Fondo de Titulizacion PYMES Santander 14

New Issue

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Related Appendix

Fondo de Titulizacion PYMES Santander 14

Related Criteria

Global Structured Finance Rating Criteria (May 2018)

SME Balance Sheet Securitisation Rating Criteria (February 2018)

Structured Finance and Covered Bonds Counterparty Rating Criteria (August 2018)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (February 2018)

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Capital Structure

Class	Rating	Outlook	Amount (EURm)	CE[a] (%)	Interest Rate (%)	Final Maturity
A	A+sf	Stable	1,941.5	16.75	Euribor 3M + 30bp	Nov 57
B	B+sf	Stable	258.5	5.0	Euribor 3M + 50bp	Nov 57
C	CCsf	RE 70%	110.0	0.0	Euribor 3M + 65bp	Nov 57
Total			2,310.0			

Closing occurred on 28 November 2018. The ratings assigned above are based on the portfolio information as of 15 October 2018 provided by the originator. The offering circular and other material should be reviewed prior to any purchase.

[a] Credit enhancement (CE) consists of (11.75%) overcollateralisation for the class A notes based on a total asset pool of EUR2.2 billion and the amortising cash reserve of 5.0% of the initial portfolio balance. In addition, the structure benefits from initial excess spread of about 2.0% a year.

Transaction Summary

FT PYMES Santander 14 is a securitisation of loans and credit line drawings to Spanish midsize and large entities (72.1%), micro businesses (13.7%) and self-employed individuals (14.2%). Banco Santander S.A. (Santander) originated 98% of the portfolio, with the remaining marginal portion originated before 2013 by Banco Espanol de Credito, S.A and Banco Banif S.A., prior to their acquisition by Santander. The whole portfolio is serviced by Santander.

Key Rating Drivers

Positive Performance Expectations: Fitch assumed an annual average probability of default for the portfolio of 2.4% on a 90 days past due (dpd) basis. This is based on a benign macro-economic environment in Spain, healthy performance expectations for the originator's loan book and positive selection of the securitised portfolio, which has a weighted-average internal regulatory probability of default of 0.94%. Fitch assumed a base case cure rate of 40%, and for the 'Asf' stress scenario a cure rate of 14%.

Highly Granular Portfolio: The largest single borrower group accounts for 0.64% of the portfolio balance, whereas the 10 largest borrower groups account for 5.2%. The portfolio is diversified across industries, with the top industry concentration at 12.4%. Portfolio concentration levels are captured by the Portfolio Credit Model (PCM) and reflected in a 'A+' rating default rate (RDR) assumption of 17.2%.

Moderate Recovery Rates: Fitch derived a recovery rate expectation of 41.3%, close to the unsecured assumption of 30% as only 6.5% of the portfolio is collateralised by real estate properties. This is stressed up to a 'A+' rating recovery rate (RRR) assumption of 22%, resulting in a 'A+' loss rate of 13.4%.

Rapid Amortisation Profile: Nearly 30% of the portfolio comprises drawings from revolving credit lines, which are bullet debt instruments with a weighted-average life of about seven months. Fitch has increased the weighted-average life of credit lines by two years to address the refinancing risk of borrowers under stressed scenarios.

Counterparty Risk Cap: The class A notes' rating is capped at 'A+sf' as per Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria, due to the account bank replacement trigger being set at below 'BBB' and 'F2'. Apart from covering losses, the reserve fund is the primary source of liquidity for the notes in case of interrupted servicing, for example due to a servicer default, when no cash would be collected from the portfolio. Fitch expects dedicated liquidity to cover this risk for ratings of 'AAAsf' and 'AAsf'.

Other Key Rating Drivers

Sufficient Credit Enhancement (CE): The class A notes benefit from 16.75% CE provided by over-collateralisation and a reserve fund equal to 5% of the initial collateral balance, the latter being the only CE for the class B notes. The class C notes are being issued to fund the reserve fund and they are not collateralised by receivables. The transaction features strictly sequential amortisation and CE for the class A notes is expected to build up significantly over the first year due to rapid amortisation of credit lines.

Unhedged Interest Rate Exposure: The transaction is exposed to rising interest rate scenarios as the portfolio contains 27.6% of receivables paying fixed interest rates while the notes pay a floating coupon and no hedging mechanisms are provided by the structure. Fitch has accounted for this risk and considers available CE sufficient to mitigate it.

Asset Analysis

The issuer used the proceeds from the issuance of the class A and B notes to purchase a portfolio of credit rigths originated by Santander to Spanish enterprises and self-employed individuals. The credit rights are secured and unsecured standard loans (70%) and drawings from revolving credit lines (30%), which are short-term bullet debt instruments typically used for working capital financing. The portfolio has no loans or credit lines originated as a result of refinancing or restructuring of previous borrower debt.

During the life of the transaction, borrowers may continue drawing up to a pre-defined limit from the credit line facilities and the structure will purchase those drawings using any repayments from securitised credit lines. The amount of additional drawing is limited due to their short-term weighted average (WA) life (seven months) and high utilisation rate (on average 97.5% of the limit as of 15 October 2018). Santander may approve overlimits, but is obliged to repurchase the full balance of the credit line if 105% the contractual limit is exceeded.

Portfolio Characteristics

The portfolio comprised 40,827 loans and credit lines granted to 36,148 borrower groups at 15 October 2018. Fitch applied a cross-default definition among individual borrowers, meaning that if a borrower group defaults, all loans under that borrower group would be considered to have defaulted.

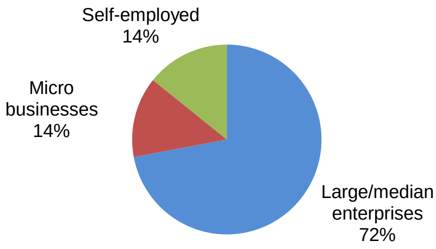
Preliminary Pool as of 15 October 2018

Outstanding portfolio balance (EURm)	2,518
Number of loans and credit lines	40,827
Number of borrower groups	36,148
Loans/credit lines (%)	70 / 30
Largest borrower group (%)	0.64
Top 10 borrower group (%)	5.2
Top 20 borrower group (%)	8.3
Top 50 borrower group (%)	15.1
Borrower group representing more than 50bp of portfolio notional (%)	1.7
Average borrower group exposure (EUR,000)	69.7
WAL total portfolio (years)	1.9
WAL loans/WAL credit lines (years)	2.4 / 0.6
WA remaining maturity (years)	3.3
WA remaining maturity loans / credit lines (years)	4.4 / 0.6
Floating rate loans (%)	72.4
WA spread on floating rate loans (WAS) (%)	1.9
Amortising receivables (% of total portfolio)	68.6
Amortising loans (% of total loans)	97.8
<30 days delinquent loans (%)	0.7
30<90 days delinquent loans (%)	0
90 days-past-due (%)	0
Largest Fitch industry (%)	12.4
Top five industries (%)	46.3
Top 10 industries (%)	75.5
WA internal regulatory PD (%)	0.94

Source: Fitch Ratings, Banco Santander. % expressed relative to portfolio outstanding balance

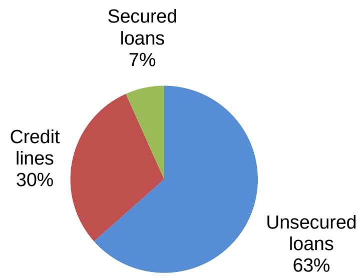
No loans to real estate developers are included in the portfolio and the largest industry according to Fitch's classification is foods, beverage and tobacco, representing 12.4% of the total portfolio balance. The total exposure to real estate and building and materials sectors is 15.1% of the balance.

Portfolio Borrower Composition
By portfolio balance



Source: Fitch Ratings, Santander

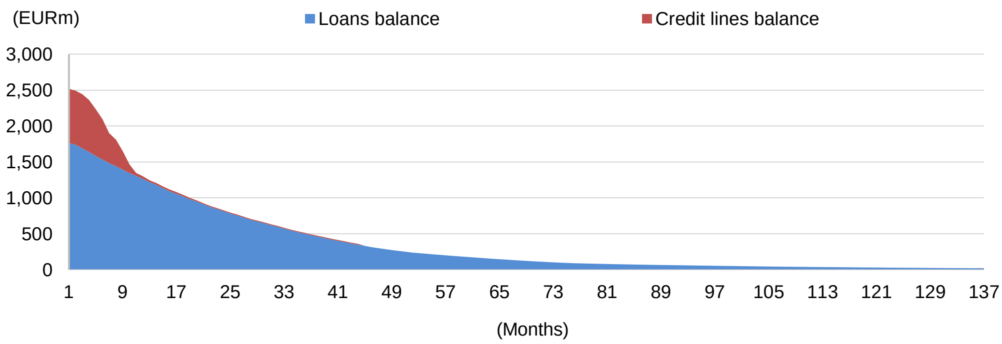
Portfolio Product Composition
By portfolio balance



Source: Fitch Ratings, Santander

The weighted average life (WAL) of the portfolio is about 1.9 years influenced by the presence of credit lines. Despite credit lines, which have bullet repayment of principal, 97.8% of the loans are amortising with a WAL of 2.6 years. According to the scheduled amortisation profile, around 50% of the portfolio balance is expected to pay down over the first 12 months.

Securitised Portfolio Amortisation



Source: Santander

Probability of Default

Fitch's five-year annual average default rate expectations of Spanish SME portfolios are 3.5% (Spanish Country Benchmark), as per the agency's SME Balance Sheet Securitisation Rating Criteria. Fitch forecasts GDP growth of 2.7% and 2.3% in 2018 and 2019, respectively, while unemployment is expected to decrease to 15.5% and 13.8% from 17.2% at end-2017 (see Global Economic Outlook – September 2018).

Default Probability Assumptions (Annual Average 90dpd PD)

Sub-segment	Portfolio balance (%)	Bank Benchmark (%)	Transaction Benchmark (%)
Large/midsize enterprises - unsecured	40.1	3.8	1.8
Large/ midsize enterprises - secured	5.1	7.5	5.2
Micro businesses - unsecured	11.3	4.9	2.7
Micro businesses - secured	1.1	5.3	4.0
Self-employed - unsecured	12.1	3.9	2.1
Self-employed - secured	0.5	2.5	2.7
Credit lines	30.0	2.5	2.5
Total portfolio	**100**	**3.7**	**2.4**

Source: Fitch Ratings

Fitch has derived a 3.7% weighted average bank PD benchmark, which comprises one benchmark for credit lines and six different PD benchmarks depending on borrower type (large/midsize enterprises, micro businesses and self-employed individuals) and loan type (secured and unsecured).

Bank benchmarks were estimated based on observed default frequencies derived from rating transition matrices for each loan sub-segment and from vintage data for credit lines. Rating transition matrices are a point-in-time analysis so Fitch increased the observed default frequency assuming an implicit 20% cure that are not captured as defaulted at year end.

Due to the positive selection of the securitised portfolio relative to Santander's loan book, a 2.4% annual average PD benchmark for the securitised portfolio was established, based on a 90dpd default definition.

Cure Rate

The default analysis outlined above is based on a 90dpd definition. However, not all borrowers that become overdue for more than 90 days will end up in foreclosure, as a certain percentage will return to performing. Fitch assumed a 40% base case cure rate based on the comparison of 90dpd and 180dpd vintage data and cure rates information provided by Santander, and data from Spanish SME transactions rated by Fitch. This is tiered for higher rating scenarios resulting in a 14% cure rate assumption for the 'Asf' rating category.

Recovery Rate

Fitch estimated a WA recovery rate assumption of 41% for the securitised portfolio, based on portfolio characteristics that include 93.5% unsecured loans and 6.5% secured by commercial or residential real estate (65% and 45%, respectively) with a WA loan-to-value (LTV) ratio of 55.2%. Fitch has assumed a base case recovery rate of 30% on unsecured receivables while recovery rate analysis on secured loans is based on a market value decline approach for residential real estate collateral and a collateral haircut for commercial real estate.

Portfolio Credit Model

Fitch analysed the portfolio using its Portfolio Credit Model (PCM), available at www.fitchratings.com. This model implements the agency's criteria for granular SME CLOs and takes loan-by-loan portfolio data as input. The table below shows the cured Rating Default Rate (RDR), Rating Recovery Rate (RRR) and Rating Loss Rate (RLR) for the securitised portfolio.

PCM Results

(%)	Cured RDR[a]	RRR[b]	RLR[a]
A+sf	17.2	22.0	13.4
Asf	16.0	22.0	12.5
BBBsf	13.0	27.6	9.4
BBsf	9.2	34.7	6.0
Bsf	6.5	39.6	3.9
Base case	3.8	41.3	2.2

[a] RDR and RLR expressed as a percentage of collateral initial balance.
[b] RRR expressed as a percentage of defaults.
Source: Fitch Ratings

Fitch has extended the WAL of the credit lines by two years to capture the refinancing risk in a scenario where the financial sector experiences a downturn and refinancing options become limited. When full bullet repayment of the credit line is not possible, these debts will likely be amended and extended, or restructured similarly to a term loan.

The portfolio includes loans on their initial principal grace period, which represent 5.5% of the total portfolio balance. Fitch has extended the maturity of these loans by the remaining period until their first principal payment.

Financial Structure and Cash Flow Analysis

Fitch analysed the structure using a proprietary cash flow model, customised for the structural features described in the transaction documents. The timing of defaults and recoveries, and the interest rate scenarios under different rating stresses, were tested in the cash flow model to determine if there would be sufficient cash flows to pay timely interest and ultimate principal in the case of class A and ultimate interest and principal for classes B and C according to transaction documentation.

The analysis showed that the class A and B CE levels provided are sufficient to withstand the credit and cash flow stresses determined by the agency for the ratings. The class C does not have CE so its default is likely, as reflected by its 'CCsf' rating, but not inevitable.

Available Funds

On each quarterly payment date, monies available in the SPV's accounts (except credit lines balance prepayments) will be applied to the priority of payments. Available funds are mainly interest and principal collections from the portfolio, plus the reserve fund. Principal payments from credit lines will only be part of available funds upon their final maturity.

On credit lines, interest is typically capitalised resulting in an increase of the drawn balance. In these cases, Santander will transfer to the SPV the capitalised interest as an interest collection and the SPV will purchase the increased balance of the credit lines using principal collections.

Priority of Payments

The transaction features a strictly sequential combined priority of payments with a Class B interest deferral if cumulative defaults exceed 5% of the initial collateral balance. The transaction benefits from a provisioning mechanism based on a defaults definition for loans and credit lines of 12 and six months overdue, respectively.

Priority of Payments

1	Senior fees
2	Class A and liquidity facility interest (*pro rata* and *pari passu*)
3	Class B interest (if not deferred)
4	Class A and B principal (strictly sequentially and up to the target amortisation amount
5	Class B interest (if cumulative defaults > 5% the initial balance and class A is outstanding)
6	Reserve fund top up
7	Class C Interest
8	Class C Principal
9	Other subordinated items

Source: Fitch Ratings, FT PYMES Santander 14

Classes A and B target amortisation amount is the difference between their outstanding balance and the outstanding non-defaulted collateral. Class C will only be repaid using excess spread available after paying all senior items and up to its target amount, defined as the difference between its outstanding balance and the reserve fund required amount.

Interest Rate Risk

The transaction is exposed to rising interest rate scenarios as 27.6% of the portfolio pays fixed interest while all the notes accrue a floating coupon based on three-month Euribor. Fitch captured this risk stressing interest rates in line with the Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria and found this risk to be sufficiently mitigated by the CE provided.

Liquidity Facility

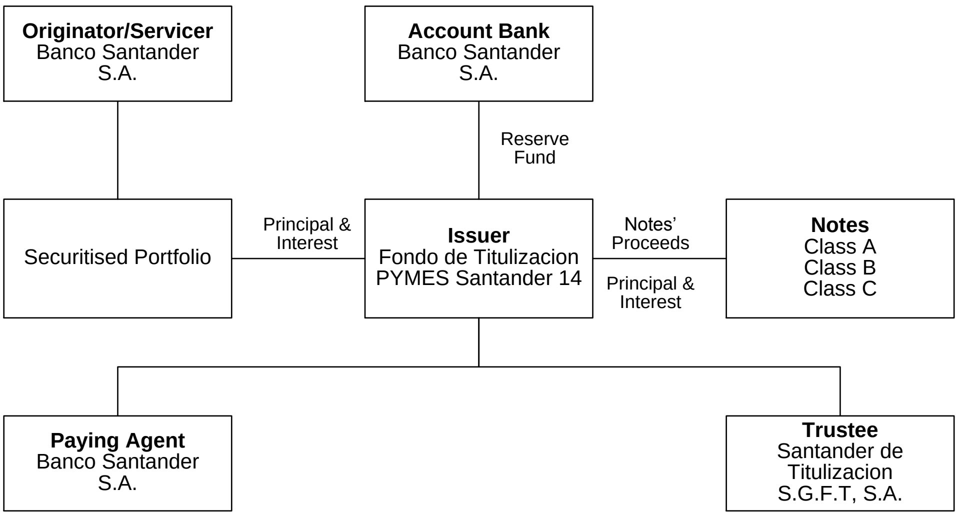
Credit line balances may vary until their final maturities, increasing if additional drawings are made by the borrowers or decreasing if borrowers prepay. On a daily basis, the SPV will purchase credit line balance increases using principal collections or drawings from a liquidity facility if no sufficient funds are available. Liquidity facility drawings made by the SPV will be repaid as principal collections from the portfolio take place and will accrue interest on a daily basis. Liquidity facility repayments are senior in the waterfall of payments.

If, at any time, the balance of liquidity facility drawings exceeds 5% of the Class A notes outstanding the trustee will proceed with the early liquidation of the SPV, which will only take place if there are sufficient available funds to redeem the class A to C notes in full. Until final liquidation takes place, the liquidity facility limit will be extended to allow the SPV to purchase additional drawings from credit lines of up to 105% of their contractual limit.

Transaction and Legal Structure

Structure Diagram

Structure Diagram



Source Fitch Ratings, Fondo de Titulizacion PYMES Santander 14

Issuer and True Sale

The notes are issued by Fondo de Titulizacion PYMES Santander 14 (the issuer), a limited-liability special-purpose vehicle (SPV) incorporated under the laws of Spain, the sole purpose of which is to acquire loans and drawings from credit lines from the seller as collateral for the issuance of quarterly-paying notes. The credit rights sold to the issuer consist of interest and principal instalments due by the borrowers under the loans and credit lines, together with any recoveries obtained from them.

The trustee or management company (Santander de Titulizacion SGFT, SA) is supervised by the Comisión Nacional del Mercado de Valores (CNMV), and is responsible for cash reconciliation and waterfall calculations and their reporting, including the monitoring of applicable triggers. It is also responsible for taking any action in the interests of noteholders, such as the replacement of the servicer or account bank counterparties.

Representations and Warranties

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool is available by accessing the appendix referenced under Related Appendix on the front page. The RW&Es are substantially comparable to those typically contained in global structured finance and European SME CLO transactions, as detailed in the Special Report titled *Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions*, dated 31 May 2016.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Clean-Up Call

Class A, B and C notes are subject to a clean-up call option if less than 10% of the original collateral balance remains outstanding. The clean-up call can only be exercised if all notes are redeemed in full.

Counterparty Risk

Transaction Parties

Role	Counterparty	Rating
Issuer	FT PYMES Santander 14	n.a.
Trustee/Management Company	Santander de Titulización S.G.F.T, S.A	Not Rated
Originator	Banco Santander S.A.	A-/F2
Servicer/Collection Account Bank	Banco Santander S.A.	A-/F2
Account Bank/Paying Agent	Banco Santander S.A.	A (deposit rating)/ F1(deposit rating)
Liquidity Facility Provider	Banco Santander S.A.	A-/F2

Source: Fitch Ratings, FT PYMES Santander 14

Operational Risk

Fitch reviewed the underwriting and servicing processes of Santander and believes they are adequate and consistent with market standards in Spain; see Appendix B.

Payment Interruption

Fitch views a servicing disruption event as highly remote as Santander is a global systemically important regulated bank under the supervision of the Bank of Spain and European Central Bank. However, as the transaction does not operate a dedicated liquidity arrangement to mitigate any potential payment interruption risk on the notes under 'AAsf' and 'AAAsf' scenarios, the maximum achievable rating of this transaction is 'A+sf' in accordance with the agency criteria.

Account Bank and Paying Agent

Banco Santander S.A. holds the role of SPV account bank and paying agent. If the account bank provider's rating is downgraded below 'BBB (deposit rating)' and 'F2 (deposit rating)', the trustee must within 60 calendar days replace or obtain an unconditional and irrevocable guarantee from one or more entities rated at least 'BBB (deposit rating)' or 'F2 (deposit rating)'. In line with the Structured Finance and Covered Bonds Counterparty Rating Criteria, the notes ratings are capped at 'A+sf' as the account bank rating trigger levels are not sufficient to support 'AAsf' and 'AAAsf' categories.

The account bank provider will pay the SPV interest equal to Euribor (floored at 0%) on all amounts deposited in the SPV's accounts.

Liquidity Facility Provider

The SPV can use the liquidity facility to purchase additional drawings from the securitised credit lines if principal collections (from credit lines and loans) are insufficient. Upon downgrade of the liquidity facility provider's Issuer Default Rating (IDR) below 'BBB' and 'F2', the trustee will either replace or find an eligible guarantor within 60 calendar days, or the provider can cash collateralise its obligations within 14 calendar days in an amount equal to the difference between 105% of all credit lines limits less the drawn amounts.

Only actual drawings from the credit lines are securitised and the SPV is not obliged to purchase additional drawings from credit lines if the SPV has no sufficient principal collections and the liquidity facility was not available.

Commingling and Set-Off

Fitch views commingling losses of cash collections as not material considering the two-day sweep of receipts from the portfolio servicer to the issuer's bank account. Moreover, Fitch views the likelihood of structured finance investors incurring losses as a result of set-off on domestic deposits insured by obligors as highly remote, based on Spanish law and the high level of political support for protecting such deposits. Fitch has not applied additional stresses to account for set-off risk.

Rating Sensitivity[1]

Fitch assessed the impact on the ratings of the following sensitivities.

- Rating sensitivity to default probability: multiplier of 125% and 150% applied to the mean RDR, with the increase in the mean RDR added to all other rating level RDRs.
- Rating sensitivity to recovery rates: multiplier of 75% and 50% (ie 25% and 50% haircuts, respectively) applied to the RRR for all rating levels.
- Combined stress: default probability multiplier of 125% and recovery rate multiplier of 75%.

Rating Sensitivities to Asset Assumptions

Class	Initial Rating	RDRx125%	RDRx150%	RRRx75%	RRRx50%	RDRx125% RRRx75%
Class A	A+sf	A+sf	Asf	A+sf	Asf	Asf
Class B	B+sf	Bsf	B-sf	Bsf	B-sf	B-sf

Source: Fitch Ratings

Fitch believes the ratings are sufficiently stable against changes on the base case assumptions based on the results of the sensitivities. The class C notes' rating is already at the distressed level of 'CCsf', but could be downgraded to 'Csf' if Fitch determines its default to be inevitable based on the evolution of the transaction.

Fitch assessed the effects of the rapid amortisation of credit lines, modelling the portfolio and structure expected one year after closing assuming no defaults. Fitch found this sensitivity has no rating impact and portfolio concentration levels will not deteriorate materially under this scenario. Class A CE will increase significantly over the first year, but the notes are capped at 'A+sf' due to counterparty risk and the increase in CE to class B compensates the potential increase in concentration levels.

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance.

Criteria Application, Model and Data Adequacy

The credit analysis was performed in accordance with Fitch's SME Balance Sheet Securitisation Rating Criteria. Additional criteria used in the agency's analysis are listed under Related Criteria.

The originators provided Fitch with a loan-by-loan data template, as of the pool cut-off date of 15 October 2018, including information on loan-level collateral security. The originator also provided historical data as described below:

Data Used in the Analysis

Data	Product type	Borrower types	Default definition	Period
Vintage data (default and recovery)	Loans Credit lines	Large & midsize enterprises Micro businesses Self Employed	90dpd 180dpd	Loans: 1Q11-2Q18 Credit lines: 2012-2017
Rating Transition Matrices	Loans	Large & midsizeenterprises Micro businesses Self Employed	90dpd	2013-2017

Source: Fitch Ratings

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action. Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information, and concluded that there were no findings that affected the rating analysis. Overall, Fitch's assessment of the asset pool information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

Surveillance

Fitch will monitor the transaction regularly and as warranted by events, with a review conducted at least yearly. Periodical quarterly performance reports will be provided by the management company after every payment date. Fitch's structured finance performance analytics team will ensure that the assigned ratings remain, in Fitch's view, an appropriate reflection of the issued notes' credit risk.

Fitch will include the performance of this transaction in future issues of the report, *European SME CDO Performance Tracker*. The performance data will also be included in the Fitch SME Compare tool, which allows investors to customise performance charts and provides a peer and vintage benchmark comparison.

Along with this tool, other details of the transaction's performance will be available to subscribers at www.fitchratings.com.

Contact the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing surveillance.

Appendix A: Transaction Comparison

Transaction Comparison Table

Transaction name	FT PYMES Santander 14	IM Cajamar Empresas 5, FTA	Loan Invest NV/SA Compartment SME Loan Invest 2017
Closing date	Nov-18	Apr-13	Apr-17
Originator	Santander: 98% Banesto:1.5% Banif: 0.5%	Cajamar 85% Ruralcaja 15%	KBC Bank NV: 100%
Country of assets	Spain	Spain	Belgium
Portfolio characteristics			
Initial balance (EURbn)	2,5	0.675	5.6
No of borrower groups	36,148	9,083	27,913
No of loans	40,827	9,908	54,719
Largest borrower group (%)	0.6	1.7	0.6
Top 5 borrower groups (%)	2.7	4.6	2.2
Top 10 borrower groups (%)	5.2	6.6	3.6
Weighted average life (years)	1.9	4.8	5.4
Largest Fitch industry (%)	12.4	37.5	18.7
Top 5 Fitch industries (%)	46.3	67.9	62.9
1st lien mortgages (%)			
Structural features			
Revolving period (Months)	Static	Static	Static
Notes amortisation	Sequential	Sequential	Pro-rata
Initial reserve (% of initial portfolio balance)	5.0	17.0	1.0
Notes coupon type	Floating	Fixed	Floating
Floating interest rate collateral (%)	72.4	81.4	0.0
Interest rate hedge	No	No	Yes
Commingling risk	Immaterial	Immaterial	Immaterial
Asset assumptions			
Transaction PD Benchmark (%)	2.4	4.8	2.3
Base case cure rate (%)	40.0	25.0	40.0
Base case Cured RDR (%)	3.8	18.7	5.6
Base case RRR (%)	41.3	45.0	70.0
Base case RLR (%)	2.2	7.7	1.7
Capital structure			
Highest rated note at closing	A+sf	A+sf	AAAsf
CE of highest rated note at closing (%)	16.75	37.0	30.0

Source: Fitch Ratings, FT PYMES Santander 14

Appendix B: Origination and Servicing

Banco Santander S.A. is the largest retail bank in Spain. It has increased its market share in the Spanish SME market despite the continuing deleveraging of the non-financial corporate sector, by improving existing customers loyalty and focusing on specialisation, for example with respect to export-oriented SMEs.

Underwriting and Risk Management

Santander's risk function is independent to the commercial network and is managed from a single area which incorporates the underwriting, monitoring and recovery functions. The risk management is based on the segmentation of borrowers into the following two categories:

- Non-standardised: midsize and large enterprises with more than EUR2 million revenues and at least EUR60,000 total credit exposure with the bank. These borrowers are managed by dedicated credit analysts.
- Standardised: all other borrowers are managed through the retail branch network and are typically micro businesses and self-employed individuals.

Non-standardised borrowers' management is highly customised and the product offering and underwriting is based on the analyst's decision, who meets the borrowers at least annually. Internal systems process all information available from the borrowers and suggest a strategy, although the analyst may deviate from this based on expert judgement.

On the other hand, standardised borrowers' underwriting is highly automated, with 72% of total applications automatically approved. The documentation is gathered at the branch network, and processed by a number of systems to price the transaction, verify if there is any pre-approved limit and perform checks on both internal data bases and credit bureaus. The results from the internal scorings are also incorporated for both pricing and sanctioning of the transactions. The loan application is rejected if the final score does not meet the minimum standards. Alternatively, the automated process may direct the application to manual analysis, where additional guarantees may be requested for final approval.

The monitoring process is conducted from Madrid headquarters. Santander maintains different alerts depending on a borrower's behaviour and credit events. Depending on the type of alert, Santander may decide to increase the review frequency of a borrower, reduce the exposure, request additional guarantees or ultimately terminate the relationship.

Credit Scoring Models

Santander uses advanced internal models to calculate the regulatory PD of each loan based on the loan characteristics and the borrower's rating or score. The regulatory PD is defined as a through-the-cycle annual PD based on a 90dpd default definition. The models are Internal Rating Advanced Models approved for regulatory capital requirements by the Bank of Spain and European Central Bank.

Non-standardised borrowers are rated by a hybrid model, which combines quantitative (financials) and qualitative information (product demand and market segment, management expertise, and shareholders).

For standardised borrowers, Santander maintains several models. About 85% of new applications are received from existing borrowers, for which the model incorporates behavioural scores resulting in higher discriminatory power. Behavioural models are used for the pre-approval of limits based on internal policies and are an input for scoring models and regulatory internal PD models. Santander maintains three behavioural models for micro businesses and seven for self-employed individuals.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.