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

Fitch Ratings - Frankfurt am Main - 09 Dec 2021: 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

The ratings of UCI and UCI EFC are based on Fitch's expectation of a high probability of support from Banco Santander, S.A. (Santander; A-/Stable/F2/a-) if required. Santander directly owns 50% of UCI's share capital, BNP Paribas S.A. (BNPP: A+/Stable/F1/a+) holds 10% of the share capital directly and 40% through its fully owned consumer finance subsidiary, BNP Paribas Personal Finance SA (BNPPF). Fitch considers UCI's standalone credit profile as weaker than the support-driven ratings, largely because of its leverage, which is considerably higher than the leverage ratios at many independent finance companies.

Fitch believes that extraordinary capital or funding support from Santander if needed is highly probable. Support is less certain than that for Santander's fully-owned core subsidiaries due to UCI's joint-venture ownership structure and Fitch's view that UCI is strategically important but not core to Santander's domestic franchise. This is reflected in Fitch notching UCI's Long-Term IDRs down twice from Santander's Viability Rating of 'a-'.

UCI extends residential mortgage loans (a core product for Santander) in Santander's core markets (Spain and Portugal) through a network of real estate agents and online platforms. This complements Santander's branch network channel.

In Fitch's opinion, UCI is of less strategic importance to BNPP because there is a limited overlap in geographical and product coverage. BNPP is a material funding provider for UCI, indicating that extraordinary support is possible, but is insufficient to underpin UCI's ratings.

Santander and BNPP have an extensive record of providing funding and capital support to UCI as needed. Both shareholders have maintained sizeable open credit lines for UCI since its establishment (EUR 4 billion each at end-3Q21). In 2020, they subscribed equally to Tier 2 capital injections totalling EUR 105 million to support UCI's transition to IFRS9. We expect continued support if needed.

UCI's high leverage and the legacy portfolio's drag on profitability and asset quality indicators weigh on its standalone creditworthiness. There is also reliance on non-equity funding from shareholders (around

60-70%). Over 98% of impaired loans on UCI's balance sheet relate to mortgage loans originated prior to 2012. The company has made numerous changes to its underwriting policies, product lines and strategy, focusing on larger metropolitan areas and middle-income borrowers. This has improved the quality of loans issued since 2012 and supported asset quality during the coronavirus pandemic.

## **RATING SENSITIVITIES**

### **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 would likely lead to narrower notching and an upgrade of UCI.
- Indications of increasing strategic importance of UCI and the Spanish market in general to BNPP could be positive for the ratings.

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

- A downgrade of Santander's ratings would likely trigger a downgrade of UCI's ratings, but the UCI's ratings 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.

## **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.

## **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's scores are aligned with those of 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](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Union de Creditos Inmobiliarios S.A. E.F.C.	LT IDR	BBB 	Affirmed	BBB 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	ST IDR	F2	Affirmed	F2
	Support	2	Affirmed	2
UCI S.A.	LT IDR	BBB 	Affirmed	BBB 
	ST IDR	F2	Affirmed	F2
	Support	2	Affirmed	2

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Applicable Criteria

[Non-Bank Financial Institutions Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

#### Additional Disclosures

[Solicitation Status](#)

#### 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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