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RATING REPORT

FT PYMES Santander 15

Ratings

Debt	Par Amount (EUR)	Initial Credit Enhancement (%)[1]	Investor Coupon (p.a.)	ISIN	Ratings	Rating Action Date	Rating Action
Series A Notes	2,400,000,000	25.0%	Three-Month Euri-bor + 0.30%	ES0305458004	A (high) (sf)	10 Dec 2019	Provisional Rating – Finalised
Series B Notes	600,000,000	5.0%	Three-Month Euri-bor + 0.50%	ES0305458012	CCC (low) (sf)	10 Dec 2019	Provisional Rating – Finalised
Series C Notes	150,000,000		Three-Month Euri-bor + 0.65%	ES0305458020	C (sf)	10 Dec 2019	Provisional Rating – Finalised

1 The credit enhancement is expressed in terms of portfolio overcollateralisation and includes the reserve fund, funded through the issuance of Series C Notes (see Credit Enhancement section).

Kingdom of Spain, Sovereign Rating:	"A", Positive trend
Closing Date:	12 December 2019

Transaction Summary

FT PYMES Santander 15, FT (the issuer, special-purpose vehicle or SPV) is a cash flow securitisation collateralised by a portfolio of secured and unsecured loans and credit lines originated by Banco Santander, S.A. (Banco Santander or the Originator) to corporate, small and medium-size enterprises (SMEs), and self-employed individuals based in Spain. As of 14 November 2019, the transaction's provisional portfolio included 32,102 loans and credit lines to 28,561 obligor groups, totalling EUR 3.68 billion.. At closing, the originator selected the final portfolio of EUR 3.0 billion from the provisional pool.

The portfolio also contains loans and credit lines originated by Banesto and Banif prior to their integration into Banco Santander, which was completed in April 2014.

The transaction has a revolving period of two years, during which time Banco Santander has the option to sell new loans or credit lines at par to the issuer on a quarterly basis as long as the additional purchases comply with eligibility criteria. However, the revolving period will end prematurely if replenishment termination events occur, such as the cumulative default rate reaching certain limits.

All obligations under the credit lines are also transferred to the issuer, which means that future drawing under the credit lines will form part of the securitised portfolio and will be funded by the issuer. To ensure that the issuer has sufficient resources to attend to future drawings on the credit lines, the transaction benefits from a liquidity line provided by Banco Santander. The liquidity line is available to fund any future drawings on the credit lines if available principal collections are insufficient.

The rating on the Series A Notes addresses the timely payment of interest and the ultimate payment of principal on or before the legal maturity date in April 2051. The rating on the Series B and Series C Notes addresses the ultimate payment of interest and the ultimate payment of principal on or before the legal maturity date in April 2051.

Table of Contents

Transaction Parties

Type	Name	Current Rating (Long-Term/Short-Term)
Issuer	FT PYMES Santander 15	N/A
Originator/Seller/Servicer	Banco Santander, S.A.	A (high)/R-1 (middle)
Account Bank/Paying Agent	Banco Santander, S.A.	A (high)/R-1 (middle)
Reserve Fund Account Bank	Banco Santander, S.A.	A (high)/R-1 (middle)
Transaction/Fund Manager	Santander de Titulización S.G.F.T., S.A.	N/A
Arrangers	Banco Santander, S.A. Santander de Titulización, S.G.F.T., S.A.	A (high)/R-1 (middle) N/A

Relevant Dates

Type	Date
Issue Date	10 December 2019
DBRS Morningstar Initial Rating Date	4 December 2019
First Interest Payment Date	20 April 2020
Payment Frequency	Quarterly, on the 20th day of January, April, July and October
Call Date	When the asset balance is less than 10.0% of the original portfolio
Early Amortisation Date	N/A
Legal Final Maturity Date	20 April 2051

Methodologies Applied

The following are the primary methodologies that DBRS Morningstar applied to assign ratings to this transaction, which can be found on www.dbrs.com under Methodologies. Alternatively, please contact info@dbrs.com or contact the primary analysts whose contact information is listed in this report.

- *Rating CLOs Backed by Loans to European SMEs* (July 2019)
- *Legal Criteria for European Structured Finance Transactions* (September 2019)
- *Interest Rate Stresses for European Structured Finance Transactions* (October 2019)
- *Rating CLOs and CDOs of Large Corporate Credit* (February 2019)
- *Cash Flow Assumptions for Corporate Credit Securitizations* (February 2019)
- *Operational Risk Assessment for European Structured Finance Servicers* (September 2019)
- *Operational Risk Assessment for European Structured Finance Originators* (September 2019)
- *European RMBS Insight: Spanish Addendum* (July 2019)

Rating Rationale

- The ratings are based on DBRS Morningstar's review of the following analytical considerations:
- The transaction's capital structure and the form and sufficiency of available credit enhancement.
- Relevant credit enhancement in the form of subordination, reserve fund and excess spread.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms of the transaction documents.
- The originator's capabilities with respect to origination, underwriting, servicing and financial strength.
- The credit quality of the collateral and the ability of the servicer to perform collection activities on the collateral.
- The structure of the priority of payments.
- The legal structure and presence of legal opinions addressing the assignment of the assets to the Issuer and the consistency with DBRS Morningstar's *Legal Criteria for European Structured Finance Transactions* methodology.

Strengths

- **The EUR 150.0 million Reserve Fund:** The reserve fund corresponds to 5.00% of the initial aggregate balance of the portfolio and is available as additional credit enhancement for the Notes.
- **Relatively Low Obligor Concentration Limits Allowed in the Eligibility Criteria:** The largest exposure to one obligor in the transaction cannot be higher 0.85% of the portfolio's aggregate principal balance. The top 10 largest obligors could represent 6.5% of the transaction by loan balance as a maximum.
- **Low Portfolio Probability of Default:** Eligibility criteria only allow credit rights with an internal probability of default (PD) up to 3.0% at date of origination and the weighted-average internal PD of the additional pool cannot be higher than 1.50%, which ensures certain quality levels in the portfolio.
- **Replenishment Period Termination Events:** The transaction benefits from replenishment period termination events, including if the cumulative default ratio is greater than 0.70%.

Challenges

- **Revolving Period:** The issuer has a two-year revolving period. The first amortisation date will be April 2022, and during this period the transaction will acquire new loans, which may change the current portfolio composition.

  Mitigant: DBRS Morningstar assumed the worst-case scenario for the portfolio by using the limitations established in the eligibility criteria.

- **Relatively High Industry Concentration:** Eligibility criteria limit the industry concentration allowing a relatively high concentration in terms of industries, these limits are based on the NACE code, and the largest industry could represent 25.0% of the portfolio balance and top three industries could represent a maximum of 60.0% of the portfolio balance.

  Mitigant: Even though these eligibility criteria limits are relatively high, if any are breached, the purchase of any new loans will be stopped. In addition, these concentration limits were taken in consideration in the worst-case portfolio used for the analysis.

- **The Reliance on Banco Santander:** Banco Santander performs most of the relevant ancillary roles in the transaction. Banco Santander originated the loans and will act as servicer and financial agent where all of the issuer's bank accounts (including collections and reserve fund cash) will be held.

  Mitigant: DBRS Morningstar maintains public ratings, private ratings or internal assessments to evaluate and monitor the potential risk that counterparties pose to the performance of the Notes in their roles. In addition, the transaction agreements foresee specific remedial actions for each counterparty role once the DBRS Morningstar ratings fall below certain levels.

- **Interest Risk Exposure:** As a result of 55.0% of the portfolio that according to eligibility criteria could correspond to fixed interest rate credit rights, the notes pay a floating interest rate. The issuer does not include any hedging agreements to mitigate the aforementioned interest rate risk in the transaction.

  Mitigant: The exposure to interest rate risk is divided into two main components: basis risk and liquidity risk. Basis risk is addressed in DBRS Morningstar's analysis by incorporating stressed spread assumptions in its cash flow analysis. The liquidity risk is mitigated via the reserve fund, which can be used to pay the interest and principal on the notes in case of a shortfall in the available proceeds.

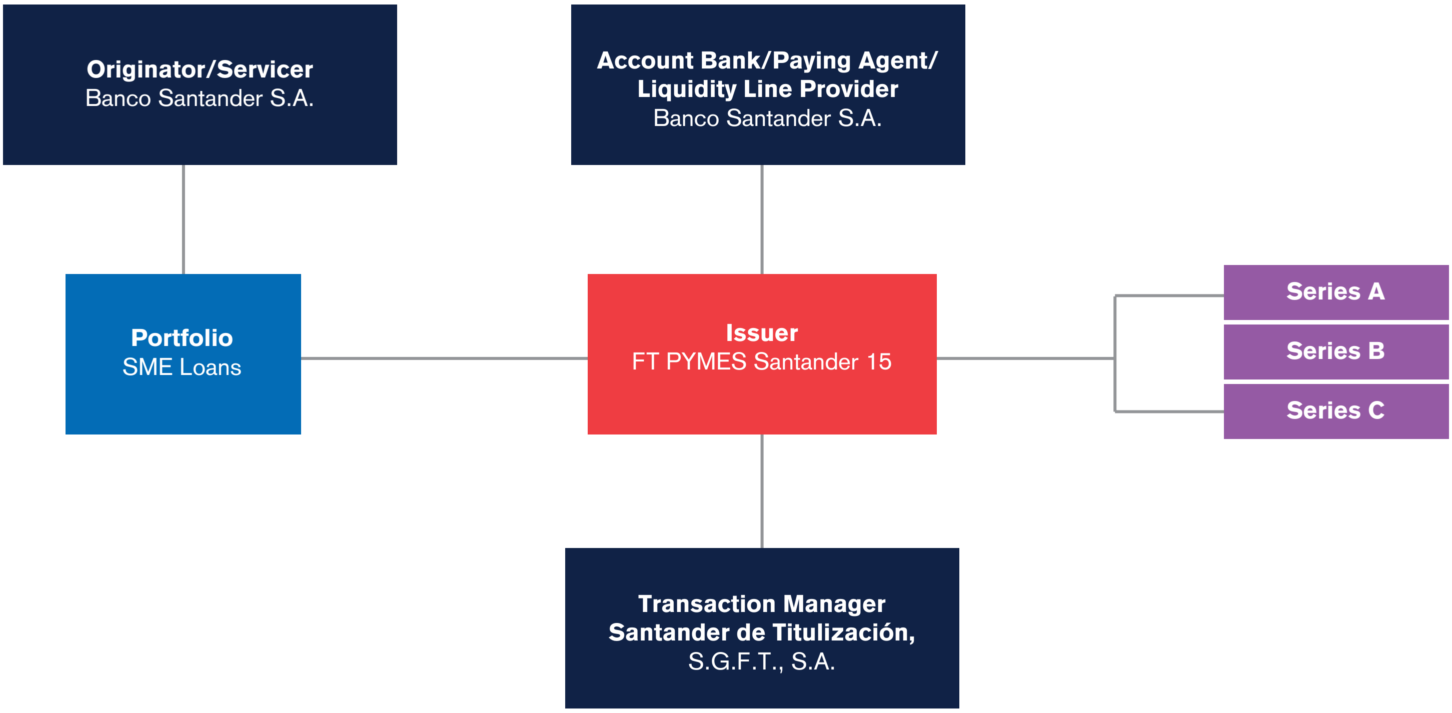
- **The Exposure to Credit Lines:** According to eligibility criteria, credit lines could represent up to 30.0% of the portfolio and must be drawn at least at 50.0%, that means that they could have future drawings and the portfolio could increase by up to EUR 900.0 million if the credit lines were to be fully drawn by borrowers, which would have a dilutive effect on the credit enhancement provided on the notes.

  Mitigant: Drawings on credit lines are first funded via principal proceeds collected in each period. DBRS Morningstar's analysis considers a scenario where the credit lines drawn amount increases by EUR 225 million, resulting in a portfolio of EUR 3.225 million and such increase is funded by the liquidity line.

- **The Servicer's Loan Modification Abilities:** The servicer's ability to modify some of the original terms of the loan agreements within specified limits could increase the risk profile and the weighted-average life (WAL) of the portfolio.

  Mitigant: The servicer flexibility is common in balance sheet securitisations. DBRS Morningstar has assumed the worst-case portfolio allowed by the servicer's permitted variations.

Transaction Structure



Transaction and Counterparty Overview

DBRS Morningstar evaluates the potential credit impact on its ratings based on the performance of counterparties that issuers face in the capacity of derivative counterparties, account banks, custodian or other roles. To minimise the impact that the failure of such counterparties would have on the DBRS Morningstar-rated debt, each counterparty is required to satisfy minimum rating, collateral posting or other requirements as outlined in the publicly available and current DBRS Morningstar *Legal Criteria for European Structured Finance Transactions* methodology. For this transaction, each counterparty satisfies such criteria based on DBRS Morningstar public ratings, private ratings or private internal assessments of the creditworthiness of counterparties that do not have a DBRS Morningstar public rating.

Role	Counterparty Name	Minimum Rating	Actual Rating
Issuer Account Bank/Paying Agent	Banco Santander, S.A.	A (low)	A (high) /R-1 (middle) / COR: AA (low)
Servicer	Banco Santander, S.A.	A (low)	A (high) /R-1 (middle) / COR: AA (low)

Issuer

The issuer is an SPV created in accordance with Spanish securitisation law. Under the securitisation laws, the SPV is a separate and independent entity from the originator (patrimonio separado) but does not have any legal personality or capacity. The issuer is represented by Santander de Titulización, S.G.F.T., S.A. (the management company or sociedad gestora). All acts performed and all contracts, transactions or agreements executed by the management company on behalf of the issuer are considered, under Spanish law, to be acts performed and transactions, agreements or contracts executed by the issuer.

Originator and Servicer

Banco Santander is responsible for collecting all payments due from the borrowers on the assets, managing relationships with borrowers, monitoring the performance of the credit rights and initiating recovery processes against defaulted or nonperforming borrowers. Banco Santander will transfer all collections received from the loan portfolio to the to the treasury account or the interest account on a daily basis.

Management Company

Santander de Titulización S.G.F.T., S.A. acts as the management company and legal representative of the Issuer. It will be responsible for all administrative functions, including priority of payments calculations, instructing payments to and from the treasury accounts, maintaining the financial accounting of the Issuer, preparing performance reports and providing information to regulators and rating agencies. The management company is also responsible for representing the noteholders' interests in the Issuer and determining whether counterparties should be replaced under certain circumstances. Banco Santander owns 81.0% of the management company.

Collections Account

Banco Santander will act as the collection account bank. All payments received on the loans will initially be domiciled in their collection accounts in Banco Santander. All collections of principal and interest are then transferred to the treasury account within a maximum of two business days.

Account Bank, Reserve Fund Account Bank and Paying Agent

Banco Santander will act as the account bank and will maintain the treasury, principal and interest account.

The treasury account will hold all principal collections as well as interest earned on the treasury and principal accounts. The treasury account will also feature an overdraft facility known as the liquidity line that can be used to cover potential future drawings on the credit lines.

The principal account will hold up to an amount equal to 5.0% of the outstanding balance of the Series A and B Notes from the available funds after the new asset acquisition that were not used on that purpose.

The interest account will hold all interest collections received on the portfolio, any interest earned on the interest account and cash reserve amounts. In addition, once all credit lines in the portfolio have amortised in full, the interest account will also hold all principal collections and the treasury and the principal accounts will cease to exist.

DBRS Morningstar publicly rates Banco Santander at A (high) with a Stable trend and it has a Critical Obligations Rating (COR) of AA (low). As per the transaction documentation, in case of a withdrawal of the rating or a downgrade of the account bank's applicable rating below A (low), the account bank must either (1) be replaced within 60 natural days by a financial institution with a DBRS Morningstar public rating, private rating or internal assessment of at least A (low), or (2) find a guarantor with a DBRS Morningstar public rating, private rating or internal assessment of at least A (low). If there are any costs incurred by these options, they will be at the expense of the original account bank or guaranteed account bank.

The account bank applicable rating will be the higher between (1) the senior debt rating of the bank or (2) one notch below the long-term COR.

In addition, to ensure that the liquidity line mechanism is available to cover obligations under the credit lines, once the long-term rating of Banco Santander is downgraded below "A" or withdrawn, Banco Santander must constitute a deposit (calculated as 105% of the credit lines' maximum limit minus the drawn balance on the credit lines) within 30 calendar days in a financial institution that DBRS Morningstar rates at least "A".

Origination and Servicing

DBRS Morningstar conducted an updated operational review of Banco Santander's loan operations for SMEs in October 2019, however, the last on-site review was conducted in April 2016. DBRS Morningstar considers the origination and servicing practices of Santander to be consistent with those observed among other Spanish SME lenders.

Santander is part of the Santander Group, which has its origins in the founding of Banco de Santander in 1857. By 1957, when it celebrated its 100th anniversary, Banco de Santander had become the seventh-ranked financial institution in Spain. In 1994, the acquisition of Banco Español de Crédito (Banesto) was a major event in the group's history, making it the leading player in the Spanish market. Historically, Santander has had a strong presence abroad beginning in 1947 in South America, and is currently one of the largest banks in Europe and Latin America with a significant presence in the U.S. The bank is engaged in broadly diversified activities in retail and corporate banking, consumer finance and asset management.

As of end-Q1 2019, the Santander Group had total assets of EUR 1.51 trillion, over 200,000 employees and 144 million customers. It is the largest bank in Spain and one of the largest in the euro zone by total assets and market capitalisation.

DBRS Morningstar confirmed Santander's issuer and senior debt ratings at A (high) with a Stable trend in November 2019. More information on Santander's ratings can be found at www.dbrs.com.

Origination & Underwriting

The starting point for the origination process for SME loans depends on the classification of the client. Santander classifies clients in three different categories based on the client's turnover. If the client has a turnover of up to EUR 2 million it is classed as estandarizados and the loan will sit in the self-employed and micro-business portfolio. Clients with a turnover of more than EUR 2 million are classed as carterizados, loans to those with a turnover between EUR 2 million and EUR 50 million are contained within the SME portfolio and those with a turnover in excess of EUR 50 million are housed in the corporate loan portfolio.

Information used in the underwriting process depends on the product and the client but typically includes:

- Financial statements for the last three years;
- Reports from the Bank of Spain (such as CIRBE);
- Use of delinquent data bases (such as RAI, ASNEF);
- Asset declaration for the debtor and any guarantors;
- Appraised value of the guarantee (mortgage);
- Forecasts for the coming years;
- Information about guarantees (deposit, shares, etc.);
- Income or corporate taxes and annual reports

Estandarizados Clients

For clients classified as estandarizados (standardised), applications are sourced from the branch network, online banking and call centres. Data regarding the loan is collected from the application form including the loan amount, term, purpose, collateral and details of any guarantors. The applicant's details are obtained including documentation to verify their identity to satisfy know your customer and anti-money laundering requirements, European Union General Data Protection Regulation authorisation, tax returns, and confirmation of net worth. A bank representative inputs all the client and loan data into the system adding any comments such as qualitative information gathered at interview.

Data is fed into the decision engine and an automated decision is made considering the loan details, socioeconomic information of borrowers and guarantors, financial data, external information such as from credit bureaux and experience with the Group. Applications may be reviewed by the Retail Risk Authorisation Centre (UAM) if the decision falls into a grey zone, an automatic review parameter or if the automated decision was a decline and the applicant requests an appeal. The UAM is centralised in Madrid and comprises four specialised teams for micro-businesses, self-employed individuals, agricultural businesses and troubled-debt/refinancing. It is independent from the commercial area of the business and targeted on providing responses within 48 hours.

Carterizados Clients

For clients classified as carterizados (nonstandardised), applications start with a face to face interview which may be conducted in a branch or through a visit to the client's business. Data is collected and entered into the system and clients are assigned a specialised credit analyst to review the application. Credit analysts are based in 13 territories across Spain and are responsible for their own portfolio of contracts. A hybrid rating model which combines quantitative (statistical) information and qualitative (expert) information is used to assign a rating to the business. The rating model considers the company's solvency based on financial data, external information, experience with the Group and the analyst's evaluation.

Santander's approval authority limits are generally consistent with other Spanish banks. Branch approval levels are set according to competency and size with branches having limited authority. The risk profile of the customer and the loan type (secured or unsecured) are also taken into account in setting approval limits. Approval limits are based on the total borrower or economic group exposure and not individual loans, which is consistent with the wider Spanish market complies regulatory guidelines.

If a loan is rejected by the system, the decision can only be appealed if the branch obtains additional supporting information and the proposal is supported by the branch manager before being reviewed by a risk analyst. Only a maximum of 10% system rejections may be appealed.

Valuations

Santander has an internal appraisal department responsible for carrying out valuations of select properties based on internal guidelines, managing external valuers and reviewing all valuations conducted by external appraisers. All appraisals are performed according to Santander guidelines and standard valuation templates are used. For loans less than EUR 500,000, the valuation process is outsourced and the values set for commercial assets are typically haircut by 10% to 15%.

All assets are revalued annually using statistical valuation data (indexation) although a full appraisal is conducted for assets more than EUR 3 million and a second appraisal may be ordered if a 15% variance exists from the previous valuation.

Summary Strengths

- All loans are sourced internally through the branch network and the majority of new lending is to existing clients.
- Strong experience among the underwriting and credit risk teams.
- Good securitisation experience with regular issuance of SME and RMBS deals since 2001.

Servicing

Like most Spanish banks, payments are primarily made automatically through direct debit, although borrowers can submit payments online, or pay directly at a branch. The majority of loans are on monthly payment schedules, although the portfolio does include some quarterly, semiannual and annual schedules.

Risk Monitoring

Santander's territories have a key role in the monitoring process, and it is integrated in the specialised risk analyst function. Analysts monitor the clients in their portfolio with the support of monitoring managers and directors of monitoring in the territory:

- Reviewing all clients in the portfolio, according to a prescribed calendar, policy, rating and qualification
- Irregular management
- Update of economic and financial information
- Management alerts

The bank's alert system is based on monitoring the credit quality of the clients and their transactions. The clients are classified in the system either as normal and performing as expected or classified as special surveillance resulting in the loan placed on a watch list for ongoing monitoring. While under surveillance the branch agent will determine the level of risk associated with specific clients.

The alerts are used to track the progression of a loan, anticipate credit issues and take early action to mitigate risk. This system is based on the analysis of a set of variables relating to transactions and customers, in order to detect behaviour which may indicate potential problem situations. Watch list triggers including the following:

- A problem within a sector;
- Changes in a company's structure or its shareholders;
- High debts;
- Variations in rating levels;
- Overruns;
- Overdrafts;
- Delinquency tracking databases (CIRBE, RAI, EXPERIAN, etc.).

DBRS reviews the client's rating semiannually but may assess it earlier depending on the system alerts.

The monitoring area within headquarters coordinates monitoring with the territories and has five main functions:

1. Global review of the portfolio – following the evolution of the main risk metrics and managing the watch list.
2. Customer review – control and supervision of all client reviews carried out in the territories.
3. Portfolio cost of credit – reviewing clients in the watch list and their delinquency situation. Discounting of cash-flows (IFRS9) and re-qualifying clients.
4. Valuation and incident management – reviews of data validation, analysts' objectives, audit and incident management.
5. Project monitoring – developing and improving monitoring models and tools.

Arrears Management and Foreclosures

The collections and asset management department sits within the risk function and reports to the chief risk officer. The aim of Santander's collection process is to recover unpaid balances in the shortest time and at the lowest cost while providing appropriate solutions for its clients. To facilitate this, Santander employs segmentation by customer rating, risk profile, loan size and default situation.

If a payment is missed, a loan is classified as irregular and the recovery process commences. Non-real estate loans with an outstanding balance up to EUR 300,000 between 1 and 30 days past due (DPD) are largely dealt with in branch and external call centres. Between 30 and 90 DPD, individual and SME managers are involved in conjunction with external call centres. Non-real estate loans over EUR 300,000 are dealt with entirely by branches up to 30 DPD and individual and SME managers between 30 and 90 DPD. Loans over EUR 5 million are dealt with by specialist teams throughout the process while real estate loans are dealt with by real estate and recoveries managers together with branches.

At the early stages of collection, the focus is on collecting cash to clear any arrears. If the debtor has problems meeting its payment obligations as a result of financial difficulty, then a loan modification may be considered which may involve refinancing the existing loan on terms which are affordable.

If a loan reaches 90 DPD, it is classed as delinquent. For non-real estate loans with a balance below EUR 50,000, recovery action is then outsourced to a panel of external debt collection agencies (DCA). If the loan value is between EUR 50,000 and EUR 5 million, it continues to be dealt with by individual and SME managers but external DCAs may be involved. Loans of over EUR 5 million remain with specialist teams and real estate loans continue being dealt with by real estate and recoveries managers together with branches, but external DCAs may be involved.

In cases of serious deterioration, payment arrangements based on affordability may be considered. If this is possible then a discounted payoff may be considered whereby a portion of the loan is written off on payment of an agreed amount. If a loan is secured on an asset or real estate then Santander will consider cancellation of the debtor's obligation, or a portion of it, on surrender of the security. If the loan is backed by an asset but the debtor is not willing to surrender it then judicial action may be taken to oblige the debtor to deliver the asset. Any asset is then sold to realise funds to repay or reduce the outstanding balance.

Bank of Spain regulations require that exposures are classed as written off after four years from the date of default. This date may be brought forward if detailed analysis leads a lender to consider that recovery is unlikely. Santander usually performs this detailed analysis two years after the default date. However, the classification of a loan as written off for accounting purposes does not change the approach to the recovery of the outstanding balance and recovery action will continue until the loan is repaid or collection is no longer possible, such as in the event of the business dissolved.

Summary Strengths

- Monthly surveillance activities of bank's entire SME portfolio segregated by customer segment.
- Centralised servicing operations particularly for medium- and late-term arrears and no use of external collection agencies.
- Good oversight of third-party debt collection agencies.

Legal Structure

Laws Affecting Transaction

The issuer is incorporated and regulated under Spanish laws. The key Spanish securitisation law regulating this transaction is Law 5/2015 governing Asset-Backed Securitisation Funds and Securitisation Funds Managing Companies.

The securitisation laws do not include a full and complete legal framework for securitisations and, in many respects, the legal analysis relies on general law, including laws regarding commingling, tax, transfer of assets and risks related to the counterparties of the issuer. In addition, the general law of the mortgage market, Law 2/1981 and Royal Decree 716/2009 (the Mortgage Market Laws) are key considerations in mortgage-backed securities transactions; therefore, any DBRS Morningstar rating analysis also takes these laws into consideration.

More details on the legal framework in Spain can be found in DBRS Morningstar's *Legal Criteria for European Structured Finance Transactions* methodology, published in September 2019.

Additionally, the changes to the Spanish insolvency law introduced by the Royal Decree Law 4/2014 imply additional risks and uncertainties that could have an adverse effect on the performance of SME collateralised loan obligation (CLO) transactions.

The key risks that could affect SME CLO transactions include:

1. Potential extension in the asset maturities.
2. Uncertainty about how voting rights will be used in the approval of restructuring plans.
3. Uncertainty about how certain loss or default triggers will be calculated following the implementation of restructuring plans, which may include changes to the debt instruments held by the SPV (such as debt conversion).

Further details on how the Royal Decree Law 4/2014 may affect SME CLO transactions can be found in the DBRS Morningstar commentary *Spanish Insolvency Law Changes: The Good, the Bad and the Uncertain for SME CLOs*.

Current Transfer/Assignment of Receivables

In Spanish securitisations, the transfer of receivables must be made in writing, but the consent of the underlying obligor is not necessary. Neither Law 5/2015 nor the Mortgage Market Laws require the formalisation of the transfer in a public deed; however, the transfer of receivables either through the issuance of mortgage securities (participaciones hipotecarias or certificados de transmisión de hipoteca) or through the ordinary transfer of non-mortgage receivables is usually documented in a public deed or transfer agreement to record the date of execution for the purposes of its effect with respect to third parties and, therefore, to be recognised by regulators or insolvency officers.

In this transaction, the transfer of the no-mortgages loans and the credit lines from Banco Santander to the Issuer is done directly in the public deed on the date of incorporation of the issuer for initial assets, and by a transfer agreement on each acquisition date for additional assets. The transfer of the assets from the mortgage loans is also carried out on the incorporation date through the issuance of mortgage transfer certificates (certificados de transmisión de hipoteca) and their subscription by the issuer; this applies to the initial and additional assets.

Asset Eligibility Criteria

Loan Eligibility Criteria

As of 10 December 2019 (the issue date), the loans complied with the following criteria, the criteria also applies in every purchase date of new loans (for a full list, please see the Prospectus):

- Credit rights regulated by Spanish law and denominated in euros;
- All credit rights exist and are valid and enforceable;
- All credit rights have a final payment date before 31 March 2048;
- Borrowers are corporate, SMEs, micro-companies and self-employed;
- Banco Santander, Banif or Banesto originated all assets in its normal course of business and using its normal criteria and policies;
- Currently, all loans are serviced by Banco Santander in accordance with its current procedures;
- There are no legal claims against the credit rights that may adversely affect their validity.
- At the date of transfer, Banco Santander has no knowledge of bankruptcy of any of the borrowers included in this portfolio;
- The borrowers´ initial internal PD (at admission) is lower than 3.0%
- Loans are not restructured loans;
- No loans are in arrears for more than 30 days;
- All loans pay via direct debit;
- All mortgage loans are first lien mortgages.

Global Eligibility Criteria (portfolio)

The following criteria needs to be satisfied on every purchase date in respect of the overall portfolio:

- The maximum weighted-average (WAL) will be 3.5 years;
- Maximum borrower group concentration will be 0.85% of the portfolio balance, and with respect to the 10 largest group of borrowers their exposure will represent 6.5% of the portfolio balance as maximum;
- Top one industry based on NACE will represent as maximum 25.0%, and the top three industries by NACE will not be higher than 60.0% of the portfolio;
- The weighted-average internal default probability (PD) of the additional assets cannot be higher than 1.50%;
- The percentage of bullet loans will represent a maximum of 3.5% of the portfolio balance;
- Mortgage loans will represent at least 10.0% of the portfolio balance;
- In relation to the portfolio secured by mortgages, the weighted-average loan to value (WA LTV) cannot be higher than 70.0%;
- The credit lines will not represent more than 30% of the portfolio balance;
- Credit lines will be drawn at least at 50.0% of their maximum balance;
- Maximum percentage of fixed-rate assets will be 55.0% of the portfolio balance;
- Concentration by region should be distributed as follows: the top one region will represent as maximum 20.0% and top three regions will represent no more than 55.0% of the portfolio balance.

Revolving Period Early Termination Event

The transaction documents envisage that upon occurrence of certain events, the revolving period will immediately terminate to allow the amortisation of the notes. Such events are summarised below:

1. The cumulative default ratio is greater than:
   - 0.35% before (and including) the forth payment date;
   - 0.70% up to eight payment date (end of revolving period).
2. The delinquency ratio is greater than:
   - 1.75% before (and including) the forth payment date;
   - 2.25% up to eight payment date (end of revolving period).
3. Banco Santander becomes insolvent or bankrupt;
4. Banco Santander is substituted as servicer;
5. Banco Santander annual audit report shows caveats;
6. A relevant changed in the Banco Santander origination and servicing policies happened.
7. If three-month Euribor is higher than 1.0%.

Cumulative default ratio means the ratio between:

- The aggregate of the outstanding balance of the defaulted credit rights (in arrears for more than 12 months for loans and six months for credit lines) and
- Initial balance of the portfolio.

Delinquency ratio means, the ratio between:

- The outstanding balance of the delinquent credit rights (in arrears for more than 90 days); and
- The sums of (1) the outstanding balance of the performing credit rights and (2) the outstanding balance of the delinquent credit rights

Buyback/Indemnity Mechanics for the Breach

If it is detected that any mortgage loans have hidden defects or breached any of the representations, the seller will agree to repair the hidden defect within 15 days following its identification or notification. If the above is not possible, the seller will replace the corresponding mortgage loans with another with similar characteristics with respect to maturity profile, interest rate, notional and loan-to-value level if approved by Santander de Titulización S.G.F.T., S.A.

Any expenses incurred with the repair or replacement of such loans will be paid by the seller. In the event that the seller is not able to replace or repair the affected loans within 10 business days of notification, the management company will request that the seller buy back the affected loans, including accrued and unpaid interest and deposit such amounts in the fund's treasury account or interest account.

For unsecured loans, if any hidden defects or breach of any of the representations occurs and is identified, the seller will agree to repurchase the loan (together with any accrued and unpaid interest) within 15 days following its identification or notification and deposit such amounts in the fund's treasury account or interest account.

Financial Structure

Transaction Cash Flow

The servicer will collect all payments received on interest and principal (including recoveries) from the portfolio on an ongoing basis. On each payment date, the amounts available in the treasury, principal and interest accounts will be distributed in accordance with the priority of payments as summarised below.

Priority of Payments

1. Taxes and senior expenses;
2. Interest on the Series A Notes and on the liquidity line (pro rata);
3. Interest on the Series B Notes, only if the cumulative outstanding balance of defaulted loans is below 5% of the original portfolio balance;
4. During the revolving period, the payment of the purchase price of the additional SME asset, during the normal amortisation period withholding of the amount available for Series A and Series B principal redemption.
5. Interest on the Series B Notes if deferred from point (3) above;
6. Top up reserve fund to the required level;
7. Interest on the Series C Notes;
8. Principal of the Series C Notes;
9. Interest and principal on the subordinated loan (in this order);
10. Servicer fees; and
11. Extraordinary interest on the Series C Notes.

Note Redemption rules

- The Series A Notes will start amortising on the first principal payment date in April 2022.
- The Series B Notes will amortise once the Series A Notes have been fully redeemed.
- The Series C Notes follow the Reserve Fund rules and may start to amortise before the Series B Notes.
- Given that the liquidity line is arranged in the form of a bank account overdraft, any principal collections received daily on the treasury account will be used first to reduce the overdraft to zero.

Early Liquidation Events

- Once the outstanding balance of the assets is less than 10% of the initial balance and the proceeds from the sale of the assets are sufficient to pay down all the Notes outstanding.
- If the management company is declared bankrupt and a substitute is not appointed within four months.
- If the management company has the approval of the noteholders and the agreements' counterparties.
- The first payment date that falls six months before the legal final maturity date.
- If the outstanding balance of the liquidity line exceeds 5% of the outstanding balance of the Series A Notes, but only if the proceeds available from the sale of the assets are sufficient to pay down the outstanding Notes in full.

Liquidation Priority of Payments

1. Taxes and expenses;
2. Interest on the Series A Notes and on the liquidity line (pro rata);
3. Principal on the Series A Notes and amortisation of the liquidity line (pro rata);
4. Interest on the Series B Notes;
5. Principal on the Series B Notes;

6. Interest on the Series C Notes;

7. Principal on the Series C Notes;

8. Interest and principal on the subordinated loan (in this order);

9. Servicer fees; and

10. Extraordinary interest on the Series C Notes.

Payment Timing

Interest due on the Notes for each subsequent period is determined two days before the applicable payment date. The transaction pays interest and principal on quarterly basis on the 20th of January, April, July and October of each year. Interest on the Notes is based on three-month Euribor plus a margin of 0.30% for the Series A Notes, 0.50% for the Series B Notes and 0.65% for the Series C Notes.

Security

Receivables

The initial portfolio consists of secured and unsecured loans and unsecured credit lines granted by Banco Santander to corporates, SMEs and self-employed individuals in Spain. On each quarterly payment date up to January 2022 (last acquisition date), the issuer would acquire additional assets following the characteristics described in the global eligibility criteria. At the time of the rating, approximately 17.6% of the outstanding balance of the provisional portfolio was secured by mortgages on residential and commercial properties situated in Spain; nevertheless, DBRS Morningstar analysed the portfolio based on the eligibility criteria, this is 10.0% of the mortgage loans on commercial properties.

Transaction Accounts

Treasury Account

The treasury account, which is linked to the liquidity line, receives the principal amounts from the credit rights. The treasury account may have a negative (overdraft) or positive balance because of the fluctuations in the committed and drawn amounts of the credit lines.

The treasury account will be cancelled once all credit lines have amortised and, ultimately, the liquidity line would cease to exist. Upon the termination of the treasury account, all outstanding balances would be transferred to the interest account.

Principal Account

The principal account will hold up to an amount equal to 5.0% of the outstanding balance of the Series A and B Notes from the available funds after the new asset acquisition that were not used for that purpose. It will be cancelled once all credit lines have amortised and, ultimately, the liquidity line would cease to exist. Upon the termination of the principal account, all outstanding balances would be transferred to the interest account.

Interest Account

The interest account receives all interest from the credit rights and, on each payment date, the amount in the interest account will be transferred to the treasury account. Upon the cancellation of the treasury account, both the interest and principal collection amounts will be deposited into the interest account.

Liquidity Line

Any drawing on the credit lines after closing is funded by proceeds from the reductions on other credit lines and proceeds from amortisations of the term loans. If this is not sufficient, the treasury account will start to use the liquidity line to fund the difference. On each day, all principal proceeds that the fund receives will be first used to reduce the liquidity line's outstanding drawn amount to zero.

Servicer Agreement

Banco Santander will act as the servicer of the portfolio of SME loans and credit lines. The servicer will employ standard due diligence to ensure that the payments are collected in accordance with the terms and contractual conditions of the loans.

Mechanics of Servicing

The servicer is expected to monitor and manage the credit rights sold to the issuer with the same care and diligence as it does with its own loans. The servicer will be responsible for collecting all payments due from the borrowers on the credit rights, managing relationships with borrowers, monitoring the performance of the loans and initiating recovery procedures against defaulted or non-performing borrowers.

The servicer is allowed to negotiate changes to existing credit rights within the permitted variations foreseen in the servicing agreement. The permitted variations are mainly limited to changes in the interest rate and maturity of the credit rights.

Commingling Risk

The servicer will pay all amounts received from loans within a maximum of two business day of being collected to the Issuer's treasury account opened with the account; however, as the account bank is Banco Santander, the Issuer has significant exposure to Banco Santander. Nevertheless, DBRS Morningstar finds comfort in Banco Santander's ratings of A (high) and R-1 (middle) with a Stable trend and in its COR of AA (low) and R-1 (middle) with a Positive trend. There are also provisions established in the transaction documentation to take certain remedial actions if the account bank's applicable rating falls below BBB (low).

The remedial actions upon a DBRS Morningstar rating downgrade of the Servicer below BBB (low) include one of the following options: appoint a backup servicer, appoint a replacement servicer or constitute a deposit to mitigate the commingling risk.

Servicer Termination

The servicer agreement can be terminated under certain conditions by the management company. The primary reasons for which a servicer could be terminated include: a breach of the obligations of the servicer under the servicer agreement, the insolvency or bankruptcy of the servicer or if the servicer ceases to have necessary authorisation by the Bank of Spain to provide such services. In cases where a servicer agreement is terminated, the management company will appoint a replacement servicer.

The servicer agreement can also be voluntarily terminated by the servicer only when the servicer has proposed a new replacement servicer, which does not add additional costs to the issuer and does not negatively affect the ratings of the Notes. Any event of servicer replacement needs to be communicated to the Comisión Nacional del Mercado de Valores, the Spanish financial securities markets regulator, and to the rating agencies.

Credit Enhancement

The Series A Notes benefit from credit enhancement in the form of the excess of the balance of the portfolio above the notional amount of the outstanding balance of the Series A Notes. Additionally, credit enhancement is provided by the reserve fund. The transaction also benefits from excess spread that can be used to replenish the reserve fund in the case of defaults of the credit rights.

Reserve Fund

As of the closing date, the balance in the reserve fund was EUR 150,000,000, equivalent to 5.0% of the Notes. The reserve fund will be funded through the Class C Notes issuance.

The reserve fund is available to cover senior expenses as well as missed interest and principal payments on the Series A Notes and Series B Notes throughout the life of the transaction.

The reserve fund balance must be maintained at the minimum level, defined as the lower of:

- EUR 150.0 million; and
- The higher of:
  - 10.0% of the outstanding principal balance of the Series A Notes and Series B Notes;
  - 2.5% of the original balance of the Series A and Series B Notes.

However, no reduction of the required reserve fund level will be allowed (1) in the first two years, (2) if the reserve fund was not funded to the minimum level on the previous payment date or (3) if the outstanding principal balance of the portfolio in arrears between 90 days and 360 days for loans, and between 90 days and 180 days for credit lines, is higher than 3.5% of the outstanding principal balance of the performing portfolio.

Interest Rate Risk

The issuer has not entered into any interest rate hedging agreements and is therefore exposed to basis risk, as well as potential liquidity risks, because of the timing mismatches between payments on the Notes (quarterly) and payments collected on the asset portfolio (a mixture of monthly, quarterly, semiannual and annual paying loans and credit lines).

The basis risk could affect the performance of the transaction, potentially leading to an interest shortfall resulting from adverse movements in the interest rate index on the Notes versus the interest rate indices on the loan portfolio. This risk is partially mitigated by the excess spread that the loan portfolio generates, which can be used to cover this potential shortfall to a certain extent. As such, the benefit normally given to available excess spread needs to be adjusted to take these potential negative effects of the basis risk into consideration.

DBRS Morningstar has analysed the historical relationship between different Euribor indices to determine stressed basis risk between the different indices pairs. Based on the interest rate distribution of the portfolio, DBRS Morningstar assumed a stressed basis of 0.65% p.a. This basis risk is addressed in DBRS Morningstar's cash flow tool analysis by reducing the spread paid by the floating portfolio by 65 basis points.

Data Quality

Banco Santander provided historical data consistent with the DBRS Morningstar data template to support the analysis of this transaction. Banco Santander provided historical default and delinquency information on SME loans and credit lines including a separate dataset for loans secured and unsecured and by internal client classification. The historical data was organised by vintage, with information on the number and amount of loans over 90 days in arrears as well as recovery data.

Additional information was provided based on the migration matrices for Banco Santander internal rating models based on their internal probability of defaults covering the period between December 2012 and December 2018. This data was relevant given the transaction eligibility criteria defined a maximum weighted-average PD based on the bank's internal models. DBRS Morningstar uses this information to determine a conservative average annual default rate while also considering the WA PD covenant.

DBRS Morningstar determined key inputs used in its analysis based on historical performance data provided for the originator and servicer as well as analysis of the current economic environment.

The sources of information used for these ratings comprise parties involved in the ratings, including but not limited to Banco Santander and the management company.

DBRS Morningstar considers the information available to it for the purposes of providing these ratings to be of satisfactory quality.

Collateral Analysis

Collateral Summary

		Limits from the Eligibility Criteria	Provisional Portfolio (as of 14 November 2019)
Asset Type (% of portfolio notional)	Loans Credit Lines	Min 70.0% Max 30.0%	70.3% 29.7%
Borrower Type (% of portfolio notional)	Small and Medium size Companies Corporates Micro Companies Self-employed Individuals		58.1% 21.5% 13.9% 6.5%
Portfolio Balance (EUR million)	Performing Principal overdue (<30 days in arrears)*		99.8% 0.2%
Number of Loans	Total Loans Credit lines		32,102 17,719 14,383
Number of Borrower Groups			28,561
Floating/Fixed (% of portfolio notional)	Floating Fixed	Min 45.0% Max 55.0%	55.2% 44.8%
Average Loan Size (EUR)			114,525
Average Borrower Exposure (EUR)			128,724
Weighted-Average Floating Spread (p.a.)			1.9%
Weighted-Average Fixed Interest Rate (p.a.)			1.5%
Mortgage Guarantee (% of portfolio notional amount)	First Lien Unsecured	Min 10.0% Max 90.0%	17.6% 82.4%
Mortgage Guarantee type (% of portfolio notional amount)	Residential Commercial		3.7% 3.9%
Weighted-Average Maturity			3.6 years
Weighted-Average Life			2.8 years
Obligor Group Concentration (% of portfolio notional amount)	Largest Top Ten Largest Top 20 Largest	Max 0.85% Max 6.50%	0.5% 4.2% 7.1%
Delinquency (% of portfolio notional amount)	Loans in Arrears (1 to 30 days) Loans in Arrears (31 to 90 days)		0.2% 0.0%

Note: Because of rounding, the items in the columns might not add up to the stated totals.
Sources: Banco Santander, DBRS Morningstar

Portfolio Distribution – Largest Exposures

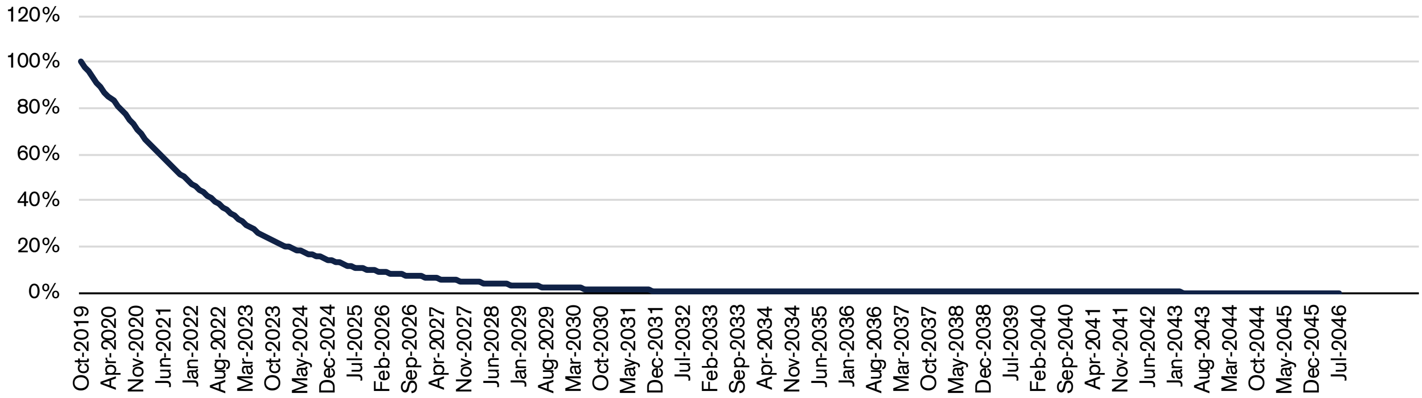
The portfolio is very granular and it is well diversified across borrowers. The top one and ten obligors represent 0.5% and 4.2% of the outstanding balance of the portfolio, respectively. The limits established in the eligibility criteria are 0.85% of the outstanding balance for the largest borrower group and 6.50% of the outstanding balance for the Top 10 borrower groups.

Rank	Balance (EUR)	Percentage of Portfolio	Region	Industry
1	16,903,997	0.5%	Catalonia	Lodging & Casinos
2	16,666,667	0.5%	Andalusia	Beverage & Tobacco
3	16,577,623	0.5%	Catalonia	Beverage & Tobacco
4	16,276,089	0.4%	Madrid	Surface Transport
5	16,200,000	0.4%	Asturias	Farming/Agriculture
6	16,021,887	0.4%	Basque Country	Chemicals & Plastics
7	14,712,703	0.4%	Valencian Community	Surface Transport
8	13,524,976	0.4%	Canary Islands	Equipment Leasing
9	13,500,000	0.4%	Galicia	Building & Development
10	12,701,700	0.3%	Valencian Community	Business Equipment & Services
Total	**153,085,642**	**4.2%**		

Note: Because of rounding, the items in the columns might not add up to the stated totals.
Sources: Banco Santander, DBRS Morningstar.

Amortisation Profile

Based on the amortisation provided to DBRS Morningstar as of provisional pool date, the portfolio has a WAL of 2.85 years (assuming zero prepayment and zero defaults). The maximum WAL allowed in the eligibility criteria is 3.5 years, for the purpose of the analysis, DBRS Morningstar assumed 4.09 years to account for permitted variations, which includes maturity extensions for a limited percentage of the portfolio.



Portfolio Distribution – Borrower Industry Sector Classification

The portfolio is well diversified across industries grouped by DBRS Morningstar industry classification. The top industry exposure is to Building and Development, which represents approximately 20.5% of the portfolio balance, which is in line with other DBRS Morningstar-rated Spanish SME CLOs originated recently. According eligibility criteria industry concentration is based in NACE Code, largest sector in the portfolio could not represent more than 25.0% of the portfolio balance and the top three industries will represent as maximum 60.0% of the portfolio balance. DBRS Morningstar took these limits for its analysis.

Exhibit 1

DBRS Morningstar Industry (as of the Closing Date)	Percentage of Balance
Building & Development	20.5%
Food Products	10.9%
Business Equipment & Services	8.9%
Farming/Agriculture	8.9%
Retailers (Except Food & Drug)	5.4%
Surface Transport	4.9%
Lodging & Casinos	4.5%
Automotive	4.3%
Chemicals & Plastics	3.9%
Beverage & Tobacco	3.0%
Food Service	2.2%
Conglomerates	2.0%
Clothing/Textiles	1.9%
Nonferrous Metals/Minerals	1.8%
Health Care	1.6%
Industrial Equipment	1.4%
Leisure Goods/Activities/Movies	1.3%
Food/Drug Retailers	1.3%
Drugs	1.2%
Home Furnishings	1.0%
Equipment Leasing	0.9%
Ecological Services & Equipment	0.9%
Electronics/Electrical	0.8%
Autonomo	0.8%
Steel	0.7%
Publishing	0.7%
Telecommunications	0.7%
Forest Products	0.7%
Containers & Glass Products	0.7%
Miscellaneous	0.6%
Remaining Industries	1.8%
Total	**100.0%**

Note: Because of rounding, the items in the columns might not add up to the stated totals.
Sources: Banco Santander, DBRS Morningstar.

Portfolio Distribution – Borrower Location by Region

Exhibit 2

Regional Classification (as of the Closing Date)	Percentage of Balance
Catalonia	17.6%
Madrid	15.8%
Andalusia	13.5%
Valencian Community	11.8%
Galicia	5.7%
Canary Islands	5.2%
Basque Country	4.5%
Murcia	3.8%
Castille-Leon	3.7%
Aragon	3.5%
Castille-La mancha	3.0%
Balearic Islands	2.6%
Navarre	2.3%
Extremadura	2.2%
Asturias	1.8%
Cantabria	1.7%
La Rioja	1.2%
Melilla	0.1%
Ceuta	0.1%
Total	**100.0%**

Note: Because of rounding, the items in the column might not add up to the stated totals.
Sources: Banco Santander, DBRS Morningstar.

DBRS Morningstar Analysis

Asset Analysis

DBRS Morningstar used its SME Diversity Model to determine a lifetime default rate at the required rating levels. The SME Diversity Model takes key loan-by-loan information of the securitised portfolio (such as borrower identification (ID), borrower notional amount, industry ID and amortisation type for each loan); the expected WALof the portfolio, which is calculated creating a loan-by-loan amortisation schedule of the portfolio; and the annualised PD assumption estimated by DBRS Morningstar based on the historical data provided. The SME Diversity Model employs a Monte Carlo simulation to determine cumulative default rates (or hurdle rates) at each rating stress level.

Break-even default rates (BDRs) on the Notes were determined using the DBRS Morningstar CDO cash flow tool. The minimum BDR is computed over nine combinations of default timing and interest rate stresses. At the A (high) (sf) and CCC (low) (sf) rating levels, the BDRs for the average of the nine scenarios must exceed the respective hurdle rate calculated by the SME Diversity Model.

Average Annualised Default Rate

The average annualised default rate was determined considering the following:

- The portfolio eligibility criteria, in particular, the limit regarding the WA PD (per Santander internal models) for each subsequent pools sold during the revolving period cannot be higher than 1.5%.
- The annual internal rating migration matrices provided covering the period between December 2012 and December 2018. 20

Banco Santander supplied historical default data split into the eight different asset types for loans and credit lines. The performance data was split by type of borrower: Estandarizados (borrowers with a turnover of up to EUR 2 million and they are companies), Retail (borrowers with a turnover of up to EUR 2 million and they are micro-companies and self-employed), and Carterizados (borrowers with a turnover of more than EUR 2 million) and by asset type (credit lines, unsecured loans, and secured loans).

The pool is revolving however, the eligibility criteria does not prescribe specific limits regarding the minimum and maximum percentage of portfolio in each of the eight borrower and asset type combinations. As such, the PD was not a function of each individual asset type and borrower type historical performance but a review of the internal models stability and predictive power over the last six years.

DBRS Morningstar conclude the models have in general a good predictive power of defaults. However, some of the migration matrices did exhibit high volatility between rating bands. Also, while the models have been conservatively estimating defaults for the most recent years (expected for "through-the-cycle" models in periods of economic growth) there have been some outliers as well as the fact that for the years 2012 and 2013 the models have underestimated observed defaults. For the reasons above, DBRS Morningstar considered it reasonable to apply a stress factor of 1.5 times the internal model PDs. Considering the WA internal PD covenant was 1.5%, the average annualised PD used in DBRS Morningstar analysis was 2.25%. For reference, the WA internal PD for the provisional pool was 0.84%.

Granularity Default Risk
Borrower concentration is taken into account in the DBRS Morningstar SME Diversity Model. In exceptional cases, DBRS Morningstar may need to conduct additional analysis to ensure that the risk associated with specific borrowers is accounted for appropriately. DBRS Morningstar determined that there were no borrowers requiring additional analysis in the portfolio for this transaction nor the eligibility criteria allows any relevant levels of borrower concentration.

Correlation
DBRS Morningstar employs a two-factor correlation model as the basis for the SME default analysis. This correlation structure is implemented in the DBRS Morningstar SME Diversity Model, allowing for explicit concentration in obligor and industries while using a Monte Carlo process to generate the stressed default rates. To account for the increased concentration risk inherent in SME pools because of obligor and industry, DBRS Morningstar applies a rating level-based correlation stress using the DBRS Morningstar SME Diversity Model.

Recovery Rates and Recovery Delay
For assets that are unsecured or secured by collateral other than real estate, DBRS Morningstar applies recoveries for the applicable proposed rating and country tier in line with its Rating CLOs and CDOs of Large Corporate Credit methodology.

For assets secured by residential or commercial real estate, market value decline (MVD) assumptions are applied to the collateral value with the resulting stressed value available for loan repayment. For residential collateral, MVDs and indexation are based on regional distribution. For commercial collateral, DBRS Morningstar applies different MVDs depending on whether the valuation is indexed or if it is applied to an updated valuation. In the case of multiple loans or liens, DBRS Morningstar considers all available data and computes the appropriate recovery. The resulting recovery rate is floored at the senior unsecured recovery rate for the applicable proposed rating and country tier.

The MVD assumptions for assets secured by residential real estate can be found in DBRS Morningstar's *European RMBS Insight Methodology and European RMBS Insight: Spanish Addendum*. MVD assumptions for assets secured by commercial real estate are based on residential real estate MVDs with additional stress applied. Commercial MVDs are assumed using a peak-to-trough approach and, therefore, DBRS Morningstar accounts for situations where prices have corrected significantly from the peak by indexing property values to account for relevant price movements. DBRS Morningstar MVDs for commercial real estate are contained in the DBRS Morningstar *Rating CLOs Backed by Loans to European SMEs* methodology.

The PYMES Santander 15 provisional portfolio is composed of secured and unsecured loans and credit lines with 17.6% of the portfolio's outstanding balance secured by first lien mortgages, with commercial and residential collateral. However, the transaction is revolving and the eligibility criteria specify that at least 10.0% of the portfolio should have mortgage guarantees and the weight average LTV will be as maximum as 70.0%, DBRS Morningstar incorporates these conditions in its analysis. In terms of mortgage security type, approximately 3.7% of the portfolio balance was backed by residential property and 13.9% was backed by commercial property. As the eligibility criteria does not specify any distribution regarding the collateral type DBRS Morningstar assumed all mortgage loans are secured by commercial collateral.

Recovery timing is assumed to vary according to the domicile of the obligor. In general, recovery delay assumptions have been determined by examining the average time to resolve insolvencies as well as the legal framework regarding relative debtor-/creditor-friendliness in a particular jurisdiction. For Spain, DBRS Morningstar assumes a recovery delay of 2.25 years for unsecured loans and 4.00 years for secured loans.

Please refer to DBRS Morningstar's *Rating CLOs and CDOs of Large Corporate Credit* methodology for country tiers and recovery delays for commercial real estate and unsecured recoveries as well as the *European RMBS Insight Methodology and European RMBS Insight: Spanish Addendum* for recovery delays by country for residential real estate.

A summary of the recovery rates and recovery delays assumptions used for this transaction is shown in the table below.

Parameters	Values (at A (high) (sf) Rating Stress)	Values (at CCC (low) (sf) Rating Stress)
WA Unsecured Recovery Rate	16.3%	21.5%
Unsecured Recovery Delay for Spain	2.25 years	2.25 years
WA Secured Recovery Rate	48.9%	70.3%
Secured Recovery Delay for Spain	4.0 years	4.0 years

Overall Rating Parameter Inputs for the DBRS Morningstar Diversity Model

The inputs used to calculate the portfolio default rates are:

Parameters	Values (at A (high) (sf) Rating Stress)	Values (at CCC (low) (sf) Rating Stress)
WA Life of SME Portfolio (years)	4.09	4.09
Assumed One-Year Default Rate	2.25%	2.25%
Inter-Industry Correlation	8.25%	5.13%
Intra-Industry Correlation	20.63%	12.81%

The WA life of the pool was 2.85years. DBRS Morningstar stresses to 4.09 years which is based on the maximum WAL defined in the eligibility criteria at 3.50 plus the adjustment for the permitted variations that allow up to 10.0% of the portfolio to extend the maturity. The expected portfolio lifetime Total Default Rates for the required ratings (based on the inputs described in the table above) are indicated below:

Target Rating	Lifetime Total Default Rate
A (high) (sf)	27.44%
CCC (low) (sf)	6.58%

Interest Rate Scenarios

The purpose of the interest rate stress scenarios is to determine whether the transaction has any systemic interest rate risk exposure, such as having all floating-rate liabilities and at least some fixed-rate assets without an adequate hedge. DBRS Morningstar uses its cash flow tool to test the impact on the Notes' BDRs for three interest rate scenarios: a forward interest rate curve, stressed increasing interest rate scenarios and stressed decreasing interest rate scenarios.

The higher the target rating, the more extreme the level of interest rate stress that is used. For example, the interest rates assumed under the increasing interest rate stress scenario are higher for a target rating of A (high) (sf) than for a target rating of CCC (low) (sf). The interest rate stresses are discussed in DBRS Morningstar's *Interest Rate Stresses for European Structured Finance Transactions* methodology, published in October 2019.

Default Timing Vectors Scenarios

In addition to the interest rate scenarios, DBRS Morningstar also varies the timing of when the defaults occur. There are three scenarios that are used for all target ratings:

Default Vector	Year 1	Year 2	Year 3	Year 4
Front	40%	30%	20%	10%
Back	20%	30%	40%	10%
Smooth	30%	30%	30%	10%

Liquidity Line Assumptions

The transaction analysis was based on a worst-case portfolio that according the eligibility criteria contained up to 30.0% of the portfolio balance of credit lines that allow for future drawdowns (as maximum these drawdowns could represent 50.0% of the credit lines balance). The drawn balance of the credit lines on the provisional portfolio represented 40.0% of the aggregate balance. However, DBRS Morningstar considers the worst-case scenario where 30.0% of the portfolio will be credit lines and the drawn balance of them represented 50.0%. Based on these assumptions, if credit lines were fully drawn, could increase the liabilities by an additional EUR 900 million.

Any future drawings under the credit lines are funded by the available principal proceeds on each period resulting from partial reductions on other credit lines, scheduled amortisations or prepayments of term loans. If the available principal proceeds are not sufficient to cover the further drawings on the credit lines, the Issuer can draw on a Liquidity Line that is provided by Banco Santander that is senior to the Series A Notes.

As mentioned, the analysis was conducted assuming the worst portfolio, 30.0% of the portfolio are credit lines and they are drawn at 50.0%. This represents a potential liability increase of EUR 900 million. If the credit lines are fully drawn after closing, it will increase the portfolio to EUR 3.9 billion from EUR 3.0 billion and, consequently, result in a dilution to the credit enhancement levels available to support the Series A and Series B Notes to 19.2% and 3.8% from 25.0% and 5.0%, respectively.

DBRS Morningstar considers that, even if the credit lines were to be fully drawn by EUR 900 million, the use of the Liquidity Line would most likely be below this amount. This opinion is based on the fact that any future drawings are first funded through the principal proceeds available from the amortisation of the term loans.

Based on the above reasoning, DBRS Morningstar analysis assumed that the Liquidity Line would increase by EUR 225.0 million (equal to 25.0% of the maximum undrawn credit lines limit of the portfolio). This was taken into consideration in the cash flow model by creating a Liquidity Line liability of EUR 225.0 million paid senior to the Series A Notes and applying the stressed default rate assumptions on a maximum portfolio of EUR 3,225 million.

Overall Cash Flow Summary

The lifetime total default rate is the cumulative default rate (or hurdle rate) that the transaction must survive if the specified notes are assigned the rating in question, under the nine interest rate and default timing vector scenarios described above.

Specifically, to pass the A (high) (sf) rating level, the Series A Notes must not suffer any losses for the average of the nine scenarios tested. In addition, the payment type of interest on a timely basis (as is the case for the senior notes) is taken into account.

Cash Flow Analysis Results

Factor/Result	Series A Notes	Series B Notes
Rating Stress	A (high) (sf)	CCC (low) (sf)
Expected Lifetime Default Rate (at relevant rating stress)	27.44%	8.43%
Average Cash Flow BDR	30.46%	6.58%
Cushion	3.02%	1.85%

The results of the cash flow analysis indicate the following:

- The average BDRs for the Series A Notes are higher than the A (high) (sf) stress lifetime default rate, supporting the decision to assign an A (high) (sf) rating to the Series A Notes.
- The average BDRs for the Series B Notes are higher than the CCC (low) (sf) stress lifetime default rate, supporting the decision to assign a CCC (low) (sf) rating to the Series B Notes.

The rating of the Series C Notes is based on a qualitative assessment of its ability to repay as well as the following considerations:

- The Series C Notes are the first loss position, as its proceeds were used to fund the Reserve Account.
- DBRS does not expect the principal of the Series C Notes to be repaid in full.
- Because the rating of the Series C Notes addresses the ultimate payment of interest and principal, default would most likely occur at the maturity of the transaction.

Sensitivity Analysis

The sensitivity analysis conducted highlights the likely impact on the ratings when one key risk parameter is stressed while holding all others constant. In addition, the sensitivity analysis also demonstrates the impact on the ratings where two risk parameters stresses are combined.

DBRS Morningstar considered the following stress scenarios compared with the parameters used to determine the rating (the base case):

- **PD Rates:** Base-case PD of 2.25% a 10.0% increase of the base case and a 20.0% increase of the base-case PD.
- **Recovery Rates:** Base-case recovery rate, a 10.0% and 20.0% decrease in the base-case recovery rates at each rating level.

Series A Notes – Rating Sensitivity to Changes in Key Risk Parameters

	Relative Changes to PD		
Relative Changes to Recoveries	**Original (Base Case)**	**+10%**	**+20%**
Original (Base Case)	A (high) (sf)	A (high) (sf)	A (high) (sf)
-10%	A (high) (sf)	A (high) (sf)	A (sf)
-20%	A (high) (sf)	A (high) (sf)	A (low) (sf)

Series B Notes – Rating Sensitivity to Changes in Key Risk Parameters

	Relative Changes to PD		
Relative Changes to Recoveries	**Original (Base Case)**	**+10%**	**+20%**
Original (Base Case)	CCC (low) (sf)	CCC (low) (sf)	CCC (low) (sf)
-10%	CCC (low) (sf)	CCC (low) (sf)	CCC (low) (sf)
-20%	CCC (low) (sf)	CCC (low) (sf)	CCC (low) (sf)

Assessment of the Sovereign

At the issue date, the Kingdom of Spain's Long-Term Foreign and Local Currency Issuer Ratings were "A" with Positive trends. The Positive outlook reflects DBRS Morningstar's view that the risks to the ratings are now skewed to the upside.

For more information, please refer to the most recently published press release by DBRS Morningstar entitled, *DBRS Confirms Kingdom of Spain at "A", Trend Changed to Positive,* dated 20 September 2019.

Monitoring and Surveillance

The ratings of the Notes depend on the portfolio performance and counterparties' ratings. The main triggers that DBRS Morningstar will rely on for monitoring are:

- Evolution of the reserve fund level;
- Updated SME default data from Banco Santander;
- Changes in the DBRS Morningstar public or private credit ratings or private internal assessments in which the counterparties engaged during the transaction as well as implementation of the remedial actions foreseen in the transaction agreements; and
- Any event of default by the Issuer.

DBRS Morningstar will monitor the transaction on an ongoing basis to ensure that it continues to perform as expected. Any subsequent changes in the ratings will be publicly announced.

Notes:
All figures are euros unless otherwise noted.

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