Colossus 2026-1: Santander UK's £1.5bn SME Risk Transfer

An investor's view of a UK significant risk transfer (SRT)

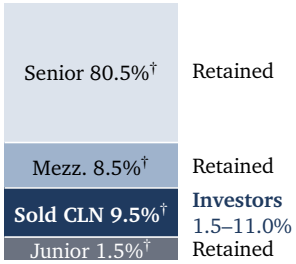
Samuel Keane • October 2026 • † – Illustrative assumptions where deal terms are not disclosed.

1. The transaction

In March 2026, Santander UK issued Colossus 2026-1, the latest deal in a synthetic securitisation programme. It references a static £1,502m portfolio of small and medium enterprise (SME) and commercial real estate (CRE) loans to over 450 borrower groups in the UK. Risk transfer mechanisms mean the loans stay on Santander's balance sheet, with the credit risk transferred through credit-linked notes (CLNs) sold to investors. Santander pays CLN holders SONIA (Sterling Overnight Index Average) plus a premium for taking the risk. Losses on the portfolio write down the notes.

The Colossus 2026-1 deal sits within a wider programme, with Santander planning to move €40-45bn of risk-weighted assets (RWAs) through significant risk transfers (SRTs) and other tools in 2026. This is particularly important to Santander at the moment, following the acquisition of TSB in April 2026; freeing capital from existing lending creates room to absorb and grow the enlarged book.

Key facts	
Issuer / protection buyer	Santander UK plc
Reference portfolio	£1,502m, static
Obligors	612 loans, 476 borrower groups
Asset mix (2025-1 deal)	79% SME, 21% CRE
Avg. 1-yr PD (prior deals)	1.3-1.5%
Structure	7 senior tranches & junior
Investor return	Protection fee + SONIA
Counterparty for CLNs	Santander UK



Values from published Colossus 2024-1 structure; not to scale and simplified.

Since the tranche sizes for Colossus 2026-1 are not public, I applied the structure of 2024-1: Santander kept a 1.5% first-loss piece and everything above 11.0%, selling the 1.5-11.0% mezzanine. This follows an orthodox European design, where the bank will typically retain first loss of roughly 0.5-1.5% and pay investors to absorb the next layer.

2. Why does Santander transfer risk at the cost of returns?

Before the risk transfer, every loan carries its full risk weight. Afterwards, Santander is able to deduct the retained first loss from capital, hold capital against its retained tranches at low securitisation risk weights, and hold nothing against the sold slice. What this means in practice is the regulator measures the risk by tranche, rather than the loan as a whole. The retained first loss (0-1.5%) is the most likely to be hit, so takes a 1,250% risk weight. The sold slice needs no capital at all. Investors pay cash up front, so when losses reach their tranche Santander is able to write down the note. The retained tranches above 11.0% are reached only if more than £165m is lost, around five times the base case; therefore they carry low securitisation risk weights.

	Notional (£m)	**RWA (£m)**	**Capital (£m)**
Before SRT: whole portfolio at 70% RW†	1,502	1,051	126.2
After SRT: junior, 0–1.5% (deducted)	22.5	–	22.5
Sold CLN, 1.5–11.0%	142.7	0	0.0
Retained mezzanine, 11.0–19.5% at 20% RW†	127.7	25.5	3.1
Senior, 19.5–100% at 15% RW†	1,209.1	181.4	21.8
Total after SRT	**1,502**	**206.9**	**47.4**
Capital released			**78.8 (62%)**

Capital at a 12% total requirement†. Simplified: ignores Pillar 2 and maturity adjustments

A 62% release sits within the IMF's estimate that SRTs cut capital needs by 55-80%. The question for Santander is whether that is worth the premium they pay investors:

Protection fee on the £142.7m CLN†	7%	9%	11%
Annual cost (£m), pre-tax	10.0	12.8	15.7
Implied cost of released capital, after 28% tax†	9.1%	11.7%	14.3%

At a mid-range fee, the implied cost is close to a bank's cost of equity at roughly 10-12%. Here, SRT is not cheap capital; it is roughly equity-priced capital that is non-dilutive and fast to raise, thus making it most valuable when the capital has a specific use. These use-cases include integrating TSB and funding share buybacks without slowing lending. Regulations also cap the protection fee (as mentioned above), with the PRA holding the power to deny capital relief where the premium is too high.

3. How an investor would underwrite it

The CLN holder is lending against the losses of a portfolio it does not have control over. A trade can be thought of as centring on five key questions:

1. **How large are the losses before being hit, and how fast could I be wiped out?** With a 1.5% buffer and a 45% loss given default†, the tranche is untouched until cumulative defaults reach about 3.3%, and is wiped out only at about 24%.

Scenario (lifetime, ~3-year life†)	Base	Stress	Severe
Cumulative default rate	4.5%	9.0%	13.5%
Loss given default	45%	45%	50%
Portfolio loss	2.0%	4.1%	6.8%
Loss on the 1.5–11.0% CLN	**6%**	**27%**	**55%**

   Under a simplified three-year, constant-notional model, a 9% annual protection fee generates cumulative income equivalent to around 27% of initial principal. This approximately offsets the 26.8% tranche loss in the stress scenario. This is an undiscounted illustration rather than a project realised return, as actual performance depends on the timing of the loss, amortisation principles, reinvesting and contractual cash flows.
2. **Is the portfolio granular enough?** The average value of a borrower group is approximately £3.2m, so the £22.5m first-loss piece absorbs only around 16 average-sized defaults (assuming a 45% loss given default). A handful of larger CRE loans could erode the first-loss piece quickly.
3. **Are Santander's incentives aligned?** The bank decides which loans go into the pool. A static pool, retained first loss and retained senior tranche all reduce the risk of adverse selection. Colossus issuing every year also provides a level of security as it would punish Santander in future transfers. Comparing the reference pool's probability of default (PD) and sector mix with Santander UK's wider SME and CRE book would test whether this should be investigated further.
4. **Does the structure protect me over time?** Senior tranches and investors' notes amortise pro-rata, meaning they are paid down in proportion, while the junior tranche amortises (is repaid) last. As the portfolio repays, the 1.5% buffer becomes a larger share of what is left, so the credit enhancement for the CLN builds throughout the deal's life. However, if losses pass a 'trigger' repayments switch to sequential, paying the senior tranches first to protect Santander's senior position.
5. **What else can go wrong?** Santander pays the coupon and holds the collateral, so the investor carries counterparty risk; Scope Ratings classed this exposure as 'excessive' for an earlier Colossus deal. Early-call features can also cut the expected return short if the capital needs of the bank change.

Illustrative investment conclusion: The transaction merits further diligence; an investment decision cannot be made without further information on actual tranche points, pricing, borrower concentration data and amortisation provisions. Under the illustrative base case, portfolio losses penetrate the investor tranche though remain modest. However, stressed credit losses could wipe out around 3 years of fee income, making loss timing, concentration and downside protection central to the investment decision.

A 9% protection fee does appear sufficient to compensate for losses in the illustrative base case, but provides limited protection against in the stress scenario. I would require additional evidence on borrower concentrations, historical loss performance and contractual protections before concluding the premium adequately compensates investors.

4. What would change my view

I would be more cautious if the CRE share rose materially above the 21% of the 2025 deal, given the refinancing risks present in UK commercial property currently. I would also be concerned if obligor concentrations were higher than the averages suggest, meaning the largest borrowers hold substantial shares, or if prior Colossus deals showed default rates running above Santander's PDs.

I would be more positive if performance on previous Colossus portfolios had stayed well within the base case, as the subsequent upgrades to the mezzanine tranches of the 2023 deals suggest. Santander is incentivised to maintain reputation by keeping the quality of the pool consistent across deals.

5. Market context

SRTs have moved from a niche in the market to much more mainstream. Banks in the IACPM survey referenced €378bn of loans in 2025 and bought €30bn of first-loss and mezzanine protection, with outstanding portfolios reaching €500bn.

Two regulatory issues matter for investors. Regulators in the US proposed changes to the capital treatment of synthetic securitisations in March of 2026, which could open a larger North American market. In Europe, officials are considering tighter rules for unfunded, insurer-backed SRTs. Funded CLN structures such as Colossus fall outside of that debate, which supports demand for deals in this format.

Sources. Scope Ratings rating announcements for Colossus 2024-1 (27 Jun 2024), 2025-1 (26 Jun 2025) and 2026-1 (Mar 2026); Bloomberg, "Santander Plans SRT Tied to £1 Billion Loan Pool" (9 Feb 2026); Santander UK plc H1 2026 interim report; Santander UK plc 2025 Annual Report; IMF Working Paper WP/25/200, *Synthetic Risk Transfers* (Oct 2025); IACPM, *Global SRT Market Overview 2025* (Jun 2026); Latham & Watkins, *Navigating Synthetic Risk Transfer* (2026); BIS Quarterly Review, "The rise and risks of synthetic risk transfers" (Mar 2026); PRA SS9/13; Orchard Global, *Strategies*.