

Santander takes €1.5bn hit on UK business as Brexit looms

Spanish bank blames EU withdrawal and new regulations

Nicholas Megaw, Retail Banking Correspondent SEPTEMBER 25 2019

Santander has taken a €1.5bn writedown on the value of its UK business, blaming new regulations and the expected economic fallout from Brexit.

The move highlights the challenges facing the UK's fifth-largest bank, which is grappling with sluggish growth and rising competition while its Spanish owner looks to cut costs and increase investment in other parts of its empire.

Santander, the eurozone's largest retail bank, announced the news late on Tuesday after markets closed in Mexico, where the group has a secondary listing. Santander said the writedown would not affect its underlying profits or the medium-term return targets it outlined at an [investor day](#) this year.

The blow was softened by the announcement of a higher-than-expected interim dividend, and shares in the company dipped just 0.6 per cent in Wednesday, less than Spain's benchmark stock index.

The UK has grown into one of Santander's most important markets since it entered the country with the purchase of Abbey National in 2004, contributing 13 per cent of its annual profits in 2018.

However, the weaker outlook for the economy and rising costs have begun to weigh on the wider group's performance in recent years. Net profits fell for a second successive year in 2018, and dropped 39 per cent year on year in the first six months of 2019.

The UK also has the lowest medium-term return on equity target of any of Santander's nine main markets, suggesting the company expects challenges to continue. The relatively weak returns on offer have encouraged the bank to focus on more profitable areas such as Latin America and digital banking.

However, Ana Botín, Santander executive chairman, insisted this week that the UK "remains a critically important market, in which the group is investing significantly to service our customers and to continue to compete".

Benjie Creelan-Sandford, analyst at Jefferies, said: "Santander has been in the UK a long time now, that goodwill was created at a very different time. From that point of view the writedown is not necessarily surprising but it does serve to highlight the . . . challenges the bank faces in the UK in terms of the profitability outlook."

The writedown is also the latest sign of the unintended impact that new so-called ringfencing legislation has had on the UK's retail banks.

The rules were designed to reduce risk by forcing banks to separate their investment banking and domestic retail divisions, but they have increased costs even for retail banking specialists such as Santander. Ringfencing has also driven up competition by encouraging lenders like HSBC to deploy more funds in the UK mortgage market, hitting [profit margins across the sector](#).

The pressure has led some rivals to turn to riskier lending to try to protect their margins, while others like [Tesco Bank have pulled out](#) of the mortgage market entirely.

