Franchise
UCI is a specialised mortgage lender established as a Joint Venture (JV) between Santander and BNPP with each group holding a 50% stake. UCI S.A. (or the Group) is a holding company which in turn owns 100% of UCI E.F.C. The rated entity UCI had around EUR 8.8 billion gross loans at the end of June 2025. It has a mortgage market share in Spain and Portugal of around 2% and operates mainly in Iberia with 86% of loans to Spanish borrowers and 13% to Portuguese borrowers at the end of June 2025.

Earnings Power
Morningstar DBRS views UCI´s earnings power as constrained due to the lack of revenue diversification as its income is reliant mainly on net interest income from its mortgage book. In the past three years, UCI's commercial activity has been affected by a combination of higher, albeit declining, interest rates, dynamics in the Spanish mortgage sector, less aggressive rate offering compared with the rest of the banking sector, and tighter credit risk policies. In addition, UCI's funding model is linked to the Euribor, contrary to the banking sector, which can adjust deposit rates to generate margins. On top of this, NPL sales, although positive over the medium term, have weighed negatively on profitability.

UCI posted a EUR 64.9 million net attributable loss in 2024 compared to a loss of EUR 69.8 million in 2023, reaching a negative return on equity of 8.8%. This was mostly driven lower NII although partly offset by lower operating expenses and lower cost of risk year over year (YOY). This is the third consecutive loss for UCI. NII was down 21% YOY, as all UCI's liabilities quickly repriced to the current interest rate environment, given that its funding mix consists of RMBS securities with a variable coupon and short-term interbank lending. Nevertheless, since interest rates started to rise in 2022, the IRPH index evolution has been lower than that of other markets, negatively affecting UCI's NII, although the situation is normalising in 2025. Impairment losses, however, were down from the two previous years (83% YOY) which were affected by NPL sales. While this was also the case for 2024, they were lower, but we view the cost of risk remains higher than the level of traditional retail banks' mortgage loan books in Spain. Morningstar DBRS expects UCI to continue operating with a high COR run rate given the current high level of NPLs and UCI's proactivity in reducing them. As a result, we continue to anticipate that UCI will continue to book losses in 2025, also because of its NII sensitivity to still high, albeit lower, interest rates.

Risk Profile
UCI's risk profile is mainly driven by its loan book and foreclosed assets. The introduction of IFRS 9 and the supervisory reclassification of loans in 2020 worsened UCI's NPL ratio because of the impact on the proportion of loans under Stage 2 and 3, thus increasing the required levels of provisions and triggering UCI to report the 2020 pro forma figures, including this impact on its 2021 annual accounts. Nevertheless, we note that UCI has adopted a more proactive approach to reducing NPLs, notably through an enhanced offering of solutions to customers with payment difficulties and improved IT support, debt collection processes, and NPL disposals. In particular, UCI sold NPL portfolios of EUR 193 million in December 2022, EUR 63.5 million in 2024 and a further EUR 146 million in Q3 2025 to institutional investors to accelerate the reduction of legacy nonperforming assets (NPAs).

These efforts have been fruitful, leading to 24 consecutive months of NPL reduction since September 2023 with total stock reaching less than EUR 1.0 billion at the end of June 2025 from EUR 1.3 billion a year ago and an NPL ratio standing at 11.3% at the end of June 2025 compared with 13.5% at the end of June 2024 and 19.7% at the end of 2020. Whilst UCI's NPL ratio remains high compared with the aggregate mortgage NPL ratio of the Spanish banking system of 2.3% at the end of March 2025, Morningstar DBRS notes the significant progress in reducing the stock since 2021. In addition, UCI showed a high cost of risk and a low coverage ratio at the end of June 2024, which is explained by the legacy portfolio having been entirely provisioned already. However, UCI's loan originations since 2012 have demonstrated strong performance compared to legacy loans, with very low defaults, which is a source of comfort. Another source of risk for UCI is its large exposure to real estate arising from foreclosed assets (mostly in Spain), with a stock of around 1,534 units in Spain down from more than 4.000 units in 2019, and 5 in Portugal at the end of June 2025. Nevertheless, as for NPLs, Morningstar DBRS notes that these have been significantly reduced in recent years thanks to proactive sales and have generated capital gains. Morningstar DBRS expects UCI will continue to book a high COR in the coming years as it still needs to reduce the number of problematic assets in its portfolio in order to reach a 5% target in the NPL ratio. However, higher rates have not induced a particular deterioration in asset quality. While the slowdown in origination since 2022 could weigh on the asset quality ratios, interest rates have reduced which, combined with the proactive steps UCI took to improve its asset quality profile, should mitigate the negative effects.

Funding and Liquidity

In Morningstar DBRS' view, UCI's liquidity position remains affected by its high reliance on short-term funding from its shareholders. Historically, UCI has used securitisations as its main funding source, in the form of Residential Mortgage-Backed Securities (RMBS). However, after the global financial crisis, the Spanish RMBS market closed, and UCI required liquidity support from its shareholders through credit lines. At end-June 2025, funding from credit institutions (mainly from its shareholders) accounted for around 71% of total funding with the rest of the entity's funding coming from Residential Mortgage-Backed Securities (RMBS). Since 2015, UCI has placed a total of 13 securitisations in the market, which enabled it to repay part of the short-term credit lines and at the same time finance its new lending activity. The last issuance was in 2023, when UCI issued around EUR 490 million of RMBS, including the first Green RMBS in Spain after issuing the first Green RMBS in Portugal in 2020. At the end of June 2025, UCI reported a liquidity coverage ratio of 114% and a net stable funding ratio of 110%, thereby complying comfortably with the Bank of Spain's requirements for specialised finance entities of 100% introduced in 2022. In addition, Morningstar DBRS notes that UCI benefited from an average High-Quality Liquid Assets (HQLA) buffer of EUR 564 million at end-June 2025.

Capitalisation

Since January 2022 UCI's capital ratios were affected by the application of the CRD IV package for NBFIs in Spain. In addition, UCI has been using the new IFRS 9 accounting framework since 2020. This together with the NPL sales as well as the impact of the current interest rate environment have weighed on the P&L and resulted in losses over the past three years. To mitigate these negative effects, and in view of higher requirements from the Bank of Spain, UCI, with the support of its shareholders, has implemented a series of gradual steps to improve its capital position over the past three years. First, UCI Group received EUR 393 million of additional capital subscribed by Santander and BNPP, either with capital instruments such as Tier 2 and AT1, or direct capital increase including EUR 88 million in Q4 2023. In our view, this demonstrates ongoing shareholder support. On top of this, UCI proceeded with a synthetic risk transfer (SRT) of around EUR 630 million in December 2023, which led to a EUR 120 million reduction in risk-weighted assets (RWAs) and EUR 10.5 million in CET1 saving. In addition, to optimise capital, UCI converted AT1 into capital (EUR 82 million), which was executed in September 2024. Finally, UCI continued NPL sales, which has alleviated the pressure on its capitalisation. As a result, we now see the capital position as sound and stabilised. This was notably evidenced in recent NPL sales in Q3 2024 and Q3 2025 which did not require any capital adjustment. In addition, the total capital ratio of UCI stood at 20.1% and UCI Group at 18.7% at the end of June 2025, now well above the capital requirements for 2025 of 14.0% (including the higher Pillar 2 Requirement of 2.0%).

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
ESG Considerations had a significant effect on the credit analysis.

Social (S) Factors

The following Social factor had a significant effect on the credit analysis: "Passed-through Social Credit Considerations", as UCI's credit ratings are driven by the credit ratings of Banco Santander SA because of UCI´s SA1 support assessment designation. ESG factors that have a significant or relevant effect on the credit analysis of Banco Santander SA are discussed separately at https://dbrs.morningstar.com/issuers/9564.

Since the last rating action, the relevance of the Social Factor "Product Governance" is no longer considered because of the little impact the IRPH case has had on UCI.

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

Credit rating actions on Banco Santander SA are likely to have an impact on this credit rating. ESG factors that have a significant or relevant effect on the credit analysis of Banco Santander SA are discussed separately at https://dbrs.morningstar.com/research/463681/morningstar-dbrs-confirms-banco-santander-sas-long-term-issuer-rating-at-a-high-and-short-term-issuer-rating-at-r-1-middle-with-stable-trends

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025) https://dbrs.morningstar.com/research/454196

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 May 2025) https://dbrs.morningstar.com/research/454637 In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025) https://dbrs.morningstar.com/research/454196 in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The sources of information used for these credit ratings include Morningstar Inc. and company documents. Other sources include Santander 2024 & H1 2025 Presentations, Santander 2024 & H1 2025 Press Releases, Santander Q4 2025 & Q2 2025 Reports, Santander 2024 Annual Accounts, and UCI 2024 Annual Report. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit 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. Morningstar DBRS's trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://dbrs.morningstar.com/research/463994

These credit ratings are 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 dbrs.morningstar.com.

Ratings

Unión de Créditos Inmobiliarios E.F.C. (UCI)

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Oct-25	Long-Term Issuer Rating	Confirmed	A (low)	Stb	EU U
01-Oct-25	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U

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