

# FONDO DE TITULIZACIÓN PYMES MAGDALENA

(a Spanish securitisation fund (fondo de titulización))

EUR 66,500,000 Portfolio Credit Linked Notes due 2041



Fund sponsored and managed by:

**SANTANDER DE TITULIZACIÓN, S.G.F.T., S.A.**

## The Notes; Application to the *Mercado Alternativo de Renta Fija*

Fondo de Titulización PYMES Magdalena (the "Issuer"), a securitisation fund (*fondo de titulización*), duly incorporated under the relevant provisions of Law 5/2015 dated 27 April (*Ley 5/2015, de 27 de abril, de fomento de la financiación empresarial*), has issued on 22 May 2017 (the "Incorporation Date") the EUR 66,500,000 Portfolio Credit Linked Notes due 2041 (the "Notes").

Santander de Titulización, S.G.F.T., S.A., a management company (*sociedad gestora de fondos de titulización*) duly incorporated under the laws of Spain, registered in the special registry established for such purpose by the *Comisión Nacional del Mercado de Valores* under number 1 and with registered office is at Gran Vía de Hortaleza, 3, Edificio Magdalena, Planta 1, 28033 Madrid, is the management company (*sociedad gestora*) of the Issuer (the "Management Company") and requests the admission (*incorporación*) of the Notes in compliance with this Information Memorandum (*Documento Informativo de Incorporación al Mercado*) (the "Information Memorandum") to listing on the Alternative Fixed-Income Market (*Mercado Alternativo de Renta Fija*) ("MARF").

This Information Memorandum includes the information required by MARF Circular 1/2015 of 30 September on admission and removal of notes in the Alternative Fixed-Income Market ("Circular 1/2015").

MARF is a multilateral trading facility and is not a "regulated market" in accordance with the provisions of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC ("Directive 2004/39/EC"). There is no guarantee that the Notes will retain their quoted price once traded on the MARF. There is no assurance that the Notes will be widely distributed and actively traded on the market because at this time there is no active trading market. The development or the liquidity of a trading market for the Notes cannot be guaranteed.

This Information Memorandum does not constitute a prospectus (*folleto informativo*) approved and registered with the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) ("CNMV"). The issue of the Notes does not constitute a public offering in compliance with article 35 of Royal Legislative Decree 4/2015 of 23 October approving the consolidated text of the Securities Market Law approved by the Legislative Royal Decree 4/2015, of 23 October (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) ("LMV"), which provides for an exemption from the obligation to approve, register and publish a prospectus with the CNMV. The issue is directed exclusively to professional clients or qualified investors in compliance with article 205 of the LMV and article 39 of Royal Decree 1310/2005 of 4 November.

No action has been taken in any jurisdiction to permit a public offering of the Notes or the distribution of the Information Memorandum or any other offering materials in any country or jurisdiction in which such actions are required for those purposes.

The governing body of the MARF has not made any verification or check regarding this Information Memorandum or the contents of the other documentation and information provided by the Issuer in compliance with Circular 1/2015.

## Obligations of Issuer Only

The Notes will be obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any of the other parties to the transactions described in this Information Memorandum and any suggestion otherwise, express or implied, is expressly excluded.

## Form of Notes

The Notes have been issued and are represented book-entry form (*anotaciones en cuenta*), registered with the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* ("Iberclear") as managing entity of the central registry of the Spanish clearance and settlement system (the "Spanish Central Registry"), as further described in the section entitled "Summary of Clearance and Settlement procedures applicable to Notes" of this Information Memorandum.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other regulatory authority in the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Information Memorandum. Any representation to the contrary is a criminal offence in the United States. The Issuer has not been registered under the Investment Company Act of 1940, as amended (the "Investment

Company Act") and the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act ("Regulation S") and the Notes may not at any time be offered or sold within the United States or to U.S. Persons as defined in Regulation S "U.S. Persons"). See "Subscription and Sale".

#### **Risk Factors**

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer, the Swap Counterparty and the Reference Portfolio and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult its own independent professional advisors.

It should be remembered that the price of securities and the income from them can go down as well as up.

A discussion of certain factors, which should be considered by prospective Noteholders in connection with an investment in the Notes, is set out in the section entitled "Risk Factors".

#### **Co-Arrangers and Lead Managers**



**Banco Santander, S.A. and UniCredit Bank AG**



The date of this Information Memorandum is 22 May 2017

## Responsibility Statements

The Management Company accepts responsibility for the information contained in this Information Memorandum other than the information in the sections entitled "*Overview of Origination and Servicing of Reference Obligations*", "*Description of the Initial Reference Portfolio*" and "*Banco Santander, S.A.*" (the "**Santander and Portfolio Information**"). To the best of the knowledge and belief of the Management Company (which has taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum (other than the Santander and Portfolio Information) is in accordance with the facts and does not omit anything likely to affect the meaning of such information

The Santander and Portfolio Information has been accurately reproduced and as far as the Management Company is aware and is able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Notes are only intended to be offered in the primary market to, and held by, investors who are particularly knowledgeable in investment matters.

## Representations about the Notes

No person is or has been authorised in connection with the issue and sale of the Notes to make any representation or provide any information other than as contained in this Information Memorandum and, if given or made, such representation or information should not be relied upon as having been authorised by or on behalf of the Management Company, the Issuer, the Co-Arrangers, the Lead Managers, the Paying Agent, the Swap Counterparty, the Deposit Bank or the Calculation Agent (the "**Transaction Parties**") (each as described in this Information Memorandum) or any person affiliated with them.

None of the Transaction Parties or any person affiliated with them have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Transaction Parties or any person affiliated with them as to the accuracy or completeness of the information contained in this Information Memorandum or any other information supplied in connection with the Notes, their distribution or the future performance and adequacy of the Notes. Each person receiving this Information Memorandum acknowledges that such person has not relied on any of the Transaction Parties or any other person affiliated with any of them in connection with any investigation of the accuracy of the information contained herein and/or its investment decision.

## Financial condition of the Issuer

Neither the delivery of this Information Memorandum nor the offer, sale, allocation, solicitation or delivery of any Note shall, in any circumstances, create any implication or constitute a representation that there has been no adverse change or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or in any other information contained herein since the date of this Information Memorandum or that the information contained herein is correct as at any time subsequent to the date of this Information Memorandum.

## Selling Restrictions

No action has been or will be taken to permit a public offering of the Notes or the distribution of this Information Memorandum in any jurisdiction except as described in this Information Memorandum. The distribution of this Information Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum (or any part thereof) comes are required by the Issuer and the Lead Managers to inform itself about and to observe any such restrictions.

Neither this Information Memorandum nor any part hereof constitutes an offer of, or an invitation by, or on behalf of, the Issuer or the Lead Managers to subscribe for or purchase any of the Notes. Neither this Information Memorandum, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstance in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Information Memorandum nor any part hereof nor any other prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including Spain), except in circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

None of the Issuer or the Lead Managers or any of their representatives is making any representation to any offeree or purchaser of the Notes offered by this Information Memorandum regarding the legality of an investment by such an offeree or purchaser under appropriate legal, investment or similar laws. Prospective purchasers should consult with their advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

For a further description of certain restrictions on offers and sales of the Notes and distribution of this Information Memorandum, see "*Subscription and Sale*" below.

**Any individual intending to invest in any instrument described in this Information Memorandum should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.**

#### **Withholding Tax**

Payments of interest, principal and premium (if any) in respect of the Notes will be made subject to any applicable withholding taxes and none of the Issuer, the Paying Agent nor any other person will be obliged to pay additional amounts as a consequence thereof. See "*Taxation In Spain*".

#### **Interpretation**

References in this Information Memorandum to "**Euro**", "**EUR**" and "**€**" are to the single currency introduced in some Member States of the European Community at the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community.

Certain figures included in this Information Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Capitalised terms used in this Information Memorandum, unless otherwise indicated, have the meaning set out in this Information Memorandum. A glossary of defined terms which are used but otherwise undefined in this Information Memorandum is set out in the section entitled "*Glossary of Defined Terms*".

An index of defined terms appears at the end of this Information Memorandum.

Any website mentioned herein does not form part of this Information Memorandum.

#### **Documents Incorporated by Reference**

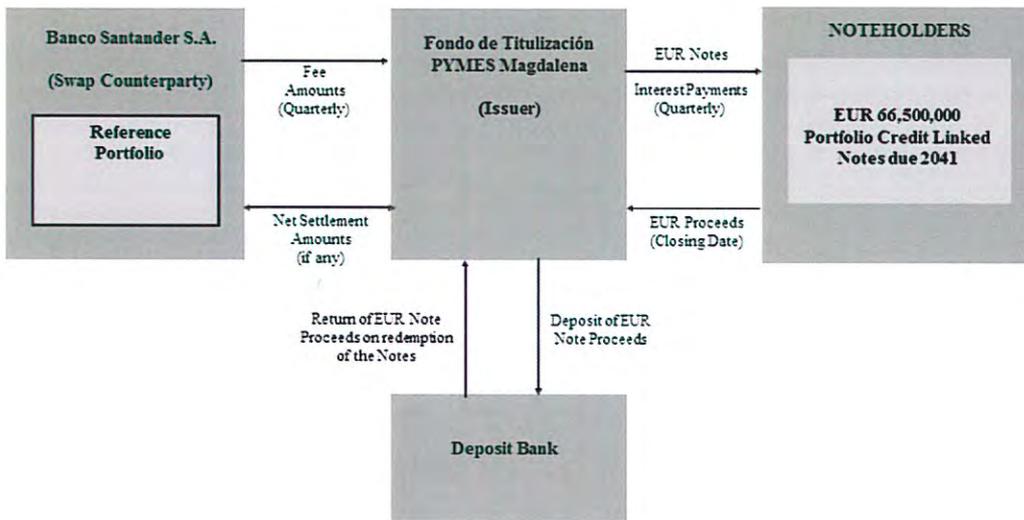
All amendments and supplements to this Information Memorandum prepared by the Issuer from time to time shall be deemed to be incorporated in, and to form part of, this Information Memorandum, **provided, however, that** any statement contained in this Information Memorandum or in any of the documents incorporated by reference in, and forming part of, this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

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## TRANSACTION DIAGRAM

This summary of terms and transaction overview is qualified in its entirety by reference to the detailed information appearing elsewhere in this Information Memorandum. In the event of any inconsistency between this summary of terms and transaction overview and the information provided elsewhere in this Information Memorandum, the information provided elsewhere in this Information Memorandum shall prevail.



## OVERVIEW OF THE TRANSACTION

The Issuer will, concurrently with the issuance of the Notes, enter into a Credit Default Swap with the Swap Counterparty in respect of the Reference Portfolio. Replenishments may be made to the composition of the Reference Portfolio on or after the Closing Date in certain circumstances.

On the Closing Date, the Issuer will utilise the proceeds of the issue of the Notes to make a deposit into the Issuer Account in EUR.

Pursuant to the terms of the Credit Default Swap, on each Note Payment Date, the Swap Counterparty is required to pay to the Issuer the Fixed Amount in respect of that Note Payment Date calculated pursuant to the terms of the Credit Default Swap. The Issuer will use such Fixed Amounts, together with income received on the Issuer Account to pay interest on the Notes on each Note Payment Date.

In return for payment of the Fixed Amounts, the Issuer has agreed under the terms of the Credit Default Swap that, if a Credit Event occurs and the Conditions to Settlement are satisfied in respect of a Reference Obligation, the Issuer will pay to the Swap Counterparty on each Note Payment Date an amount in EUR equal to the Aggregate Seller Payment (if any) determined in respect of the Calculation Period ending prior to such Note Payment Date.

On any date on which the Notes fall due for redemption, the funds standing to the credit of the Issuer Account will be used to redeem the Notes, subject to and in accordance with the terms and conditions of the Notes (the "**Conditions**").

The Swap Counterparty has sought, or intends to seek, permission from its competent supervisory authority to calculate the risk weighted amounts in respect of the Reference Portfolio in accordance with the securitisation framework, based on the transaction meeting the requirements for significant risk transfer under the CRR.



## TRANSACTION PARTIES

<b>Issuer</b>	Fondo de Titulización PYMES Magdalena (the " <b>Issuer</b> "), a Spanish securitisation fund ( <i>fondo de titulización</i> ) incorporated on 22 May 2017 by means of a deed of incorporation executed before the Notary Public of the city of Madrid Mr. José María Mateos Salgado (the " <b>Deed of Incorporation</b> ") and managed and legally represented by
<b>Management Company</b>	Santander de Titulización, S.G.F.T., S.A., a management company incorporated in December 1992, registered in the special registry established for such purpose by the Spanish Securities Market Regulator ( <i>Comisión Nacional del Mercado de Valores</i> or " <b>CNMV</b> ") under number 1 and with registered office is at Gran Vía de Hortaleza, 3, Edificio Magdalena, Planta 1, 28033 Madrid.
<b>Swap Counterparty</b>	Banco Santander, S.A., a Spanish credit institution registered with the Bank of Spain with number 0049 and with registered office at Santander, Paseo de Pereda, 9-12.
<b>Deposit Bank</b>	Banco Santander, S.A. (the " <b>Deposit Bank</b> ").
<b>Paying Agent</b>	Banco Santander, S.A. (the " <b>Paying Agent</b> ").
<b>Calculation Agent</b>	Banco Santander, S.A. (the " <b>Calculation Agent</b> ").
<b>Subordinated Lender</b>	Banco Santander, S.A. (the " <b>Subordinated Lender</b> ")
<b>Independent Accountants</b>	PricewaterhouseCoopers Auditores, S.L. (the " <b>Independent Accountants</b> ").
<b>MARF Registered Advisor</b>	Santander de Titulización, S.G.F.T., S.A..



## RISK FACTORS

*The following is a summary of certain aspects of the Notes, the Issuer and the related transactions and Transaction Parties about which prospective Noteholders should be aware. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Information Memorandum, including the risk factors detailed below. This summary is not intended to be exhaustive, and prospective Noteholders should make their own independent evaluations of all risk factors and should also read the detailed information set out elsewhere in this Information Memorandum prior to making an investment decision.*

### **Legal status of the Issuer**

#### *Nature of the Issuer and obligations of the Management Company*

The Issuer is an isolated pool of assets without legal personality that, pursuant to Law 5/2015 is managed by the Management Company duly licensed for such purposes. The Issuer's liability for its obligations vis-à-vis its creditors (including the holders of the Notes) shall be limited in recourse to the extent of its assets and none of the Transaction Parties shall be responsible for any of the Issuer's liabilities.

The Management Company will perform for the Issuer those duties attributed to it in Law 5/2015, as well as the safeguarding of the best interest of the holders of the Notes and any other creditors of the Issuer.

The Noteholders and the other ordinary creditors of the Issuer shall not have any right of action either against the Issuer or against the Management Company other than from non-performance of their respective duties or non-compliance with the provisions of the Deed of Incorporation and the applicable laws and regulations. Any such actions will need to be resolved in the (corresponding) judicial proceedings. The Noteholders will have no recourse to the Issuer or the Management Company based only on delinquency or payment default by the Reference Entities or breach of agreement by third parties.

#### *Mandatory replacement of the Management Company*

In accordance with article 33 of Law 5/2015, if the Management Company is subject to an insolvency proceeding (*concurso*), without prejudice to the effects of such insolvency proceeding (as described below), it shall find another management company to replace it. If four (4) months have elapsed since the occurrence of the event requiring the replacement and a new management company that is prepared to take over the management of the Issuer has not been found, a trigger event for the early liquidation of the Issuer will occur and the Notes and other obligations of the Issuer will be redeemed or repaid, as the case may be, in accordance with the provisions of the Deed of Incorporation.

#### *Insolvency*

The insolvency proceeding (*concurso*) of any of the parties involved (whether it be the Management Company, the Deposit Bank or any other counterparty of the Issuer) could affect their contractual relations with the Issuer as provided in the Law 22/2003, of 9 July, on Insolvency (*Ley 22/2003, de 9 de Julio, Ley Concursal*) (the "Spanish Insolvency Law").

In this respect, if the Management Company is declared insolvent (*concurso*), it must be replaced by another management company as indicated above. In the event of insolvency of the Management Company, any assets of the Issuer that are in the possession of the Management Company and in respect of which the Management Company has no right of use, surety or retention -except for money due to its fungible nature- and that form part of the latter's assets will be construed as belonging to the Issuer, and the insolvency officials (*administración concursal*) must deliver them to the Issuer.

In practice, due to the nature of the securitisation transaction in question, and except in the event of a breach by the parties, no cash amounts will become part of the assets of the Management Company since the amounts that constitute the revenues of the Issuer must be deposited, in accordance with the terms set forth in the Deed of Incorporation and the relevant Transaction Documents, in the accounts opened on behalf of the Issuer by the Management Company (which will be involved in opening such accounts not only as the agent of the Issuer, but as its legal representative). Therefore the Issuer would be entitled to absolute separation of those assets from the Management Company in this respect, in the terms set forth in articles 80 and 81 of the Spanish Insolvency Law.

Banco Santander, S.A. is also subject to Law 11/2015, of 18 June 2015, on the recovery and resolution of credit entities and investment firms (*Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*), which implements in Spain the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**"). Application of those provisions may delay or in certain cases impede the recovery of the amounts deposited in accounts opened in Banco Santander, S.A.

The Issuer cannot be subject to insolvency proceedings (*concurso*) under the Spanish Insolvency Law, although it can be liquidated upon occurrence of any of the events set forth in its Deed of Incorporation.

### **Investor Suitability**

#### ***Investor Considerations***

The Notes are complex securities and prospective investors should ensure that they have sufficient knowledge, experience and access to professional advisers with the expertise necessary to evaluate the information contained in this Information Memorandum and to make their own legal, tax, accounting and financial evaluation of the merits and risks of an investment in the Notes and that they consider the suitability of the Notes as an investment in light of their own circumstances and financial condition. An investor should not purchase Notes unless it understands the principal repayment, credit, liquidity, market and other risks associated with the Notes.

#### ***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of such investment in light of its own financial and risk circumstances. In particular, each potential investor should:

- (a) be capable of bearing the economic risk of an investment in the Notes for the period up until the date on which the Notes mature and understand that the terms of the Notes are such that they may suffer a loss of some or all of their original principal investment;
- (b) recognise that in case the Notes need to be sold prior to maturity, the investor may have to do so at a substantial discount from the initial price, and as a result may suffer substantial losses;
- (c) have read and understand the terms of the Credit Default Swap at the time of investment and understand the risks associated with an indirect exposure to such agreements and understand that its exposure is synthetic and is to a blind pool of Reference Obligations under the Credit Default Swap;
- (d) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Information Memorandum;
- (e) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (f) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (g) understand thoroughly the terms of the Notes and be familiar with the behaviours of any relevant financial markets;
- (h) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (i) undertake such due diligence as it deems necessary in the circumstances in relation to the Swap Counterparty and its business practices, the Reference Portfolio and the manner in which Replenishments can be made to the Reference Portfolio and Recoveries may be determined.

Investors may not rely on any Transaction Party in connection with its determination as to the legality of acquisition of the Notes or as to the other matters referred to in these risk factors. Neither the Management Company, the Issuer nor any of the other Transaction Parties is acting as an investment adviser, or assumes any fiduciary obligation, to any investor in the Notes (except for the duties legally vested on the Management Company by Law 5/2015). The Transaction Parties do not assume any responsibility for conducting or failing to conduct any investigation into the business, financial condition, prospects, creditworthiness, status and/or affairs of any Reference Entity or any other Transaction Party.

The Notes are not a suitable investment for all investors. The Notes are not a conventional investment and carry various unique investment risks, which prospective investors should understand clearly before investing in the Notes. In particular, an investment in the Notes involves the risk of a partial or total loss of investment. An investment in the Notes does not provide the same exposure as a direct investment in the Credit Default Swap or any underlying Reference Obligation.

#### ***Tax consequences of holding the Notes***

Potential investors should consider the tax consequences of investing in the Notes and consult their tax adviser about their own tax situation.

#### **Considerations Related to the Notes**

##### ***Obligations of the Issuer, Limited Assets and Liability under the Notes***

The Issuer is a Spanish securitisation fund (*fondo de titulización*) with no business operations other than the issue of the Notes and the entering into of the Transaction Documents. The Notes are limited recourse obligations of the Issuer and amounts due in respect of the Notes are payable only to the extent that the Issuer receives monies due to it under the Transaction Documents. The Issuer will not have any other funds available to it to meet its obligations under the Notes and its obligations ranking in priority to, or *pari passu* with, the Notes. The only funds available to the Management Company on behalf of the Issuer for and on behalf of the Noteholders and the other Creditors will consist solely of the Available Funds. The Noteholders will have no right to proceed directly against, amongst others, the Swap Counterparty in respect of the Credit Default Swap or to take title to, or possession of, the Available Funds.

The Issuer is the only entity responsible for making any payments on the Notes. The Notes will be obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any other person or entity. In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, any of the other Transaction Parties or any person affiliated with them.

If distributions of amounts received by the Issuer under the Transaction Documents and the Available Funds are insufficient to make payments on the Notes in full, no other assets will be available for payment of any such shortfall and no debt shall be owed by the Issuer in respect of any such shortfall. The entitlement of the Noteholder will be limited to the Available Funds applied in accordance with the Priority of Payments and will rank junior to (1) payment of taxes of the Issuer, (2) payment *pari passu* and rateably of any Issuer Operating Expenses then due and, (3) payment or satisfaction of all amounts then due and unpaid to the Swap Counterparty under the terms of the Credit Default Swap, and (4) payment *pari passu* and rateably of all interest then due and unpaid in respect of the Notes.

Accordingly, the Noteholders may receive on redemption an amount less than the face value of their Notes and the Issuer may be unable to pay, in full, interest due on the Notes.

##### ***Limited Funds Available to the Issuer to Pay Expenses***

The funds available to the Issuer to pay Issuer Operating Expenses are subject to receipt of such payment from the Swap Counterparty. In the event that such funds are not sufficient to pay such Issuer Operating Expenses the ability of the Issuer to operate effectively may be impaired, and it may not be able to defend or prosecute legal proceedings that may be brought against it or that it might otherwise bring to protect the interests of the Issuer.

##### ***Issuer's Third Party Litigation***

The Issuer's investment activities subject it to the normal risks of becoming involved in litigation by third parties. The expense of defending against claims by third parties and paying any amounts pursuant to

settlements or judgments would be borne by the Issuer and would reduce the amounts available for distribution and the Issuer's net assets.

#### ***Uncertainty of Final Redemption Date since it is linked to the Termination Date under the Credit Default Swap***

The Final Redemption Date of the Notes is not fixed and is linked to the Termination Date under the Credit Default Swap. The Termination Date under the Credit Default Swap may fall a significant period after 22 March 2039 (being the Scheduled Termination Date) because, for example, of Reference Obligations in respect of which Credit Events have occurred but which have not yet become Verified Reference Obligations.

Conversely, the Final Redemption Date of the Notes may arise much earlier than the Scheduled Redemption Date if, for instance, the Termination Date under the Credit Default Swap occurs earlier as a result of an event of default or certain other termination events under the Credit Default Swap. The circumstances in which the Termination Date may occur earlier than scheduled under the Credit Default Swap are set out in more detail in the Credit Default Swap – see "*Credit Default Swap*" below. No mark-to-market value will be payable by or to the Issuer in respect of any such early occurrence of the Termination Date. In these circumstances, the Noteholders will not have the benefit of any further positive performance in respect of the Notes and each Note will be redeemed at the Principal Balance.

#### ***No Market for the Offered Notes; Lack of Liquidity***

The offered Notes are addressed solely to qualified investors as defined in article 39 of Royal Decree 1310/2005, of 4 November, partly developing the Law 24/1988, of 28 July, on the Spanish Securities Market Law in regard to admission to trading of securities in official secondary markets, public offerings for sale or subscription and the prospectus required for that purpose (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*).

The offered Notes are a new issue of securities for which there is currently no market. Neither the Issuer nor the Lead Managers intend to create a market for the offered Notes. Accordingly, no assurance can be given as to the development or liquidity of any market for the offered Notes. Because there is currently no market for the offered Notes, investors must be able to bear the risks of their investment in the offered Notes for an indefinite period of time.

#### ***Lack of Liquidity in the Secondary Market May Adversely Affect the Market Value of the Notes***

The secondary market for asset-backed securities has in the past experienced severe disruptions resulting from reduced investor demand for such securities. This has had a material adverse impact on the market value of asset-backed securities and resulted in the secondary market for asset-backed securities experiencing very limited liquidity during such severe disruptions.

If limited liquidity were to occur in the secondary market it could have an adverse effect on the market value of asset-backed securities and instruments similar to the Notes, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, an investor in the Notes may not be able to sell or acquire credit protection on its Notes readily and market values of the Notes are likely to fluctuate. Any fluctuations may be significant and could result in significant losses to an investor. It is not known whether such market conditions will reoccur.

#### ***Allocations of Loss***

Upon satisfaction of the Conditions to Settlement in respect of one or more Reference Obligations under the Credit Default Swap, the Issuer may be obliged to pay an Aggregate Seller Payment to the Swap Counterparty on a Note Payment Date. If the Issuer is required to make such a payment, the Principal Balance of the Notes will be reduced on such Note Payment Date without any commensurate payment to Noteholders, by the amount of the relevant Aggregate Seller Payment.

### ***Interest Entitlement***

The amount of interest payable on the Notes in respect of a Note Payment Date will be determined by reference to the Principal Balance of the Notes and reductions in the Principal Balance of the Notes will reduce the amount of such interest payable on the Notes accordingly. In certain circumstances, upon the determination of a Credit Protection Adjustment Amount in respect of a Note Payment Date, the Principal Balance of the Notes will be increased and the Interest Amount payable in respect of the Notes on such Note Payment Date will be increased to account for interest that would have otherwise accrued on such amount.

### ***Leveraged Investment***

Under the Credit Default Swap, the Issuer will be required to pay the Aggregate Seller Payment (if positive) to the Swap Counterparty as a result of Credit Events occurring in respect of the Reference Obligations in the Reference Portfolio. The Credit Default Swap is a leveraged arrangement because the Issuer is (and therefore the Noteholders are) exposed to the risks on the entire Reference Portfolio (with an Initial Reference Portfolio Amount of EUR 1,000,000,000.88, (being the sum of the Reference Obligation Notional Amount of each Reference Obligation comprising the Initial Reference Portfolio) while the potential liability of the Issuer for positive Aggregate Seller Payments to the Swap Counterparty under the Credit Default Swap is limited to the Initial Protected Tranche Amount being EUR 66,500,000. The excess of the Initial Reference Portfolio Amount under the Credit Default Swap over this amount increases the risk of loss to the Issuer and the Noteholders. Accordingly, the Noteholders are subject to a higher risk of losing all or part of their investment.

### ***Volatility***

The market value of the Notes may fluctuate with changes in prevailing rates of interest, market perceptions of the risks associated with the Notes, supply and other market conditions. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of such Notes.

### ***Delays in Redemption Related to the Calculation of the Aggregate Seller Payments***

The Notes will be subject to mandatory or optional redemption as described in paragraph 6 (*Redemption, Reduction, Reinstatement and Cancellation*) of the section entitled "*Terms and Conditions of the Notes*", but redemption payments may be delayed in certain circumstances where Initial Credit Protection Amounts or Worked Out Credit Protection Amounts have not been calculated under the Credit Default Swap in respect of any outstanding Credit Events as of the date of such redemption.

Since the Swap Counterparty may deliver a Credit Event Notice at any time after the occurrence of a Credit Event, Credit Event Notices may have been delivered in respect of one or more Defaulted Reference Obligations on or prior to the Termination Date but the related Worked Out Credit Protection Amount may not have been determined as of such date. In such circumstances, an amount of Notes equal to the Initial Note Extension Amount shall remain outstanding until the end of the Extension Period.

During the Extension Period, any Notes remaining outstanding shall continue to bear interest, payable quarterly in arrear at the rate specified in paragraph 5 (*Interest*) of the section entitled "*Terms and Conditions of the Notes*".

### ***Early Redemption of the Notes***

Early redemption of the Notes may occur in any of the following circumstances, in each instance at the then Principal Balance of the Notes:

- (i) in whole, following the designation of an Early Termination Date in respect of the Credit Default Swap by either the Issuer or the Swap Counterparty;
- (ii) in whole, following the designation by the Swap Counterparty of an Optional Termination Date in respect of the Credit Default Swap by reason of a Regulatory Event or a Clean-up Event (*provided that* an Initial Termination Date or the Protected Tranche Final Exhaustion Date has not already occurred);

- (iii) the occurrence of the Scheduled Termination Date; or
- (iv) in whole, following the occurrence of the Seller Liquidation Date (i.e., following four (4) months since the declaration of insolvency of the Management Company where a new management company that is prepared to take over the management of the Issuer has not been found).

### ***Regulatory Change***

The Credit Default Swap defines "Regulatory Event" as meaning that at any time after the Closing Date the Swap Counterparty determines that there is (a) any enactment or establishment of, or supplement or amendment to, or change in any law, regulation, rule, policy or guideline of any relevant competent international, European or national body (including the European Central Bank or the Bank of Spain or any other relevant competent international, European or national regulatory or supervisory authority) or the application or official interpretation of, or view expressed by any such competent body with respect to, any such law, regulation, rule, policy or guideline which becomes effective on or after the Incorporation Date; or (b) a notification or other communication by the applicable regulatory or supervisory authority is received by the Issuer with respect to the transaction contemplated by the Transaction Documents on or after the Incorporation Date, which, in each case, in the reasonable opinion of the Swap Counterparty has the effect of materially adversely affecting the rate of return on capital of the Swap Counterparty or materially increasing the cost or materially reducing the benefit to the Swap Counterparty of the Credit Default Swap. Circumstances in which a Regulatory Event could be triggered may include circumstances where the Swap Counterparty is required to subscribe all or a majority of the Note. For the avoidance of doubt, the following factors will not be taken into account when assessing the rate of return on capital of the Swap Counterparty or an increase the cost or reduction of benefits to the Swap Counterparty of the Credit Default Swap immediately after the Incorporation Date:

- (a) the event constituting any such Regulatory Event was (i) announced or contained in any proposal (whether in draft or final form) for a change in the laws, regulations, applicable regulatory rules, policies or guidelines (including any accord, standard, or recommendation of the Basel Committee), as officially interpreted, implemented or applied by Spain or the European Union; or (ii) incorporated in any law or regulation approved and/or published but the effectiveness or application of which is deferred, in whole or in part, beyond the Incorporation Date; or (iii) expressed in any statement by any official of the competent authority in expert meetings or other discussions in connection with such Regulatory Event; or
- (b) the competent authority has issued any notification, taken any decision or expressed any view with respect to any individual transaction, other than the Credit Default Swap.

### ***Principal on the Notes May Be Paid Earlier Than Expected***

The Reference Obligations may be repaid or disposed of prior to the Scheduled Redemption Date. In the event that a Reference Obligation is repaid prior to the Scheduled Redemption Date and to the expiry of the Replenishment Period, the Swap Counterparty may, but is not obliged to, replenish the Reference Portfolio pursuant to the terms of the Credit Default Swap before the expiry of the Replenishment Period. In the event that a Reference Obligation is repaid or disposed of prior to the Scheduled Redemption Date and prior to the expiry of the Replenishment Period and the Swap Counterparty elects not to replenish the Reference Portfolio, the Swap Counterparty may designate a Protected Tranche Amortisation Amount. If the Swap Counterparty designates a Protected Tranche Amortisation Amount in respect of any Calculation Date, then the Issuer shall, on the immediately following Note Payment Date, subject to any prior ranking claims in accordance with the applicable Priority of Payments, apply an amount equal to the Protected Tranche Amortisation Amount (as designated by the Swap Counterparty) in or towards redemption of the Notes (together with any accrued but unpaid interest thereon).

No premium will be paid upon an early redemption of the Notes. If Noteholders receive principal on the Notes earlier than expected, Noteholders may not be able to reinvest such principal at a similar rate of return.

## **Risks related to the Transaction Parties**

### ***The Issuer's reliance on the Management Company***

The Issuer has no separate legal personality, it being managed and represented by the Management Company. In the event that the Management Company fails to perform its obligation of the Issuer, the Noteholders may be adversely affected.

### ***The Issuer's Reliance on Certain Transaction Parties***

The Issuer is a party to contracts with a number of third parties who have agreed to perform certain services in relation to, amongst other things, the Notes. For example, the Swap Counterparty has agreed to enter into the Credit Default Swap with the Issuer and the Deposit Bank and the Paying Agent have agreed to provide, amongst other things, payment, administration and calculation services in connection with the Notes. In the event that any relevant third party fails to perform its obligations under the respective agreements to which it is a party, the Noteholders may be adversely affected.

### ***Reliance on Creditworthiness and Performance of Transaction Parties***

The ability of the Issuer to meet its obligations under the Notes will be dependent, where applicable, upon the payment of all sums due from the Swap Counterparty under the Credit Default Swap, the payment of all sums due under the Deposit Bank Agreement by the Deposit Bank, the payment by the Paying Agent of payments required pursuant to the Paying Agency Agreement and upon the performance by all Transaction Parties of their respective obligations under the other Transaction Documents.

Accordingly, Noteholders are exposed, among other things, to the creditworthiness of the Swap Counterparty, the Deposit Bank and the Paying Agent, and should undertake their own due diligence in this regard.

None of the Transaction Parties (other than the Paying Agent and pursuant to that role only) is obliged to make payments to the Noteholders in respect of the Notes. None of the Issuer or any other Transaction Parties guarantees the value of the Notes at any time or is obliged to make good on any losses suffered as a result of Credit Events under the Credit Default Swap or otherwise.

### ***Conflicts***

Various potential and actual conflicts of interest may arise between the interests of the Noteholders, on the one hand, and the interests of any of the Transaction Parties, on the other hand, as a result of the various businesses and activities of the Transaction Parties, and none of such persons is required to resolve such conflicts of interest in favour of the Noteholders (except for the obligations legally vested on the Management Company, who, pursuant to Article 26.1.f) of Law 5/2015 must have in place procedural and organisational measures to prevent potential conflicts of interests.

### ***Roles of Transaction Participants***

Banco Santander, S.A. will be acting in a number of capacities in connection with the transactions described herein which could give rise to conflicts of interests with the Noteholders. Banco Santander, S.A. will be the Swap Counterparty under the Credit Default Swap, the Calculation Agent under the Credit Default Swap and the Deposit Bank.

Banco Santander, S.A. will be the Paying Agent, the Subordinated Lender and the Deposit Bank.

Banco Santander, S.A., and/or its Affiliates, acting in such capacities in connection with such transactions, will have only the duties and responsibilities expressly agreed to by such entity in the relevant capacity and will not, by virtue of its or any of its Affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to a standard of care other than as expressly provided with respect to each such capacity.

### ***Other Business of the Swap Counterparty***

The Swap Counterparty and its Affiliates may engage in other business and furnish investment management, advisory and other types of services to other clients whose investment policies differ from

those followed by the Swap Counterparty under the Credit Default Swap and from which they may derive revenues and profits in addition to the fees stated in the various Transaction Documents, without any duty to account to any person therefor. The Swap Counterparty may make recommendations to or effect transactions with other clients which may differ from those effected with respect to the Credit Default Swap.

#### ***Conflicts between the Swap Counterparty and the Noteholders***

The Noteholders' rights to payment from the Available Funds will be subordinate to the prior rights of, among others, the Swap Counterparty in respect of the Issuer's obligations to the Swap Counterparty under the Credit Default Swap.

#### ***Conflicts between the Noteholders and other creditors***

The Noteholders' rights to payment from the Available Funds will be subordinate to the prior rights of other creditors in accordance with the Priorities of Payments.

#### ***Clearing and settlement***

The Notes will be registered with Iberclear. Consequently, no physical Notes will be issued. Clearing and settlement relating to the Notes, as well as payment of interest and redemption of principal amounts, will be performed within Iberclear's account-based system. Noteholders are therefore dependent on the functionality of Iberclear's account-based system.

Title to the Notes will be evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as being a holder of the Notes shall be (except as otherwise required by Spanish law) considered the Noteholder of the principal amount of the Notes recorded therein.

The Issuer will discharge its payment obligation under the Notes by making payments through Iberclear. Noteholders must rely on the procedures of Iberclear and its participants to receive payments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, Noteholders of the Notes according to book entries and registries as described in the previous paragraph.

A summary of clearance and settlement procedures applicable to book-entry Notes in Spain is contained under "*Summary of clearance and settlement procedures applicable to book-entry Notes*".

#### **Considerations Related to the Credit Default Swap**

##### ***Credit Exposure to Reference Obligations***

The repayment of principal of and, due to the potential reduction in the principal amount, payment of interest on the Notes is conditional upon the performance of the Reference Entities as described herein.

Due to the credit-linked nature of the Notes, investors have a credit exposure to the Reference Obligations via the Credit Default Swap. Defaults, valuations and actual or estimated losses in respect of the Reference Obligations referenced under the Credit Default Swap may affect the extent of losses suffered by Noteholders.

Credit exposure via credit derivative transactions (as in the case of credit-linked notes or synthetic collateralised debt obligations) may involve risks that are additional to those which would occur if investors had a direct holding of the Reference Obligations. The terms of the Credit Default Swap include, in particular, credit events defined therein and a loss calculation methodology which may result in a different (and potentially greater) risk of loss and (if the measure of loss cannot be measured by reference to ultimate recoveries) a different (and potentially greater) measure of loss as compared to the risk of actual default and ultimate recovery applicable to an actual holding in the relevant Reference Obligations of the Reference Entity.

The amount repayable in respect of the Notes is dependent in part upon whether, and the extent to which, one or more Credit Events have occurred in relation to any Reference Obligation on or before the Final Redemption Date. The occurrence of a Credit Event may affect the yield to maturity of the Notes, the rate of principal repayments on the Notes and ultimately the Issuer's ability to redeem the Notes in full.

Accordingly, the Issuer, and therefore the Noteholders, will have exposure to the credit risk of the Reference Portfolio and the Noteholders may lose some or all of the amounts invested in the Notes as a result of Credit Events occurring with respect to all or a portion of the Reference Portfolio. Investors are referred to the section entitled "*Description of the Initial Reference Portfolio*" for more detailed information in respect of the Initial Reference Portfolio.

Upon an Aggregate Seller Payment being paid, the aggregate Principal Balance of the Notes will be reduced by an amount equal to such Aggregate Seller Payment on the relevant Note Payment Date until the Principal Balance of the Notes is zero.

Accordingly, Noteholders will be exposed to the credit risk of the Reference Entities to the full extent of their investment in the Notes.

A reduction in the aggregate Principal Balance on the Notes will affect the Interest Amount due and payable on the Notes on a Note Payment Date and the amount of principal ultimately payable on the Notes on a Note Payment Date insofar as interest and principal on the Notes will only be paid on such Principal Balance.

The Reference Obligations and/or the Reference Obligation Notional Amount of each Reference Obligation may be changed from time to time by the Swap Counterparty, subject to certain conditions set out in the Credit Default Swap. See the sub-sections entitled "*Reference Obligation Notional Amounts*" and "*Replenishment*" in the section "*Credit Default Swap*."

#### ***No Legal or Beneficial Interest in Reference Obligations***

Under the terms of the Credit Default Swap, the Issuer will have a contractual relationship only with the Swap Counterparty and will not have any recourse to the Reference Entities. Furthermore, the Swap Counterparty will not be, and will not be deemed to be acting as, the agent or trustee of the Issuer in connection with the exercise of, or the failure to exercise, its rights or powers (if any) arising under or in connection with any Reference Obligation. Consequently, the Credit Default Swap does not constitute a purchase, assignment or other acquisition of any interest in any Reference Obligation. The Issuer, therefore, will have rights solely against the Swap Counterparty in accordance with the Credit Default Swap and will have no recourse against any Reference Entity or to any Reference Obligations or to any guarantor of any Reference Obligations. The Issuer will have no right directly to enforce compliance by the obligor and/or guarantor of a Reference Obligation with the terms of such Reference Obligation or any rights of set-off against the obligor and/or guarantor of a Reference Obligation or any voting rights with respect to any Reference Obligation. The Issuer will not have the benefits of any remedies that would normally be available to a holder of a Reference Obligation. The Reference Obligations will be administered and enforced by the relevant servicer in accordance with Banco Santander, S.A.'s credit and collection policy and servicing principles as in force from time to time or equivalent credit and collection policy and servicing principles (see the sections entitled "*Overview of Origination and Servicing of Reference Obligations*" and "*Credit Default Swap – The Reference Portfolio*").

None of the Issuer, the Management Company or the Lead Managers has undertaken any legal due diligence in respect of the Reference Portfolio, the Reference Entities or the terms of any Reference Obligation.

#### **The Credit Default Swap is linked to a portfolio of Reference Obligations selected by the Swap Counterparty**

The Reference Obligations referenced by the Credit Default Swap are selected at the discretion of the Swap Counterparty. Whilst the Reference Portfolio is required to satisfy certain eligibility criteria (see "*Eligibility Criteria*" below) and the Credit Default Swap sets out the process, circumstances and conditions relating to the Reference Portfolio being the subject of a Replenishment, reduction and removal, any selections will be made in the Swap Counterparty's sole and absolute discretion and acting in its sole commercial interest.

Subject to complying with the specific terms set out in the Credit Default Swap, the Swap Counterparty will make Replenishments in any manner it wishes and the Swap Counterparty is not required to, and will not, take into account the interests of or otherwise seek consent from Noteholders or any other person in

making such Replenishments. Accordingly, any such Replenishment may have an adverse effect on the credit risk and value of the Notes.

Without limitation to the general discretion referred to above, prospective investors should note that while selecting the Reference Entities for inclusion in the Reference Portfolio (including with respect to Replenishments), the Swap Counterparty may prioritise Reference Obligations which would be harder otherwise to trade or hedge in the Credit Default Swap market on standard terms or by other means and/or which have the highest relative regulatory risk weighting.

Investors may not be able to assess the specific risks associated with any particular Reference Obligation nor be able at any time to identify the exact composition of the Reference Portfolio, the probability of a Credit Event occurring, any correlation between Reference Obligations (such that a Credit Event in respect of one Reference Obligation is likely to result in a Credit Event on other Reference Obligations), the probable Recoveries or any other matter which ordinarily would be assessed when a party assumes credit exposure to one or more Reference Obligations. Investors may not at any time rely on the Issuer, the Swap Counterparty or any of its Affiliates on their behalf to monitor whether or not a Credit Event, potential Credit Event or an event adversely affecting the Reference Entities or the Notes has occurred. Furthermore, upon work out of a Credit Event, the terms relating to precisely how the amounts relating to such work out are determined will not be disclosed to Noteholders.

Other than as set out in the terms of the Credit Default Swap, no assurance can be given that the Reference Portfolio will be fully compliant with the Eligibility Criteria or Portfolio Guidelines (as set out in the Credit Default Swap) at any time and no representation is given by the Issuer, the Swap Counterparty, the Management Company or any other person as to the creditworthiness, expected default rate or expected loss in respect of any Reference Obligation.

Investors must read and understand these criteria carefully in order to understand the potential universe of Reference Obligations which may be referenced by the Credit Default Swap and will be selected by the Swap Counterparty acting in its own commercial interests (which may conflict with those of the Issuer and the Noteholders). Many of such criteria involve subjective determinations by the Swap Counterparty (see further under "*Information observed on Banco Santander, S.A.'s systems is information which has been prepared for Banco Santander, S.A.'s internal use; information may be based on other Relevant Lender information*").

The Issuer, the Swap Counterparty and/or its Affiliates or any other party may, whether by virtue of the types of relationships described herein or otherwise, at any time, be in possession of information in relation to a Reference Obligation, a Reference Entity or any obligor relating to a Reference Obligation that is or may be material in the context of the issue of the Notes and that may or may not be publicly available or known to the Noteholders. Neither the Notes nor any of the Transaction Documents create any obligation on the part of the Issuer, the Swap Counterparty or any other person to disclose to any Noteholder any such relationship or information (whether or not confidential). Unless otherwise expressly agreed in writing, neither Banco Santander, S.A. nor any of its Affiliates is required to provide any information to the Noteholders at any time regarding the Reference Entities or any obligor relating to the Obligation or the prospect or likelihood of the occurrence of a Credit Event in respect of a Reference Entity.

***Information observed on the Swap Counterparty's systems is information which has been prepared for the Swap Counterparty's internal use; information may be based on other Relevant Lender information***

The determination of certain key matters in relation to the Notes and the Credit Default Swap (such as whether the Eligibility Criteria or Portfolio Guidelines have been satisfied, identifying any security or collateral in respect of a Reference Obligation and, if applicable, the Recoveries in relation to the Reference Obligations that will apply in connection with the determination under the Credit Default Swap of Initial Credit Protection Amounts and Credit Protection Adjustment Amounts in respect of Reference Obligations following the occurrence of a Credit Event (as to which, see "*Risks relating to determination of Credit Protection Adjustment Amounts*")) is dependent on certain information observed on Banco Santander, S.A.'s internal systems. Such information is prepared for internal purposes and Banco Santander, S.A. and/or its Affiliates make no representation (either express or implied), and do not assume any liability, to third parties with respect to, or for, such information. Each prospective investor in the Notes should ensure that it has had such access to such financial and other information concerning the

Swap Counterparty and its Affiliates and the manner in which the Swap Counterparty and its Affiliates run their affairs as it deems necessary and appropriate in order to make an informed investment decision. Furthermore, prospective investors must recognise that the Swap Counterparty's systems and procedures may change from time to time, without notification to any third party including the Noteholders, and, in making any such changes, neither the Swap Counterparty nor any of its Affiliates is required to take into account the interests of either the Notes or the Noteholders.

In respect of any Reference Obligations, certain key matters may alternatively be determined by reference to information provided by a third party holder of the relevant underlying Obligation in circumstances where, for the purposes of the Credit Default Swap, the Relevant Lender is an entity other than the Swap Counterparty. Such information will be determined on the basis of such matters as the Relevant Lender deems appropriate without regard to either the existence of the Notes or the considerations of the investors.

No representation or warranty whatsoever is given by the Swap Counterparty, any Relevant Lender or any other person as to whether or not such information, data or related determination is accurate or complete or has reasonably been determined.

Accordingly, investors are wholly subject to the quality of such data and information and the procedures, processes and policies of the relevant provider relating to how such data and information is determined and collated. Investors will have no way of verifying such data and other information and are not entitled to carry out any due diligence on such procedures, processes and policies (which, in any event may change from time to time) and will not have any remedy for any errors or omissions in the preparation of such data or information or in the relevant procedures, processes and policies.

#### ***Risks relating to determination of Credit Events***

Following the occurrence of each Credit Event, the Swap Counterparty will determine, in accordance with the terms of the Credit Default Swap, whether and when a Credit Event has occurred with respect to a Reference Obligation. Such determination will be verified by the Independent Accountants and Noteholders will be bound by such determination. The Swap Counterparty will behave in respect of any Reference Obligation without regard to the interests of the Noteholders.

#### ***Risks relating to security for Reference Obligations***

The security granted in respect of a Reference Obligation may also be securing one or more other obligations. In such circumstances, any proceeds from the enforcement of such security will be allocated between the Reference Obligation and such other obligations in accordance with the terms of the relevant legal agreements and any other applicable law. Accordingly, the amount of the proceeds of such enforcement which may constitute Recoveries in respect of a Reference Obligation will vary over time due to, for example, any repayments or prepayments of the Reference Obligation or any release or enforcement of the security which may arise due to actions taken by the Relevant Lender in respect of the Reference Obligation in accordance with its normal business practice as a reasonable and prudent lender.

#### ***Risks relating to determination of Credit Protection Adjustment Amounts***

The amount by which the Principal Balance of the Notes may be reduced from time to time following the occurrence of Credit Events will depend on the size of Initial Credit Protection Amounts, Credit Protection Adjustment Amounts and Late Recovery Amounts calculated in respect of such Credit Events under the Credit Default Swap.

Noteholders are subject to the decisions made by the recovery management team of the Relevant Lender in respect of the relevant Credit Event and the processes and policies relating to how such Recoveries are obtained or the Defaulted Reference Obligation otherwise is treated by the Relevant Lender. The Relevant Lender may employ a number of different strategies in respect of obtaining Recoveries, including but not limited to the enforcement of any collateral. Recoveries may differ significantly from observed historic default rates and recoveries.

In determining the manner in which any Recoveries are made, the Relevant Lender is not obliged to take into account the effect on the Notes and therefore does not assume any liability to third parties, including the Noteholders in respect of the same. See *"Information observed on the Swap Counterparty's systems*

is information which has been prepared for the Swap Counterparty's internal use; information may be based on other Relevant Lender information" above.

#### ***Concentration Risk – Industry Sector Consideration and Geographical Concentration***

The Reference Entities are located in Spain. The risk of Credit Events occurring with respect to the Reference Portfolio and the risk to the Issuer of being required to pay or pay an increased amount of Aggregate Seller Payments may be adversely affected by any deterioration in the economic condition of the areas in which the Reference Entities are located or any deterioration in the economic conditions of other areas that causes an adverse effect on the ability of the Reference Entities to repay the Reference Obligations could increase the risk of losses on the Reference Obligations.

#### ***Reliance on the Performance by the Servicer to Effectively Service the Reference Obligations***

Recoveries in respect of Defaulted Reference Obligations will affect the quantum of any Credit Protection Adjustment Amount in respect thereof and thereby potentially result in a further Aggregate Seller Payment being made to the Swap Counterparty.

The Swap Counterparty will, in the Credit Default Swap, covenant to procure that the Reference Obligations will continue to be serviced in accordance with the relevant servicer's established procedures from time to time for servicing loans that are similar in type to the Reference Obligations. However, none of the Issuer, the Management Company or the Noteholders will have any right to compel any such servicer to take or refrain from taking any actions. If the relevant servicer fails to perform in accordance with the servicing principles, this could adversely affect the Recoveries in respect of Defaulted Reference Entities and the related Aggregate Seller Payments, thereby potentially resulting in losses to Noteholders.

Accordingly, the Noteholders are relying on the business judgement and practices of the relevant servicer in administering the Reference Obligations, enforcing claims against Reference Obligations, including taking decisions with respect to enforcement of collateral.

#### ***Limited Provision of Information about the Reference Entities and the Reference Obligations***

Save as disclosed in this Information Memorandum, none of the Issuer and/or the Noteholders will have the right to receive information regarding any Reference Obligation, except for the purely statistical data set forth in the Reference Portfolio Report or, in the case of the Noteholders the Investors Report.

The Swap Counterparty will have no obligation to keep the Issuer or the Noteholders informed as to the compliance of the Reference Portfolio with the Eligibility Criteria or as to matters arising in relation to any Reference Entity or any Reference Obligation, including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event. The Reference Portfolio Report will not contain any information that the Swap Counterparty is legally constrained from disclosing under applicable laws, including but not limited to laws or regulations relating to bank secrecy.

None of the Issuer or the Noteholders will have the right to inspect any records of the Swap Counterparty and the Swap Counterparty will be under no obligation to disclose any further information or evidence regarding the existence or terms of any Reference Obligation of any Reference Entity of any matters arising in relation thereto or otherwise regarding any Reference Entity, any guarantor of any Reference Obligation or any other person.

#### ***Historical Information***

The information set out in "*Description of the Initial Reference Portfolio*" represents information in relation to the Reference Portfolio as at the Cut-Off Date. The information set out in "*Description of the Initial Reference Portfolio*" may change after the Cut-Off Date and there can be no assurance that the Reference Portfolio will remain in compliance with the Eligibility Criteria and the relevant Portfolio Guidelines after the Cut-Off Date. Any Replenishment to the Portfolio will be required to satisfy certain Portfolio Guidelines (with limited exceptions where the Replenishment does not worsen an existing breach), and the Reference Obligation which is the subject of the Replenishment must comply with the Eligibility Criteria on the date of the relevant Replenishment.

### ***No Independent Investigations***

No investigations, searches or other enquiries have been or will be made by or on behalf of the Issuer to verify the details of the Reference Portfolio, any Reference Entity, any Reference Obligation or any historical information relating to the Reference Portfolio. No representations or warranties have been given by the Issuer in respect of any Reference Entity or any Reference Obligation.

### ***Limited Verification***

Calculation of Initial Credit Protection Amounts and the Credit Protection Adjustment Amounts will be verified in certain circumstances by the Independent Accountants, as more fully described in the Credit Default Swap – see sub-section "*Verification of Credit Protection Amounts*" in section "*Credit Default Swap and Credit Protection Amount*" below.

The Independent Accountants act for the Swap Counterparty under the Credit Default Swap rather than the Issuer.

Such verification by the Independent Accountants is based solely on the information provided to the Independent Accountants by the Swap Counterparty. Such information will not be independently audited. The Independent Accountants are, broadly speaking, solely appointed to compare certain information required to be provided to it from time to time by the Swap Counterparty with the related terms of the Credit Default Swap and confirming whether, on the basis of the information received by it, those terms have been complied with. Consequently, there is a risk that a matter may be incorrectly verified by reason of the information provided to the Independent Accountants being deficient. Reference is also made to the section above entitled "*Information observed on the Swap Counterparty's systems is information which has been prepared for the Swap Counterparty's internal use; information may be based on other Relevant Lender information*".

### ***No Agency Relationship***

Neither the Swap Counterparty nor any Relevant Lender or servicer will be the agent or trustee of the Issuer, the Noteholders or any other Creditor in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Swap Counterparty, the Relevant Lender or the servicer and/or their respective Affiliates arising under or in connection with their respective holdings (if any) of any Reference Obligation.

### ***Dealings with respect to obligations of Reference Entities***

Each of the Swap Counterparty, the relevant servicer and each other Transaction Party and their respective Affiliates may:

- (a) deal in any obligation of any Reference Entity;
- (b) accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business transactions with any Reference Entity and any investment manager or trustee related to any obligation of any Reference Entity; and
- (c) act, with respect to transactions described in the preceding clauses (a) and (b), in the same manner as if the Credit Default Swap and the Notes did not exist and without regard as to whether any such action might have an adverse effect on any Reference Obligation, any investment manager or trustee related to such Reference Obligation, the Issuer or the Noteholders.

Such parties may accordingly derive revenues and profits from such activities without any duty to account therefor.

### **General Risks**

#### ***No Rating***

The Notes will not be rated on the Closing Date and no rating is intended to be sought for the Notes thereafter.

### ***Withholding Tax in Respect of the Notes***

In the event that any withholding or deduction for or on account of tax is required to be made from payments in respect of the Notes (as to which, see "*Taxation In Spain*"), neither the Issuer nor any other person will be obliged to pay any additional amounts to Noteholders for the reduction in the amounts they will receive as a result of such withholding or deduction.

### ***Withholding Tax in respect of the Credit Default Swap***

If any Fixed Amount is subject by law to deduction or withholding for tax, the Management Company on behalf of the Issuer will have the right to terminate the Credit Default Swap. If any Aggregate Seller Payment or any other amount payable by the Issuer to the Swap Counterparty is subject by law to deduction or withholding for tax, the Swap Counterparty may elect to terminate the Credit Default Swap.

### ***Description of the Transaction Documents***

The descriptions of the Deposit Bank Agreement, the Paying Agency Agreement, the Credit Default Swap, the Subordinated Loan Agreement and the Management, Placement and Subscription Agreement contained in this Information Memorandum (see the sections entitled "*Credit Default Swap*", "*The Deposit Bank Agreement*", "*Summary of Other Transaction Documents*" and "*Subscription and Sale*" below) are summaries only and Noteholders are bound by, and are deemed to have notice of, all the provisions of such documents.

### ***Interests of Noteholders May Be Adversely Affected If the Notes are Redenominated***

It is possible that, prior to the maturity of any Notes, the currency that such Notes are denominated in may cease to exist and another currency may supersede it. For example, should Spain leave the European economic and monetary union, the euro may cease to be the lawful currency of Spain and the Notes may be redenominated into another currency. In the event that Notes were to be redenominated, (a) all amounts payable in respect of any Notes may become payable in another currency; (b) applicable provisions of law may allow or require the Issuer to re-denominate such Notes and take additional measures in respect of such Notes; and (c) there may be changes to the way in which the rates of interest on such Notes are determined or changes in the way those rates are calculated, quoted and published or displayed.

### ***Risks Relating to the Bank Recovery and Resolution Directive***

On 2 July 2014, the BRRD came into force. The stated aim of the BRRD is to provide supervisory authorities, including the relevant Spanish resolution authorities, with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. These tools include, among other things, powers to transfer shares or property of an entity subject to resolution measures to a third party (including a "bridge bank" or an "asset management vehicle"), a "bail-in" power and a "writedown and conversion of capital instruments" power.

The BRRD has been implemented in Spain through Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms Royal Decree 1012/2015, of 6 November, implementing Law 11/2015.

### ***Taxation - Issuer***

A withholding or deduction for or on account of tax other than Spanish tax may be required to be made in circumstances other than those set out above under the law of countries other than Spain. The outline in this Information Memorandum of certain key Spanish taxation issues does not include consideration of any such requirements and the commentary made regarding the EU Savings Directive should not be taken to imply that no other withholding or deduction is or may be applicable on account of non-Spanish tax.

### ***Potential Conflicts of Interests***

Banco Santander, S.A. and its Affiliates act in a number of capacities (including as Lead Manager, Swap Counterparty, Calculation Agent, Subordinated Lender and Deposit Bank) in connection with the transactions contained herein. Banco Santander, S.A. and its Affiliates, acting in such capacities in connection with such transactions, shall have only the duties and responsibilities expressly agreed to by

them in their relevant capacities and shall not, by virtue of acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to hold a standard of care other than as expressly provided with respect to each such capacity. Banco Santander, S.A. and its Affiliates, in connection with the contemplated transactions, may enter into business dealings, including the acquisition of investment securities as contemplated by the Transaction Documents, from which it may derive revenues and profits in addition to the fees, if any, stated in the Transaction Documents, without any duty to account for such revenues and profits.

*Implementation of and/or changes to the Basel II framework may affect the capital requirements and/or the liquidity associated with a holding of the Notes for certain investors*

In 1988, the Basel Committee on Banking Supervision (the "**Basel Committee**") adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks. In June 2006 the Basel Committee finalised and published new risk-adjusted capital guidelines ("**Basel II**"). Basel II includes the application of risk-weighting which depends upon, amongst other factors, the external or, in some circumstances and subject to approval of supervisory authorities, internal credit rating of the counterparty. The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

The Basel Committee approved significant changes to the Basel II framework (such changes being commonly referred to as "**Basel III**") and on 1 June 2011 issued its final guidance, which envisages a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and a minimum leverage ratio for financial institutions. In particular, the changes include, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Member countries were to be required to implement the new capital standards from January 2013 (although in practice, a number of jurisdictions, notably the EU and the US, have not met this deadline). Member countries will be required to implement the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee is also considering introducing additional capital requirements for systemically important institutions from 2016. The Basel Committee has also published consultative documents titled "Consultative Document: Revisions to the Basel Securitisation Framework" in December 2013 and "Consultative Document: Recognising the cost of credit protection purchased" in March 2013. The existing and any future changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes and may increase the likelihood of the Swap Counterparty designating an Effective Protection End Date as a result of a Regulatory Event under the Credit Default Swap.

In the European Union, Basel III is being implemented through the amended and re-stated Capital Requirements Directive ("**CRD IV**"), which will need to be transposed into the national law of each Member State, and a new Regulation which is directly applicable in each Member State. The final text of CRD IV and the new Regulation was published in the Official Journal of the European Union on 27 June 2013 and was implemented from 1 January 2014, although a number of the changes are dependant on secondary legislation, not all of which is yet finalised.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences for and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise. Investors should be aware that certain changes in the regulatory regime may increase the likelihood of the Swap Counterparty designating an Optional Termination Date as a result of a Regulatory Event under the Credit Default Swap, causing the Notes to be redeemed pursuant to the Conditions.

The European Commission has published legislative proposals for two new regulations related to securitisation. Amongst other things, the proposals include provisions intended to implement the revised securitisation framework developed by the Basel Committee and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. There are material differences

between the legislative proposals and the current requirements. It is not clear whether, and in what form, the legislative proposals (and any corresponding technical standards) will be adopted. In addition, the compliance position under any adopted revised requirements of transactions entered into prior to adoption, and of activities undertaken by a party (including an investor) in respect of such transactions, is uncertain.

### *Risk retention requirements under CRR, AIFMD and Solvency II*

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation positions and/or whether an EU regulated credit institution and its consolidated affiliates ("**Affected CRR Investors**"), certain collective investment undertakings which constitute AIFs under Article 4 of Directive 2011/61/EU (each such collective investment undertaking, an "**AIF**") or insurance undertakings which are subject to EU Directive 2009/138/EC ("**Solvency II**") (each an "**Affected Investor**") are permitted to invest in such securities. Accordingly, this may affect the incentive for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Co-Arrangers or the Lead Managers make any representation to any prospective investor or purchaser of the Notes regarding the regulatory treatment of their investment on the Closing Date or at any time in the future.

In particular, investors should be aware of Articles 404–410 of Regulation (EU) No. 575/2013 ("**CRR**"). Articles 404–410 broadly restrict an Affected CRR Investor from investing in asset-backed securities unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the Affected CRR Investor that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures as contemplated by Articles 404–410. Articles 404–410 also require an Affected CRR Investor to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, the Note position it has acquired and the underlying exposures and that procedures are established for such activities to be conducted on an ongoing basis. Failure to comply with one or more of the requirements set out in Articles 404–410 will result in the imposition of a penal capital charge on the Notes acquired by the Affected CRR Investor. On 16 June 2014 the European Parliament adopted regulatory technical standards ("**RTS**") relating to Articles 404–410.

Investors should also be aware of Article 17 of EU Directive 2011/61/EC on Alternative Investment Fund Managers (the "**AIFMD**") and Chapter III, Section 5 of Regulation 231/2013 supplementing the AIFMD (the "**AIFM Regulation**"), the provisions of which introduced risk retention and due diligence requirements (which took effect from 22 July 2013 in general) in respect of alternative investment fund managers ("**AIFMs**") that are required to become authorised under the AIFMD. Similar risk retention and due diligence requirements also apply to investors which are insurance or reinsurance undertakings pursuant to Article 135(2) of Solvency II and Articles 254–257 of Commission Delegated Regulation (EU) No. 2015/35 supplementing Solvency II (the "**Solvency II Regulation**"). While the requirements applicable to AIFMs under Chapter III, Section 5 of the AIFM Regulation and insurance and reinsurance undertakings under Articles 254–257 of the Solvency II Regulation are similar to those which apply under Articles 404–410, they are not identical and, in particular, additional due diligence obligations apply to AIFMs and insurance or reinsurance undertakings. Together, the requirements of Articles 404–410 of CRR, Chapter III, Section 5 of the AIFM Regulation and Articles 254–257 of the Solvency II Regulation, as supplemented by any applicable RTS, constitute "**Risk Retention Regulations**".

Each of the Risk Retention Regulations applies in respect of the Notes. Affected Investors should therefore make themselves aware of such requirements (and any corresponding implementing rules of their regulator) where applicable to them, in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Each prospective investor is required independently to assess and determine the sufficiency of the information described above and in this Information Memorandum generally for the purposes of complying with the Risk Retention Regulations and none of the Management Company on behalf of the Issuer, the Lead Managers or any party to a Transaction Document makes any representation that the information described above and below in this Information Memorandum is sufficient in all circumstances for such purposes. In addition, each prospective Noteholder should ensure that they comply with the implementing provisions in respect of the Risk Retention Regulations (including any regulatory technical standards, implementing technical standards

and any other implementing provisions in their jurisdiction). Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction should seek guidance from their regulator.

It should also be noted that similar requirements to those set out in the Risk Retention Regulations are expected to be implemented for other EU regulated investors in the future.

In general, each prospective investor should consider its regulatory position and obtain any necessary advice in relation to any potential investment in the Notes prior to making any such investment.

Banco Santander, S.A. undertakes that a member of the Banco Santander, S.A. consolidated group will retain, at all times until the redemption of the Notes, a material net economic interest of at least 5 per cent. Of the nominal value of each Reference Obligation (i) in accordance with Article 405(1)(a) of CRR, (ii) in accordance with Article 51(1)(a) of the AIFM Regulation which, in each case does not take into account any corresponding national measures and (iii) in accordance with Article 254(2)(a) of the Solvency II Regulation.

As at the Closing Date, such interest will consist of a synthetic net economic interest in the losses to which Noteholders are exposed. Such retention requirement will be satisfied by Banco Santander, S.A. holding the requisite amount of each Reference Obligation outside the Reference Portfolio.

Pursuant to the terms of the Credit Default Swap, Banco Santander, S.A. has undertaken to provide on a monthly basis (i) post issuance information in relation to each Reference Obligation, (ii) post issuance transaction information and (iii) confirmation of Banco Santander, S.A.'s continuing compliance with the requirement to retain a material net economic interest of at least 5 per cent in the securitisation in accordance with Article 405(1)(a) of CRR, Article 51(1)(a) of the AIFM Regulation and Article 254(2)(a) of the Solvency II Regulation. The Management Company will make available such information (in the form of an Investors' Report) on quarterly basis via the following website: [www.santanderdetitulizacion.es](http://www.santanderdetitulizacion.es). The website and the contents thereof do not form part of this Information Memorandum.

If Banco Santander, S.A. sells or transfers any additional tranche of the securitisation, it will retain a material net economic interest of at least 5 per cent. of the nominal value of such additional tranche.

#### ***Banco Santander, S.A. Credit Policy***

Banco Santander, S.A. will operate within the parameters of its internal Credit Policy (as defined below) and Servicing Principles. In formulating and acting in accordance with such Credit Policy and Servicing Principles Banco Santander, S.A. has acted, and will continue to act, as a prudent lender.

Banco Santander, S.A. has internal policies and procedures in relation to the granting of credit, administration of credit-risk bearing portfolios and risk mitigation. The policies and procedures of the Banco Santander, S.A. in this regard broadly include the following:

- (a) criteria for the granting of credit and the process for approving, amending, renewing and re-financing credits (as to which, in relation to the Reference Obligations, see the information set out in this Information Memorandum entitled "*Eligibility Criteria and Portfolio Guidelines*" which describes the criteria that the selection of Reference Obligations to be included in the Reference Portfolio is subject to);
- (b) systems in place to administer and monitor the various credit-risk bearing portfolios and exposures (as to which it should be noted that the Reference Portfolio will be serviced in line with the servicing procedures of Banco Santander, S.A. and/or the Relevant Lender – please see the sub-sections of this Information Memorandum entitled "*Overview of Origination and Servicing of Reference Obligations*" and "*Description of the Initial Reference Portfolio*");
- (c) adequate diversification of credit portfolios given the overall credit strategy (as to which, in relation to the Reference Portfolio, see the section of this Information Memorandum entitled "*Description of the initial Reference Portfolio*"); and
- (d) policies and procedures in relation to risk mitigation techniques.

## Changes in Law and/or Regulatory, Accounting and/or Administrative Practices

The structure of the issue of the Notes is based on Spanish law, regulatory and administrative practice in effect as at the date of this Information Memorandum, and having due regard to the expected tax treatment of all relevant entities under Spanish tax law. No assurance can be given as to the impact of any possible change in Spanish law, regulatory or administrative practices in Spanish tax law, or the interpretation or administration thereof.

### *Foreign Account Tax Compliance Act*

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Noteholders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

*The Management Company believes that the risks described above are the principal risks inherent in the transaction for Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on, or in connection with, the Notes may occur for other reasons and the Management Company does not represent that the above statements regarding the risks relating to the Notes are exhaustive. Although the Management Company believes that the various structural elements described in this Information Memorandum lessen some of these risks for Noteholders, there can be no assurance that these measures will be sufficient to ensure payment to Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.*

## OVERVIEW OF ORIGINATION AND SERVICING OF REFERENCE OBLIGATIONS

The Reference Obligations granted during 2012 and through May 2017 followed the procedures established by Banco Santander, S.A. for approving loans and credit facilities in the companies segment. Notwithstanding the above, the rest of the Reference Obligations have followed risk approval policies that do not differ substantially from the loan approval policy now in force.

### BANCO SANTANDER, S.A. LENDING POLICY

The risk policy followed by Banco Santander, S.A. (referred to in this section as "**Santander**"), in effect from 2012 to the present date, in relation to approval and arrangement of loans and credit facilities in the companies segment is as described below:

#### (a) INTRODUCTION: SANTANDER RISK MODEL

The risk model is based on the following principles:

- a.1 Segmentation: Each type of risk has to be treated differently in accordance with its characteristics (different methodology of analysis, decision-making authority, systems and procedures). To achieve this the customer base is segmented into two groups: individualised and standardised (criteria detailed further below).
- a.2 Wholeness: The risk is wholly managed from a single area, specifically the Spain Retail Banking Risks Area (SRBRA). The admission, monitoring and recovery phases are managed from the Santander Spain Risks Area.
- a.3 Autonomy: The risks function is autonomous from the commercial network, which it supports and services, collaborating to achieve its objectives.

#### (b) CRITERIA FOR INDIVIDUALISATION

In order to accord individualised treatment to the risks of customers whose characteristics and amounts so warrant, a cut-off point is fixed beyond which the analysis and monitoring of the risks is done by "specialised" analysts.

This has the following consequence:

- b.1 Customers are treated, from the risk standpoint, in the Companies Analysis Units (CAU).
- b.2 Each customer is assigned to an analyst's portfolio of customers to be managed.
- b.3 The criteria for individualising these customers in portfolios are:

The Santander Spain Risks Area (SSRA) is responsible for portfolio assignment of the retail banking customers, based on the criteria describe below in relation to the nature of each customer.

Generally speaking, legal persons that meet the following conditions are individualised:

- Turnover of more than €2 million individually (and their subsidiaries),
- Minimum risk of €60,000 at individual level with Santander Spain.

A special case is that of customers in the Public Administrations segment (i.e., enterprises owned and/or controlled by national, regional and local governments, public universities), private banking, property developers and sensitive sectors (i.e., political parties, labour unions, communications media, gambling sector, sports clubs), which are individualised irrespective of their turnover figure, provided the individual risks exceeds €60,000. In the case of private banking customers, if all of the risk is in respect of secured lending transactions, they are not assigned to portfolios for management.

In exceptional cases and according to an expert criterion, the head of the Companies Analysis Unit (CAU) can approve individualised management of customers, and assign them to an analyst, even if they do not meet the general criteria for individualisation, for reasons such as:

- large risk,
- indirect risk,
- the customer's potential or complex operations,
- specialised lending (project finance), and
- other reasons deemed to require individualised portfolio management.

(c) **PROCEDURE FOR INDIVIDUALISATION. RISK FOR INDIVIDUALISED COMPANIES (NOT STANDARDISED)**

**c.1. Risk phases**

Santander differentiates three stages in the life of a credit risk: Admission, monitoring and collection/recovery:

1. **Admission:** This is the phase that runs from the time the commercial relationship manager identifies the customer's financing needs until the time a decision is made on the proposed operation. In this phase, the analyst, working with the customer's commercial relationship manager, analyses all of the risk factors to which Santander may be exposed, and they decided jointly, within the scope of their powers or, otherwise, propose approval of that risk to a higher decision level.
2. **Monitoring:** This stage runs from the time Santander and the customer formally execute the risk transaction until its due date or cancellation, before being passed on to the Recoveries Unit. During this phase the obligation of the risk teams responsible for this function is to oversee the evolution of the borrower's credit quality and of the available collateral, so that the loans are repaid without any loss to Santander.
3. **Collection:** If the loan is not repaid normally at its due date, the risk is passed on to the Recoveries Unit, which, as its name indicates, works to collect the full amount owed to Santander by any legally admissible means.

**c.2. Admission**

As mentioned above, the onus of this phase rests with the companies analyst, working in collaboration with the customer's commercial relationship manager. This phase involves conducting an individualised analysis of the customer/group in order to reach a decision on the proposed operation that minimises the risks to be taken on by Santander. In order to perform this function properly, the analyst draws support from different tasks and/or systems, most notably:

**1. Visits to the customer and borrowing limit:** Once or twice per year the analyst must visit the customer to ascertain all circumstances that influence the customer's businesses and activities, and obtain economic-financial information and such clarifications as may be in order, future investment plans, etc. In this respect a distinction should be made between the documents Santander requires of the customer/group to study a risk transaction in the case of a mortgage loan and in that of a non-mortgage loan.

For mortgage loans, the following documents are requested:

- The mortgage guarantee on the property, the credit for which should not exceed 60% of the lowest of the purchase or appraised value (this percentage may vary upward or downward depending on the type of property mortgaged and the customer's credit quality).

- Balance sheet of the last three financial years and interim balance sheet for the year in progress.
- Statement from the Central Credit Register of the Bank of Spain (*Central de Información de Riesgos de Banco de España – CIRBE*).
- Entries in the Register of Defaults (*Registro de Anotaciones Impagadas – RAI*) are requested.
- Declaration of assets of the guarantors.
- Projections are requested (financial burden, revenues/expenses) of the customer/group for the loan's remaining term to maturity.

For non-mortgage loans, the customer is required to submit all of the documents specified above, except for the mortgage guarantee on the property with the parameters described above.

For signature loans, the following is requested:

- Balance sheets for the last 3 years closed, as well as interim figures for the year in progress.
- Declarations of assets of the customer (in the case of individuals), including registry verifications if they are not updated.
- Up-to-date statement from the Central Credit Register of the Bank of Spain (CIRBE).
- Up-to-date payment history, both internal and external (GSI, RAI, ASNEF, CIRBE, court incidents).
- Forecast of customer's future activity that allows the expected use of the loan to be anticipated.

For loans with personal guarantee of third parties.

In the documentation needed for signature loans, the following must be obtained from each guarantor:

- Declaration of assets, including up-to-date registry verifications
- Up-to-date economic information (balance sheets of last three years closed, interim balance sheets for the year in progress for companies and personal income tax and wealth tax declaration for natural persons).
- Up-to-date CIRBE statement.
- Up-to-date payment history, both internal and external (GSI, RAI, ASNEF, CIRBE, court incidents).

With respect to loans secured with non-mortgage real property. In the documentation needed for signature loans the following must be obtained for each of the properties securing the transaction:

- If monetary guarantees are provided, a certificate of custody and valuation must be obtained. This will not be necessary if the cash is deposited in Santander, as it may be consulted in the IT applications.
- For other security interests (fixed-income securities, equities, holdings in funds, etc.) a certificate of custody and estimated market value will be obtained.
- In any event, guarantees of this kind must be pledged to secure repayment of the loan. In relation to the upper limit on indebtedness permitted by Santander, a distinction is made between borrowing from Santander and debt with respect to the CIRBE:

- Borrowing from Santander: with respect to the approved loan amount, the amount cannot exceed more than 60% of equity, and the principal cannot be more than twice the operating profit.
- Indebtedness with respect to the CIRBE: as a general rule, it should not exceed 25% of the company's debt per the CIRBE.

**2. Rating:** Use the assessment of six (6) areas — 1) Product, demand, market 2) shareholders, management 3) access to credit (assessment of the company's access to credit from other financial institutions) 4) profitability, earnings 5) cash flow 6) credit quality—to obtain a rating of the customer's credit quality, of the transaction in question and of the overall risk thereof. This system for evaluating customers serves as a framework and common language for handling and managing the risk in its different phases and at the different levels of responsibility.

- **Customer rating:** Assigns a numerical score from 1 to 9 to the customer's capacity (from lesser to greater) to timely meet its payment commitments at maturity, or earlier if so required by Santander for whatever reason, within the following twelve (12) months.
- **Transaction rating:** Determines the probable loss that would arise from an outstanding loan or from one to be granted to a customer with a given rating. Consequently, this rating depends on: the customer's rating, the term of the transaction, the guarantees available and the type/class of product/risk.
- **Risk rating:** Tells us the expected loss for the whole of a customer's risk. There are other specific rating systems for property developers and public institutions.

**3. Decision-making authority:** There are different levels of decision-making for approval of the risk proposed for a customer/group that depend on the amount, term and collateral of the operation. The highest level is the Executive Risk Committee, which, apart from deciding on the transactions within its competent, delegates decisions up to certain amounts and maturities to other bodies. Those bodies are: 1) Board Risk Committee 2) Risk Committee of the Credit Risks Area and 3) Committees of the Regional Risk Units.

The Regional Risk Committee is the highest decision-making level at the regional and local level. It may in turn delegate decision-making to its risk teams (analysts, head of CAU, etc.). For operations that exceed the limits assigned to the Regional Risk Committee, the latter will forward the operation to the Credit Risks Area.

The Risk Committee of the Credit Risks Area decides within the scope of its powers, and if the operation exceeds the level for which it has authority, it submits the operation for final approval by the Board Risk Committee, which submits it to the Executive Risk Committee.

The levels involved, from lowest to highest decision-making authority, are as follows:

- Analyst
- Head of the Companies Analysis Unit (CAU).
- Risk Committee
- Regional Risk Committee
- Committee of the Credit Risks Area
- Board Risk Committee
- Executive Risk Committee

The Executive Risk Committee, which includes the Chairman and Directors of Santander, is the highest decision-making level for approving the proposed risk. It meets once per week, has unlimited powers and decides on a collegial basis.

### c.3. Monitoring

As in the previous admission phase, a fundamental part of this phase is coordination between commercial management and risk management, all the more so when the successful completion of the operation depends to a high degree on the evolution of the customer's credit quality over the life of the loan.

This likewise involves a series of tasks and systems that permit optimal management of this phase of the risk.

**1. Customers in Internal Control ("*Cientes En Control Interno*" or "CECI"):** This risk management system allows the customer's credit quality and operations to be gauged and monitored. Putting a customer in CECI means applying deeper monitoring, with specific actions. It does not necessarily reflect deterioration of credit quality, as it may be triggered by other factors, such as: excess share with the customer, excess concentration of risk in a sector, reduction of risk appetite with certain customers, insufficient risk-return ratio, etc. The analysis that is performed of the customer, initially by the admission analyst and the monitoring analyst, allows us to classify the customer to be in normal monitoring or special monitoring situation.

When the firm is put on special monitoring, the policy to be followed for the firm and its risks must be specified. The scoring depends on the seriousness of the alerts.

The CECI alerts are as follows:

- Poor situation of the market/product/sector
- Difficulties/changes in financial group/shareholder base
- High indebtedness
- Decline in sales
- Losses in current year
- Decline in margins
- Negative working capital
- Weakening of solvency
- No access to credit
- Economic-financial information out of date
- Suspended rating
- Incorrect instrumental formalisation of the operation
- Internal alerts (defaults, irregular payments)
- External alerts (CIRBE, RAI, court claims)
- Automatic inclusion (move from pre-contentious to contentious, rating below 5)

The policy or criterion to be followed as from that time will be one of those described below, depending on the CECI score:

- CECI status: "EXTINGUIR" (TERMINATE): This scoring level is assigned to firms with respect to which it has been decided to terminate all loan operations in order not to continue working with them.

- CECI status: "AFIANZAR" (SECURE): This level includes risks of customers for whom the initial aim is to obtain additional collateral to back their operations. If the additional guarantees cannot be obtained, the policy will be to reduce or terminate the risks.
- CECI status: "REDUCIR" (REDUCE): This level is for customers with which Santander has decided to continue working but at a lower risk level, whether in all products or only in select products (example: long-term transactions that are not strongly secured).
- CECI status: "SEGUIR" (MONITOR): This policy is generally applied due to information or events that could affect the customer's future and which may imply greater or less cause for concern. In theory, this is for minor matters that warrant adopting a wait-and-see stance for a prudential time period, with no presumption that what may occur has to substantially affect the successful outcome of the risks taken on or expected to be taken on.

**2. Rating:** The rating system for companies is as described above (single system for all Santander and for any phase of the risk), and is monitored throughout the life of the loan. The norms for reviewing the rating are:

- 2 times per year in all cases.
- 4 times per year if the customer is in CECI (special monitoring).
- When an alert is triggered.
- When new information is provided (for example, new annual financial statements).
- When the risk of customer/group is reviewed or a new operation is studied.

There are also specific rating systems for companies engaged in the property development business and for public institutions.

**3. Risk reviews:** In addition to the periodic reviews done by the admission analyst together with the monitoring analyst in the regional offices, reviews are conducted at other higher levels, according to the amount of the risk exposure to the customer/group. Those tasks are performed from the Risk Departments of the Regional Units – Credit Risks Area or Board Risk Committee. In all cases, the customer's relationship manager is always involved, taking part in the decision on the risk policy to be followed with the customer/group.

**(d) PROCEDURE FOR ANALYSING RISK FOR NON-INDIVIDUALISED (STANDARDISED) CUSTOMERS**

**d.1. Introduction**

This includes "standardised companies", that is, risk transactions of Retail Banking Spain for companies not assigned to a specific analyst ("standardised"). The differentiation is done according to the company's turnover figure, as explained above.

**d.2. Request for transaction**

The admission of transactions of standardised companies can begin either at request of the customer in the form of a loan application at a Santander's branch (universal or corporate) or at the initiative of Santander in relation to the respective campaigns for "pre-approved" products.

In the former case, it is Santander's commercial staff who generate the relationship with the various target companies, requesting the risk operation by obtaining the pertinent information and inputting it into the systems set up for that purpose. The data must in all cases be based on original documents.

In this case, a loan application is processed through the Parthenon Proposals System or the Referrers Proposals System, setting out the information for the application and the economic data of the requesting firm, for entry into the "Companies Analysis System"



The proposal thus forwarded is automatically analysed by the PowerCurve tool together with the data obtained from the rest of the information systems: personal accounts, external files (RAI, ASNEF and EXPERIAN), position of firm and group, management and monitoring of incidents (BSI) and TRIAD output files.



The office is, in the last instance, the body that decides on the operation, with authority to deny it in those cases it deems necessary. That is, operations which the automated decision system has recommended be approved will require the appropriate commercial authorisation before being executed.

PowerCurve integrates the management of risk decision strategies in the individuals and companies segments (small and medium enterprises, businesses and the self-employed), allowing the use of different scoring models and of risk criteria and policies applied on a differentiated basis according to the characteristics of the operations and the profiles of the applicants. Each strategy is a different decision tree composed of a combination of decision rules and models focused on automated resolution of the applications in each segment.

"TRIAD" is a behaviour scoring system that uses information from past experience with the applicant firm to assign upper limits for each type of product, and that information is also incorporated into the PowerCurve (PWC) system.

Depending on the information obtained from the decision model, the proposal may be authorised automatically directly (in branch processing), denied or forwarded to an analyst for manual evaluation. In the first case, there only remains for the operation to be passed on directly to the formalities needed for its execution and accounting entry.

#### **d.3. Capture and resolution of the operation by the analyst**

The processing of operations of standardised companies begins in the great majority of cases in the branch where the firm requests the financing.

To process the request, the office must obtain all pertinent economic information from the firm and input it into the appropriate section of the "Companies Analysis System".

Process, requirements and minimum documentation to be followed in loan request by the office:

1) Application signed by the customer.

2) Minimum documentation:

Corporate income tax: with information on the annual financial statements of the last three (3) years: Balance sheet and income statement. The data must be current. On occasions, the last two balance sheets available for the company will be input automatically, per agreement between Santander and Informa. Otherwise, the office may enter the estimated or interim balance sheets.

3) Advisable to submit:

Last quarter VAT filing.

Form 347. Annual declaration of operations with third parties: this is purely information and entails no payment. Customers and suppliers > €3,005.06.

Also included: subsidies from government and private entities, collection operations for the account of company owners, customer advances and suppliers/creditors. This provides us with important information on concentration in a given customer/supplier.

4) Minimum data to be entered into the analysis system:

Date of incorporation of the company.

Registered address.

Business carried on by the company.

Identity of owners.

Personnel data.

Identification property module and date of registry verification.



#### **d.4. Evaluation of applications: SCORING system**

The foundation of the process for admission of operations not managed by risk analysts is an automated decision-making system called SCORING that analyses each proposed transaction to determine the likelihood of future default by the customer. Santander's policies set a maximum acceptable level of default, which the scoring systems uses to return an opinion on the operation. The following SCORING opinions are possible:

- Non-viable operations: Operations with a high probability of default by the customer or whose characteristics are not permitted by Santander risk admission policies.
- Viable operations: Operations for which there is a low probability of default by the customer and whose profile falls within the risk policies defined by Santander.
- Operation to review: Operations in which the estimated probability of default does not immediately support a decision one way or the other.

Operations forwarded to the Admission Retail Analysis Unit (RAU) are decided on by analysts based on the information provided by the scoring system and according to the Manual prepared for this purpose.

#### **d.5. Execution and disbursement of loans and credit facilities**

Once the operation has been authorised, the system so indicates so that the office can capture the conditions and proceed to formally execute the loan, which will involve arranging the signing of the contractual document with the customer and notary public, if applicable. Once that formality has been performed, it will pay the amount granted to the customer in the latter's account in that office.

If the loan is backed by a mortgage guarantee, in the same act as the signing an entry will be made for filing with the land registry so as to ensure the mortgage is duly registered.

### **POLICY OF BANCO SANTANDER S.A. ON CLAIMS AND RECOVERIES**

The claims and recoveries policy followed by Santander to date is described in this section.

Responsibility for Santander Spain's recovery policies rests with the Asset Management and Recoveries (AMR) Area, which performs the following functions:

- 1 Plan the actions needed to control past-due and non-performing loans and, by means of anticipatory management, avoid new defaults:
  - Analyse and define proposed actions and products to reduce past-due and non-performing loans.
  - Conduct and oversee overall monitoring of portfolios and customers in a past-due or non-performing situation.
  - Identify action projects for products and critical groups. Monitoring of the plans charted.
- 2 Monitor and analyse the execution of the policies and strategies defined for each of the players that take part in the recovery process.
- 3 Coordinate and generate the available information on management cycles in relation to products, segments and zones/regions, etc., for reporting and management thereof.

- 4 Chart the policies and strategies for the Recovery Centre's actions.
- 5 Chart the policies and strategies for external providers of court and out-of-court recovery services.
- 6 Coordinate the definition of objectives for the branch network and monitor their degree of fulfilment.
- 7 Define the systematic commercial procedures for recovery.
- 8 Supervise relations with internal and external structures (Bank of Spain, internal and external audits, etc.).



The Santander's claims and recoveries policy is grounded in a "recovery circuit" procedure that starts when a customer voluntarily defaults on a payment obligation and it consists of the following phases:

**1.- Past-due (1 to 90 days):**

Runs from the day following payment default until 90 days thereafter. This phase features joint work in the recovery management by the following players:

Office: Through the objectives and incentives for management of past-due and non-performing loans.

Telephone Collection Centre: Call centres that manage the customers and products determined from time to time. By reference, it manages all of the standardised loans 1 to 30 days past due, and the rest of the cycle according to the amount (customer risk) determined from time to time, always complementary to case's management by the office.

Recovery managers: They are assigned specific portfolios for management in the 31 to 90 days past due interval, according to the customer risk determined from time to time.

Analysts in the Companies Analysis Units (CAU): The same admission analysts who handle "individualised" firms (those with larger investment volumes) conduct their monitoring, as they have greater knowledge of the customer. In addition, there is a structure in the regional units that reports to the Recoveries Business Area and manages these customers in conjunction with the aforesaid analyst, as this management cycle is the responsibility of recoveries.

**2.- Non-performing (90-150 days past due):**

These are cases more than 90 and less than 150 days past due. This phase features joint work in the recovery management by the following players:

Office: Through the objectives and incentives for management of past-due and non-performing loans.

External recovery companies: these are specialised firms that manage the recovery process in this phase, pursuant to the policies and strategies defined by Santander.

Recovery managers: Based on the customer risk determined from time to time, customers are assigned to their portfolios.

Analysts in the Companies Analysis Units (CAU): The monitoring of "individualised" firms (those with larger investment volumes) is entrusted to the same admission analysts as handled those firms, for their greater knowledge of the customer. In addition, there is a structure in the regional units that reports to the Recoveries Business Area and manages these customers in conjunction with the aforesaid analyst, as this management cycle is the responsibility of recoveries.

**3.- Pre-contentious and contentious:**

This phase begins when the loan is 150 days past due, or earlier on the basis of some other factor. It is managed by two companies: Altamira and Aktua, who distribute the contracts in turn to different companies or lawyers.

If out-of-court initiatives are not successful, the relevant judicial proceedings are pursued based on the characteristics of the credit instrument, such as monetary, mortgage, ordinary enforcement, etc.

Without prejudice to such proceedings as may be brought in each case, in-court management is carried on compatibly with out-of-court management of the case pursuant to four goals:

- 1) **REGULARISATION:** Even though the court claim is in progress, efforts continue to obtain payment of the unpaid instalments, interest and court costs.
- 2) **REFINANCING:** This consists of arranging new financing, with new personal guarantees and security interests and payment of the applicable interest.
- 3) **REPOSSESSION:** If the customer is manifestly insolvent or its economic capacity deteriorates severely, the property is turned over in payment of the debt.
- 4) **CASH PAYMENTS:** Cash payments are accepted with partial release from the debt, as another instrument in cases of scarce financial solvency.

On a complementary basis, in this contentious phase, if none of the above-described solutions is obtained, a foreclosure case will be taken to the competent court or the mortgaged or attached properties will be sold in a court-conducted auction. Once the foreclosure has been effected, the properties are transferred to Santander's Properties Department, which manages the foreclosed assets via the following procedure:

#### **1) Recognition of the property**

GESBAN and AMR, the real estate department, receives the case with:

- Property title.
- Court appraisal.

The amount of the foreclosed property stated in the property recognition sheet is checked against the contentious case account, verifying that the amount charged is no more than 90% of the appraised value.

This information is use for accounting recognition of the property.

#### **2) Legal preparation**

Altamira and Aktua review the legal status of the property (title, liens and possession, primarily), to determine if there are any incidents that hinder its sale.

#### **3) Commercial preparation**

If there are no legal obstacles (possession primarily), Altamira and Aktua perform the commercial analysis of the property and include it in their portfolios, which they then distribute to their commercial and real estate agents.

#### **4) Valuation of the assets**

The final pricing (proposed market price vs carrying value of the asset) is done by the Technical Pricing Office in the AMR, and is approved in the competent duly empowered committees, namely: 1) Real Estate Assets Committee chaired by the head of the AMR and 2) Pricing Committee, in which there participate an officer from the Technical Pricing Office and the AMR real estate business department.

The "market price" is determined using a valuation model that draws on independent valuations, benchmark prices from Altamira and Aktua, appraisals and such offers as may have been received for the asset.

The prices set by the relevant Committees are not negotiable by the customer in the first 3 months, and lower prices may be accepted or the price lowered in accordance with the circumstances of the market or Santander.

#### **5) Marketing**

The prices approved by the relevant Committees are published on the Altamira or Aktua website

Customers have several entry ways:

Distributor- Customer looking for a property may visit the office of the distributor that can "show" them Santander's residential properties.

Website - A customer interested in a property seen on the website enters his or her particulars.

Call Center- The customer sees the for-sale sign on the dwelling and contacts the Call Center, which forwards the particulars to the distributor to schedule a visit.

Santander branches- Branches as referrers for the operations. They generate sales opportunities that are followed up by the distributors.

#### **6) Completion of the sale**

Once the customer has made the decision to buy, the relevant documentation (reservation, AML form) is sent to Santander's Anti-Money Laundering (AML) Department. The documentation is reviewed and, if found to be in order, the property is taken off the corporate website and the procedures are set in motion to execute the deed of sale-purchase (as with any sale or real estate).

Santander has set up a procedure to offer these customers financing with special terms.

#### **7) Derecognition of the asset**

Once the sale-purchase deed has been executed, a copy is sent to GESBAN for the purpose of:

- Derecognising the asset and recording the sale in the accounting.
- Paying the commission to the distributor that made the sale.

#### **4.- Written off:**

Once a customer's contracts have been written off due to the time past due, management of the case remains unchanged and Santander continues pursuing the relevant remedies in and out of court, under Altamira and Aktua's management.



## DESCRIPTION OF THE INITIAL REFERENCE PORTFOLIO

There are 8,557 in the Initial Reference Portfolio (which has been designated by the Swap Counterparty on the Cut-Off Date), the Initial Reference Portfolio Amount being EUR 1,000,000,000.88.

Please see below some charts showing the distribution by several criteria of the Reference Obligations comprising the Initial Reference Portfolio.

### a) Distribution by outstanding balance of the Reference Obligations

The Reference Obligation Notional Amount of the Reference Obligations in the Initial Reference Portfolio is between EUR 150 and EUR 5.2 million, with an average of EUR 117,000. The scope of the intervals are defined as including the first and excluding the last amount of such intervals.

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by principal outstanding:

Outstanding Balance (EUR million)	Current Balance (EUR)	%	Number of Reference Obligations	%
[0 ; 0.1)	177,653,235.27	18%	6,486	76%
[0.1 ; 0.2)	133,096,769.11	13%	939	11%
[0.2 ; 0.3)	98,767,716.51	10%	407	5%
[0.3 ; 0.4)	69,848,735.83	7%	204	2%
[0.4 ; 0.5)	61,806,954.72	6%	139	2%
[0.5 ; 1)	147,419,286.66	15%	215	3%
[1 ; 1.5)	90,650,248.02	9%	77	1%
[1.5 ; 2)	66,451,440.17	7%	39	0%
[2 ; 2.5)	32,323,022.38	3%	15	0%
[2.5 ; 5)	111,632,281.82	11%	34	0%
[5 ; 6)	10,350,310.39	1%	2	0%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

### b) Distribution by initial amount of the Reference Obligations

The initial amount of the Reference Obligations in the Initial Reference Portfolio is between EUR 1,300 and EUR 11.3 million, with an average of EUR 179,000. The scope of the intervals are defined as including the first and excluding the last amount of such intervals.

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by initial principal:

Initial Balance (EUR million)	Current Balance (EUR)	%	Number of Reference Obligations	%
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			<b>Loans</b>	
[0 ; 0.1)	114,698,159.90	11%	5,432	63%
[0.1 ; 0.2)	106,730,185.07	11%	1,258	15%
[0.2 ; 0.3)	98,344,359.88	10%	635	7%
[0.3 ; 0.4)	81,339,796.52	8%	375	4%
[0.4 ; 0.5)	49,460,408.13	5%	176	2%
[0.5 ; 1)	158,965,262.95	16%	373	4%
[1 ; 1.5)	109,859,845.56	11%	145	2%
[1.5 ; 2)	67,333,825.05	7%	56	1%
[2 ; 2.5)	54,302,671.56	5%	39	0%
[2.5 ; 5)	103,901,033.97	10%	47	1%
[5 ; 10)	49,560,063.27	5%	19	0%
[10 ; 11.5)	5,504,389.02	1%	2	0%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

**c) Distribution by year of origination of the Reference Obligations**

The origination dates fall between 2000 and 2017.

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by year of origination:

<b>Origination Year</b>	<b>Current Balance (EUR)</b>		<b>Number of Reference Obligations</b>	
		<b>%</b>		<b>%</b>
2000	107,868.39	0%	1	0%
2001	158,918.89	0%	1	0%
2002	5,591,698.93	1%	3	0%
2003	4,195,110.29	0%	6	0%
2004	832,534.87	0%	6	0%
2005	797,916.23	0%	9	0%
2006	4,048,104.76	0%	27	0%
2007	6,612,353.04	1%	51	1%
2008	7,310,576.38	1%	50	1%
2009	20,030,774.41	2%	92	1%
2010	22,176,009.87	2%	193	2%

2011	10,368,929.31	1%	66	1%
2012	32,936,358.13	3%	689	8%
2013	27,389,065.06	3%	980	11%
2014	28,727,781.11	3%	244	3%
2015	226,371,702.74	23%	2,529	30%
2016	558,847,557.35	56%	3,335	39%
2017	43,496,741.12	4%	275	3%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

**d) Distribution by year of maturity of the Reference Obligations**

The maturities fall between 2017 and 2038.

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by year of maturity:

Maturity Year	Current Balance (EUR)		Number of Reference Obligations	
		%		%
2017	56,843,736.11	6%	1,161	14%
2018	84,476,218.66	8%	1,991	23%
2019	113,134,686.19	11%	1,381	16%
2020	118,195,690.36	12%	1,471	17%
2021	166,035,746.68	17%	1,332	16%
2022	85,751,197.46	9%	294	3%
2023	101,929,268.17	10%	218	3%
2024	24,588,040.51	2%	68	1%
2025	26,726,042.86	3%	69	1%
2026	47,587,691.66	5%	116	1%
2027	35,128,457.99	4%	110	1%
2028	58,919,844.81	6%	131	2%
2029	11,220,644.44	1%	36	0%
2030	19,761,647.14	2%	45	1%
2031	31,441,626.11	3%	83	1%
2032	2,685,556.73	0%	13	0%

2033	4,778,806.56	0%	4	0%
2034	4,749,657.36	0%	11	0%
2035	1,333,345.41	0%	4	0%
2036	3,142,188.32	0%	9	0%
2037	407,137.45	0%	5	0%
2038	1,162,769.90	0%	5	0%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

e) **Distribution by geographical region**

The top three regions account for EUR 490.33 million (49.03% of the Initial Reference Portfolio Amount)

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by location of the related Reference Entities:

Region	Current Balance (EUR)		Number of Reference Obligations	
		%		%
País Vasco	43,522,832.65	4%	370	4%
Madrid	201,151,889.29	20%	1,406	16%
Aragón	43,967,216.32	4%	314	4%
Cataluña	145,955,305.67	15%	1,357	16%
Andalucía	143,226,189.44	14%	1,449	17%
Castilla-La Mancha	32,332,338.85	3%	420	5%
Extremadura	23,857,999.59	2%	199	2%
Valencia	84,065,530.13	8%	960	11%
Canarias	83,783,452.41	8%	562	7%
Castilla-León	43,365,196.50	4%	371	4%
Galicia	41,433,060.41	4%	322	4%
Cantabria	16,670,079.31	2%	160	2%
Murcia	26,164,926.53	3%	235	3%
Baleares	24,961,852.58	2%	134	2%
Navarra	24,100,287.20	2%	122	1%
La Rioja	5,207,931.67	1%	65	1%
Asturias	12,949,507.36	1%	97	1%

Melilla	1,687,130.54	0%	9	0%
Ceuta	1,597,274.43	0%	5	0%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

**f) Distribution by industry sector of the borrowers (2009 CNAE Classification)**

The top three industry sectors account for EUR 334.12 million (33.41% of the Initial Reference Portfolio Amount)

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by industry sector of the related Reference Entities:

Industry Sector	Current Balance		Number of Reference Obligations	
	(EUR)	%		%
Crop and animal production, hunting	67,444,312.94	7%	426	5%
Forestry and logging	842,229.52	0%	17	0%
Fishing and aquaculture	2,254,283.24	0%	21	0%
Other mining and quarrying	2,910,184.45	0%	20	0%
Mining support service activities	217,736.04	0%	2	0%
Manufacture of food products	61,061,009.12	6%	284	3%
Manufacture of beverages	10,665,375.25	1%	52	1%
Manufacture of textiles	3,035,870.30	0%	52	1%
Manufacture of wearing apparel	4,484,937.83	0%	40	0%
Manufacture of leather and related products	3,195,000.20	0%	41	0%
Manufacture of wood and of products of wood and cork	4,811,984.78	0%	74	1%
Manufacture of paper and paper products	4,821,480.16	0%	36	0%
Printing and reproduction of recorded media	5,203,086.87	1%	76	1%
Manufacture of chemicals and chemical products	11,330,312.87	1%	80	1%
Manufacture of basic pharmaceutical products and pharmaceutical preparations	4,014,345.20	0%	8	0%
Manufacture of rubber and plastic products	7,366,396.04	1%	69	1%
Manufacture of other non-metallic mineral products	6,592,886.97	1%	45	1%
Manufacture of basic metals	7,600,355.90	1%	55	1%
Manufacture of fabricated metal products	19,969,975.66	2%	156	2%
Manufacture of computer, electronic and optical products	2,745,078.20	0%	36	0%

Manufacture of electrical equipment	4,033,731.43	0%	36	0%
Manufacture of machinery and equipment n.e.c.	20,351,593.27	2%	123	1%
Manufacture of motor vehicles	4,718,654.62	0%	26	0%
Manufacture of other transport equipment	5,193,973.34	1%	15	0%
Manufacture of furniture	4,539,803.05	0%	43	1%
Other manufacturing	5,508,123.69	1%	47	1%
Repair and installation of machinery and equipment	1,837,922.57	0%	31	0%
Electricity, Gas, Steam and Air Conditioning Supply	6,347,585.62	1%	70	1%
Collection, purification and distribution of water	99,439.67	0%	3	0%
Collection and treatment of wastewater	130,148.04	0%	2	0%
Waste collection, treatment and disposal activities	3,265,425.17	0%	34	0%
Decontamination activities	331,092.89	0%	8	0%
Construction of residential and non-residential buildings	18,534,963.25	2%	105	1%
Civil engineering	5,323,547.61	1%	48	1%
Specialised construction activities	9,031,001.22	1%	172	2%
Wholesale and retail trade and repair of motor vehicles	29,544,659.37	3%	351	4%
Wholesale trade, except of motor vehicles	115,987,439.14	12%	1,034	12%
Retail trade, except of motor vehicles and motorcycles	65,520,395.57	7%	1,036	12%
Land transport and transport via pipelines	42,848,870.12	4%	576	7%
Water transport	624,986.07	0%	6	0%
Air transport	116,012.61	0%	2	0%
Warehousing and support activities for transportation	18,565,351.67	2%	135	2%
Postal and courier activities	500,522.45	0%	14	0%
Accommodation	41,035,273.36	4%	191	2%
Food and beverage service activities	27,467,298.28	3%	457	5%
Publishing activities	894,752.79	0%	27	0%
Motion picture, video and television programme	3,120,826.99	0%	19	0%
Programming and broadcasting activities	66,666.76	0%	1	0%
Telecommunications	4,365,782.59	0%	56	1%
Computer programming, consultancy	5,803,398.71	1%	98	1%
Information service activities	747,905.53	0%	13	0%
Financial service activities	9,318,655.27	1%	20	0%

Activities auxiliary to financial services	1,090,915.04	0%	15	0%
Real Estate activities	150,682,514.00	15%	455	5%
Legal and accounting activities	16,429,239.04	2%	140	2%
Activities of head offices	18,705,451.44	2%	122	1%
Architectural and engineering activities	10,178,922.35	1%	85	1%
Scientific research and development	2,015,893.33	0%	18	0%
Advertising and market research	2,439,069.51	0%	43	1%
Other professional, scientific and technical activities	24,100,583.83	2%	248	3%
Veterinary activities	402,831.66	0%	13	0%
Rental and leasing activities	15,713,284.79	2%	146	2%
Employment activities	993,913.24	0%	6	0%
Travel agency, tour operator	1,887,743.10	0%	29	0%
Security and investigation activities	699,705.98	0%	13	0%
Services to buildings and landscape activities	2,376,107.32	0%	43	1%
Office administrative, office support	5,653,685.39	1%	56	1%
Education	11,566,381.56	1%	105	1%
Human health activities	16,912,172.26	2%	265	3%
Residential care activities	6,351,247.55	1%	30	0%
Social work activities without accommodation	208,045.70	0%	7	0%
Creative, arts and entertainment activities	2,436,565.08	0%	19	0%
Libraries, archives, museums and other cultural activities	36,572.16	0%	3	0%
Gambling and betting activities	1,649,512.13	0%	27	0%
Sports activities and amusement activities	9,710,608.60	1%	93	1%
Activities of membership organisations	10,897.36	0%	2	0%
Repair of computers and personal and household goods	638,531.97	0%	33	0%
Other personal service activities	10,766,962.23	1%	152	2%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

**g) Distribution by amortisation type of the reference Obligations**

The following chart shows the distribution of the Reference Obligations in the Initial Reference Portfolio by amortisation type:

Amortisation Type	Current Balance (EUR)		Number of Reference Obligations	
		%		%
French	747,042,470.26	75%	6,586	77%
Linear	212,000,712.52	21%	1,752	20%
Bullet	40,956,818.10	4%	219	3%
<b>Total</b>	<b>1,000,000,000.88</b>		<b>8,557</b>	

## ISSUER

The Issuer is a Spanish securitisation fund (*fondo de titulización*), which is an isolated pool of assets (*patrimonio separado*) comprised by assets (mainly, the proceeds of the issue of the Notes) and liabilities (mainly, the Notes and any other financing received by the Issuer). The legal regime applicable to the Issuer is set forth in Law 5/2015, dated 27 April ("Law 5/2015").

The name of the Issuer is "Fondo de Titulización PYMES Magdalena". The Issuer has been incorporated on 22 May 2017 by means of the execution of its Deed of Incorporation. The Issuer, as a Spanish securitisation fund (*fondo de titulización*), is a regulated entity subject to the supervision of the CNMV. Moreover, its incorporation has been approved by the CNMV, which has registered the Deed of Incorporation of the Issuer with its public registry.

The Issuer is a special purpose entity which will carry out a specific synthetic securitisation transaction, pursuing the activities set out in the Transaction Documents and summarised in this document. The main activities of the Issuer are, *inter alia*, the issue of the Notes and the entering into of the Transaction Documents (in particular, the Credit Default Swap). The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations (other than those incidental to its incorporation, the issue of the Notes and activities incidental to the exercise of its rights and compliance with its obligations under the Transaction Documents). The Issuer has no employees.

Since the Issuer is newly incorporated, it lacks any historical financial information. Its annual financial statements will be subject to verification and annual review by the auditors. The annual report and the quarterly reports of the Issuer will be filed with the CNMV within the deadlines set in the current regulations. By virtue of the resolutions adopted by the board of directors of the Management Company dated 11 October 2016, PricewaterhouseCoopers Auditores, S.L. was appointed as the auditor of the Issuer without specifying the number of accounting periods for which it has been appointed. PricewaterhouseCoopers Auditores, S.L. is registered with the Official Registry of Auditors (*Registro Oficial de Auditores de Cuentas*) with number S0242 and has its registered address in Madrid at Paseo de la Castellana 259 B.

The Issuer cannot be subject to insolvency proceedings (*concurso*) under the Spanish Insolvency Law, although it can be liquidated upon occurrence of any of the liquidation events set forth in the Deed of Incorporation.

### *The Management Company*

As Spanish securitisation funds have no legal personality, they must be managed by a third party. As a matter of Spanish law, the management and legal representation of a securitisation fund is legally vested on specific financial institutions denominated "*sociedades gestoras*" (management companies), which are legally entrusted with the defence of the rights and interests of the noteholders and the other creditors of the securitisation fund.

The Management Company of the Issuer is Santander de Titulización, S.G.F.T., S.A..

The Management Company was incorporated in December 1992 and is duly registered in the special registry established for such purpose by the CNMV under number 1. The Management Company belongs to the Santander group and its registered office is at Gran Vía de Hortaleza, 3, Edificio Magdalena, Planta 1, 28033 Madrid.

Pursuant to Article 25.1 of Law 5/2015, the Management Company shall be the legal representative of the Issuer, it being required by Article 26.1.a) to protect the interest of the Noteholders and other Creditors of the Issuer. The Management Company is not responsible for any of the Issuer's liabilities. In particular, the Noteholders shall not have any right of action against the Management Company other than by reason of non-performance of its duties or non-compliance with the provisions of the Deed of Incorporation and the applicable laws and regulations (those duties including, among others, to exercise and enforce all of the rights and remedies of the Issuer under the Credit Default Swap and all of the other Transaction Documents to which the Issuer is a party).

In case of insolvency (*concurso*) of the Management Company, Article 33 of Law 5/2015 requires the appointment of a new management company to represent and manage the Issuer. If such new management company is not appointed within a four (4) months period after the date insolvency is

declared, the Issuer will be liquidated and the Notes issued by the Issuer will be redeemed in accordance with the terms and conditions set forth in the Deed of Incorporation. Pursuant to the Deed of Incorporation, in the event that the Management Company is insolvent, it shall use its best efforts to appoint a new management company and to take into consideration suggestions by the Noteholders to this effect.



## CREDIT DEFAULT SWAP

*The following is a summary of certain provisions of the Credit Default Swap and is qualified in its entirety by reference to the detailed provisions of the Credit Default Swap. The following summary does not purport to be complete, and prospective investors must refer to the Credit Default Swap for detailed information regarding the Credit Default Swap.*

### **Documentation**

On the Incorporation Date, the Issuer will enter into the credit default swap with Banco Santander, S.A. (the "**Swap Counterparty**") pursuant to a 2002 ISDA Master Agreement and the schedule thereto (the "**ISDA**"), and a credit default swap confirmation having an effective date (the "**Effective Date**") which is the same as the Closing Date (the "**Credit Default Swap**").

The Credit Default Swap will incorporate the 2003 ISDA Credit Derivatives Definitions (without incorporating either the 2009 ISDA Credit Derivatives Definitions Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions published on 12 March 2009 or the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement to the ISDA Credit Derivatives Definitions, published on 14 July 2009) (the "**2003 Definitions**"). In the event of any inconsistency between the 2003 Definitions and the Credit Default Swap, the Credit Default Swap will prevail.

Noteholders are deemed to have notice of the terms of the Credit Default Swap and the 2003 Definitions.

### **The Reference Portfolio**

#### *Summary of Reference Portfolio*

The portfolio in respect of which the Credit Default Swap is entered into (as the same may be amended from time to time pursuant to a Reduction/Removal or Replenishment, the "**Reference Portfolio**") will, at any time, consist of a pool of credit exposures to obligors (the "**Reference Entities**") selected by the Swap Counterparty on the Cut-Off Date and identified as such by an identification code in the Reference Register and their related Reference Obligations (as defined below) at that time.

In respect of each Reference Entity, the Swap Counterparty has designated, in the Reference Register, one or more Reference Obligations which are identified by an identification code and the applicable Reference Obligation Notional Amount and Protected Reference Obligation Notional Amount in respect thereof (the "**Reference Obligations**").

The Reference Obligations comprising the Reference Portfolio may or may not have been originated or acquired by the Swap Counterparty. As at the Cut-Off Date, each Reference Obligation in the Reference Portfolio complied with the Eligibility Criteria and the Reference Portfolio is required to comply with the criteria (i), (iii), (iv), (v), (vi) and (vii) of the Portfolio Guidelines.

The initial Reference Entities, Reference Obligations, Reference Obligation Notional Amounts and Protected Reference Obligation Notional Amounts are subject to variation from time to time pursuant to any Replenishment or Reduction/Removal.

#### *Reference Register*

The Swap Counterparty is required to maintain a register in respect of each Reference Obligation and Reference Entity containing the information set out in the section entitled "*Reference Register*" in this Information Memorandum (such register as amended by the Swap Counterparty from time to time in accordance with the terms of the Credit Default Swap, the "**Reference Register**").

#### *Reference Obligation Notional Amount*

The "**Reference Obligation Notional Amount**" and "**Protected Reference Obligation Notional Amount**" designated in respect of any Reference Obligation is the Euro amount identified as such in respect of such Reference Obligation in the Reference Register, *provided that* the Protected Reference Obligation Notional Amount will be equal to 95% of the Relevant Lender's exposure to such Reference Obligation on the Relevant Date.

The Reference Obligation Notional Amount of a Reference Obligation may be reduced as a result of a Reduction/Removal as described herein.

#### ***Reference Obligation Eligibility Criteria***

Each Reference Obligation and, where applicable, its corresponding Reference Entities must meet the individual criteria set out in the section entitled "*Eligibility Criteria*" section in this Information Memorandum (the "**Eligibility Criteria**") on its Relevant Date.

The "**Relevant Date**" in respect of a Reference Obligation is:

- (a) with respect to any Reference Obligation comprised in the Reference Portfolio on the Effective Date, the Cut-Off Date; and
- (b) with respect to any Reference Obligation that has been added to the Reference Portfolio after the Effective Date pursuant to a Replenishment, the date falling 5 Note Business Days prior to the relevant Replenishment Date.

#### ***Reference Portfolio Eligibility Criteria***

On the Cut-Off Date and each Replenishment Date, the Reference Portfolio will be required to meet the criteria set out, and in the manner set out, in the "*Portfolio Guidelines*" section in this Information Memorandum (the "**Portfolio Guidelines**") on the Cut-Off Date (save that the Reference Portfolio shall not be required to meet criteria (ii) and (iii) of the Portfolio Guidelines on the Cut-Off Date) and each Replenishment Date (subject to the PG Breach Exception, as described below).

#### ***Replenishment***

Subject to compliance with the Conditions to Replenishment, on any date prior to the Last Replenishment Date, the Swap Counterparty will have the right, at its discretion, to make changes to the composition of the Reference Portfolio by:

- (a) adding Reference Obligations relating to existing Reference Entities; or
- (b) adding new Reference Entities and adding related Reference Obligations to the Reference Portfolio;

each such addition or increase a "**Replenishment**", and the day on which any Replenishment is effected is the "**Replenishment Date**".

The "**Conditions to Replenishment**" are:

- (a) as at the relevant Replenishment Date, the Reference Obligation which is the subject of the Replenishment satisfies each Eligibility Criteria; and
- (b) the Swap Counterparty has annual individual and consolidated accounts for the last two accounting periods duly audited and with no qualifications, as required by article 17(a) of Law 5/2015;
- (c) following the Replenishment, the Reference Portfolio satisfies the Reference Portfolio Eligibility Criteria or, if the Portfolio Guidelines set out in sub-paragraph (iv) of the Portfolio Guidelines had been breached immediately prior to the relevant Replenishment (after taking into account any Reduction/Removal on such date) and such breach is continuing, (A) the weighted average life of all Reference Obligations which are the subject of the Replenishment on that date must be equal to or lower than 3.1 years and (B) all of the other Portfolio Guidelines were satisfied in respect of all Replenishments on the Relevant Date including such Replenishment (the "**PG Breach Exception**").

In the event that it is determined that the Conditions to Replenishment are not fulfilled as at the Replenishment Date in respect of the relevant Reference Obligation, the Conditions to Settlement in respect of such Defaulted Reference Obligation are not capable of being fulfilled and the Swap Counterparty will not be entitled to make a claim under the Credit Default Swap in respect thereof.

If the Swap Counterparty becomes aware or the Issuer determines that any Replenishment of a Reference Obligation to the Reference Portfolio was effected without satisfying the Conditions to Replenishment (a "False Replenishment"), then the Swap Counterparty or the Issuer, as applicable, will, as soon as reasonably practicable, notify the other party of such event.

If a Reference Obligation has been added pursuant to a False Replenishment, then (a) on the Replenishment Date next following the date on which the Swap Counterparty became aware of such False Replenishment, the Swap Counterparty will effect a Removal of the related Protected Reference Obligation(s) and (b) no Credit Event Notice may be delivered with respect to the corresponding Reference Obligation (or, if a Credit Event Notice was previously delivered with respect to the corresponding Reference Obligation after such Replenishment Date, such Credit Event Notice shall be deemed to have been rescinded).

Any failure to satisfy the Conditions to Replenishment will not comprise a breach of the Credit Default Swap or the ISDA or otherwise comprise a Swap Event of Default (including, without limitation, under Section 5(a)(ii) of the ISDA) or an event which, with the giving of notice or the lapse of time or both, would constitute a Swap Event of Default with respect to the Swap Counterparty and in the absence of fraud, will not entitle Issuer to claim any compensation, damages or any other equitable relief.

The Swap Counterparty makes no representation whatsoever, express or implied, as to whether or not any Reference Obligation complies with the Conditions to Replenishment on any date.

#### **Reductions/Removals**

The Reference Obligation Notional Amount in respect of a Reference Obligation may be reduced from time to time as follows (each such reduction, a "Reduction/Removal"):

- (a) in whole or in part (as applicable) to reflect any repayment, prepayment or amortisation in relation to the relevant Reference Obligation by an amount which is in the same proportion to the Protected Reference Obligation Notional Amount of the Reference Obligation immediately prior to such repayment, prepayment or amortisation as the amount that such repayment, prepayment or amortisation bears to the outstanding principal amount of such Reference Obligation immediately prior to such repayment, prepayment or amortisation;
- (b) in whole or in part (as applicable) to reflect any disposal by the Relevant Lender of all or part of its interest in the Reference Obligation to a third party which is not either (i) the Swap Counterparty, (ii) a credit institution (other than the Swap Counterparty) or a regulated lending institution (*establecimiento financiero de crédito*) which, in both cases, is part of the Banco Santander S.A. consolidated accounting group or (iii) a special purpose vehicle or other entity which is part of the Banco Santander S.A. consolidated accounting group by an amount which is in the same proportion to the Protected Reference Obligation Notional Amount of the Reference Obligation immediately prior to such disposal as the amount that such disposal bears to the outstanding principal amount of such Reference Obligation immediately prior to such disposal;
- (c) in whole, if the relevant Reference Obligation is determined by the Swap Counterparty or the Independent Accountants to have either (i) been a False Replenishment on the Relevant Date or (ii) not complied with the Eligibility Criteria on the Relevant Date, or where the Reference Portfolio is determined by the Swap Counterparty or the Independent Accounts to have not complied with: (1) the criteria set forth in paragraphs (i), (iv), (v), (vi) and (vii) of the Portfolio Guidelines on the Cut-Off Date or (2) the Portfolio Guidelines on any Relevant Date other than the Cut-Off Date (subject to the PG Breach Exception in respect of a Replenishment Date);
- (d) in whole if the relevant Reference Obligation which becomes a Worked Out Reference Obligation other than where either (i) the applicable Credit Event was a Restructuring and the Credit Loss Event Amount for such Reference Obligation was determined using the Credit Loss Event Method or (ii) the relevant Reference Obligation is a Cured Reference Obligation, *provided that* for the purpose of determining the Portfolio Amortisation Amount on any date after the Last Replenishment Date, the amount of such Reduction shall be deemed to be an amount equal to the Reference Obligation Notional Amount for such Reference Obligation *minus* the Worked Out Credit Protection Amount for such Reference Obligation;

- (e) in part following the calculation of the Worked Out Credit Protection Amount in relation to any Restructuring Credit Event and the Credit Loss Event Method applies, by an amount equal to such Worked Out Credit Protection Amount, *provided that* for the purpose of determining the Portfolio Amortisation Amount on any date after the Last Replenishment Date, the amount of such Reduction/Removal shall be deemed to be zero;
- (f) at the option of the Swap Counterparty, in whole if, following the occurrence of an Event Determination Date in respect of such Reference Obligation, the Swap Counterparty determines in a commercially reasonable manner and in good faith that any of paragraphs (c), (d) or (e) (as applicable) of the Additional Condition to Settlement could not be satisfied in respect of that Reference Obligation;
- (g) in whole in respect of any Reference Obligation if a Credit Event occurs in respect of the relevant Reference Obligation prior to the Effective Date; and
- (h) in whole, if as a result of an amendment or refinancing, the relevant Reference Obligation becomes subject to a guarantee from the European Investment Bank or the *Instituto de Crédito Oficial* ("ICO").

Following any reduction of the Protected Reference Obligation Notional Amount in whole, the relevant Reference Obligation shall be removed from the Reference Portfolio.

### **Servicing**

The Reference Obligations will be administered and enforced by the Relevant Lender (the "Servicer") in accordance with its credit and collection policy and servicing principles as in force from time to time (the "Servicing Standards") or equivalent credit and collection policy and servicing principles.

### **Fixed Amounts**

As the buyer of credit protection, the Swap Counterparty will make periodic payments of Fixed Amounts to the Issuer. Fixed Amounts will be payable on each date falling one Note Business Day prior to a Cash Settlement Date (each such date, a "Fixed Rate Payer Payment Date").

"Fixed Amount" for any Fixed Rate Payer Payment Date means the amount determined by the Swap Calculation Agent to be equal to:

- (A) the sum of:
  - (a) the Fixed Component Amount in respect of that Fixed Rate Payer Payment Date;
  - (b) the Issuer Operating Expenses in respect of that Fixed Rate Payer Payment Date;
  - (c) the Issuer Taxes in respect of that Fixed Rate Payer Payment Date;
  - (d) the Subordinated Loan Amounts in respect of that Fixed Rate Payer Payment Date; and
  - (e) if, on such Fixed Rate Payer Payment Date, the Swap Counterparty is not the Deposit Bank, the absolute value of any negative interest charged on the Deposit Account in respect of such Fixed Rate Payer Calculation Period,

*less*

- (B) if, on such Fixed Rate Payer Payment Date, the Swap Counterparty is not the Deposit Bank, an amount equal to any positive interest paid into the Deposit Account in respect of such Fixed Rate Payer Calculation Period.

If the Fixed Amount in respect of a Fixed Rate Payer Payment Date is a negative amount, the Issuer shall pay an amount equal to the absolute value of the Fixed Amount to the Swap Counterparty on the Cash Settlement Date immediately following such Fixed Rate Payer Payment Date

## Credit Events

A "**Credit Event**" means the occurrence of a Bankruptcy, Failure to Pay or Restructuring in respect of a Reference Obligation or the Reference Entity in respect thereof. For this purpose:

"**Bankruptcy**" means a Reference Entity:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof;
- (e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within thirty calendar days thereafter; or
- (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

"**Failure to Pay**" means after the expiration of 90 days from the due date, the failure by the Reference Entity to make, when and where due, any payments under the Reference Obligation in accordance with the terms of such Reference Obligation, at the time of such failure.

"**Restructuring**" means, in respect of a Reference Obligation, the forgiveness or postponement of principal, interest or fees that results in a value adjustment or other similar debit to the profit and loss account of the Relevant Lender in respect of such Reference Obligation, in relation to such Reference Obligation, as the case may be, *provided that* the same is effected:

- (a) with regard to the standards of a reasonable and prudent lending bank (disregarding for such purposes the effect of the credit protection provided by the Credit Default Swap in respect of such Reference Obligation but taking into account any security allocable to that Reference Obligation); and
- (b) with the intent that such Restructuring is to minimise any expected loss in respect of such Reference Obligation,

and does not occur in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity and *provided further that* the Swap Counterparty shall procure certification of a managing director of the Relevant Lender that such Restructuring is agreed with the intent referred to in the preceding paragraph (b).

"Credit Loss Event" means, in respect of a Restructuring Credit Event, the value reduction or other similar debit directly attributable to the Reference Obligation (the amount of such value reduction or debit, the "Debit") to the profit and loss account of any lender of the Reference Obligation holding an amount of the Reference Obligation equal to the Protected Reference Obligation Notional Amount on the date of the relevant Restructuring, whether by reason of making a provision or otherwise in accordance with applicable accounting principles. For the avoidance of doubt, losses in relation to the hedging of a Reference Obligation shall not constitute a Debit.



## Settlement Terms

### *Calculation of Aggregate Seller Payments*

On each 22 March, 22 June, 22 September and 22 December in each year from (and including) 22 September 2017 to (and including) the Termination Date (each such date being, for these purposes, a "Cash Settlement Date") the Issuer shall pay certain amounts to the Swap Counterparty in respect of the aggregate loss amounts in respect of the Defaulted Reference Obligations in the Reference Portfolio determined during the Calculation Period related to such Cash Settlement Date (such amount, the Aggregate Issuer Payment, as set out in more detail below).

On each Note Business Day falling 5 Note Business Days prior to a Cash Settlement Date (each, a "Calculation Date") the Swap Calculation Agent will calculate the "Aggregate Seller Payment", which will be equal to the sum of:

- (a) if the Current Period Loss Adjustment is a positive amount, an amount equal to the lesser of:
  - (i) the greater of (A) zero and (B) the Current Period Loss Adjustment *minus* the Threshold Loss Allocation on that Calculation Date;
  - (ii) the Protected Tranche Amount on that Calculation Date (prior to giving effect to any adjustment to the Protected Tranche Amount on that Calculation Date); and
- (b) if the Current Period Loss Adjustment is a negative amount, an amount equal to the lesser of:
  - (i) the greater of (A) zero and (B) the absolute value of the Current Period Loss Adjustment *minus* the absolute value of the Senior Tranche Loss Allocation for that Calculation Date; and;
  - (ii) an amount equal to the sum of each positive and negative Aggregate Seller Payment determined in respect of each Calculation Date occurring prior to that Calculation Date, expressed as a negative amount.

### *Conditions to Settlement*

Losses in respect of a Reference Obligation will be included in the calculation of the Aggregate Issuer Payment if the following conditions (the "Conditions to Settlement") are satisfied:

- (i) the Swap Counterparty has delivered a Credit Event Notice to the Issuer (copied to the Independent Accountant) during the period (the "Notice Delivery Period") commencing on the Closing Date and ending on the Initial Termination Date (*provided that*, if a Potential Credit Event Notice has been delivered in respect of any Reference Obligation on or prior to the Initial Termination Date, the Notice Delivery Period in respect of such Reference Obligation shall be extended to the day falling 90 days after the Initial Termination Date);
- (ii) if the Reference Obligation is an Initial Verifiable Reference Obligation, the Independent Accountant has delivered a notice (the "Accountants' Notice") to the parties verifying:
  - (a) that the Credit Event identified in the relevant Credit Event Notice occurred during the Notice Delivery Period;
  - (b) the calculation of the Initial Credit Protection Amount;

- (c) the Defaulted Notional Amount on the Event Determination Date was not greater than 95 per cent. of the aggregate outstanding principal amount of the Reference Obligation to which the Relevant Lender is exposed on the Event Determination Date (which amount shall exclude any amount in respect of which the Relevant Lender has entered into any other hedging or credit protection arrangements *provided that*, for this purpose, (i) where the Relevant Lender is a Securitisation Issuer, any securities issued by that Securitisation Issuer shall not constitute a hedge or credit protection arrangement and (ii) any guarantees forming part of the finance documentation with respect to such Reference Obligation shall not constitute hedging or credit protection arrangements);
  - (d) if the Relevant Lender in respect of the Reference Obligation is a Securitisation Issuer, that on the Event Determination Date for that Reference Obligation the Securitisation Retained Amount in respect of the relevant Securitisation was not less than the Securitisation Alignment Amount in respect of that Securitisation;
  - (e) the Independent Accountants have previously verified that such Reference Obligation complied with the Eligibility Criteria as at the Relevant Date;
  - (f) that Swap Counterparty is, and has at all times since the Trade Date been, in compliance with the undertaking that a member of the Banco Santander, S.A. consolidated group will retain, at all times until the redemption of the Notes, a material net economic interest which shall in any event be not less than 5 per cent of the nominal value of each Reference Obligation as contemplated by Article 405(1)(a) of the CRR, Article 51(1)(a) of Regulation 231/2013 supplementing EU Directive 2011/61/EC on Alternative Investment Fund Managers and Article 254(2)(a) of Commission Delegated Regulation (EU) No. 2015/35 supplementing EU Directive 2009/138/EC (which will be achieved by the Relevant Lender holding the requisite amount of each Reference Obligation outside the Reference Portfolio); and
  - (g) that the relevant Reference Obligation was included in the Reference Portfolio on the date on which the Credit Event occurred,
- (the "**Additional Condition to Settlement**").



A Reference Obligation will be an "**Initial Verifiable Reference Obligation**" if either:

- (a) the Initial Credit Protection Amount in respect of that Reference Obligation is greater than EUR 60,000; or
- (b) where the Threshold Amount has been reduced to zero, either:
  - (i) the Independent Accountants select that Reference Obligation to be an Initial Verifiable Reference Obligation on or prior to the Calculation Date immediately following the applicable Event Determination Date; or
  - (ii) the Issuer has requested that Reference Obligation to be an Initial Verifiable Reference Obligation on or prior to the Calculation Date immediately following the applicable Event Determination Date, *provided that* the Issuer may only make such a request if it has been requested to do so by a Noteholder who has undertaken to the satisfaction of the Management Company to pay for all costs and expenses arising from such request.

Where the Threshold Amount has been reduced to zero, the Swap Counterparty will, from time to time, procure that the Independent Accountants randomly select, from all Reference Obligations in respect of which an Initial Credit Protection Amount which is less than or equal to EUR 60,000 has been determined since the last time they made such a selection (or, in the case of the initial selection, since the Effective Date) (an "**Initial Batch**"), at least twenty per cent (20%) of such Reference Obligations to be Initial Verifiable Reference Obligations.

Notwithstanding the above, in respect of a Determined Reference Obligation, the Issuer may, once the Threshold Amount has been reduced to zero, at any time on or prior to the Calculation Date immediately following the applicable Event Determination Date, request that a Reference Obligation in respect of which an Event Determination Date has occurred (a "**Determined Reference Obligation**") be an Initial

Verifiable Reference Obligation (*provided that* the Issuer may only make such a request if it has been requested to do so by a Noteholder who has undertaken to the satisfaction of the Management Company to pay for all costs and expenses arising from such request).

A "**Credit Event Notice**" must contain confirmation from the Calculation Agent of the occurrence or existence of a Credit Event:

- (i) in respect of a Reference Obligation which was in the Reference Portfolio on the Cut-Off Date, on or after the Effective Date; and
- (ii) in respect of any other Reference Obligation, on or after the Replenishment Date in respect of that Reference Obligation.

For the avoidance of doubt, following the occurrence of a Restructuring Credit Event, the Defaulted Reference Obligation will remain in the Reference Portfolio with a Reference Obligation Notional Amount equal to the Restructured Principal Amount and may be subject to further Credit Events.

Other than following a Restructuring Credit Event, the Conditions to Settlement can only be satisfied once in relation to each Reference Obligation but may be satisfied more than once in relation to the Reference Portfolio and the Credit Default Swap.

Following the satisfaction of the Conditions to Settlement in respect of a Reference Obligation in respect of which a Credit Event has occurred, the Swap Calculation Agent will determine the Initial Credit Protection Amount in respect of such Defaulted Reference Obligation.

#### *Calculation of Loss Amounts*

The "**Initial Credit Protection Amount**" is an amount equal to:

- (a) where the Credit Event is a Failure to Pay or a Bankruptcy Credit Event, an amount equal to the product of (i) the Defaulted Notional Amount and (ii) the Regulatory Capital LGD in respect of that Defaulted Reference Obligation; or
- (b) where the Credit Event is a Restructuring Credit Event, at the option of the Swap Counterparty, in its sole absolute discretion, either (i) the Credit Loss Event Amount, determined by reference to the amount of any Credit Loss Event Amount Recovery received by the Relevant Lender as at the Event Determination Date (the "**Credit Loss Event Method**") or (ii) an amount equal to the product of (A) the Defaulted Notional Amount and (B) the Regulatory Capital LGD in respect of that Defaulted Reference Obligation (the "**LGD Method**").

Following the earlier to occur of:

- (a) the date on which the Swap Counterparty has determined (acting in accordance with the standards of a reasonable and prudent lender) that:
  - (i) in the case of a Defaulted Reference Obligation in respect of which a Failure to Pay or a Bankruptcy Credit Event has occurred, or a Defaulted Reference Obligation in respect of which a Restructuring has occurred and the Swap Counterparty elected to calculate the Initial Credit Protection Amount for such Worked Out Reference Obligation in accordance with the LGD Method, all Recoveries anticipated in respect of such Defaulted Reference Obligation have been received by the Relevant Lender; and
  - (ii) in the case of a Defaulted Reference Obligation in respect of which a Restructuring Credit Event has occurred and the Swap Counterparty elected to calculate the Initial Credit Protection Amount for such Worked Out Reference Obligation in accordance with the Credit Loss Event Method, the Credit Loss Event Amount has been determined and that such amount does not need to be revised or revalued in accordance with applicable accounting principles;
- (b) in respect of a Defaulted Reference Obligation in respect of which a Failure to Pay Credit Event had occurred, the date on which the Swap Counterparty determines that all overdue amounts in respect of such Defaulted Reference Obligation have been paid in full (together with any interest

on such amounts) (in which case such Reference Obligation shall be a "**Cured Reference Obligation**");

- (c) except where the Credit Event specified in the Credit Event Notice for that Defaulted Reference Obligation was a Failure to Pay and a Restructuring Credit Event also occurred following the Event Determination Date in respect of that Defaulted Reference Obligation but the Swap Counterparty has not elected to reclassify as a Restructuring pursuant to the Restructuring of Failure to Pay Defaulted Reference Obligation provisions (above), the date falling 72 months following the Event Determination Date; and
- (d) the date falling 45 Note Business Days prior to the Final Termination Date (the "**Long-Stop Date**").

(such date, the "**Work Out Completion Date**" and such Defaulted Reference Obligation, a "**Worked Out Reference Obligation**"), the Swap Calculation Agent will determine the Worked Out Credit Protection Amount and the Credit Protection Adjustment Amount in respect of such Defaulted Reference Obligation.

For the purpose of determining the "**Estimated Recoveries**" in respect of a Final Estimated Recoveries Obligation, if the Work Out Completion Date occurs on the Long-Stop Date, the Recoveries in respect of the Worked Out Reference Obligation shall be equal to the sum of (i) the Recoveries which have been received or applied by the Relevant Lender prior to the Work-Out Completion Date and (ii) the amount which the Swap Calculation Agent determines would constitute future Recoveries.

In respect of each Worked Out Reference Obligation, the Swap Calculation Agent will determine the "**Credit Protection Adjustment Amount**" by subtracting the Initial Credit Protection Amount from the Worked Out Credit Protection Amount.

#### *Verification of Credit Protection Adjustment Amounts*

Following the Work-Out Completion Date in respect of a Worked Out Reference Obligation which is a Final Verifiable Reference Obligation, the Swap Calculation Agent shall cause the Independent Accountants to deliver to the Issuer, the Swap Counterparty and the Swap Calculation Agent a notice (the "**Verification Notice**") verifying, in accordance with the Agreed Upon Procedures, the calculation of the Credit Protection Adjustment Amount (including each component thereof).

A "**Verified Reference Obligation**" is a Worked Out Reference Obligation in respect of which the Verification Date has occurred.

A Worked Out Reference Obligation will be a "**Final Verifiable Reference Obligation**" if:

- (i) the Worked Out Credit Protection Amount in respect of that Worked Out Reference Obligation is greater than EUR 60,000; and
- (ii) where the Initial Threshold Amount has been reduced to zero, either:
  - (a) the Independent Accountants select that Worked Out Reference Obligation to be a Final Verifiable Reference Obligation on or prior to the Calculation Date immediately following the applicable Work-Out Completion Date; or
  - (b) the Issuer has requested that Reference Obligation to be a Final Verifiable Reference Obligation on or prior to the Calculation Date immediately following the applicable Work-Out Completion Date, *provided that* the Issuer may only make such a request if it has been requested to do so by a Noteholder who has undertaken to the satisfaction of the Management Company to pay for all costs and expenses arising from such request.

Where the Initial Threshold Amount has been reduced to zero, the Swap Counterparty will, from time to time, procure that the Independent Accountants randomly select, from all Worked Out Reference Obligations in respect of which a Work-Out Credit Protection Amount which is less than or equal to EUR 60,000 has been determined since the last time they made such selection (a "**Final Batch**"), at least twenty per cent (20%) of such Reference Obligations to be Final Verifiable Reference Obligations.

Notwithstanding the above, in respect of a Determined Reference Obligation, the Issuer may, where the Initial Threshold Amount has been reduced to zero, at any time on or prior to the Calculation Date immediately following the applicable Work-Out Completion Date (if so instructed by the Management Company), request that such Determined Reference Obligation be a Final Verifiable Reference Obligation, *provided that* the Issuer may only make such a request if it has been requested to do so by a Noteholder who has undertaken to the satisfaction of the Management Company to pay for all costs and expenses arising from such request.

#### ***Aggregate Seller Payments***

If the Aggregate Seller Payment in respect of a Cash Settlement Date is greater than zero, the Aggregate Seller Payment shall be paid by the Issuer to the Swap Counterparty on such Cash Settlement Date.

If the Aggregate Seller Payment in respect of a Cash Settlement Date is less than zero, the absolute value of such Aggregate Seller Payment shall be due and payable from the Swap Counterparty to the Issuer on such Cash Settlement Date.

The obligation of the Issuer to pay Initial Credit Protection Amounts and Credit Protection Adjustment Amounts (each, a "**Seller Payment**") to the Swap Counterparty exists regardless of whether the Swap Counterparty suffers a loss or is exposed to the risk of loss following the occurrence of a Credit Event, and regardless of whether the Swap Counterparty has any legal or beneficial interest in any obligations of any Reference Entity or any economic risk in respect thereof. If the Swap Counterparty transfers any beneficial interest in any obligation of a Reference Entity or any economic risk in respect thereof to another person or entity, the Swap Counterparty will not, directly or indirectly (including through any indemnity or representation as to collectability made in any agreement providing for such transfer), transfer to or otherwise vest in such person or entity, any interest in, or any benefit of, the Credit Default Swap for the portion of beneficial interest or economic risk that has been transferred.

#### ***Financial Intermediation Fee***

On each Cash Settlement Date, the Issuer shall pay to the Swap Counterparty an intermediation fee (the "**Financial Intermediation Fee**") in an amount equal to the excess (if any) of the balance standing to the credit of the Issuer Account once all other payments and retentions to be made by the Issuer on such Cash Settlement Date have been made, over the Principal Balance of the Notes once redeemed or reduced on such Cash Settlement Date in accordance with Clause 9.9.3 of the Deed of Incorporation.

#### ***Late Recoveries***

If, in respect of any Worked Out Reference Obligation, at any time prior to the Termination Date the Relevant Lender receives further Recoveries which were not included in determining the Worked Out Credit Protection Amount in respect of such Worked Out Reference Obligation, such amounts, following verification of such amounts by the Independent Accountants in accordance with the Agreed Upon Procedures, shall be a "**Late Recovery Amount**".

#### **Termination of the Credit Default Swap**

##### ***General Terms***

The Credit Default Swap will terminate on the earlier to occur of (A) the Protected Tranche Final Exhaustion Date and (B) the earliest to occur of:

- (a) Scheduled Termination Date;
- (b) the Optional Termination Date;
- (c) an Early Termination Date; and
- (d) the Issuer Liquidation Date,  
(the "**Initial Termination Date**")

provided that, if on the Initial Termination Date there are one or more Reference Obligations in respect of which an Event Determination Date has occurred or in respect of which a Potential Credit Event Notice has been delivered but which, in either case, have not yet become Worked Out Reference Obligations in respect of which the Verification Date has occurred, the Termination Date shall occur on the earliest to occur of:

- (i) the Protected Tranche Final Exhaustion Date;
- (ii) the date falling 24 months after the Initial Termination Date, *except that* if the Initial Termination Date is the Issuer Liquidation Date, the final termination date shall be the Initial Termination Date (the "**Final Termination Date**"); and
- (iii) the Cash Settlement Date which occurs on or following the first date on which all such Reference Obligations have become either (i) Verified Reference Obligations or (ii) Reference Obligations in respect of which it is no longer possible for the Conditions to Settlement to be satisfied.

#### ***Optional Early Termination Date***

The Swap Counterparty may elect, upon not less than 15 Note Business Days' written notice to the Issuer, to terminate the Credit Default Swap in whole on any Fixed Rate Payer Payment Date falling on or following the occurrence of one of the following events (such date, an "**Optional Termination Date**"):

- (a) either:
  - (a) any enactment or establishment of, or supplement or amendment to, or change in any law, regulation, rule, policy or guideline of any relevant competent international, European or national body (including the European Central Bank or the Bank of Spain (*Banco de España*) or any other relevant competent international, European or national regulatory or supervisory authority) or the application or official interpretation of, or view expressed by any such competent body with respect to, any such law, regulation, rule, policy or guideline which becomes effective on or after the Effective Date; or
  - (b) a notification or other communication by the applicable regulatory or supervisory authority is received by the Issuer with respect to the transaction contemplated by the Transaction Documents on or after the Effective Date,

which, in each case, in the reasonable opinion of the Swap Counterparty, has the effect of materially adversely affecting the rate of return on capital of the Swap Counterparty or materially increasing the cost or materially reducing the benefit to the Swap Counterparty of the Transaction (a "**Regulatory Event**"); or

- (b) the occurrence of the date on which the Protected Reference Portfolio Notional Amount has been reduced to or below ten per cent. of the Protected Reference Portfolio Amount (a "**Clean-up Event**");

#### ***Early Termination Date***

An "**Early Termination Date**" may be designated by either:

- (a) the Issuer, under the Credit Default Swap, upon the occurrence of:
  - (i) a Swap Event of Default with respect to the Swap Counterparty (and, in such circumstances, the Early Termination Date shall be designated to occur no later than two Note Business Days after the relevant Swap Event of Default);
  - (ii) the contractual performance of the Issuer's or the Swap Counterparty's obligations becoming illegal (as more fully described in the Credit Default Swap); or
  - (iii) a Force Majeure Event in respect of the Swap Counterparty (as defined and more fully described in the Credit Default Swap); or
  - (iv) a Swap Tax Event in respect of the Issuer; and

- (b) the Swap Counterparty, under the Credit Default Swap, upon the occurrence of:
- (i) a Swap Event of Default with respect to the Issuer;
  - (ii) the contractual performance of the Issuer's or the Swap Counterparty's obligations becoming illegal (as more fully described in the Credit Default Swap);
  - (iii) a Force Majeure Event in respect of the Issuer (as defined and more fully described in the Credit Default Swap); or
  - (iv) a Swap Tax Event in respect of the Swap Counterparty.

A "**Swap Event of Default**" means, with respect to each of the Issuer and the Swap Counterparty, (1) a payment default (continuing for 1 Note Business Day, or more) and (2) certain bankruptcy-related events (each as more fully described in the Credit Default Swap).

A "**Swap Tax Event**" means, with respect to each of the Issuer and the Swap Counterparty, an action taking by a taxing authority, or brought in a court of competent jurisdiction, after the Effective Date or a change in tax law after the Effective Date which results in such party either being required to gross-up a payment under the Credit Default Swap, or receive a payment from which an amount is required to be deducted or withheld, as more fully described in the Credit Default Swap.

#### **Payments upon Early Termination**

In the event that an Early Termination Date is designated by either the Issuer or the Swap Counterparty, no termination amounts will be payable by either party under the Credit Default Swap, however, the positive and negative Aggregate Seller Payments and Fixed Amounts (as applicable) which become payable after the Early Termination Date shall remain payable.

#### **Reporting**

The Swap Counterparty shall, not later than the third Note Business Day preceding each Cash Settlement Date, deliver or procure the delivery to the Issuer (the "**Reference Portfolio Report**") disclosing in respect of the immediately preceding Calculation Period:

- (a) the most recent Reference Register available at the end of such Calculation Period;
- (b) each Reference Entity and Reference Obligation in respect of which a Credit Event Notice has been delivered during the relevant Calculation Period;
- (c) each Reference Obligation that has become a Defaulted Reference Obligation during the relevant Calculation Period;
- (d) any Seller Payments calculated in respect of any Defaulted Reference Obligations during the relevant Calculation Period;
- (e) the Aggregate Seller Payment (if any) payable by the Issuer on the next Cash Settlement Date;
- (f) the Threshold Amount and Protected Tranche Amount on the last day of such Calculation Period;
- (g) details of any Threshold Amortisation Amount and Protected Tranche Amortisation Amount which may have been determined on the Amortisation Date immediately following the last day of the relevant Calculation Period; and
- (h) any other information as the Swap Counterparty deems appropriate.

#### **Tax Provisions**

##### ***Issuer***

If any payment obligation of the Issuer under the Credit Default Swap is subject to, or becomes subject to, any deduction or withholding for or on account of any Tax, the Issuer will not be obliged to and will not gross up the relevant amount unless such Tax is an Indemnifiable Tax (as defined and further described in

the Credit Default Swap), and the Swap Counterparty will receive such amount *less* the amount of any such deduction or withholding.

The Swap Counterparty may, however, in such circumstances elect to terminate the Credit Default Swap (as set out in more detail in the Credit Default Swap).

***Swap Counterparty***

If any payment obligation of the Swap Counterparty under the Credit Default Swap is subject to, or becomes subject to, any deduction or withholding for or on account of any Tax which is required by law, the Issuer may terminate the Credit Default Swap (as set out in more detail in the Credit Default Swap).

**Governing Law**

The Credit Default Swap will be governed by, and shall be construed in accordance with, the laws of England. Each of the Issuer and the Swap Counterparty submits to the jurisdiction of the English courts in connection with the Credit Default Swap.



## ELIGIBILITY CRITERIA AND PORTFOLIO GUIDELINES

### Part A – Eligibility Criteria

The following individual criteria, the Eligibility Criteria, shall be met in relation to each Reference Obligation as at the Relevant Date:

1. such Reference Obligation has been originated by Banco Santander, S.A. or one of its Affiliates;
2. the registered address of the Reference Entity for the Reference Obligation is in Spain;
3. the Reference Entity for the Reference Obligation is not part of the same corporate group as the Swap Counterparty;
4. that the Reference Entity for the Reference Obligation is either a Spanish *sociedad anónima* or a *sociedad de responsabilidad limitada*;
5. that such Reference Obligation relates to unsubordinated and non-contingent obligations against the relevant Reference Entity;
6. the Relevant Lender of the Reference Obligation has certified that, as at the Relevant Date, the Reference Obligation or any related security is, subject to insolvency and other laws generally applicable to creditors' rights, valid, binding and enforceable in accordance with its terms;
7. no Credit Event shall have occurred and be continuing on the Relevant Date in respect of such Reference Obligation;
8. the Reference Obligation is not recorded in the Relevant Lender's systems as a "non-performing" exposure (*riesgo dudoso*) for the purposes of Bank of Spain Circular 4/2004, of 22 December 2004 (for the avoidance of doubt, as this Circular has been amended to date, including, amongst others, by Circular 4/2016);
9. no other obligation of the Reference Entity is recorded in the Relevant Lender's systems as a "non-performing" exposure (*riesgo dudoso*) for the purposes of Bank of Spain Circular 4/2004, of 22 December 2004 (for the avoidance of doubt, as this Circular has been amended to date, including, amongst others, by Circular 4/2016);
10. no payment under the Reference Obligation is 15 days or more past due;
11. no Restructuring shall have previously occurred in respect of such Reference Obligation (whether or not such Restructuring was prior to the occurrence of a payment default);
12. the Reference Entity for the Reference Obligation is a "small to medium enterprise", which shall be deemed to be an enterprise which fulfills the annual turnover limit included in the Commission Recommendation 2003/361/EC of 6 May 2003, or a "large enterprise";
13. if the Reference Obligation is a mortgage loan, the loan-to-value is less than 90%;
14. the outstanding principal balance of such Reference Obligation is not greater than EUR 6,300,000;
15. the interest rate applicable to such Reference Obligation is not 0;
16. such Reference Obligation is not an interest bullet loan;
17. such Reference Obligation has a PD lower than 3%;
18. such Reference Obligation does not contain ad-hoc scheduled amortisation repayments;

19. such Reference Obligation was originated in the ordinary course of business of Banco Santander, S.A. or relevant Affiliate that originated the loan, as applicable, in accordance with the credit and collection policies applicable from time to time to Banco Santander, S.A. or relevant Affiliate that originated the loan, as applicable, and pursuant to underwriting standards that are not less stringent than those that such entity applies to origination of similar exposures that are not securitised;
20. such Reference Obligation is not included in the securitised portfolio for any other outstanding securitisation (whether synthetic or otherwise);
21. the scheduled maturity date of such Reference Obligation is not greater than 31 December 2038;
22. such Reference Obligation is not a credit line;
23. the Protected Reference Obligation Notional Amount of such Reference Obligation is 95% of the outstanding principal balance of the Reference Obligation to which the Relevant Lender is exposed;
24. such Reference Obligation is denominated in Euros;
25. such Reference Obligation does not have a risk weighting of lower than 10%;
26. such Reference Obligation is not a loan made to an individual or self-employed person;
27. such Reference Obligation is not a syndicated loan; and
28. if the Relevant Lender of such Reference Obligation is the Swap Counterparty, it is not classified by the Swap Counterparty in its systems as "CECI Extinguir", "CECI Afianzar" or "CECI Reducir" (as redenominated or amended from time to time).

For the purpose of the Eligibility Criteria:

"PD" means, in respect to a Reference Obligation, the lower of the "*probability of default*" (within the meaning given to such term in Section 4.1(55) of the CRR) of the relevant Reference Entity and the probability of default of any protection provider in respect of such Reference Obligation.

## Part B – Portfolio Guidelines

The Portfolio Guidelines are satisfied if each of the following criteria is fulfilled:

- (i) The Reference Portfolio Notional Amount does not exceed the Maximum Reference Portfolio Notional Amount.
- (ii) In respect of a Replenishment, the weighted average probability of default of all Reference Obligations which are the subject of the Replenishment occurring on that Replenishment Date is equal to or lower than 0.90%.
- (iii) In respect of a Replenishment, the weighted average LGD of all Reference Obligations which are the subject of the Replenishment occurring on that Replenishment Date is equal or lower than 50 %.
- (iv) The weighted average life of the Protected Reference Portfolio Notional Amount is equal or lower than 3.1 years %.
- (v) The aggregate Reference Obligation Notional Amounts of all Reference Obligations in respect of the same Reference Entity Group (the "**Aggregate Notional Amount**") shall not exceed 0.60% of the Reference Portfolio Notional Amount on the Relevant Date and that the sum of the Reference Obligation Notional Amounts of all Reference Obligations of the fifteen Reference Entity Groups with the highest Aggregate Notional Amounts shall not exceed 7% of the Reference Portfolio Notional Amount on the Relevant Date.

"**Reference Entity Group**" means, in respect of any Reference Entity, such Reference Entity and any other entity forming a single affiliated group with such Reference Entity.

- (vi) The aggregate Reference Obligation Notional Amount of all Reference Obligations with the same 2009 CNAE Classification shall not exceed 16.50% of the Reference Portfolio Notional Amount on the Relevant Date.

"**2009 CNAE Classification**" means each of the second levels (or "divisions") set out in the statistical classification of economic activities in Spain (*Clasificación Nacional de Actividades Económicas 2009*) produced by the Spanish National Institute for Statistics (*Instituto Nacional de Estadística*) in accordance with the provisions in the Regulation E/C 1893/2006 of the European Parliament and of the Council and approved by Royal Decree 475/2007 of 13 April of 2007.

- (vii) The aggregate Reference Obligation Notional Amounts of the Relevant Reference Obligations (i) whose Relevant Lender is the Swap Counterparty and (ii) which are classified by the Relevant Lender as "CECI Seguir" is equal to or lower than 11.75% of the aggregate Reference Obligation Notional Amounts of all Relevant Reference Obligations. For the purpose of this Portfolio Guidelines, "**Relevant Reference Obligations**" means, (i) in respect of the Trade Date, all Reference Obligations, and (ii) in respect of a Replenishment Date, those Reference Obligations that are the subject of that Replenishment.

## REFERENCE REGISTER

The Buyer will maintain the Reference Register, which will contain information relating to, *inter alia*, the following:

- (i) the reference number of each Reference Obligation (including, for the avoidance of doubt, any Non-Worked Out Reference Obligations);
- (ii) the reference number of each Reference Entity;
- (iii) the 2009 CNAE Classification (including both the code and the description) of each Reference Entity;
- (iv) the geographical region in which each Reference Entity is situated;
- (v) any group to which each Reference Entity belongs;
- (vi) the details of each Reference Obligation (including the scheduled maturity date and, in the case of Reference Obligation secured by real estate, the loan to value ratio);
- (vii) the outstanding principal of each Reference Obligation;
- (viii) the Reference Obligation Notional Amount of each Reference Obligation under the heading "Total Notional Value";
- (ix) the Protected Reference Obligation Notional Amount of each Reference Obligation;
- (x) with respect to each Reference Entity, whether a Credit Event has occurred in relation to such Reference Entity or one or more of the related Reference Obligations and the nature of such Credit Event;
- (xi) the Regulatory Capital LGD of each Reference Obligation;
- (xii) whether the Reference Obligation is secured by real estate;
- (xiii) the date on which the Reference Obligation was originated;
- (xiv) the PD of each Reference Obligation;
- (xv) the "probability of default" (within the meaning given to such term in Section 4.1(55) of the CRR) of the relevant Reference Entity of each Reference Obligation (disregarding, for the avoidance of doubt, the "probability of default" of any protection providers in respect of such Reference Obligation);
- (xvi) whether the Relevant Lender in respect of a Reference Obligation is a Securitisation Issuer and, if so, the relevant Securitisation;
- (xvii) where the Relevant Lender in respect of a Reference Obligation is the Buyer, whether it is classified in the systems of the Relevant Lender as "CECI Extinguir", "CECI Afianzar", "CECI Reducir" or "CCECI Seguir". The Swap Counterparty will update the Reference Register on a monthly basis in order to reflect any Reduction/Removal resulting in changes to the Protected Reference Obligation Notional Amount of any Reference Obligation or any other change to the Reference Register details since the Cut-Off Date or the date of the most recent monthly update, as the case may be;
- (xviii) the original principal balance of the Reference Obligation;
- (xix) the amortization type of each Reference Obligation;
- (xx) the grace period end date (as applicable) for each Reference Obligation;
- (xxi) the real estate type of the Reference Obligation;

- (xxii) the amount (if any) in arrears for each Reference Obligation;
- (xxiii) if the Reference Obligation is in arrears, the number of days in arrears; and
- (xxiv) the segment (rating system) used in relation to each Reference Obligation.

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## THE DEPOSIT BANK AGREEMENT

*The following description of the Deposit Bank Agreement consists of a summary of certain provisions of these agreements and is qualified by reference to the provisions thereof. The following summary does not purport to be complete and prospective investors must refer to the Deposit Bank Agreement for detailed information.*

### Deposit Bank Agreement

The Management Company, for and on behalf of the Issuer, and the Deposit Bank have entered into the Deposit Bank Agreement on the same day of execution of the Deed of Incorporation pursuant to which the Issuer Account has been opened.

The Deposit Bank Agreement provides that the following amounts shall be paid into the Issuer Account:

- (a) the Note's subscription proceeds and the disbursement of the Subordinated Loan;
- (b) all payments received by the Issuer from Swap Counterparty by virtue of the Credit Default Swap; and
- (c) if applicable, positive interest accruing on the balance of the Issuer Account from time to time.

The balance of the Issuer Account will not fall below zero (0) at any time.

The following amounts will be charged to the Issuer Account:

- (a) the amount of any payments to be made by the Issuer in accordance with the applicable Priorities of Payments; and
- (b) if applicable, the negative yield of the balance of the Issuer Account.

To the extent that Banco Santander, S.A. is the Deposit Bank, the balance of the Issuer Account will not accrue any interest (whether positive or negative).

The Issuer shall maintain the Issuer Account in Banco Santander, S.A. so long as the long-term rating of the unsecured and unsubordinated debt (the "**Rating**") of Banco Santander, S.A. by any of Moody's, S&P and Fitch (the "**Rating Agencies**") is, at least, "BBB-/Baa3" (or equivalent) (the "**Required Rating**"), provided that where the long-term rating of the unsecured and unsubordinated debt of Banco Santander, S.A. by all of the Rating Agencies falls below the Required Rating, the Issuer shall, within sixty (60) calendar days, transfer the Issuer Account to a credit institution with a Rating, at least "A-" (or equivalent), by two Rating Agencies, in which case the interest rate applicable to the Issuer Account will be that agreed between the Issuer and such credit institution.

### Governing law

The Deposit Bank Agreement will be governed by Spanish law.

## SUMMARY OF OTHER TRANSACTION DOCUMENTS

*The following description of the Paying Agency Agreement, the Management, Placement and Subscription Agreement and the Subordinated Loan Agreement consists of a summary of certain provisions of these agreements and is qualified by reference to the provisions thereof. The following summary does not purport to be complete and prospective investors must refer to the Paying Agency Agreement, the Management, Placement and Subscription Agreement and the Subordinated Loan Agreement as appropriate, for detailed information.*

### **Paying Agency Agreement**

The Management Company, for and on behalf of the Issuer, has entered into a paying agency agreement for the Notes with the Paying Agent on the same day of execution of the Deed of Incorporation, pursuant to which the Paying Agent assumes the role of paying agency of the Notes

The Paying Agent will receive a quarterly fee (the "**Paying Agent Fee**") equal to € 2,350 (VAT inclusive).

### **Management, Placement and Subscription Agreement**

The Management Company, for and on behalf of the Issuer, has entered into a management, placement and subscription agreement with the Lead Managers and the Swap Counterparty (the "**Management, Placement and Subscription Agreement**") on the same day of execution of the Deed of Incorporation. By virtue of such agreement:

- (a) the Lead Managers have assumed the management of the operations regarding the design of the financial, timing and commercial conditions of the issue of Notes, as well as the coordination of relations with potential investors;
- (b) the Lead Managers have undertaken to promote the placement of the Notes amongst qualified investors (*inversores cualificados*), as defined in article 39 of RD 1310/2005 (or equivalent applicable legislation in the jurisdictions where the Notes are placed); and
- (c) the Swap Counterparty has undertaken to subscribe those Notes which the Lead Managers had not been able to place among qualified investors.

Each Lead Manager will receive a fee on the Closing Date in the amount agreed between them and the Management Company (on behalf of the Issuer).

### **Subordinated Loan Agreement**

The Management Company, for and on behalf of the Issuer, has entered into a subordinated loan agreement with the Subordinated Lender on the same day of execution of the Deed of Incorporation (the "**Subordinated Loan**"). The Subordinated Loan has been granted for a total amount of EUR two million (€ 2,000,000.00) and will be used to finance the expenses relating to the incorporation of the Issuer and the issue of the Notes.

The Subordinated Loan will be paid into the Issuer Account no later than noon on the Closing Date.

During each quarterly interest period, the Subordinated Loan will accrue nominal annual interest, payable quarterly on each Note Payment Date, which will be equal to EURIBOR-3 months plus 65 basis points and will only be paid if the Issuer has sufficient Available Funds in accordance with the relevant Priorities of Payment. The interest accrued will be calculated on the basis of: (i) the days actually existing in each interest period and (ii) a three hundred and sixty (360) day year.

In the event that the annual nominal interest of the Subordinated Loan is negative, such interest will be zero per cent (0.00%).

The Subordinated Loan will be repaid on each of the first twelve (12) Note Payment Dates in equal instalments, provided the Issuer has sufficient Available Funds, in accordance with the relevant Priorities of Payment.

The Subordinated Loan, due to its subordinated nature, will rank junior to some of the other creditors of the Issuer as provided for in the relevant Priorities of Payment.

**Governing law**

The Paying Agency Agreement, the Management, Placement and Subscription Agreement and the Subordinated Loan Agreement are governed by Spanish law.

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### USE OF PROCEEDS

The total net proceeds of the issue of the Notes will be EUR 66,500,000.00 (the "Proceeds").

No expenses related to the listing of, and permission to deal in, the Notes on the MARF will be deducted from the proceeds of the issue of the Notes. All such expenses will be funded by the Issuer exclusively from an advance under the Subordinated Loan on the Closing Date.

The Issuer will apply the Proceeds on the Closing Date to fund the deposit to be held by the Deposit Bank in accordance with the Deposit Bank Agreement.



## ASESOR REGISTRADO (REGISTERED ADVISOR)

Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A. (the "**Management Company**") is a company incorporated before the Notary of Madrid Mr. Francisco Mata Pallarés on 21 December 1992 and recorded in his notarial records under number 1310, registered with the Madrid Commercial Registry in Volume 4789, Sheet 75, Section 8, Page M-78658, Entry 1 and with the Registry of Registered Advisors pursuant to the Market Operating Instruction 4/2017 of 22 May (*Instrucción Operativa 4/2017 de 22 de mayo*).

The Management Company will be acting as the Issuer's Registered Advisor and, therefore, will assist the Issuer in order for the latter to be able to comply with the obligations and meet the responsibilities that it will be required to assume once the Notes are admitted on the MARF, acting as a specialised liaison between the Issuer and the market, and as a facilitator of the inclusion and conduct of the Issuer in the new trading system applicable to the Notes.

Thus, the Management Company will have to provide the MARF with the periodic reports it requires, and the MARF, in turn, may seek any information deemed necessary in connection with the Registered Advisor's role and its obligations as Registered Advisor. MARF may take any applicable measures in order to check the information provided.

For the purposes of the Notes being listed on MARF, the Issuer must at all times have a designated Registered Advisor properly registered with the "Registry of Registered Advisors of the Market" (*Registro de Asesores Registrados del MARF*).

The Management Company is the Registered Advisor of the Issuer for the purpose of assisting the Issuer in (i) the admission of the Notes issued; (ii) the compliance with any obligations or responsibilities corresponding to the Issuer as a result of its participation in the MARF; (iii) the preparation and submission of the financial and business information required by the market; and (iv) the review of the information to ensure it complies with applicable standards and regulations.

For these purposes, the Management Company:

- (a) has verified that the Issuer complies with the requirements of MARF's rules for the admission of the Notes to listing; and
- (b) has prepared the Information Memorandum, has reviewed all the information provided to MARF in connection with the request for admission of the Notes to listing on MARF and has verified that the information in this Information Memorandum complies with applicable laws and does not contain any omissions likely to mislead any potential investors.

Once the Notes are admitted to listing on MARF, the Management Company, as Registered Advisor of the Issuer, shall:

- (a) prepare the information to be submitted by the Issuer for submission to the MARF, periodically or on an *ad hoc* basis, and ensure that the contents thereof satisfy the requirements and time limits established by the applicable rules and regulations;
- (b) consider the factors that could affect the performance of the obligations assumed by the Issuer upon the Notes being admitted to listing on MARF and the best way to deal with circumstances to avoid a breach of those obligations;
- (c) manage, handle and respond to any queries or information requests by MARF regarding the situation of the Issuer, the evolution of its activity, the level of performance of its obligations and any other relevant market data; and
- (c) comply with any obligations imposed on it, in its capacity as Registered Advisor of the Issuer, by the relevant MARF's rules.

For such purposes, the Registered Advisor will take the following actions:

- (a) analyse the exceptional situations that may occur with regards to the evolution of the market price, trading volume and any other relevant circumstances in the trading of the Notes;
- (b) sign the statements that have been established generally in the rules and regulations as a consequence of the admission of the Notes on the MARF and in relation to the information required from companies listed on the MARF; and
- (c) forward to the MARF, as soon as possible, the communications received in response to queries and information requests that the latter may issue.



## SUMMARY OF CLEARANCE AND SETTLEMENT PROCEDURES APPLICABLE TO NOTES

Below is a brief summary of the Spanish clearance and settlement procedures applicable to book-entry notes such as the Notes.

Notwithstanding this summary, it should be noted that the Spanish clearing, settlement and registry system of securities transactions is undergoing a significant reform to align it with the practices and standards of its European neighbours and prepare it for the implementation of future integration projects. This reform is expected to be fully implemented by 18 September 2017.

Law 32/2011, of 4 October, which amends LMV ("**Law 32/2011**"), anticipated and set the master plan of the future Spanish clearing, settlement and registry system providing for certain changes that are being implemented and that will modify the system and allow for the integration of the post trading Spanish systems into the Trans-European Automated Real-Time Gross Settlement Express Target (TARGET2) System ("**TARGET2**").

Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 ("**Regulation (EU) 909/2014**") provides that transactions in transferable securities which are executed on trading venues shall be settled no later than on the second business day after the relevant trade takes place, subject to certain exemptions. Since October 2014, transactions affecting debt securities settled through Iberclear are generally settled two business days after they have been made.

In connection with the above, the Spanish clearing, settlement and recording system was adapted by Law 11/2015 and Royal Decree 878/2015 to the provisions set forth in Regulation (EU) No. 909/2014, these regulations further the reform of the Spanish clearing, settlement and registry system of securities transactions.

The reform of Spain's clearing, settlement and registry system introduces significant new features that affect all classes of securities and all post-trade activities. However, the reform is still an on-going process and it might still be subject to changes and modifications both in the expected timetable for its implementation and in the content and scope of the measures to be adopted and implemented in the Spanish clearing, settlement and registry system.

In particular, this reform introduces three fundamental changes that, in turn, involve a number of operating modifications. Such changes are as follows: (i) a new registry system based on balances; (ii) the introduction of a new central clearing counterparty (BME Clearing, S.A., the "CCP"); and (iii) integration of the current CADE (*Central de Anotaciones de Deuda Pública*) and SLCV (*Servicio de Compensación y Liquidación de Valores*) into a single platform managed by Iberclear which operates under the trade name of "ARCO".

The reform is expected to be implemented in two phases:

- (i) The first phase was implemented in April 2016 and set up a new clearing and settlement system for equity securities, including the creation of the CCP for post-trade operations compatible with TARGET2 (messages, account structure, definition of operations, etc.).

Since the first week of October 2016 the new settlement and registration platform (ARCO) operates under a T+2 settlement standard by which any transaction must be settled within two stock-exchange business days following the date on which the relevant trade is completed.

The CADE platform will continue to operate unchanged and cash settlements in the new system will be made in the TARGET2-Bank of Spain cash accounts, as at present.

- (ii) The second phase will be implemented upon Iberclear's connection to TARGET2. At that time, fixed-income securities will be transferred to the new ARCO platform, and CADE will be discontinued.

The second phase will entail unifying the registration and settlement system for both equities and fixed-income.

## **Iberclear**

*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal* (Iberclear) is the Spanish central securities depository in charge of both the register of securities held in book-entry form, and settlement of all trades from the Spanish Stock Exchanges, Latibex (the Latin American stock exchange denominated in EUR), the Book-Entry Public Debt Market (*Mercado de Deuda Pública en Anotaciones*) and the Spanish AIAF Fixed Income Securities Market (*AIAF Mercado de Renta Fija*). To achieve this, Iberclear uses two technical platforms, SCLV (for the Spanish Stock Exchanges and Latibex) and CADE (for the Book-Entry Public Debt Market and AIAF).

Iberclear is owned by *Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.*, a holding company, which holds a 100 per cent interest in each of the Spanish official secondary markets and settlement systems. The corporate address of Iberclear is located at Plaza de la Lealtad, 1, Madrid (28014), Spain.

### **Iberclear securities registration system**

Iberclear and the Iberclear Members (*entidades participantes*) have the function of keeping the book-entry register of securities traded on MARF.

The book-entry register structure is a two-tier level registry: the keeping of the central record corresponds to Iberclear and the keeping of the detail records corresponds to the Iberclear Members. The central registry reflects: (i) one or several proprietary accounts which show the balances of the Iberclear Members' proprietary accounts; (ii) one or several general third-party accounts that will show the overall balances that the Iberclear Members hold for third parties; (iii) individual accounts opened in the name of the owner, either individual or legal person; (iv) individual special accounts of financial intermediaries which use the optional procedure of settlement orders. Each Iberclear Member, in turn, maintains the detail records of the owners of the securities held in their general third-party accounts.

Spanish law considers the legal owner of the securities to be:

- (i) the Iberclear Member appearing in the records of Iberclear as holding the relevant securities in its own name;
- (ii) the investor appearing in the records of the Iberclear Member as holding the securities; or
- (iii) the investor appearing in the records of Iberclear as holding securities in a segregated individual account.

### **Iberclear settlement of securities traded on MARF**

Securities traded on MARF are private fixed income securities represented in dematerialised book-entry form.

In the MARF settlement system, transactions may be settled spot, forward (settlement date more than five days after the relevant trade date), with a repurchase agreement on a fixed date and double or simultaneous transactions (two trades in opposite directions with different settlement dates).

The settlement system used for securities admitted for trading on MARF is the Model 1 delivery versus payment system, as per the classification of the Bank for International Settlements: that is, it is a "transaction-to-transaction" cash and securities settlement system with simultaneity in its finality.

Transactions are settled on the business day agreed by participants at the moment of the trade.

### **Settlement cycles: the CADE Platform**

The process of settling all reported trades with a value date on a specific day, is to be carried out in three phases:

- (i) first settlement cycle;
- (ii) real-time settlement; and

(iii) session close.

The first cycle includes all transactions reported to CADE up to 6:00 p.m. (Madrid time) of D-1, and these are settled if sufficient funds and an adequate securities balance are available in the pertinent accounts.

The real-time settlement process is carried out between 7:00 a.m. (Madrid time) and 4:00 p.m. (Madrid time) of the settlement day, and the system first checks if a sufficient securities balance is available. If it is available, but the buyer of the securities does not have available funds, the order is rejected and returned to CADE, and placed in a queue. The process is periodically activated until enough balance is available in the relevant accounts to settle outstanding orders with finality. If the balance in the seller's securities account is insufficient, the transaction is placed in a queue. When a credit is lodged in a securities account, the system checks whether queued orders can be processed.

At the end of the day, the system tries one last time to settle all transactions not settled in the first cycle or during the process in real time. The settlement cycle at the end of the day takes place at 5:00 p.m. (Madrid time).

If the seller's securities account has sufficient balance, the system checks (by means of a comparison with the payment side) if there is also sufficient balance in the buyer's cash account. That is, securities and cash are not immediately blocked. Once the transfers of securities and cash have been executed, each of the transactions is considered final.

#### **Euroclear and Clearstream, Luxembourg**

Investors who do not have, directly or indirectly through their custodians, a participating account with Iberclear may hold their investment in the Notes through bridge accounts maintained by each of Euroclear and Clearstream, Luxembourg with Iberclear Members.

## TERMS AND CONDITIONS OF THE NOTES

The following is a summary of the terms and conditions of the Notes in the form (subject to completion and amendment) in which they will be set out in the Deed of Incorporation of the Issuer (the "Conditions"). The statements in this section include summaries of, and are subject to, the detailed provisions of the Deed of Incorporation and the Credit Default Swap (provided that, pursuant to the Deed of Incorporation, the Deed of Incorporation must be always construed in light of the Credit Default Swap and, in the event of any inconsistency between the provisions of the Credit Default Swap and the provisions of the Deed of Incorporation, the provisions of the Credit Default Swap will prevail).

The Notes have been issued pursuant to the Deed of Incorporation of the Issuer to be dated on 22 May 2017 (the "Incorporation Date") (it being also the "Trade Date" of the Credit Default Swap) in accordance with Article 17 and related provisions of Law 5/2015.

Copies of the Credit Default Swap, the Deed of Incorporation and the other Transaction Documents are obtainable during normal business hours at the offices of the Management Company, being at the date hereof at 3 Avenida de la Gran Vía de Hortaleza, 28033 Madrid (Spain).

The issue of the Notes was authorised by resolution of the Board of Directors of the Management Company of the Issuer passed on 11 October 2016.

### 1. Definitions

In this section (*Terms and Conditions of the Notes*), the following defined terms have the meanings set out below:

"**Aggregate Seller Payment**" (*Importe de Pérdidas a Imputar al Tramo Protegido*) has the meaning given to it in the Credit Default Swap;

"**Available Funds**" (*Fondos Disponibles*) means, in respect to each Note Payment Date, any amounts standing to the credit of the Issuer Account;

"**Available Liquidation Funds**" (*Fondos Disponibles para Liquidación*) means any amounts standing to the credit of the Issuer Account;

"**Available Redemption Funds**" (*Cantidad Disponible para Amortización*) means, in respect of any Note Payment Date, an amount equal to the lower of:

- (i) the Protected Tranche Amortisation Amount; and
- (ii) the Available Funds;

in both cases determined in respect of such Note Payment Date;

"**Basic Terms Modification**" means any amendment or modification of any Transaction Document which would require a material amendment of the Deed of Incorporation, *provided that "material amendment of the Deed of Incorporation"* means any amendment to the Deed of Incorporation which is not regarded by the CNMV to amount to a non-material amendment (*modificación de escasa relevancia*) for the purposes of Article 24 of Law 5/2015, pursuant to which no amendment affecting the Notes or of the provisions dealing with the liquidation procedures of the Issuer or with the calculation and application of the Available Funds can be regarded as a non-material amendment (*modificación de escasa relevancia*);

"**Calculation Agent**" means Banco Santander, S.A. or such other entity or entities appointed from time to time as calculation agent subject to and in accordance with the terms of the Credit Default Swap;

"**Calculation Date**" (*Fecha de Cálculo*) has the meaning given to it in the Credit Default Swap;

"**Calculation Period**" (*Periodo de Cálculo*) has the meaning given to it in the Credit Default Swap;

"**Clean-up Event**" has the meaning given to it in the Credit Default Swap;

"**Closing Date**" (*Fecha de Desembolso*) means 24 May 2017 (it being also the "**Effective Date**") of the Credit Default Swap);

"**CNMV**" means the Spanish Exchanges Commission (*Comisión Nacional del Mercado de Valores*);

"**Conditions to Settlement**" (*Requisitos de Pago*) has the meaning given to it in the Credit Default Swap;

"**Credit Default Swap**" (*Derivado Crediticio*) means the credit default swap dated on the Incorporation Date between the Management Company on behalf of the Issuer and the Swap Counterparty;

"**Creditors**" means:

- (a) any Tax Authorities;
- (b) the Noteholders;
- (c) the Swap Counterparty;
- (d) the Deposit Bank;
- (e) the Paying Agent;
- (f) the Subordinated Lender; and
- (g) any other creditors of the Issuer;

"**Day Count Fraction**" means actual/360;

"**Deed of Incorporation**" means the deed of incorporation executed by the Management Company and Banco Santander, S.A. on 22 May 2017 in connection with the incorporation of the Issuer;

"**Deposit Bank**" means Banco Santander, S.A., or such other entity or entities appointed from time to time as deposit bank subject to and in accordance with the terms of the Deposit Bank Agreement;

"**Deposit Bank Agreement**" (*Contrato de Apertura de la Cuenta de Tesorería*) means the deposit bank agreement dated on the Incorporation Date and made between the Management Company on behalf of the Issuer and the Deposit Bank, and includes such Deposit Bank Agreement as from time to time modified, supplemented or replaced in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified;

"**Early Redemption Date**" (*Fecha de Amortización Anticipada*) means the Note Payment Date following the delivery of an Early Redemption Notice;

"**Early Redemption Event**" has the meaning given to it in paragraph 6(c) (*Mandatory Early Redemption*) (*Amortización Anticipada*) of the Notes following Early Redemption Events.

"**Early Redemption Notice**" has the meaning given to it in paragraph 6(d) (*Delivery of an Early Redemption Notice*) below;

"**Early Termination Date**" (*Fecha de Vencimiento Anticipado del CDS*) has the meaning given to it in the Credit Default Swap;

"**EURIBOR**" means the rate, as determined by the Calculation Agent, for deposits in Euro for a period equal to the relevant Interest Period which appears on the display page designated EURIBOR01 on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11:00 a.m., (Brussels time), on the second TARGET Settlement Day

before the first day of the relevant Interest Period (the "**Interest Determination Date**"), provided that if such rate does not appear on that page, the Calculation Agent will:

- (i) request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time;
- (ii) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Calculation Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

*provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the EURIBOR applicable to the Notes during such Interest Period will be the EURIBOR rate last determined in relation to the Notes in respect of a preceding Interest Period.

"**Extension Period**" means the period (if any) from (and including) the Partial Redemption Date to (and including) the Termination Date;

"**Extension Period Payment Date**" has the meaning given to it in paragraph 6(f) (*Redemption of the Notes during the Extension Period*) below;

"**Extension Period Redemption Amount**" has the meaning given to it in paragraph 6(f) (*Redemption of the Notes during the Extension Period*) below;

"**Final Redemption Date**" means the earlier of:

- (a) the Note Payment Date upon which the Notes have been redeemed in full;
- (b) the Legal Redemption Date;

"**Financial Statements**" means the audited financial statements of the Issuer;

"**Final Verification Date**" (*Fecha de Verificación Final*) means the Note Payment Date which occurs on or following the first date on which all Non-Worked Out Obligations have become either (i) Verified Reference Obligations or (ii) Reference Obligations in respect of which it is no longer possible for the Conditions to Settlement to be satisfied;

"**Iberclear**" has the meaning given to it in paragraph 2(b) (*Registration, clearing and settlement*) below;

"**Iberclear Members**" has the meaning given to it in paragraph 2(c) (*Title and transfer*) below;

"**Independent Accountants**" (*Audidores Independientes*) has the meaning given to it in the Credit Default Swap;

"**Initial Credit Protection Amount**" (*Importe Inicial de Pérdidas*) has the meaning given to it in the Credit Default Swap;

"**Initial Note Extension Amount**" has the meaning given to it in paragraph 6(f) (*Redemption of the Notes during the Extension Period*) below;

"**Initial Principal Balance**" of the Notes means EUR 66,500,000.00;

"**Initial Termination Date**" (*Fecha de Vencimiento Inicial del CDS*) has the meaning given to it in the Credit Default Swap;

"**Interest Amount**" has the meaning given to it in paragraph 5(c) (*Interest - Calculation of Interest Amount*) below;

"**Interest Rate**" (*Tipo de Interés*) means:

- (a) in respect of the first Note Payment Date: 10.40%;
- (b) in respect of each Note Payment Date other than the first Note Payment Date occurring prior to or on the Initial Termination Date: the sum of the EURIBOR rate with a designated maturity of three months and 10.40%; and
- (c) in respect of each Note Payment Date other than the first Note Payment Date occurring after the Initial Termination Date: the EURIBOR rate with a designated maturity of three months,

*provided that:*

- (i) if the Initial Termination Date occurs on a date that is not a Note Payment Date, the Interest Rate for the first Note Payment Date falling after the Initial Termination Date shall be a percentage equal to the sum of: (i) the EURIBOR rate with a designated maturity of three months and (ii) the product of:
  - (1) 10.40%; and
  - (2) the number of days from (and including) the previous Note Payment Date to (and including) the Initial Termination Date *divided by* the number of days in the Interest Period ending on that Note Payment Date;
- (ii) if and for so long as the Swap Counterparty is the Deposit Bank, EURIBOR rate shall be floored at zero (0); and
- (iii) if the amount of the Interest Rate calculated as per the above provisions is negative, then the Interest Rate shall be deemed to be zero (0).

"**Investors Report**" (*Informe de la Fecha de Amortización*) means the duly completed quarterly investor report to be prepared by the Management Company setting out details of, amongst other things, payments of interest and payments of principal on the Notes;

"**Issuer**" means Fondo de Titulización PYMES Magdalena;

"**Issuer Account**" (*Cuenta de Tesorería*) means the account of the Issuer opened by the Issuer pursuant to the Deposit Bank Agreement;

"**Issuer Operating Expenses**" (*Gastos del Fondo*) means any fees, expenses, or costs (including value added tax and including amounts by way of indemnity) which are incurred and payable by the Issuer (together with any Taxes in respect of those fees, expenses or costs);

"**Last Replenishment Date**" (*Última Fecha de Recarga*) has the meaning given to it in the Credit Default Swap;

"**Lead Managers**" (*Entidades Directoras*) means Banco Santander, S.A. and Unicredit Bank AG;

"**Legal Redemption Date**" (*Fecha de Vencimiento Legal*) means 22 March 2041;

"**Liquidation Priority of Payments**" (*Orden de Prelación de Pagos de Liquidación*) means payments in the following order of priority:

- (a) *First*, in or toward payment of Taxes payable by the Issuer;
- (b) *Secondly*, in or towards payment *pari passu* and rateably of all Issuer Operating Expenses;
- (c) *Thirdly*, in or towards payment of all amounts then due and unpaid to the Swap Counterparty under the terms of the Credit Default Swap;
- (d) *Fourthly*, in or towards payment *pari passu* and rateably of all interest then due and unpaid in respect of the Notes;
- (e) *Fifthly*, in or towards payment *pari passu* and rateably of any principal amounts due to be paid in respect of redemption of the Notes on such Note Payment Date;
- (f) *Sixthly*, in or toward payments of all interest amounts then due and unpaid to the Subordinated Lender under the terms of the Subordinated Loan Agreement;
- (g) *Seventhly*, in or toward payments of all principal amounts then due and unpaid to the Subordinated Lender under the terms of the Subordinated Loan; and
- (h) *Eighthly*, in or toward payments of the Financial Intermediation Fee (if any);

"**Management Company**" (*Sociedad Gestora*) means Santander Titulizacion, S.G.F.T, S.A or any other duly licensed management company (*sociedad gestora de fondos de titulización*) which may replace it in the future;

"**MARF**" means the Spanish multilateral trading facility "*Mercado Alternativo de Renta Fija*" (Alternative Fixed-Income Market):

"**Non-Worked Out Reference Obligation**" (*Derecho de Crédito Pendiente de Liquidación*) has the meaning given to it in the Credit Default Swap;

"**Note Business Day**" (*Día Hábil*) means any TARGET2 Settlement Day on which commercial banks and foreign exchange markets settle payments and are open for general business in Madrid (including dealings in foreign exchange and foreign currency deposits);

"**Note Interest Period**" (*Periodo de Devengo de Interés*) means each period from (and including) a Note Payment Date to (but excluding) the next following Note Payment Date, *provided that*: (i) the initial Note Interest Period will commence on (and include) the Closing Date; and (ii) the final Note Interest Period will end on (but exclude) the Note Payment Date on which the Notes are finally redeemed in full and no further amounts are due or payable on the Notes;

"**Note Payment Date**" (*Fecha de Amortización*) means each of 22 of March, June, September and December in each year commencing on 22 September 2017 and ending on the Final Redemption Date, *provided that*, if any such date is not a Note Business Day, the Note Payment Date shall fall on the next Note Business Day;

"**Note Principal Payment**" has the meaning given to it in paragraph 6(h) (*Note Principal Payment*) below;

"**Noteholder**" means the person in whose name any Note is for the time being registered in the Spanish Central Registry operated by Iberclear or, as the case may be, the relevant Iberclear Member accounting book as further described in paragraph 2(c) (*Title and Transfer*) below;

"**Optional Termination Date**" (*Fecha de Vencimiento Opcional del CDS*) has the meaning given to it in the Credit Default Swap;

"**Ordinary Priority of Payments**" (*Orden de Prelación de Pagos Ordinario*) means payments in the following order of priority:

- (a) *First*, in or toward payment of Taxes payable by the Issuer;
- (b) *Secondly*, in or towards payment *pari passu* and rateably of all Issuer Operating Expenses;
- (c) *Thirdly*, in or towards payment of all amounts then due and unpaid to the Swap Counterparty under the terms of the Credit Default Swap;
- (d) *Fourthly*, in or towards payment *pari passu* and rateably of all interest then due and unpaid in respect of the Notes;
- (e) *Fifthly*, in or towards payment *pari passu* and rateably of any principal amounts due to be paid in respect of redemption of the Notes on such Note Payment Date up to the relevant Available Redemption Funds;
- (f) *Sixthly*, in or toward payments of all interest amounts then due and unpaid to the Subordinated Lender under the terms of the Subordinated Loan;
- (g) *Seventhly*, in or toward payments of all principal amounts then due and unpaid to the Subordinated Lender under the terms of the Subordinated Loan; and
- (h) *Eighthly*, in or toward payments of the Financial Intermediation Fee (if any);

"**Partial Redemption Date**" has the meaning given to it in paragraph 6(f) (*Redemption of the Notes during the Extension Period*) below;

"**Paying Agent**" (*Agente de Pago*) means Banco Santander, S.A., or such other entity or entities as may replace it in the future;

"**Paying Agency Agreement**" (*Contrato de Agencia de Pago*) means the paying agency agreement dated on the Incorporation Date and made between the Management Company on behalf of the Issuer and the Paying Agent, and includes such Paying Agency Agreement as from time to time modified, supplemented or replaced in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified;

"**Portfolio Amortisation Amount**" (*Importe para Amortización de la Cartera*) has the meaning given to it in the Credit Default Swap;

"**Prescription Relevant Date**" has the meaning given to it in paragraph 9(b) (*Prescription Relevant Date*) below;

"**Principal Balance**" (*Saldo de Principal Pendiente de los Bonos*) of the Notes means, at any time on any date, an amount equal to:

- (i) the Initial Principal Balance of the Notes;  
*minus*
- (ii) the aggregate of any amounts actually paid to the Noteholders in redemption of the Notes at that time;  
*minus*
- (iii) the aggregate amount of positive Aggregate Seller Payments (if any) that have been applied to reduce the Principal Balance pursuant to Clause 9.9.3.(c) of the Deed of Incorporation (as further described in paragraph 6(g) below (*Reduction and Reinstatement of the Principal Balance of the Notes*));

plus

- (iv) the aggregate amount of the absolute value of negative Aggregate Seller Payments (if any) that have been applied to reinstate the Principal Balance pursuant to Clause 9.9.5 of the Deed of Incorporation (as further described in paragraph 6(g) (*Reduction and Reinstatement of the Principal Balance of the Notes*),

provided that the Principal Balance of the Notes may not be less than zero;

"**Priority of Payments**" (*Orden de Prelación de Pagos*) means, as applicable, the Ordinary Priority of Payments and/or the Liquidation Priority of Payments;

"**Protected Reference Obligation Notional Amount**" (*Importe Nocial Protegido*) has the meaning given to it in the Credit Default Swap;

"**Protected Tranche Amortisation Amount**" (*Importe para Amortización del Tramo Protegido*) has the meaning given to it in the Credit Default Swap;

"**Reference Obligation**" (*Derecho de Crédito de Referencia*) has the meaning given to it in the Credit Default Swap;

"**Reference Portfolio Report**" (*Informe de la Cartera de Referencia*) has the meaning given to it in the Credit Default Swap;

"**Regulatory Event**" (*Evento Regulatorio*) has the meaning given to it in the Credit Default Swap;

"**Scheduled Termination Date**" (*Fecha de Vencimiento Prevista del CDS*) means the Note Payment Date scheduled to fall on 22 March 2039;

"**Seller Liquidation Date**" (*Fecha de Liquidación Anticipada Obligatoria*) has the meaning given to it in the Credit Default Swap;

"**Spanish Central Registry**" has the meaning given to it in paragraph 2(b) (*Registration, clearing and settlement*) below;

"**Subordinated Lender**" means Banco Santander, S.A. in its capacity as subordinated lender under the Subordinated Loan Agreement;

"**Subordinated Loan Agreement**" means the subordinated loan agreement dated on the Incorporation Date between the Management Company on behalf of the Issuer and the Subordinated Lender;

"**Swap Counterparty**" (*Contraparte*) means Banco Santander, S.A. in its capacity as counterparty to the Credit Default Swap;

"**TARGET2 Settlement Day**" (*Día Target2*) means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) payment system is open for the settlement of payments in Euro;

"**Tax**" means any present or future tax, levy, impost, duty or other charge or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of a Tax Authority and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions shall be construed accordingly;

"**Tax Authority**" means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world;

"**Termination Date**" (*Fecha de Vencimiento Definitiva del CDS*) has the meaning given to it in the Credit Default Swap;

"**Transaction Documents**" means the Deed of Incorporation, the Paying Agency Agreement, the Deposit Bank Agreement, the Credit Default Swap, the Management, Placement and Subscription Agreement and the Subordinated Loan Agreement;

"**Transaction Parties**" means the Issuer, the Lead Managers, the Paying Agent, the Swap Counterparty, the Deposit Bank, the Management Company, the Subordinated Lender and the Calculation Agent, each a "**Transaction Party**" or any person affiliated with them;

"**Threshold Amount**" (*Importe Vivo del Tramo de Primera Pérdida*) has the meaning given to it in the Credit Default Swap;

"**Verified Reference Obligations**" (*Derechos de Crédito Verificados*) has the meaning given to it in the Credit Default Swap;

## 2. **Form, Denomination and Title**

### (a) **Form and denomination**

The Notes have been issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) in euro in an aggregate nominal amount of €66,500,000.00. The denomination of each Note is equal to €100,000 (referred to as the "**principal amount**" of a Note).

### (b) **Application for listing on MARF**

Application shall be made to list the Notes on the MARF by the Management Company on behalf of the Issuer prior to the Closing Date.

### (c) **Registration, clearing and settlement**

The Notes have been registered with the *Spanish Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("Iberclear")* as the operator of the central registry of the Spanish clearance and settlement system (the "**Spanish Central Registry**").

Holders of a beneficial interest in the Notes who do not have, directly or indirectly through their custodians, a participating account with Iberclear may participate in the Notes through bridge accounts maintained by each of Euroclear and Clearstream, Luxembourg with Iberclear. Iberclear operates the settlement and clearing of the Notes, notwithstanding the Issuer's commitment to assist, when appropriate, on the clearing and settlement of the Notes through Euroclear and Clearstream, Luxembourg.

The Spanish National Numbering Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned the following ISIN to identify the Notes: ES0305249007.

### (d) **Title and transfer**

Title to the Notes is evidenced by book entries, and each person shown in the Spanish Central Registry maintained by Iberclear and in the registries maintained by the respective members (*entidades participantes*) of Iberclear (the "**Iberclear Members**") as being a holder of the Notes shall be (except as otherwise required by Spanish law) deemed to be the holder of the principal amount of the Notes recorded therein.

In this section, "**Noteholder**" means the person in whose name such Note is for the time being registered in the Spanish Central Registry managed by Iberclear or, as the case may be, the relevant Iberclear Member accounting book.

The Notes are issued without any restrictions on their transferability. Consequently, the Notes may be transferred and title to the Notes may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the

case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or Iberclear itself, as applicable.

3. **Status and Ranking of the Notes**

(a) ***Status***

The Notes constitute direct obligations of the Issuer. The Notes rank *pari passu* without preference or priority amongst themselves.

(b) ***Priority of Payments***

Amounts payable to the Noteholders and the other Creditors will be applied in accordance with the applicable Priority of Payments.

4. **Issuer Covenants Financial Statements and Investor Reports**

The Issuer has undertaken under the terms of the Deed of Incorporation to make available to the Noteholders:

(a) its Financial Statements;

(b) the Reference Portfolio Report in respect of each Note Payment Date by the third Note Business Days preceding the relevant Note Payment Date;

by means of their publication in the website of the Management Company ([www.santanderdetitulizacion.es](http://www.santanderdetitulizacion.es)).

The Issuer has also undertaken under the terms of the Deed of Incorporation to make available to the Noteholders the Investors Report in respect of each Note Payment Date at least three (3) Note Business Days prior to the relevant Note Payment Date in accordance with paragraph 11 (*Notices to Noteholders*) below.

5. **Interest**

(a) ***Period of Accrual***

Each Note bears interest on its Principal Balance at the Interest Rate from (and including) the Closing Date until the Final Redemption Date.

(b) ***Note Payment Dates and Note Interest Periods***

Interest on the Notes is payable quarterly in arrear on each Note Payment Date in respect of the Note Interest Period ending immediately prior thereto. The first payment of interest will be made on 22 September 2017.

(c) ***Calculation of Interest Amount***

In respect of each Note Interest Period and in respect of all of the Notes shall be an amount (the "**Interest Amount**") equal to the product of: (i) the aggregate Principal Balance of the Notes on the first day of the Note Interest Period ending on (but excluding) that Note Payment Date, (ii) the Interest Rate and (iii) the Day Count Fraction.

(d) ***Notification of Interest Amount***

The Management Company will, at least one Note Business Day prior to each Note Payment Date in relation to each Note Interest Period, notify to the relevant Noteholders in accordance with paragraph 11 (*Notices to Noteholders*) below the Interest Amount payable in respect of the Notes for such Note Interest Period.

6. **Redemption, Reduction, Reinstatement and Cancellation**

(a) ***Final Redemption of the Notes on the Legal Redemption Date***

Unless previously redeemed in full and cancelled, the Issuer shall redeem the Notes at their then aggregate Principal Balance at that time on the Legal Redemption Date.

(b) ***Amortised Redemption***

If the Swap Counterparty designates a Portfolio Amortisation Amount (*Importe para Amortización de la Cartera*) on any Calculation Date prior to the Last Replenishment Date, then the Issuer shall, on the immediately following Note Payment Date, apply an amount equal to the aggregate of the relevant Available Redemption Funds determined in respect of such Note Payment Date in or towards redemption of the Notes.

On each Note Payment Date following the Last Replenishment Date, the Issuer shall apply an amount equal to the Available Redemption Funds determined in respect of such Note Payment Date in or towards redemption of the Notes.

(c) ***Mandatory Early Redemption (Amortización Anticipada) of the Notes following Early Redemption Events***

If an Early Redemption Event occurs prior to the Legal Redemption Date, the Issuer shall redeem, subject to paragraph 6(g) (*Reduction and Reinstatement of the Principal Balance of the Notes*) below, the Notes at their then aggregate Principal Balance at that time on the Early Redemption Date.

Each and any of the following events shall be treated as an "Early Redemption Event":

- (v) the designation of an Early Termination Date in respect of the Credit Default Swap by either the Issuer or the Swap Counterparty;
- (vi) the designation by the Swap Counterparty of an Optional Termination Date in respect of the Credit Default Swap by reason of a Regulatory Event or a Clean-up Event (*provided that* an Initial Termination Date or the Protected Tranche Final Exhaustion Date has not already occurred);
- (vii) the occurrence of the Scheduled Termination Date;
- (viii) the occurrence of the Seller Liquidation Date; or
- (ix) an agreement is reached by the Management Company, the Swap Counterparty, all of the Noteholders and any contractual Creditors of the Issuer for the Issuer being liquidated and the Notes being early redeemed.

(d) ***Delivery of an Early Redemption Notice***

If an Early Redemption Event occurs, the Issuer shall give notice (the "Early Redemption Notice") of such early redemption to Noteholders in accordance with paragraph 11 (*Notices to Noteholders*) below and the Paying Agent as soon as practicable after the Management Company becomes aware of such occurrence.

(e) ***Consequences of Notes becoming Due and Payable and Delivery of Early Redemption Notice***

Upon the delivery of an Early Redemption Notice, all of the Notes then outstanding shall, subject to paragraph 6(f) (*Redemption of the Notes during the Extension Period*) below become due and repayable on the Early Redemption Date at their then Principal Balance.

(f) *Redemption of the Notes during the Extension Period*

- (i) If an Early Redemption Event (other than the occurrence of the Seller Liquidation Date) occurs prior to the Legal Redemption Date, and on the date of such occurrence, there are one or more Non-Worked Out Reference Obligations, then the Issuer shall, on the immediately following Note Payment Date (the "**Partial Redemption Date**") apply an amount equal to the Available Funds on such Note Payment Date remaining after application thereof in, or towards, payments of items 1<sup>st</sup> to 4<sup>th</sup> of the Ordinary Priority of Payments in, or towards, redemption of the Notes in an amount equal to their then Principal Balance (following any reduction or reinstatement of the Principal Balance of the Notes on that Note Payment Date in accordance with paragraph 6(g) below (*Reduction and Reinstatement of the Principal Balance of the Notes*) less the Initial Note Extension Amount;
- (ii) a portion of the Notes (the "**Initial Note Extension Amount**") shall remain outstanding in respect of all such Non-Worked Out Reference Obligations pending the Final Verification Date;
- (iii) the Initial Note Extension Amount on the Partial Redemption Date shall be equal to the excess (if any) of the aggregate Protected Reference Obligation Notional Amounts of such Non-Worked Out Reference Obligations over the Threshold Amount as of the Partial Redemption Date;
- (iv) on each Note Payment Date following the Partial Redemption Date (each, an "**Extension Period Payment Date**"), the Issuer shall redeem the Notes in part, subject to the applicable Priority of Payments, at their Extension Period Redemption Amount at that time, where "**Extension Period Redemption Amount**" means, in respect of an Extension Period Payment Date, an amount equal to the Available Redemption Funds calculated in respect of such Extension Period Payment Date (that are conceptually equal to:
- (A) the Principal Balance of the Notes, as of such Extension Period Payment Date, following any reduction or reinstatement of the Principal Balance of the Notes on that Note Payment Date in accordance with paragraph 6(g) below (*Reduction and Reinstatement of the Principal Balance of the Notes*);

*less*

  - (B) the excess of (i) the aggregate Protected Reference Obligation Notional Amounts of the Non-Worked Out Reference Obligations which have not become Verified Reference Obligations within the Calculation Period preceding such Extension Period Payment Date over (ii) the Threshold Amount as of such Extension Period Payment Date);
- (v) the Initial Note Extension Amount and each Extension Period Redemption Amount shall be calculated by the Management Company (by reference to calculations provided to it for this purpose by the Calculation Agent) as of (and as soon as practicable following) the occurrence of the relevant Early Redemption Event and thereafter on each Calculation Date during the Extension Period which immediately precedes an Extension Period Payment Date;
- (vi) where the Partial Redemption Date occurs prior to the Initial Termination Date, any Notes remaining outstanding during the Extension Period shall continue to bear interest on the then Principal Balance of such Notes until the Initial Termination Date in accordance with paragraph 5 (*Interest*) above.

(g) ***Reduction and Reinstatement of the Principal Balance of the Notes***

On each Note Payment Date, the Principal Balance of the Notes shall be reduced by an amount equal to the positive Aggregate Seller Payment (if any) determined by the Management Company on behalf of the Issuer in respect of that Note Payment Date, **provided that** the Principal Balance of the Notes shall not be reduced below zero.

If, in respect of any Note Payment Date, a negative Aggregate Seller Payment is determined by the Management Company on behalf of the Issuer, then, on that Note Payment Date, an amount equal to the absolute value of such Aggregate Seller Payment shall be applied to reinstate the Principal Balance of the Notes.

(h) ***Note Principal Payment***

The principal amount (the "**Note Principal Payment**") which is required to be repaid in respect of each Note on any Note Payment Date shall be that Note's *pro rata* share of the aggregate amount required to be applied in redemption of the Notes on such Note Payment Date, *provided that* no Note Principal Payment may exceed the Principal Balance of the related Note.

(i) ***Calculation of Note Principal Payments and Principal Balance***

On each Calculation Date, the Management Company on behalf of the Issuer shall determine:

- (i) if there is to be a redemption (in whole or in part) of the Notes pursuant to this paragraph 6 (*Redemption, Reduction, Reinstatement and Cancellation*), the amount of any Note Principal Payment due in respect of each Note on the Note Payment Date immediately following such Calculation Date;
- (ii) the Principal Balance of each Note on such Note Payment Date (after deducting any Note Principal Payment to be paid on that Note Payment Date).

The Management Company will notify each determination of a Note Principal Payment and Principal Balance to the Paying Agent and the MARF, by no later than the day which is one (1) Note Business Day prior to the Note Payment Date immediately following the Calculation Date on which such calculations are made.

**7. Payments**

(a) ***Payments of Interest and Principal***

Payments of principal and interest in respect of the Notes will be made by transfer to the registered account of the relevant Noteholder maintained by or on behalf of it with a bank that processes payments in a city in which banks have access to the TARGET 2 system, details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at close of business on the day immediately preceding the date on which the payment of principal or interest, as the case may be, falls due. Noteholders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments under the relevant Notes. The Issuer and the Paying Agent will have no responsibility or liability for the records relating to payments made in respect of the Notes.

(b) ***Payments Subject to Fiscal Laws***

Payment of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment and to the provisions of the Paying Agency Agreement and the other Transaction Documents.

(c) *No default interest*

Any amounts due and payable by the Issuer in respect of any Note Payment Date which are not paid by the Issuer by reason of the insufficiency of Available Funds for those purposes shall be paid by the Issuer in the following Note Payment Date, subject to the Priority of Payments and the availability of Available Funds for such payment, *provided that* no default interest shall be paid by the Issuer on any such unpaid amounts.

**8. Taxation**

(a) *Payments Free of Tax*

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of any present or future Taxes unless the Issuer is required by applicable law to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

(b) *No Payment of Additional Amounts*

The Issuer will **not** be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction as is referred to in paragraph 8(a) (*Taxation - Payments Free of Tax*).

(c) *Tax Deduction Not Note Event of Default*

If the Issuer is required to make a withholding or deduction as is referred to in paragraph 8(a) (*Taxation - Payments Free of Tax*), this shall not constitute an Early Redemption Event.

**9. Prescription**

(a) *Principal*

Claims for payment in respect of principal and interest shall be prescribed and become void unless made within five (5) years from the appropriate Prescription Relevant Date in respect of such payment and thereafter any principal interest or other sums payable in respect of such Notes shall be forfeited and revert to the Issuer.

(b) *Prescription Relevant Date*

"**Prescription Relevant Date**" means the date on which such payment first becomes due.

**10. Modification**

(a) *Modification*

The Management Company on behalf of the Issuer may agree, without the consent or sanction of the Noteholders or any other Creditors at any time and from time to time, with any party to any of the Transaction Documents in making any modification (other than in respect of a Basic Terms Modification) to the terms and conditions of the Notes or the other Transaction Documents to which the Issuer is a party, if in its opinion, the interests of the holders of the Notes then outstanding would not be prejudiced thereby (provided that any modification which is required to correct a manifest error or which, in the opinion of the Management Company, is of a formal, minor or technical nature shall not be deemed to prejudice the interest of the holders of the Notes then outstanding).

(b) **Notification**

The Issuer shall cause any such modification to be notified to the Noteholders in accordance with paragraph 11 (*Notices to Noteholders*), as soon as practicable after it has been made.

(c) **Binding Nature**

Any modification referred to in paragraph 10(a) shall be binding on the Noteholders and the other Creditors.

**11. Notices to Noteholders**

Notices to the Noteholders will be published in the official bulletin of MARF (*Boletín Diario de MARF*). Any such notice will be deemed to have been given on the date of the first publication. In addition, so long as the Notes are represented by book-entries in Iberclear, all notices to Noteholders shall be made through Iberclear for on transmission to their respective accountholders.

**12. Limited Recourse and no Meeting of Creditors**

The Issuer has been incorporated as a "Securitisation Fund" (*Fondo de Titulización*) under Law 5/2015. Accordingly, the Issuer is an isolated pool of assets and liabilities, without legal personality, that is managed by the Management Company.

Pursuant to Article 25.1 of Law 5/2015, the Management Company shall be the legal representative of the Issuer, it being required by Article 26.1.a) to protect the interest of the Noteholders and other Creditors of the Issuer.

Each of the Noteholders by purchasing or subscribing for the Notes agrees with the Issuer that;

- (i) sums payable to each Noteholder in respect of the Issuer's obligations to such Noteholder shall be limited to the lesser of (a) the aggregate amount of all sums due and payable to such Noteholder and (b) the aggregate amounts of the Available Funds or, as applicable, Available Liquidation Funds, net of any sums which are payable to other persons in priority to or *pari passu* with such Noteholder in accordance with the applicable Priority of Payments;
- (ii) on the Legal Redemption Date following final distribution of the Available Liquidation Funds, the Noteholders shall have no further claim against the Issuer in respect of any unpaid amounts and such unpaid amounts shall be discharged in full;
- (iii) none of the Management Company, the Lead Managers or any other Transaction Parties shall be responsible for any of the Issuer's liabilities;
- (iv) in particular, the Noteholders shall not have any right of action against the Management Company other than by reason of non-performance of its duties or non-compliance with the provisions of the Deed of Incorporation and the applicable laws and regulations; and
- (v) no meeting of creditors (*junta de acreedores*) has been organised.

**13. Governing Law and Jurisdiction**

The Notes (and any non- contractual obligations arising out of or in connection with the Notes) are governed by, and shall be construed in accordance with, Spanish law.

The courts of Spain have exclusive jurisdiction to settle any disputes arising out of or in connection with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes).

## BANCO SANTANDER S.A.

Banco Santander, S.A. is the parent bank of *Grupo Santander* (Santander Group). It was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875.

Banco Santander, S.A. and its consolidated subsidiaries are a financial group operating through a network of offices and subsidiaries across Spain, the United Kingdom and other European countries, Brazil and other Latin American countries and the US, offering wide range of financial products.

In Latin America, Santander Group have majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

At December 31, 2016, Santander Group had a market capitalization of €72.3 billion, shareholders' equity of €90.9 billion and total assets of €1,339.1 billion. Santander Group had €1,079.2 billion in customer funds under management<sup>1</sup> at that date.

As of December 31, 2016, Santander Group had 57,259 employees and 4,805 branch offices in Continental Europe, 25,688 employees and 844 branches in the United Kingdom, 86,312 employees and 5,818 branches in Latin America, 17,509 employees and 768 branches in the United States and 1,724 employees in Corporate Activities.

Banco Santander, S.A has a long- term credit rating of "A-" by both Fitch and Standard & Poor's (as of July 2016 and February 2017 respectively), "A3" by Moody's (as of August 2016) and "A" by DBRS (as of November 2016).

## TAXATION IN SPAIN

The following summary of the anticipated treatment of the Issuer and holders of Notes (other than residents of Spain) is based on Spanish taxation law and practice as they are understood to apply at the date of this document and is subject to changes in such taxation law and practice. It does not constitute legal or tax advice and does not address all aspects of Spanish tax law and practice (including such tax law and practice as they apply to any land or building situate in Spain). Prospective investors in the Notes should consult their professional advisers on the implications of acquiring, buying, selling or otherwise disposing of the Notes under the laws of any jurisdiction in which they may be liable to taxation.

### Taxation of the Issuer

The tax rules applicable to Spanish securitisation funds are currently contained in (i) Law 27/2014, of 27 November, on Corporate Income Tax (*Ley 27/2014, de 27 de noviembre, del Impuesto sobre Sociedades*) ("**Law 27/2014**"), in particular, Articles 7.1.h) and 13.1; (ii) Corporate Income Tax Regulations passed by Royal Decree 634/2015, of 10 July (*Reglamento del Impuesto sobre Sociedades, aprobado por el Real Decreto 634/2015, de 10 de julio*) (the "**CIT Regulations**"), in particular, Articles 8, 9 and 61.k); (iii) the Revised Text of the Transfer Tax and Stamp Duty Law, passed by Legislative Royal Decree 1/1993, on 24 September (*Texto Refundido de la Ley del Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados, aprobado por el Real Decreto Legislativo 1/1993, de 24 de septiembre*), in particular, Article 45.I.B.15 and 45.I.B.20.4; (iv) Law 37/1992, of 28 December, on Value Added Tax (*Ley 37/1992, de 28 de diciembre, del Impuesto sobre el Valor Añadido*), and, in particular, Article 20.Uno.18.n); (v) General Regulations regarding tax management and inspection courses of action and procedures and developing the common rules of tax application procedures, passed by Royal Decree 1065/2007, of 27 July (*Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por el Real Decreto 1065/2007, de 27 de julio*) (the "**General Tax Regulations**"), and, in particular, Articles 42, 43 and 44; and (vi) Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*) ("**Law 10/2014**"), and in particular, the "First Additional Provision" of such Law.

In summary, these legal provisions define the following fundamental principles:

- (a) The Issuer is exempt from Capital Duty (*Impuesto sobre Operaciones Societarias*).
- (b) According to Article 7.1.h) of Law 27/2014, the Issuer is a taxpayer of the Corporate Income Tax. The Issuer will be subject to the general provisions of Law 27/2014 to determine the taxable base, as well as to the applicable standard rate (25%), although the Issuer will not be subject to the general interest rules which limit the tax deductibility of financial expenses.
- (c) The issuance, subscription, transfer, redemption and repayment of the Notes will either be "not subject to" or "exempt from", as the case may be, VAT and Transfer Tax/Stamp Duty.
- (d) The Issuer will be subject to VAT in accordance with the general VAT rules. However, the management services rendered to the Issuer by the Management Company will be exempt from VAT.
- (e) The Management Company, in the name and on behalf of the Issuer, must comply with reporting obligations, amongst others, with those set out in the First Additional Provision of Law 10/2014. The procedure for complying with such reporting obligations is developed by Articles 42, 43 and 44 of the General Tax Regulations.

### Taxation on the Notes

The tax treatment of the interest and other income paid to the investors in the Notes will differ depending on the tax residence and status of the relevant investor.

- (a) If the investor is an individual resident in Spain for tax purposes, any interest received and any income obtained by the investor arising from the disposal or redemption of the Notes is subject to Personal Income Tax at a rate of 19% on the first Euro 6,000 received, at a rate of 21% on the amount between Euro 6,001 and Euro 50,000 received and at a rate of 23% on the excess over

Euro 50,000. In any event, the interest received is subject to withholding on account of Personal Income Tax at the rate of 19%.

- (b) If the investor is a company resident in Spain, any interest received will be subject to the Corporate Income Tax (generally, at the rate of 25%).

The interest that is paid in relation to the Notes is free from withholding on account of Corporate Income Tax, provided that: (i) they are represented by means of book-entry form (*anotaciones en cuenta*) and (ii) they are traded in an official Spanish secondary market of securities or in MARF (as envisaged in the case of the Notes). The procedure to make effective the withholding exemption is regulated under Ministerial Order dated 22 December 1999.

- (c) Non-resident investors with permanent establishment in Spain to which the investment in the Notes is directly connected will be subject to the same regime as set forth for taxpayers under Corporate Income Tax.
- (d) In case of the investment in the Notes is made by non-resident investors without permanent establishment in Spain, the interest received and any income arising from the disposal or redemption of the Notes will be exempt from withholding in Spain in accordance with the special regime set forth under Law 10/2014, provided that the Notes are admitted to trading in a regulated market, a trading multilateral system (this being the case of MARF) or other organised market. For these purposes, the information procedure set forth in the General Tax Regulations has to be complied with.

In the event that the information procedure set forth in the General Tax Regulations is not duly complied with interest received and any income arising from the disposal or redemption of the Notes will be subject to withholding at the rate of 19%, unless a tax exemption or reduced tax rate were applicable pursuant to the Non-Resident Income Tax Law or an applicable Treaty for the avoidance of Double Taxation that Spain may have entered into with the investor's tax residence jurisdiction.

**If you are in any doubt as to your tax position you should consult your professional tax adviser.**

## SUBSCRIPTION AND SALE

The Lead Managers will, under a subscription agreement entered into on the Incorporation Date (the "**Management, Placement and Subscription Agreement**") between the Lead Managers and the Management Company on behalf of the Issuer, agree with the Management Company on behalf of the Issuer to procure subscriptions, for the Notes at the issue price of 100 per cent. of their initial principal amount, subject to certain conditions contained therein. The Issuer has agreed to indemnify the Lead Managers against certain liabilities incurred in connection with the offer and sale of the Notes.

The Management, Placement and Subscription Agreement is subject to a number of conditions and may be terminated by the Lead Managers in certain circumstances prior to payment for the Notes to the Issuer.

Attention is also drawn to the information set out on the inside cover of this Information Memorandum.

### United Kingdom

The Lead Managers have represented to and agreed with the Issuer, amongst other things, that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

### United States

The Management Company on behalf of the Issuer and Lead Managers have represented, warranted and undertaken, each on their own behalf only, that neither of them nor any of their Affiliates (including any person acting on behalf of either of them or any of their Affiliates) has offered or sold, or will offer or sell, any Notes in any circumstances which would require the registration of any of the Notes under the Securities Act and, in particular, that:

- (a) **No directed selling efforts:** neither of them nor any of their Affiliates nor any person acting on their behalf has engaged or will engage in any directed selling efforts with respect to the Notes;
- (b) **No SUSMI:** the Issuer and Lead Managers each reasonably believe that there is no substantial U.S. market interest in the Issuer's debt securities; and
- (c) the Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.

### Spain

This Information Memorandum has not been registered with the CNMV. The offering of the Notes does not constitute a public offering in accordance with the provisions of Article 35 of the consolidated text of the Securities Market Law approved by the Legislative Royal Decree 4/2015, of 23 October (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) and related legislation. As established by Rule 2 of the Circular 1/2015, of MARF, dated 30 September, the Notes are intended exclusively for qualified investors (as defined in Article 39 of Royal Decree 1310/2005 of 4 November).

### General

Except for listing the Notes on the MARF, and as otherwise described in this Information Memorandum no action is being taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Information Memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Information Memorandum does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly,

the Notes may not be offered or sold, directly or indirectly, and neither this Information Memorandum nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Lead Managers have undertaken not to offer or sell any of the Notes, or to distribute this document or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

### **Resale**

The Notes have not been and will not be registered under the Securities Act or any state securities or "Blue Sky" laws or the securities laws of any other jurisdiction and, accordingly, may not be reoffered, resold, pledged or otherwise transferred except in accordance with the restrictions set out herein.

Without limiting the foregoing, by holding a Note, each Noteholder acknowledges and agrees, among other things, that such Noteholder understands that the Issuer is not registered as an investment company under the Investment Company Act.

### **Transfer Restrictions Applicable to the Notes:**

- (a) Each transferee of a Note or any interest therein will be deemed to have represented and agreed, that on and as of the relevant date of delivery of such Notes to it and in each case with respect to the Notes:
- (i) it understands and acknowledges that the Notes have not been registered under the Securities Act or any state securities laws and that that Notes may not be offered or sold except in transactions exempt from, or not subject to, the registration requirements of the Securities Act or unless registered under the Securities Act;
  - (ii) it understands and acknowledges that the Issuer has not been registered under the Investment Company Act;
  - (iii) it is acquiring the Notes for its own account (not as a nominee or an agent);
  - (iv) it is a sophisticated investor with such knowledge and experience in financial and business matters, including but not limited to sales and purchases of the type of debt securities issued by the Issuer, as to be capable of evaluating the merits and risks of the purchase of the Notes; it has sought such financial, accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to the Notes; it is able to bear the economic risk of an investment in the Notes and can afford a complete loss of an investment;
  - (v) in making the decision to purchase the Notes it has relied solely upon its own independent investigation; and
  - (vi) it is not a U.S. Person and that it is presently located outside the United States (a "**Non-U.S. Person**") and is taking possession of the Notes in Regulation S form, where "**U.S. Person**" means U.S. Persons as defined in Regulation S.
- (b) With respect to any transfer of a Note or any interest therein to any person:
- (i) the Notes may only be transferred in denominations of EUR 100,000 and integral multiples of EUR 100,000 in excess thereof;
  - (ii) the Notes may only be transferred in accordance with all applicable securities laws of the United States; and
  - (iii) any purported transfer in violation of any securities laws of the United States will not be permitted.

- (c) The Issuer shall have the right to compel any beneficial owner of any Note that is not a Non-U.S. Person, to sell such Notes, or may sell such Notes on behalf of such owner.
- (d) The Notes are and will be subject to the transfer restrictions set out in herein and each transferor of the Notes shall provide notice of such transfer restrictions to any proposed transferee of the Notes.
- (e) Each of the Issuer and the Management Company is entitled to rely upon these representations and warranties provided by a transferee.
- (f) Each transferee of the Notes represents and will be required to represent throughout the time of its holding of any Notes that:
  - (i) it is not and is not deemed for purposes of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") or Section 4975 of the Internal Revenue Code of 1986, as amended (the "**Code**") to be (a) an "employee benefit plan" as defined in ERISA and subject to part 4 of subtitle B of title I of ERISA, (b) a "plan" as defined in and subject to Section 4975 of the Code, or (c) any entity whose underlying assets are deemed for purposes of ERISA or the code to include "plan assets" by reason of such plan investment in the entity;
  - (ii) if, at any time, it will be an employee benefit plan that is not a benefit plan investor and that is subject to any U.S. Federal, state, or local law that is substantially similar to section 406 of ERISA or Section 4975 of the Code (a "**Similar Law**"), the purchase and holding of the Notes do not and will not violate any Similar Law; and
  - (iii) it acknowledges and agrees that any purported transfer of any Note that does not comply with these requirements shall be null and void *ab initio*.



## GENERAL INFORMATION

1. All authorisations, consents and approvals to be obtained by the Issuer (or the Management Company on its behalf) for, or in connection with, the creation and issue of the Notes, the performance by the Issuer of the obligations expressed to be undertaken by it and the distribution of this Information Memorandum have been obtained and are in full force and effect. The issue of the Notes has been authorised by a resolution of the Board of Directors of the Management Company passed on 11 October 2016.
2. Application has been made to list the Notes on the MARF by the Management Company on behalf of the Issuer. The Notes are not listed on any other exchange.
3. The Notes have been accepted for clearance through Iberclear. The Spanish National Numbering Agency (*Agencia Nacional de Codificación de Valores Mobiliarios*) has assigned the following ISIN to identify the Notes: ES0305249007.
4. Save as disclosed in this Information Memorandum, since the Incorporation Date, the Issuer has not:
  - (a) commenced operations;
  - (b) made up annual financial accounts as at the date of this Information Memorandum; or
  - (c) entered into any contracts or arrangements not being in its ordinary course of business.
5. Save as disclosed in this Information Memorandum, since the Incorporation Date, there has been no material adverse change in the financial position or prospects and no significant change in the financial or trading position of the Issuer.
6. The Issuer will not provide post-issuance reporting other than the Investors Reports, the Reference Portfolio Reports and its Financial Statements.
7. Copies of the following documents and this Information Memorandum may be inspected during usual business hours on any week day (excluding Saturdays, Sundays and public holidays) at the registered office of the Management Company:
  - (a) the Deed of Incorporation;
  - (b) the Credit Default Swap;
  - (c) the Paying Agency Agreement;
  - (d) the Deposit Bank Agreement;
  - (e) the Subordinated Loan Agreement.

## ADMISSION OF THE NOTES TO MARF

### **1.- Request for admission (*incorporación*) of the notes to the Alternative Fixed Income Market. Deadline for admission (*incorporación*) to trading.**

Admission (*incorporación*) will be requested for the Notes described in this Information Memorandum (*Documento Informativo de Incorporación*) on the Multilateral Trading Facility known as Alternative Fixed Income Market (*Mercado Alternativo de Renta Fija* or *MARF*). Such listing will take place within thirty (30) days following the Closing Date.

If such deadline is not met, the reasons for the delay shall be communicated to the MARF and shall be disclosed to the public through a national newspaper, without prejudice to any potential contractual liability that the Issuer might incur.

MARF adopts the legal structure of a multilateral trading facility (MTF), under the terms provided for in Articles 317 et seq. of the restated text of the Spanish Securities Market Law, approved by Royal Legislative Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*, "LMV"), constituting an alternative, unofficial and not regulated market for the trading of fixed-income notes in accordance with the provisions of Directive 2004/39/EC.

This Information Memorandum (*Documento Informativo de Incorporación*) includes the information required by Circular 1/2015 of MARF of 30 September, on the admission (*incorporación*) and exclusion of notes on the Alternative Fixed Income Market and the procedures for the admission (*incorporación*) and exclusion of notes on MARF under its regulations and other regulations.

Neither the Governing Body of MARF nor the National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or *CNMV*) have approved or made any verification or test in relation to the contents of the Information Memorandum (*Documento Informativo de Incorporación*), the rating report or the risk required under Circular 1/2015. The intervention of the Governing Body of MARF does not mean a statement or acknowledgement about the completeness, understanding and consistency of the information included into the documentation contributed by the Issuer.

Potential investors are advised to fully and carefully read the Information Memorandum (*Documento Informativo de Incorporación*), prior to making any investment decision regarding the Notes.

The Management Company (on behalf of the Issuer) expressly declares that it is aware of and knows the requirements and conditions necessary for admission and exclusion of the notes in the MARF, pursuant to the current legislation and the requirements of its governing bodies, and expressly agrees to comply therewith.

The Management Company (on behalf of the Issuer) expressly declares that it has met the requirements for registration and settlement of the transaction in Iberclear. The settlement of transactions will be carried out through Iberclear.

### **2 Costs of all legal, financial, and audit services and other costs to the Issuer and placement costs and, if necessary, underwriting costs, originated by the Issue, placement and admission (*incorporación*).**

The costs for the issuance of the Notes and their admission (*incorporación*) on MARF are approximately of EUR 2,000,000.

## GLOSSARY OF DEFINED TERMS

In addition to the terms otherwise used and defined in this Information Memorandum, the following terms are used in this Information Memorandum:

"**Affiliate**" means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "**control**" of any entity or person means ownership of a majority of the voting power of the entity or person.

"**Agreed Upon Procedures**" means the procedures to be carried out by the Independent Accountants under the Credit Default Swap.

"**Amortisation Date**" means each Cash Settlement Date.

"**Note Business Day**" means any TARGET2 Settlement Day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) other than a Saturday or Sunday in Madrid.

"**Calculation Date**" means, in respect of each Cash Settlement Date, the Note Business Day falling five (5) Note Business Days prior to that Cash Settlement Date.

"**Calculation Period**" means, in respect of any Calculation Date, the period from (and including) the first date of the month in which the immediately preceding Calculation Date occurred (or, in the case of the first Calculation Date, the period from and including the Effective Date) to (but excluding) first date of the month in which such Calculation Date occurs.

"**Conditions to Settlement Satisfaction Date**" means, in respect of a Determined Reference Obligation:

- (a) if that Reference Obligation is an Initial Verifiable Reference Obligation, the date on which the Accountants' Notice in respect of that Reference Obligation is delivered to the Issuer; and
- (b) if that Reference Obligation is not an Initial Verifiable Reference Obligation, if there are other Reference Obligations within the same Initial Batch to which that Reference Obligation belongs which are Initial Verifiable Reference Obligations, the date on which the Conditions to Settlement Satisfaction Date has occurred with respect to all Initial Verifiable Reference Obligations that are selected by the Independent Accountants from the Initial Batch to which that Reference Obligation belongs at such time pursuant to the Selection of Initial Verifiable Reference Obligations provision in the Credit Default Swap; or
- (c) if neither sub-paragraph (a) nor (b) above apply with respect to such Determined Reference Obligation, the Event Determination Date.

"**Credit Loss Event Amount**" means, with respect to a Reference Obligation which has been subject to a Restructuring Credit Event and a Credit Loss Event, on any date on which an Initial Credit Protection Amount or a Worked Out Credit Protection Amount is determined, an amount equal to:

- (a) the Debit; *minus*
- (b) the Credit Loss Event Amount Recovery,

subject to a minimum of zero.

"**Credit Loss Event Amount Recovery**" means, with respect to a Reference Obligation which has been subject to a Restructuring Credit Event and a Credit Loss Event, any amount of principal that is recovered by the Relevant Lender (including by way of set-off) in respect of the relevant Debit relating to such Reference Obligation.

"**Cumulative Protected Tranche Amortisation Amount**" means, on any date, an amount equal to the sum of all Protected Tranche Amortisation Amounts determined in respect of each Calculation Date occurring prior to or on such date.

"**Cumulative Protected Tranche Loss Amount**" means, on any date, an amount equal to the sum of each positive and negative Aggregate Seller Payment determined in respect of each Calculation Date occurring prior to or on such date.

"**Cumulative Senior Tranche Amortisation Amount**" means, on any date, an amount equal to the sum of all Senior Tranche Amortisation Amounts determined prior to or on such date.

"**Cumulative Senior Tranche Loss Amount**" means, on any date, an amount equal to the sum of each positive and negative Senior Tranche Loss Allocation determined in respect of each Calculation Date occurring prior to or on such date.

"**Cumulative Threshold Amortisation Amount**" means, on any date, an amount equal to the sum of all Threshold Amortisation Amounts determined prior to or on such date.

"**Cumulative Threshold Loss Amount**" means, on any date, an amount equal to the sum of each positive and negative Threshold Loss Allocation determined in respect of each Calculation Date occurring prior to or on such date.

"**Cumulative Unmatured Losses**" means, on any date, an amount equal to:

- (a) the sum of all Defaulted Notional Amounts in respect of each Defaulted Reference Obligation which has not become a Worked Out Reference Obligation; *minus*
- (b) the sum of all Initial Credit Protection Amounts in respect of each Defaulted Reference Obligation which has not become a Worked Out Reference Obligation,

as at that date.

"**Current Period Loss Adjustment**" means, in respect of each Calculation Date, an amount equal to:

- (a) the aggregate of all Initial Credit Protection Amounts in respect of Defaulted Reference Obligations for which the Conditions to Settlement Satisfaction Date occurred in the Calculation Period ending immediately prior to such Cash Settlement Date; *plus*
- (b) the aggregate of all positive and negative Credit Protection Adjustment Amounts in respect of Verified Reference Obligations for which the Verification Date occurred in the Calculation Period ending immediately prior to such Cash Settlement Date; *minus*
- (c) the aggregate of any Late Recovery Amounts determined in the Calculation Period ending immediately prior to such Cash Settlement Date and verified by the Independent Accountants.

"**Cut-Off Date**" means 19 May 2017.

"**Deed of Incorporation**" means the deed of incorporation executed by the Management Company and Banco Santander, S.A. on 22 May 2017 in connection with the incorporation of the Issuer;

"**Defaulted Notional Amount**" means, in respect of a Defaulted Reference Obligation and any date of determination, an amount equal to the lesser of:

- (a) the Protected Reference Obligation Notional Amount in respect of that Defaulted Reference Obligation; and
- (b) 95 per cent. of the aggregate outstanding principal amount of the Reference Obligation to which the Relevant Lender is exposed on the Event Determination Date.

"**Defaulted Reference Obligation**" means a Reference Obligation in respect of which the Conditions to Settlement Satisfaction Date has occurred and which is not a Cured Reference Obligation.

"**EURIBOR**" means the rate, as determined by the Calculation Agent, for deposits in Euro for a period equal to the relevant Interest Period which appears on the display page designated EURIBOR01 on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11:00 a.m., (Brussels time), on the second TARGET Settlement Day before the first day of the relevant Interest

Period (the "**Interest Determination Date**"), provided that if such rate does not appear on that page, the Calculation Agent will:

- (i) request the principal Euro-zone office of each of four major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time;
- (ii) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Calculation Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

*provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the EURIBOR applicable to the Notes during such Interest Period will be the EURIBOR rate last determined in relation to the Notes in respect of a preceding Interest Period.

"**Event Determination Date**" means the first date on which the Credit Event Notice is effective.

"**Final Estimated Recoveries Obligation**" means a Defaulted Reference Obligation in respect of which the Work-Out Completion Date occurs on the Long-Stop Date.

"**Fixed Component Amount**" means, in respect of each Fixed Rate Payer Payment Date, an amount equal to the product of:

- (a) the Protected Tranche Amount on the first day of the Fixed Rate Payer Calculation Period ending on (but excluding) that Fixed Rate Payer Payment Date;
- (b) the Interest Rate; and
- (c) the Interest Rate Day Count Fraction.

"**Fixed Rate Payer Calculation Period**" means each period from, and including, one Fixed Rate Payer Payment Date to, but excluding, the next following Fixed Rate Payer Payment Date, *provided that*, the first Fixed Rate Payer Calculation Period shall commence on, and include, the Effective Date and the final Fixed Rate Payer Calculation Period shall end on, but exclude, the Termination Date, unless the Termination Date falls on or before the Scheduled Termination Date, in which case the final Fixed Rate Payer Calculation Period shall end on, and include, the Termination Date.

"**Initial Credit Protection Amount**" means:

- (a) in respect of a Defaulted Reference Obligation in respect of which a Failure to Pay or Bankruptcy has occurred, an amount equal to the product of:
  - (i) the Defaulted Notional Amount; and
  - (ii) the Regulatory Capital LGD in respect of that Defaulted Reference Obligation. in respect of a Defaulted Reference Obligation; and
- (b) in respect of a Defaulted Reference Obligation in respect of which a Restructuring has occurred, an amount equal to, at the option of the Swap Counterparty, in its sole and absolute discretion, either:
  - (i) the Credit Loss Event Amount, determined using the Credit Loss Event Method; or

- (ii) an amount determined using the LGD Method.

**"Initial Protected Tranche Amount"** means EUR 66,500,000.00 being seven per cent (7%) of the Protected Reference Portfolio Amount.

**"Initial Reference Portfolio"** means the Reference Obligations identified in the Reference Register as of the Cut-Off Date.

**"Initial Reference Portfolio Amount"** means EUR 1.000.000.000,88 (being the sum of the Reference Obligation Notional Amount of each Reference Obligation comprising the Initial Reference Portfolio).

**"Initial Senior Tranche Amount"** means EUR 874,000,000.00, being ninety-two per cent (92%) of the Protected Reference Portfolio Amount.

**"Initial Threshold Amount"** means, EUR 9,500,000.00, being one per cent (1%) of the Protected Reference Portfolio Amount.

**"Interest Rate"** (*Tipo de Interés*) means:

- (a) in respect of the first Note Payment Date: 10.40%;
- (b) in respect of each Note Payment Date other than the first Note Payment Date occurring prior to or on the Initial Termination Date: the sum of the EURIBOR rate with a designated maturity of three months and 10.40%; and
- (c) in respect of each Note Payment Date other than the first Note Payment Date occurring after the Initial Termination Date: the EURIBOR rate with a designated maturity of three months.

*provided that:*

- (i) if the Initial Termination Date occurs on a date that is not a Note Payment Date, the Interest Rate for the first Note Payment Date falling after the Initial Termination Date shall be a percentage equal to the sum of: (i) the EURIBOR rate with a designated maturity of three months and (ii) the product of:
  - (1) 10.40%; and
  - (2) the number of days from (and including) the previous Note Payment Date to (and including) the Initial Termination Date *divided by* the number of days in the Interest Period ending on that Note Payment Date;
- (ii) if and for so long as the Swap Counterparty is the Deposit Bank, EURIBOR rate shall be floored at zero (0); and
- (iii) if the amount of the Interest Rate calculated as per the above provisions is negative, then the Interest Rate shall be deemed to be zero (0).

**"Interest Rate Day Count Fraction"** means the actual number of days in the Fixed Rate Payer Calculation Period in respect of which payment is being made divided by 360.

**"Issuer Operating Expenses"** means any fees, expenses, or costs (including value added tax and including amounts by way of indemnity) which are incurred and payable by the Issuer (together with any Taxes in respect of those fees, expenses or costs);

**"Issuer Taxes"** means, in respect of a Fixed Rate Payer Payment Date, an amount equal to the sum of any taxes, duties, charges, assessments or fees of any nature (including interest, penalties and additions thereto) which the Issuer must pay or retain for payment on the immediately following Cash Settlement Date

**"Issuer Liquidation Date"** means the date on which the Issuer is liquidated and the Notes are redeemed prior to their scheduled maturity, upon the occurrence of the Management Company's insolvency where it has not been duly replaced within a period of 4 months.

"**Last Replenishment Date**" means the earlier of:

- (i) the date immediately preceding the date on which a Replenishment Stop Event occurs;
- (ii) the first Cash Settlement Date immediately following the date falling 12 months after the Closing Date; and
- (iii) the date immediately preceding the Initial Termination Date.

"**Maximum Reference Portfolio Notional Amount**" means, on any date, an amount equal to the Initial Reference Portfolio Amount *less* (i) the aggregate of all Worked Out Credit Protection Amounts, (ii) the aggregate of the Reference Obligation Notional Amount of all Non-Worked Out Reference Obligations; and (iii) the aggregate of the Cumulative Threshold Amortisation Amount, the Cumulative Protected Tranche Amortisation Amount and the Cumulative Senior Tranche Amortisation.

"**Portfolio Amortisation Amount**" means:

- (a) in respect of each Amortisation Date falling on or prior to the Last Replenishment Date, an amount specified by the Swap Counterparty in its discretion, *provided that* such amount shall not exceed the amount by which the Maximum Reference Portfolio Notional Amount exceeds the Reference Portfolio Notional Amount, excluding the Reference Obligation Notional Amounts of all Non-Worked Out Reference Obligations; and
- (b) in respect of each Amortisation Date falling after the Last Replenishment Date, an amount equal to the sum of all Reductions/Removals which occurred during the Calculation Period falling immediately prior to such Amortisation Date, *provided that*, for the purposes of this definition the first Calculation Period shall be deemed to start on (and include) the Cut-Off Date

"**Potential Credit Event Notice**" means a written notice (such notice, a "**Potential Credit Event Notice**") from the Swap Counterparty to the Issuer given on or prior to the Initial Termination Date that contains information that confirms in reasonable detail the occurrence or existence of a Potential Failure to Pay on or after the Effective Date and on or prior to the Initial Termination Date in respect of a Reference Obligation.

"**Potential Failure to Pay**" means the failure by a Reference Entity in respect of a Reference Obligation to make, when and where due, any payments with respect to such Reference Obligation, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Reference Obligation, in accordance with the terms of such Reference Obligation at the time of such failure.

"**Protected Reference Portfolio Amount**" means EUR 950,000,000.00, being 95% of the Initial Reference Portfolio Amount.

"**Protected Reference Portfolio Notional Amount**" means on any date, the lesser of:

- (a) the Protected Reference Portfolio Amount; and
- (b) the sum of the Protected Reference Obligation Notional Amounts for all Reference Obligations in the Reference Portfolio on such date.

"**Protected Tranche Amount**" means, on any date, the greater of zero and an amount equal to:

- (a) the Initial Protected Tranche Amount; *minus*
- (b) the sum of the Cumulative Protected Tranche Loss Amount and the Cumulative Protected Tranche Amortisation Amount on such date.

"**Protected Tranche Amortisation Amount**" means, in respect of each Amortisation Date:

- (a) if a Subordination Event has not occurred prior to or on that Amortisation Date, an amount equal to the product of:
  - (i) the Portfolio Amortisation Amount in respect of that Amortisation Date; and

- (ii) an amount equal to the greater of zero and:
  - (A) the Protected Tranche Amount immediately prior to such Amortisation Date; *divided by*
  - (B) the sum of the Protected Tranche Amount and the Senior Tranche Amount, in each case immediately prior to such Amortisation Date; and
- (b) if a Subordination Event has occurred prior to or on that Amortisation Date, the greater of zero and an amount equal to:
  - (i) the Portfolio Amortisation Amount in respect of that Amortisation Date; *minus*
  - (ii) the Senior Tranche Amount immediately prior to that Amortisation Date.

**"Protected Tranche Final Exhaustion Date"** means the Cash Settlement Date which falls on or immediately following the date on which the Protected Tranche Amount is reduced to zero and it is impossible that the Protected Tranche Amount will again become greater than zero.

**"Recoveries"** means, with respect to any Defaulted Reference Obligation, the sum of each of the following amounts received or applied by the Relevant Lender following the Event Determination Date in respect of amounts of principal owing in respect of such Defaulted Reference Obligation:

- (a) any amounts of principal paid or repaid in respect of such Reference Obligation or any replacement obligation which may be entered into following the Credit Event (or, in the case of a Reference Obligation that is subject to a guarantee, such Reference Obligation and guarantee) by or on behalf of the Reference Entity or any applicable guarantor;
- (b) any amounts in respect of which the Relevant Lender has successfully exercised against the Reference Entity or any applicable guarantor of such Defaulted Reference Obligation a right of set-off in respect of amounts due under such Defaulted Reference Obligation (or, in the case of a Reference Obligation that is subject to a guarantee, such Reference Obligation and guarantee) and/or any amounts in respect of which the Reference Entity of such Defaulted Reference Obligation has successfully exercised a right of set-off against any lender of such Defaulted Reference Obligation in respect of amounts of principal due under such Defaulted Reference Obligation;
- (c) the sale or other proceeds from any sale of the Reference Obligation, whether due to enforcement or otherwise, or from the enforcement of the Reference Collateral (after deduction of all fees, taxes, foreclosure and other enforcement expenses (including legal costs) which are attributable to enforcement of a principal amount of the Defaulted Reference Obligation equal to the Protected Reference Obligation Notional Amount); and
- (d) (to the extent not included in (c) above) any payments in respect of principal received by the Relevant Lender of such Defaulted Reference Obligation in respect of any other security, including any related insurance policies, endowment policies or mortgage indemnity guarantees (if any).

**"Reference Collateral"** means, with respect to any Defaulted Reference Obligation, any pledge, mortgage, indemnity, guarantee or any other security interest granted directly or indirectly for the benefit of any lender(s) as security for the Reference Obligation provided that the Reference Collateral shall not include any of the aforementioned interests to the extent that it is held directly or indirectly for the benefit of a person other than the Relevant Lender.

**"Reference Obligation"** means each obligation designated as such and identified in the Reference Register which are loans to small and medium enterprises, as adjusted from time to time in accordance with the Reduction/Removal provisions and the Replenishment provisions, and as may be amended pursuant to the "Amendment and Refinancing of Reference Obligations" provisions set out below from time to time.

**"Reference Portfolio Notional Amount"** means, on any date, an amount equal to the sum of the Reference Obligation Notional Amount of each Reference Obligation comprising the Reference Portfolio



on such date, provided, for the avoidance of doubt, that the Reference Obligation Notional Amount of each Non-Worked Out Reference Obligation is included in the Reference Portfolio Notional Amount

**"Regulatory Capital LGD"** means, respect of a Defaulted Reference Obligation, the loss given default (expressed as a percentage) used by the Relevant Lender for the purpose of its regulatory capital calculations immediately prior to the Event Determination Date in respect of that Defaulted Reference Obligation (and not, for the avoidance of doubt, the expected loss best estimate calculated after the Event Determination Date in respect of that Defaulted Reference Obligation), *provided that* for the purpose of determining the Regulatory Capital LGD of a Defaulted Reference Obligation, the Relevant Lender shall disregard any adjustments to the loss given default of such Defaulted Reference Obligation which occurred as a result of:

- (i) any obligation of that Reference Entity becoming a Related Defaulted Obligation; or
- (ii) the Relevant Lender having previously determined that an event of default is likely to occur in respect of that Defaulted Reference Obligation.

**"Related Defaulted Obligation"** means, in respect of any Defaulted Reference Obligation, an obligation in respect of which an event of default occurred prior to the Event Determination Date for the Defaulted Reference Obligation (and which has not been cured prior to the Event Determination Date) or an obligation in respect of which the Relevant Lender has determined that an event of default is likely to occur, and in each case which has:

- (i) the same Relevant Lender as the Defaulted Reference Obligation; and
- (ii) the same Reference Entity as the Defaulted Reference Obligation.

**"Relevant Date"** means:

- (i) with respect to any Reference Obligation comprised in the Reference Portfolio on the Effective Date, the Cut-Off Date; and
- (ii) with respect to any Reference Obligation that has been added to the Reference Portfolio after the Effective Date pursuant to a Replenishment, the date falling 5 Note Business Days prior to the relevant Replenishment Date.

**"Relevant Lender"** means, in respect of a Reference Obligation, the person that is the lender of record of such Reference obligation, being one of:

- (i) the Swap Counterparty;
- (ii) any credit institution other than the Swap Counterparty or any regulated lending institution (*establecimiento financiero de crédito*) which, in both cases, is part of the Banco Santander S.A. consolidated accounting group; and
- (iii) a special purpose vehicle or other entity (whether or not such entity is incorporated) which is part of the Banco Santander, S.A. consolidated accounting group.

**"Replenishment Stop Event"** means, on a Relevant Date, that the sum of all Aggregate Seller Payments from, and including, the Effective Date to, but excluding, the first day of the calendar month in which such Relevant Date falls is greater than or equal to:

- (i) if the Relevant Date is during the period from, and including, the Effective Date, to, and including, 31 December 2017, 0.50% of the Protected Reference Portfolio Amount; and
- (ii) if the Relevant Date is during the period from, but excluding, 31 December 2017, to, and including, the first Cash Settlement Date immediately following the date falling 12 months after the Effective Date, 0.80% of the Protected Reference Portfolio Amount.

**"Restructured Principal Amount"** means an amount equal to (i) the Protected Reference Obligation Notional Amount of the Reference Obligation immediately prior to the occurrence of a Restructuring *minus* (ii) the Credit Loss Event Amount. If more than one Restructuring occurs with respect to a

Reference Obligation, the Protected Reference Obligation Notional Amount shall be reduced by the aggregate of such Credit Loss Event Amounts.

"**Scheduled Redemption Date**" means the Scheduled Termination Date.

"**Securitisation**" in respect of a Reference Obligation the Relevant Lender of which is a Securitisation Issuer, the securitisation transaction entered into by that Securitisation Issuer

"**Securitisation Alignment Amount**" in respect of a Securitisation, on any date, an amount equal to the sum of the outstanding principal amount of each Reference Obligation in respect of which the Relevant Lender at that time is the relevant Securitisation Issuer.

"**Securitisation Issuer**" in respect of a Reference Obligation, a Relevant Lender that is a special purpose vehicle or other entity which has issued securities the performance and/or redemption of which is linked to the performance of a portfolio of obligations which includes such Reference Obligation.

"**Securitisation Retained Amount**" In respect of each Securitisation, on any date, an amount equal to:

- (a) the aggregate of the outstanding principal amount of the notes outstanding in respect of that Securitisation; *minus*
- (b) the sum of:
  - (i) the sum of the outstanding principal amount of (1) one or more classes of notes any portion of which are sold to any party other than Banco Santander, S.A. or any of its Affiliates unless all such notes are the subject of any repurchase transaction in respect of which either Banco Santander, S.A. or any of its Affiliates or a special purpose vehicle or other entity which is part of the Banco Santander, S.A. consolidated accounting group is under an obligation to repurchase such notes at a pre-determined price and (2) any tranches of notes ranking *pari passu* with or senior to the notes referred to in (1); and
  - (ii) without double-counting one or more classes of notes referred to in sub-paragraph (i), the aggregate of the outstanding principal amount (1) of any class of notes in respect of that Securitisation in respect of which Santander or any of its Affiliates or a special purpose vehicle or other entity which is part of the Banco Santander, S.A. consolidated accounting group has purchased credit protection or entered into any other agreement to transfer the credit risk in respect of any portion of such notes and (2) any tranches of notes ranking *pari passu* with or senior to the notes referred to in (1) above.

"**Senior Tranche Amortisation Amount**" means, in respect of each Amortisation Date:

- (a) if a Subordination Event has not occurred prior to or on that Amortisation Date, an amount equal to the product of:
  - (i) the Portfolio Amortisation Amount in respect of that Amortisation Date; and
  - (ii) an amount equal to the greater of zero and:
    - (A) the Senior Tranche Amount immediately prior to such Amortisation Date; *divided by*
    - (B) the sum of the Protected Tranche Amount and the Senior Tranche Amount, in each case immediately prior to such Amortisation Date; and
- (b) if a Subordination Event has occurred prior to or on that Amortisation Date, the lesser of:
  - (i) the Portfolio Amortisation Amount in respect of that Amortisation Date; and
  - (ii) the Senior Tranche Amount immediately prior to that Amortisation Date.

"**Senior Tranche Amount**" means, on any date, the greater of zero and an amount equal to:

- (a) the Initial Senior Tranche Amount; *minus*

- (b) the sum of the Cumulative Senior Tranche Loss Amount and the Cumulative Senior Tranche Amortisation Amount on such date.

**"Senior Tranche Loss Allocation"** means, in respect of each Calculation Date:

- (a) if the Current Period Loss Adjustment is a positive amount, an amount equal to the lesser of:
  - (i) the greater of (A) zero and (B) the Current Period Loss Adjustment *minus* the sum of the Threshold Loss Allocation and the Aggregate Seller Payment on that Calculation Date; and
  - (ii) the Senior Tranche Amount on that Calculation Date (prior to giving effect to any adjustment to the Senior Tranche Amount on that Calculation Date); and
- (b) if the Current Period Loss Adjustment is a negative amount, an amount equal to the lesser of:
  - (i) the absolute value of the Current Period Loss Adjustment; and
  - (ii) the Cumulative Senior Tranche Loss Amount immediately prior to that Calculation Date, expressed as a negative amount.

**"Subordination Event"** means the occurrence of one of the following events:

- (a) the Cumulative Credit Losses are greater than 2% of the Protected Reference Portfolio Amount (notwithstanding that the Cumulative Credit Losses may subsequently become equal or less than 2% of the Protected Reference Portfolio Amount); or
- (b) the Swap Counterparty at its sole discretion notifies the Issuer in writing that the Cumulative Unmatured Losses are equal to or greater than the sum of the Protected Tranche Amount and the Threshold Amount (notwithstanding that the Cumulative Unmatured Losses may subsequently become less than the sum of the Protected Tranche Amount and the Threshold Amount).

**"Subordinated Loan Amounts"** means, in respect of a Fixed Rate Payer Payment Date, an amount equal to the sum of the principal and interest payable by the Issuer on the immediately following Cash Settlement Date under the Subordinated Loan.

**"Swap Calculation Agent"** means Banco Santander, S.A..

**"TARGET2 Settlement Day"** means any day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET2) system is open the settlement of payments in Euro.

**"Termination Date"** means the earliest to occur of:

- (a) the Protected Tranche Final Exhaustion Date; and
- (b) the Initial Termination Date, provided that, if on the Initial Termination Date there are one or more Reference Obligations in respect of which an Event Determination Date has occurred or in respect of which a Potential Credit Event Notice has been delivered but which, in either case, have not yet become Worked Out Reference Obligations in respect of which the Verification Date has occurred, the Termination Date shall occur on the earliest to occur of:
  - (i) the Protected Tranche Final Exhaustion Date;
  - (ii) the Final Termination Date;
  - (iii) the Cash Settlement Date which occurs on or follows the first date on which all such Reference Obligations have become either (i) Worked Out Reference Obligations in respect of which the Verification Date has occurred or (ii) Reference Obligations in respect of which it is no longer possible for the Conditions to Settlement to be satisfied.

**"Threshold Amount"** means on any date, the greater of zero and an amount equal to:

- (a) the Initial Threshold Amount; *minus*
- (b) the sum of the Cumulative Threshold Loss Amount and the Cumulative Threshold Amortisation Amount on such date.

**"Threshold Amortisation Amount"** means, in respect of each Amortisation Date, an amount equal to the greater of zero and an amount equal to:

- (i) the Portfolio Amortisation Amount in respect of that Amortisation Date; *minus*
- (ii) the sum of the Senior Tranche Amount and the Protected Tranche Amount immediately prior to that Amortisation Date.

**"Threshold Loss Allocation"** means, in respect of each Calculation Date:

- (a) if the Current Period Loss Adjustment is a positive amount, an amount equal to the lesser of:
  - (i) the Current Period Loss Adjustment; and
  - (ii) the Threshold Amount on that Calculation Date (prior to giving effect to any adjustment to the Threshold Amount on that Calculation Date); and
- (b) if the Current Period Loss Adjustment is a negative amount, an amount equal to the lesser of:
  - (i) the greater of (A) zero and (B) the absolute value of the Current Period Loss Adjustment *minus* the sum of the absolute value of the Senior Tranche Loss Allocation and the absolute value of the Aggregate Seller Payment for that Calculation Date; and
  - (ii) the Cumulative Threshold Loss Amount immediately prior to that Calculation Date,

expressed as a negative amount.

**"Total Recoveries"** means, respect of a Worked Out Reference Obligation:

- (a) if such Worked Out Reference Obligation is not a Final Estimated Recoveries Obligation, the aggregate of all Recoveries in respect of such Worked Out Reference Obligation; and
- (b) if such Worked Out Reference Obligation is a Final Estimated Recoveries Obligation, the Estimated Recoveries in respect of such Worked Out Reference Obligation.

**"Verification Date"** means, in respect of a Worked Out Reference Obligation:

- (i) if that Worked Out Reference Obligation is a Final Verifiable Reference Obligation, the date on which the Verification Notice in respect of that Worked Out Reference Obligation is delivered to the Issuer; and
- (ii) if that Worked Out Reference Obligation is not a Final Verifiable Reference Obligation, the date on which the Verification Date has occurred with respect to all Final Verifiable Reference Obligations that are selected by the Independent Accountants from the Final Batch to which that Worked Out Reference Obligation belongs at such time pursuant to the Selection of Final Verifiable Reference Obligations provision of the Credit Default Swap; or
- (iii) if neither sub-paragraph (i) nor (ii) above apply with respect to such Worked Out Reference Obligation, the Work-Out Completion Date.

"Worked Out Credit Protection Amount" means:

- (i) in respect of a Worked Out Reference Obligation in respect of which a Failure to Pay or Bankruptcy has occurred but which is not a Cured Reference Obligation, an amount equal to:
  - (a) the Defaulted Notional Amount in respect of such Worked Out Reference Obligation;  
*minus*
  - (b) the Total Recoveries in respect of such Worked Out Reference Obligation;
- (ii) in respect of a Worked Out Reference Obligation which is a Cured Reference Obligation, zero; and
- (iii) in respect of a Worked Out Reference Obligation in respect of which a Restructuring has occurred:
  - (a) if the Swap Counterparty elected to calculate the Initial Credit Protection Amount for such Worked Out Reference Obligation in accordance with the Credit Loss Event Method, an amount equal to the Credit Loss Event Amount on the Work-Out Completion Date; and
  - (b) if the Swap Counterparty elected to calculate the Initial Credit Protection Amount for such Worked Out Reference Obligation in accordance with the LGD Method, an amount equal to:
    - (A) the Defaulted Notional Amount in respect of such Worked Out Reference Obligation; *minus*
    - (B) the Total Recoveries in respect of such Worked Out Reference Obligation.



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## INDEX OF DEFINED TERMS

*There follows an index of the defined terms used in this Information Memorandum, together with details of the page(s) on which such term(s) is or are defined.*

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