MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to SME ABS notes issued by FONDO DE TITULIZACION PYMES SANTANDER 13

Global Credit Research - 22 Jan 2018

EUR 2,835 million of securities rated

Madrid, January 22, 2018 -- Moody's Investors Service ("Moody's") has today assigned the following definitive ratings to the debts issued by FONDO DE TITULIZACION PYMES SANTANDER 13 (the Issuer):

....EUR 2254.5M Series A Notes due May 2043, Definitive Rating Assigned A1 (sf)

....EUR 445.5M Series B Notes due May 2043, Definitive Rating Assigned B2 (sf)

....EUR 135M Series C Notes due May 2043, Definitive Rating Assigned Caa3 (sf)

The transaction is a cash securitisation of standard loans and credit lines granted by Banco Santander S.A. (Spain) ("Santander", Long Term Deposit Rating: A3 Not on Watch /Short Term Deposit Rating: P-2 Not on Watch) to small and medium-sized enterprises (SMEs) and self-employed individuals located in Spain.

RATINGS RATIONALE

The ratings of the notes are primarily based on the analysis of the credit quality of the underlying portfolio, the structural integrity of the transaction, the roles of external counterparties and the protection provided by credit enhancement.

In Moody's view, the strong credit positive features of this deal include, among others: (i) a relatively short weighted average life of around 2.0 years; (ii) a granular pool (the effective number of obligors over 1,000); (iii) a geographically well-diversified portfolio; and (iv) refinanced and restructured assets have been excluded from the pool. However, the transaction has several challenging features: (i) a strong linkage to Santander related to its originator, servicer, accounts holder and liquidity line provider roles; (ii) no interest rate hedge mechanism in place; and (iii) a complex mechanism that allows the Issuer to compensate (daily) the increase on the disposed amount of certain credit lines with the decrease of the disposed amount from other lines, and/or the amortisation of the standard loans.

Key collateral assumptions:

Mean default rate: Moody's assumed a mean default rate of 8.8% over a weighted average life of 2.1 years (equivalent to a B1 proxy rating as per Moody's Idealized Default Rates). This assumption is based on: (1) the available historical vintage data, (2) the performance of the previous transactions originated by Santander and (3) the characteristics of the loan-by-loan portfolio information. Moody's took also into account the current economic environment and its potential impact on the portfolio's future performance, as well as industry outlooks or past observed cyclicality of sector-specific delinquency and default rates.

Default rate volatility: Moody's assumed a coefficient of variation (i.e. the ratio of standard deviation over the mean default rate explained above) of 56%, as a result of the analysis of the portfolio concentrations in terms of single obligors and industry sectors.

Recovery rate: Moody's assumed a stochastic recovery rate with a 42.5% mean, primarily based on the characteristics of the collateral-specific loan-by-loan portfolio information, complemented by the available historical data.

Portfolio credit enhancement: the aforementioned assumptions correspond to a portfolio credit enhancement of 24%, that takes into account the current local currency country risk ceiling (LCC) for Spain of Aa2.

As of December 2017, the audited provisional asset pool of underlying assets was composed of a portfolio of 61,893 contracts amounting to EUR 3,062 million. In terms of outstanding amounts, around 80.6% corresponds to standard loans and 19.4% to credit lines. The top industry sector in the pool, in terms of Moody's industry classification, is Construction & Building (21.1%). The top borrower group represents 0.85% of the portfolio and the effective number of obligors is 2,251.The assets were originated mainly between 2014 and 2017 and have a weighted average seasoning of 2.8 years and a weighted average remaining term of 4.0 years. The interest rate is fixed for 20.7% of the pool while the remaining part of the pool bears a floating interest rate. Geographically, the pool is concentrated mostly in the regions of Madrid (22%) and Catalonia (18%). At closing, any loans in arrears more than 30 days will be excluded from the final pool.

Around 23% of the portfolio is secured by first-lien mortgages over different types of properties.

Key transaction structure features:

Reserve fund: The transaction benefits from a EUR 135 million reserve fund, equivalent to 5% of the balance of the Series A and Series B notes at closing. The reserve fund provides both credit and liquidity protection to the notes.

Counterparty risk analysis:

Santander will act as servicer of the assets for the Issuer, while Santander de Titulización, S.G.F.T., S.A. (not rated) will be the management company (Gestora) of the transaction.

All of the payments under the assets in the securitised pool are paid into the collection account at Santander. There is a sweep of the funds held in the collection account into the Issuer account every two days. The Issuer account is held at Santander with a transfer requirement if the ratings of the account bank falls below Baa3 or P-3. Moody's has taken into account the commingling risk in its analysis.

Stress scenarios:

Moody's also tested other sets of assumptions under its Parameter Sensitivities analysis. For instance, if the assumed default rate of 8.8% used in determining the initial rating was changed to 12.8% and the recovery rate of 42.5% was changed to 32.5%, the model-indicated rating for Series A and Series B of A1(sf) and B2(sf) would be A2(sf) and Caa2 (sf) respectively. For more details, please refer to the full Parameter Sensitivity analysis included in the New Issue Report of this transaction.

Principal Methodology:

The principal methodology used in these ratings was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in August 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

The notes' ratings are sensitive to the performance of the underlying portfolio, which in turn depends on economic and credit conditions that may change. The evolution of the associated counterparties risk, the level of credit enhancement and Spain's country risk could also impact the notes' ratings.

The ratings address the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal with respect to the notes by the legal final maturity. Moody's ratings address only the credit risk associated with the transaction. Other non-credit risks have not been addressed but may have a significant effect on yield to investors.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's describes the stress scenarios it has considered for this rating action in the section "Ratings Rationale" of this press release.

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