Credit Products/Spain
Presale Report

Fondo de Titulización de Activos Santander Empresas 1

Expected Ratings*

Class	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A(1)	1,512.8	October 2038	AAA	13.5
A(2)	1,240.0	October 2038	AAA	13.5
B	80.6	October 2038	AA+	10.9
C	96.1	October 2038	A+	7.8
D	170.5	October 2038	BBB	2.3
RF	71.3		N.R.	n.a.

All tranches benefit from additional credit enhancement in the form of excess spread.

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* Expected ratings do not reflect final ratings, are based on information provided by the issuer as of 7 October 2005, and are subject to receiving satisfactory final legal opinion.

Summary

This transaction is a cash flow securitisation of a EUR3.1 billion static pool of loans ("the collateral") granted by Banco Santander Central Hispano ("SAN" or "the originator", 'AA-'/'F1+') to small and medium size Spanish enterprises ("SMEs"), self-employed borrowers and larger companies. Fitch Ratings has assigned expected ratings to the notes ("the notes") to be issued by Fondo de Titulización de Activos Santander Empresas 1 ("the issuer") as indicated at left.

This is the third single seller SME loan securitisation transaction to be brought to the market by SAN, however it shares similar structural features and characteristics to the bank's previous public sector transaction rated by Fitch in December 2004 (see report "*Fondo de Titulización de Activos Santander Público 1*" available at www.fitchratings.com). This transaction is different from other Spanish SME CDOs as it will not benefit from a guarantee from the Kingdom of Spain ('AAA'/'F1+'), it is backed by a mix of small standard SME loans as well as larger companies loans, moreover, it is one of the largest issuances in Spain both in terms of amount and number of obligors.

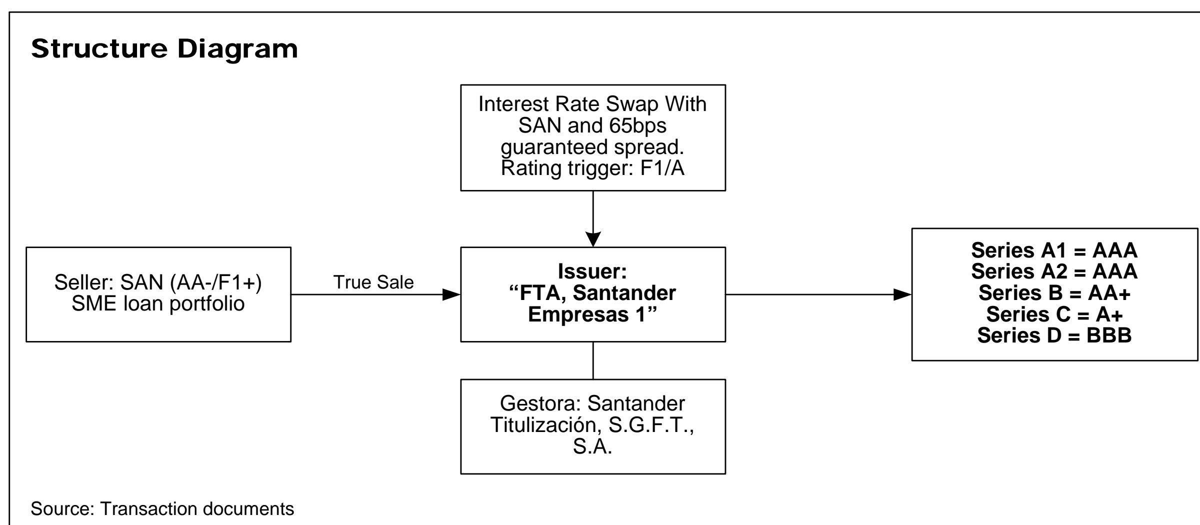
The issuer will be legally represented and managed by Santander de Titulización SGFT, SA ("the *Sociedad Gestora*"), a special-purpose management company with limited liability, which is incorporated under the laws of Spain.

The expected ratings address the likelihood that interest on the notes will be paid according to the terms and conditions of the documentation, which include interest deferral triggers for the Class B to D notes, and that principal will be repaid by legal final maturity. Interest deferral triggers might cause interest on the Class B to D notes not be received during a certain period, but will, in any case, be received by final maturity.

The expected ratings are based on the quality of the collateral, available credit enhancement, the financial structure of the deal, the underwriting and servicing of the collateral, and the *Sociedad Gestora*'s administrative capabilities.

Credit Committee Highlights

- To determine the cumulative default probability of the collateral under the various stress scenarios, Fitch studied the historic delinquency data received from SAN, and accommodated the collateral composition in the agency's VECTOR default model ("VECTOR") to complement the analysis. More information about VECTOR can be obtained in the special report "*Global Rating Criteria for Collateralised Debt Obligations*", dated 13 September 2004 and available at www.fitchratings.com.



- To replicate the collateral composition within VECTOR, Fitch received the most recent internal credit scoring results that SAN has assigned to the obligors, which were then approximated to the agency's own rating scale in a similar way to that performed for the orginator's previous balance-sheet securitisation transaction titled "*Fondo de Titulización de Activos Santander Público 1*", dated 23 December 2004 and available at www.fitchratings.com.

- To mitigate the basis, interest rate and payment frequency risks of the collateral, the issuer will enter into a hedge agreement with SAN. Moreover, the hedge agreement will guarantee to the issuer an excess spread of 65bps over the life of the transaction, which will also mitigate the margin compression risk of the collateral. See *Swap Agreement*.

- SAN provided loan-to-value ("LTV") information for the secured loans that form the collateral for this transaction on an asset-by-asset basis, enabling Fitch to assign individualised recovery rates. In connection with the senior unsecured loans, and taking into consideration SAN's historic recovery rates statistics, the agency was able to assign a tiered assumption for this specific component of the collateral ranging between 60.0% and 28.0% for the 'B' and 'AAA' stress scenarios respectively. The final weighted average ("WA") recovery rates are presented in the *Credit Analysis* section on page 5

Structure

The issuer is a limited liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from SAN as collateral for the issuance of floating-income, sequentially amortising and quarterly paying securities.

In the structure, SAN acts, *inter alia*, as the servicer of the collateral, the account bank, the hedge counterparty and the paying agent. However, for the protection of investors, if SAN is unable to continue to administer the collateral, the *Sociedad Gestora* must appoint a replacement administration company, in accordance with Spanish securitisation law.

Interest and principal collections are dealt with jointly through the combined priority of payments described below. A treasury account will be held in the name of the issuer at SAN in which all the funds will be deposited no later than 48 hours after their collection. The amounts deposited in this account will receive a guaranteed interest rate of three-month EURIBOR.

If SAN as the paying agent is downgraded below 'F1', the *Sociedad Gestora* will transfer all amounts standing to the credit of the treasury accounts to a bank rated 'F1' or higher within 30 days of the downgrade's announcement.

Priority of Payments

Starting on the first payment date in January 2006, the combined ordinary priority of payments will be as follows:

1. senior fees and expenses;
2. payments due under the interest rate swap agreements (see *Swap Agreement*);
3. Class A1 and A2 interest *pro rata*;
4. Class B interest, unless deferred;
5. Class C interest, unless deferred;
6. Class D interest, unless deferred;
7. principal on the notes sequentially (see *Amortisation of the Notes)*;

Key Information

Portfolio Characteristics as of 20 September 2005

Number and Type of Loans: 17,821 loans granted to SMEs, self-employed borrowers and larger companies in Spain

Total Amount: EUR3,224m

Structure

Issuer: Fondo de Titulización de Activos Santander Empresas 1

Total Amount: EUR3,100m

Management Company: Santander de Titulización SGFT, SA

Originator: SAN ('AA-'/'F1+')

Paying Agent: SAN

Swap Counterparty: SAN

Treasury Account (GIC Account): SAN

Closing Date: October 2005

Scheduled Final Maturity: October 2035

Final Legal Maturity: October 2038

8. deferred Class B interest if any, which occurs if the cumulative balance of defaulted loans (i.e. arrears in excess of 18 months) exceeds 11.0% of the original collateral balance;
9. deferred Class C interest if any, which occurs if the outstanding cumulative balance of defaulted loans exceeds 9.0% of the original collateral balance;
10. deferred Class D interest if any, which occurs if the outstanding cumulative balance of defaulted loans exceeds 5.0% of the original collateral balance;
11. replenishment of the reserve fund (see *Reserve Fund*);
12. subordinated amounts.

The structure will cover ordinary and extraordinary expenses using excess spread generated by the swap agreement. However, initial expenses will be covered via a subordinated loan agreement granted to the issuer by SAN.

Amortisation of the Notes

Principal due on the notes on any payment date will be capped at the difference between the outstanding balance of the notes and the balance of non-defaulted collateral. It will be paid, subject to the availability of funds, according to the priority of payments.

All the notes will amortise sequentially on a pass-through basis. The A2 notes will begin to amortise only when the A1 notes have been paid in full but not before April 2007, the B notes after the A1 and A2 notes are redeemed in full and so on. Nevertheless, when the ratio of loans that are 90 days in arrears or more divided by the outstanding balance of non-defaulted collateral is greater than 1.5%, the outstanding balances of the A(1) and A(2) notes will amortise *pro rata*.

As the first payment date of the A2 principal will be in April 2007, principal collections from the collateral will be credited in the treasury account until this date. Any negative carry risk has therefore been accommodated in the cash flow model.

Call Option

A clean-up call option in favour of the *Sociedad Gestora* will be available on the following payment date after the collateral balance falls to less than 10% of its original size. The issuer will be redeemed after the entire amortisation of the collateral and/or the notes.

Reserve Fund

At closing, the issuer will set up the reserve fund through a subordinated loan granted by SAN for a total amount of EUR71.3m (2.3% of the original note balance). Subject to the following conditions, the reserve fund will be permitted to amortise to an amount equivalent to 2.5% of the outstanding notes' balance:

- the balance of loans more than 90 days in arrears remains below 1.0% of the outstanding loan balance;
- on the preceding payment date, the reserve fund was set to its required amount;
- the cumulative level of losses in the collateral is lower than 1.0% of the original collateral balance; and
- there is no amortisation deficit (i.e. the positive difference, if any, between principal due for amortisation minus the available funds for amortisation)

The reserve fund will be subject to an absolute floor of 0.9% of the original notes' balance at all times. This will protect the structure in the event of back-loaded timing of defaults (i.e. when these peak later in the life of the transaction), as the 90 days' delinquency trigger will anticipate any potential deterioration in the credit quality of the collateral, and it will also protect in the event that the largest obligors default together.

Swap Agreement

The notes will benefit from a swap agreement between the issuer and SAN, under which the issuer

will pay SAN an amount equivalent to the interest received on the portfolio calculated on a notional defined as the balance of loans up to 90 days in arrears.

In return, the issuer will receive three-month EURIBOR plus the WA spread on the notes plus 65bps on a notional amount defined as the greater of:

- the balance of loans up to 90 days in arrears; and
- the lesser of: the outstanding balance of the collateral; or interest collections from the collateral during the last liquidation period divided by the interest rate payable by SAN under the swap agreement, and adjusted for the number of days of the liquidation period.

This has the following main effects.

1. It hedges against an interest rate mismatch between the assets and liabilities arising from differences in the reference indices (for example, 12-month EURIBOR for the collateral versus three-month EURIBOR for the liabilities).
2. It produces a stable spread of 65bps over the life of the deal, thereby mitigating any compression in the WA margin on the loans and offsetting the increase in note funding costs over time.
3. *Ceteris paribus,* the swap is more favourable to the issuer if the credit quality of the collateral deteriorates as it reduces the possibilities under which a net payment would be payable to SAN, just as it increases those under which the net swap payment is zero.

If SAN is downgraded below 'A'/'F1', it will, within 30 days, take one of the following steps:

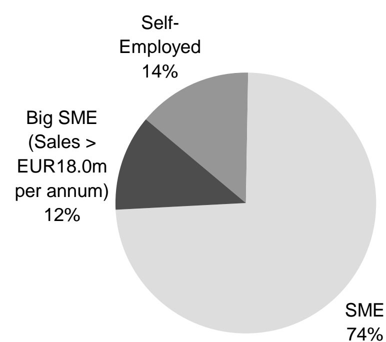
- find an entity rated at least 'A'/'F1' to guarantee its obligations under the swap agreement;
- find a replacement counterparty with a Long-term rating of at least 'A'/'F1'; or
- adequately cash- or security-collateralise its obligations.

Collateral

At closing, the final portfolio will have an outstanding balance of EUR3,100m and will consist of loans selected from a provisional portfolio of 17,821 loans. At 20 September 2005, the provisional portfolio's main characteristics, expressed as a proportion of the aggregate outstanding balance, were:

1. the top obligor represented 1.4%, the top five 5.1%, and the top ten 7.9%;
2. the average outstanding balance was EUR180,908;
3. 29.5% of the collateral was secured on first-ranking mortgages, of which 100.0% corresponded to commercial properties, office locations or retail outlets;
4. 20.7% were located in the region of Madrid, 15.9% in Catalunya, and 14.7% in Andalucía;
5. 22.0% were linked to real estate activities, which can include the financing of "buy-to-let" properties, property management and the real estate marketing of offices, industrial warehouses, hotels, shopping centres and residential units. Moreover, 9.4% was linked to construction activities, 13.2% to retail and 4.2% to tourism;
6. WA seasoning was 19.0 months;
7. 91.8% was paying a floating rate, of which most was linked to the 12-month EURIBOR rate;
8. the original and current LTV ratios of mortgage loans were 82.2% and 77.0%, respectively; and
9. the earliest maturity was November 2005 and the latest, April 2035.

Collateral by Borrower Type



Source: Transaction documents

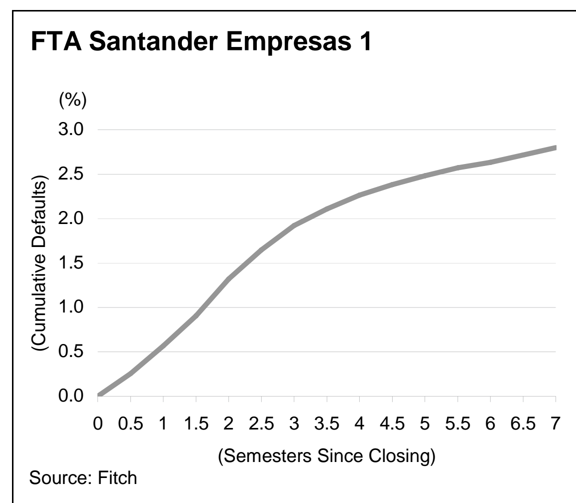
Credit Analysis

Fitch's key sections of the analysis were the default probability calculation, and the definition of recovery rates for each rating category. These results were combined with the structural features of the transaction and analysed in a cash flow model.

Default Probability

Using historic delinquency data provided by the originator, and validating the dataset with a simulation run of the collateral in Fitch's VECTOR, cumulative default probability rates were obtained for all the rating categories. More information about VECTOR and the agency's criteria for assessing cash flow CDOs is detailed in a special report titled "*Global Rating Criteria for Collateralised Debt Obligations*", dated 13 September 2004, available at www.fitchratings.com.

Based on Fitch's Pan European SME CDO Performance Tracker methodology (see report "*Pan-European SME CDO Performance Tracker*", dated 9 June 2005 and available at www.fitchratings.com), the chart below illustrates the expected cumulative base-case level of defaults for this transaction.



Source: Fitch

As indicated in the *Credit Committee Highlights* section, Fitch received SAN's internal scoring results for the obligors within the pool. SAN defines this scoring system taking into account internal default and delinquency data for corporates since 1995, and it has been calibrated according to the Bank of Spain guidelines and Basel II requirements.

In order to approximate the equivalent Fitch rating for each of the obligors in the pool, SAN's one-year default data for each of its rating scales was compared against the one-year default probabilities defined in Fitch's CDO default matrix.

Recovery Rates

Fitch has conducted a loan-by-loan analysis of the collateral. Key to the agency's recovery analysis of loans that are secured on property is the estimated stressed value of the assets under the different rating scenarios, which is determined by identifying market value decline ("MVD") ratios for the different property types.

When the security provided refers to a commercial real estate asset, such as office locations or retail outlets, MVDs were calculated in accordance with Fitch's standard analytical approach to CMBS, which uses rental value decline ("RVD") indicators and income capitalisation rates for specific property classes. RVDs are based on historical volatility observations for the real estate market in Europe: the higher the volatility of a particular property type, the lower the potential stressed rent achieved in the future and, therefore, the higher its RVD.

Credit Analysis

(%)	Cumulative WA Default Probability	WA Recovery Rates
AAA	14.0	35.5
AA+	12.6	39.7
A+	9.3	49.7
BBB	5.6	57.5

Source: Fitch

The income capitalisation rate of a property can be expressed as the yield generated in the market by properties with similar features and use (e.g. hotels will normally return a different yield from retail units). More information on Fitch's CMBS methodology can be found in the special report "*European Property Income Model – "The Logic*"" dated 9 June 2004 and available at www.fitchratings.com. The resulting MVDs were calibrated to reflect the geographic concentration of the collateral in this portfolio.

For the unsecured portion of the collateral, Fitch calculated a recovery rate for each rating category considering the historical recovery data presented by SAN for this particular type of exposure, and also the Spanish senior unsecured recovery rate defined by VECTOR. The final WA recovery rates were calculated by blending those rates of the secured and unsecured sub-portfolios considering their respective sizes in volume terms.

Cash Flow Analysis

Fitch modelled the cash flow mechanics of this transaction using the default probabilities and recovery rates detailed above. The cash flow model assumed that defaults can occur in front- and back-loaded sequences. Although it depends on the specific amortisation profile of the collateral, a back-loaded sequence is generally more stressful, as most of the defaults would peak well into the life of the transaction. Therefore, substantial amounts of excess spread would already have been paid out by the structure before any provisioning mechanism was triggered.

The analysis calculated the cost of carrying defaulted loans as the difference between the performing balance of the collateral and the notional note balance until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until all recoveries are received. Interest rates were stressed upwards over time as per the criteria definitions included in the report "*Global Rating Criteria for Collateralised Debt Obligations*", dated 13 September 2004 and available at www.fitchratings.com.

Credit enhancement analysis also took into account the interest deferral mechanism in place for the Class B, C and D notes, which will redirect funds away from the junior notes towards the more senior notes if the cumulative default level in the portfolio exceeds the triggers defined for each class of notes. Should the triggers be hit, interest on the Class B to D notes might not be received during a certain period, but will be received prior to the maturity date.

In addition, the agency modelled prepayments, which can affect certain transaction components. Primarily, they lower the absolute excess spread, which is an important component of the structure's total credit enhancement. On the other hand, as the principal repayment is directed to the senior classes, those notes benefit from higher credit enhancement as a result of the increase in subordination. However, prepayments may also cause adverse selection, as the strongest obligors are likely to be most inclined to prepay, which would leave the pool dominated by weaker obligors as the collateral aged.

Fitch's recovery calculation assumed foreclosure costs of 10% of the outstanding loan amount and a three-year lapse between the default and recovery dates.

Origination and Servicing

SAN is Spain's largest banking group, with a strong retail banking franchise in Spain and a variety of other banking divisions in Europe and Latin America.

The bank uses a comprehensive proprietary ratings system, which was developed internally. This evaluates the following six main sections for every debtor: industry and marketplace, management and shareholding structure, access to credit, profitability, solvency and cash flow generation capacity. Each of these ratios is linked to a particular score within SAN's rating scale, and each receives its own weighting factor. The final score is the WA of all the ratios. The ratings determine the default probability for each client and give an expected loss. The internal rating of an obligor is always assigned/updated when a new transaction is evaluated, with its financial history recorded for at least the previous three years.

If the loan is secured on mortgaged property, independent valuation companies approved by the Bank of Spain, together with the bank's own valuers, will provide input to the credit analysis process. Prior to final loan approval, the bank's systems will automatically carry out credit checks with external systems such as CIRBE (Central de Información de Riesgos del Banco de España) and RAI (Registro de Aceptaciones Impagadas) as well as the bank's internal system.

With regard to servicing the SME loan books, delinquent borrowers are identified through a system of automatic alerts, which are delivered to branch managers and credit analysts on a regular basis, and are included in a system called "FEVE", which monitors obligors with special surveillance requirements. Each of the obligors included in this system is assigned a strategy to follow, which can be summarised as follows:

- continue as normal;
- review/reduce;
- improve the terms and conditions; or
- eliminate.

This system enables the risk department to remain a step ahead of arrears by starting the necessary procedures before a default actually occurs, and to protect its interests adequately in the event of default.

Loans in arrears are managed directly by branch personnel or relationship managers for the first days; if the position remains delinquent after 90 days, it will be transferred to the special recoveries team. Only when the bank can take no further action internally or when the credit quality of the borrowers appears very low will SAN initiate any legal action.

Overall, SAN's underwriting, ongoing control and recovery procedures are well managed and have enabled the bank to enjoy low levels of default as well as fairly high recovery rates for its SME lending business.

Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance performance analytics ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Fitch will report the performance of this transaction against the base-case default curve outlined in the report *"Pan European SME CDO Performance Tracker"*. Along with this new tool, other details of the transaction's performance will be available to subscribers at www.fitchresearch.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or ongoing performance.

F.T.A. Santander Empresas 1 — Spain/CDO

Capital Structure

Series	Rating	Size (%)	Size (EURm)	CE (%)	PMT Freq	Final Legal Maturity	Coupon
A1	AAA	48.8	1,512.8	13.5	Quarterly	October 2038	Floating
A2	AAA	40.0	1,240.0	13.5	Quarterly	October 2038	Floating
B	AA+	2.6	80.6	10.9	Quarterly	October 2038	Floating
C	A+	3.1	96.1	7.8	Quarterly	October 2038	Floating
D	BBB	5.5	170.5	2.3	Quarterly	October 2038	Floating
Reserve Fund	N.R.	2.3	71.3	n.a.	n.a.	n.a.	n.a.

Key Information

Closing Date	26 October 2005 (expected)	Role	Party (trigger)
Country of Assets	Spain	Structurer	Santander de Titulización SGFT SA
Structure	Pass through, sequential, pro-rata under certain conditions	Originator/Servicer of the collateral	SAN
Type of Assets	SME loans	Issuer	F.T.A. Santander Empresas 1
Currency of Assets	EUR	Servicer of the Notes	Santander de Titulización SGFT SA
Currency of Notes	EUR	Paying Agent	SAN ('F1')
Primary Analyst	juan.garcia@fitchratings.com	Swap Counterparty	SAN ('A'/'F1')
Secondary Analyst	henry.gallego@fitchratings.com		
Performance Analyst	lidia.rios@fitchratings.com		

Collateral: Pool Characteristics*

Current Principal Balance (EUR)	3,223,960,695	Located in Madrid (%)	20.7
Loans (#)	17,821	Located in Catalunya (%)	15.9
Current WAL (Zero Prepayments)	4.5 Years	Monthly and Quarterly Payment Frequencies (%)	88.3
WA Coupon	306bps	Backed by First-Ranking Mortgage (%)	29.5
Average Spread of Floating Loans	69bps	WA Current LTV (for Mortgages) (%)	77.9
Largest Obligor (%)	1.4	Linked to Floating Interest Rates (%)	91.8
Largest 5 Obligors (%)	5.1	Linked to Fixed Interest Rates (%)	8.2
Largest 10 Obligors (%)	7.9	Oldest Loan	October 1993
WA Seasoning	19 Months	Youngest Loan	May 2005
WA Time to Maturity	199 months	Longest Maturity	April 2035
Obligors (#)	15,376	Shortest Maturity	November 2005

* All percentages as a proportion of outstanding balance.
Source: Transaction documents

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