

# F.T.A. Santander Empresas 3

EUR 3,545,500,000 Business and SME's Loan ABS

Originated by Banco Santander Central Hispano, S.A.

*Strictly Private and Confidential*

*Subject to CNMV approval*

*May 2007*



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AÑOS

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## Executive Summary - Key Features

### Issuer

- FTA Santander Empresas 3

### Originator/Servicer

- Banco Santander Central Hispano S.A.

### Aggregate Principal Amount

- EUR [3,500] million

### Portfolio

- Loans given to self-employed, SME's and larger companies in Spain

### Settlement Date

- [● ] May 2007

### Legal Final Maturity

- [October 2049]

### Payment Dates

- [16]<sup>th</sup> of January, April, July and October

### First Payment Date

- [16]<sup>th</sup> July 2007

### Listing

- AIAF

### Denomination

- EUR [100,000]

### Swap Counterparty

- Banco Santander Central Hispano S.A.

### Governing Law

- Spanish Law

### Arranger

- Santander de Titulización S.G.F.T., S.A.

### Joint Lead Managers



Source: Grupo Santander

# Executive Summary - Transaction Highlights

## Strong Originator and manager

- Grupo Santander (Aa1 / AA / AA) is the **largest bank group in Europe** by market capitalisation (EUR 83,557 million as of 30<sup>th</sup> March, 2007)
- Grupo Santander is the **most experienced Originator of ABS in Spain** and **leader in the Spanish securitisation market (European second largest market)**, with a demonstrated track record (16% market share as of Dec. 2006). Grupo Santander has executed more than 40 securitisations transactions to date, having securitised its own assets since the establishment of the Spanish securitisation legal framework in **1992**
- Santander de Titulización S.G.F.T., S.A., established in 1992, is the **oldest securitisation fund manager in Spain**. At present it manages 36 funds for an amount of EUR 33.5 billion and the single Spanish commercial paper conduit
- This is the 3<sup>rd</sup> securitisation under the Santander Empresas Programme. Previous issues were Santander Empresas 1, closed in November 2005 for an amount of EUR 3,200mn, and Santander Empresas 2, closed in December 2006 for an amount of EUR 2,954mn

## High Quality Collateral

- **Highly granular** portfolio with an average loan size of EUR [144,000], the smallest of all Santander Empresas deals. In fact [**87.80%**] of the loans have an outstanding balance of **less than EUR 200,000**
- All loans in the pool carry a **full corporate guarantee**; in addition, [42.19]% of the loans enjoy the extra guarantee of a **first ranking commercial mortgage**
- Geographic concentration follows both Spanish GDP contribution per region and enterprise regional distribution
- **High seasoning** of [22] months, the highest of all Santander Empresas transactions

## Transaction Structure

- FTA Santander Empresas 3 benefits from different sources of credit support and liquidity, including subordination, excess spread, cash reserve and artificial write-offs
- The amortisation of the Notes is **fully sequential**, except for the Classes A Notes (A1, A2 and A3), which also amortise sequentially amongst them unless certain performance triggers are hit, where they will amortise on a pro-rata basis amongst them
- FTA Santander Empresas 3 benefits from an *artificial write-off* mechanism in the 12<sup>th</sup> month, by which it speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised
- The **guaranteed spread swap** put in place for this transaction is guaranteeing the interest rate of the notes plus 65 bps of gross excess spread and covering the servicing fee in case of the replacement of Santander as servicer. It constitutes the first layer of protection for investors
- A **reserve fund** of EUR [45.5] million, **fully funded** at closing of the transaction from the proceeds of Class F Notes, will be in place to cover any potential shortfall on interest and principal

Source: Grupo Santander

## Executive Summary - Portfolio Highlights

- **Highly granular portfolio:** [25,882] loans
- **Conservative CPR assumption:** 5%
- **Reduced average loan size** of EUR [144,000]: the lowest of all Santander Empresas transactions
- Under Spanish legal framework, **all debtors are fully liable<sup>1</sup>**: consequently, all loans carry a **full corporate guarantee**. In addition, [42.19]% of the loans benefit from a **first-lien commercial mortgage**
- The most concentrated geographical areas in the portfolio are those with higher contribution to Spanish GDP and, also, with a higher number of registered enterprises
- The industries with the highest concentrations are the most active in the Spanish economy

Santander Empresas 3 Portfolio Highlights	
Number of Loans	[25,882]
Average Loan Size	[144,000]
Mortgage Guarantee	[42.19%]
WA LTV	[75.47%]
Largest 10 Obligors (%)	[9.66%]
<b>Seasoning, Term</b>	
WA Seasoning (months)	[22]
WA Time to Maturity (months)	[112]
<b>Interest Rate</b>	
WA Interest Rate	[4.37%]
Min Interest Rate	[1.50%]
Max Interest Rate	[18.00%]
% of Fixed Interest Rate Loans	[10.37%]
WA Fixed Interest Rate	[4.87%]
<b>Geographic Concentration</b>	
Madrid	[24.66%]
Catalonia	[17.46%]
Andalucia	[12.30%]
Valencia	[7.30%]
<b>Type of Borrower</b>	
Self-Employed	[21.04%]
Micro-Enterprise	[21.68%]
SME's	[18.51%]
Enterprise	[26.02%]
Big Enterprise	[12.75%]
<b>Top 5 Industry Group Concentration</b>	
Real Estate	[25.92%]
Construction	[8.36%]
Tourism	[6.31%]
Wholesale trade	[5.32%]
Retail trade	[4.87%]

(1) In case of delinquency, the debtor can be enforced to satisfy all defaulted amounts with up to the totality of their assets, even if those were not specifically in place for that transaction

Source: Grupo Santander

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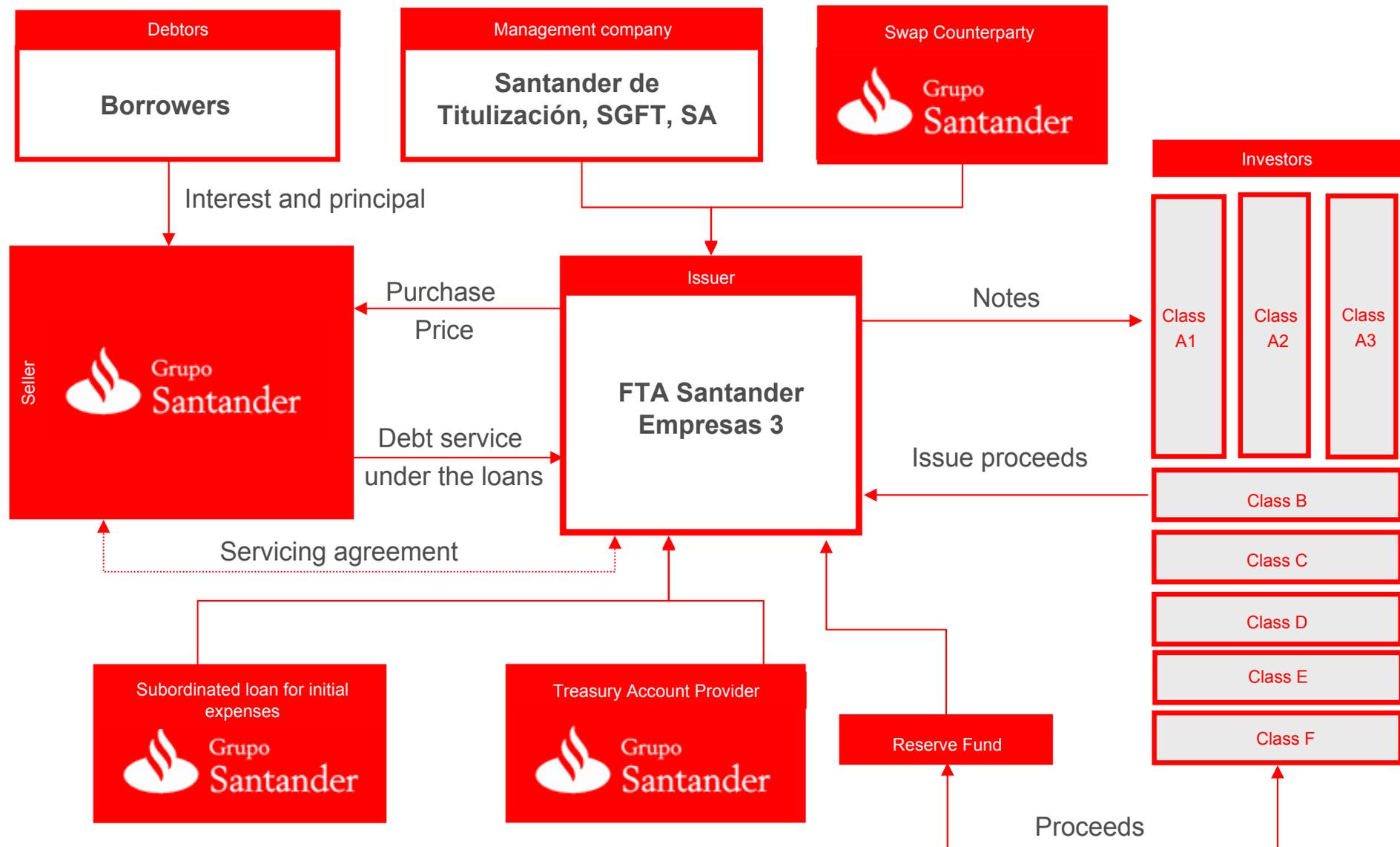
## Structure Overview

- On the Closing Date, FTA Santander Empresas 3 will purchase and accept assignment of a portfolio of business loans originated by Banco Santander Central Hispano (the “Portfolio”).
- To fund this purchase, FTA Santander Empresas 3 will issue seven classes of notes, the Classes A1 through E Notes and one class of non-collateralised notes, the Class F Notes. The proceeds from the Class F Notes will be used to fund the Reserve Fund.
- The Notes are pass-through securities. Principal collections received in respect of the collateral will be used to redeem the principal value of the Classes A to E Notes; Reserve Fund release amounts will be used to redeem the principal value of the Class F Notes.
- The structure will repay noteholders on a sequential basis. So long as certain performance tests are satisfied in respect of the pool, the holders of all the Classes A Notes (A1, A2 and A3) will rank pari passu amongst themselves and will be repaid on a pro-rata basis.
- The test to enable pro-rata repayment amongst Classes A Notes is:
  - If the Outstanding of all loans in the portfolio with any instalment in arrears  $\geq 3$  months and  $\leq 12$  months represents more than 1.5% of the non-defaulted<sup>1</sup> Outstanding Balance of the Loans, the Classes A Notes (A1, A2 and A3) will be re-paid on a pro-rata basis

(1) That is, with no instalment in arrears for more than 12 months

Source: Grupo Santander

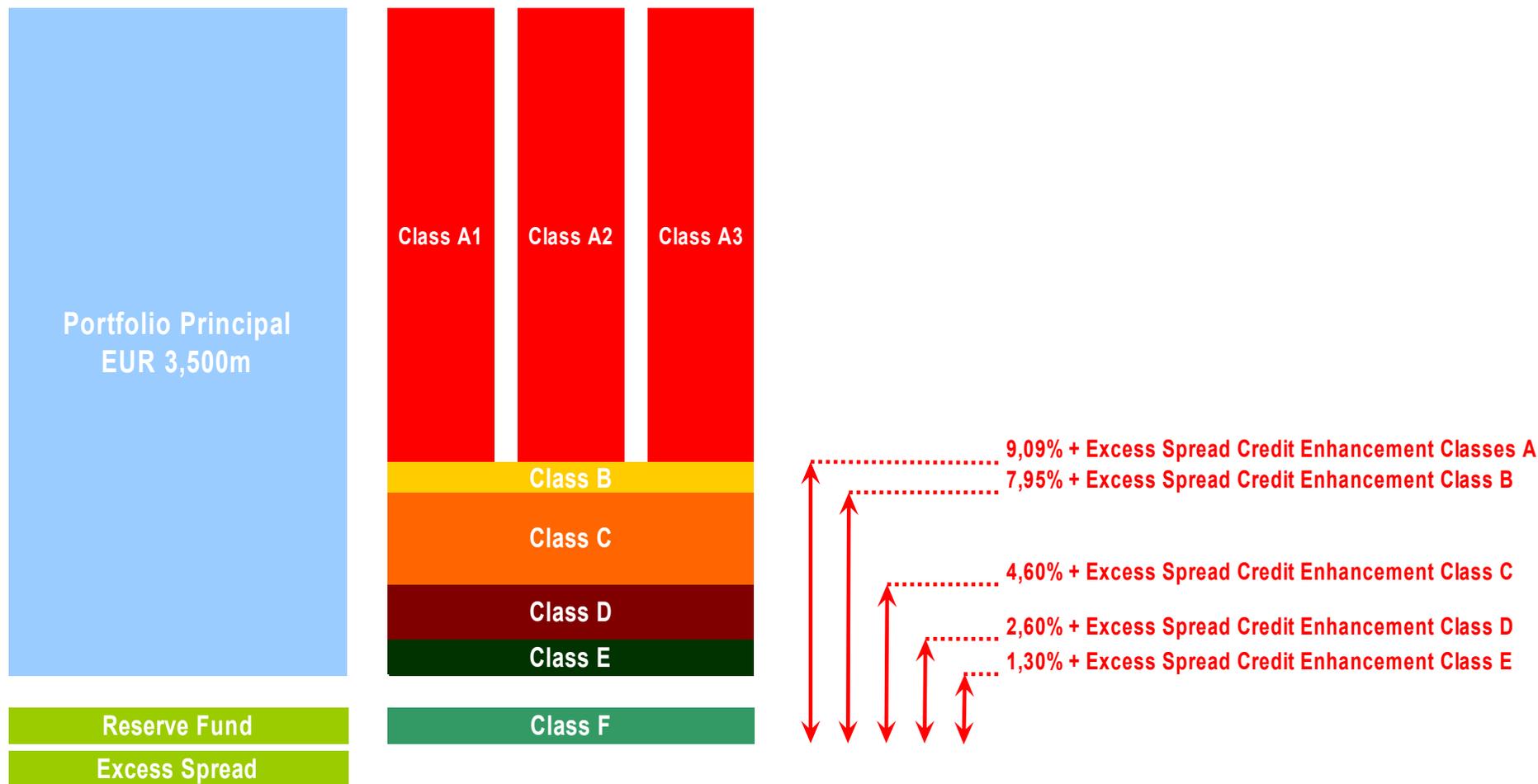
# Transaction Structure



Source: Grupo Santander

# Transaction Structure (cont'd)

- Issue and Collateral Amount: Credit Enhancement



- The Notes are pass-through with repayment on a sequential basis
- The Issuer has a clean-up call option at 10% of the initial balance

Source: Grupo Santander

# Capital Structure

Note Description	Class A1 Notes [Offered]	Class A2 Notes [Offered]	Class A3 Notes [Offered]	Class B Notes [Not Offered]	Class C Notes [Not Offered]	Class D Notes [Soft Circled]	Class E Notes [Soft Circled]	Class F Notes [Retained]
Amount in Euros	EUR [800] million	EUR [1,800] million	EUR [627.5] million	EUR [39.7] million	EUR [117.3] million	EUR [70] million	EUR [45.5] million	EUR [45.5] million
Credit Enhancement <sup>1</sup>	[9.09%]	[9.09%]	[9.09%]	[7.95%]	[4.60%]	[2.60%]	[1.30%]	[1.30%]
Expected Rating (Fitch / Moody's / S&P)	[AAA / Aaa / AAA]	[AAA / Aaa / AAA]	[AAA / Aaa / AAA]	[AA / Aa2 / AA]	[A+ / A3 / A]	[BBB+ / Baa3 / BBB]	[BB+ / Ba1 / BB]	[CCC / C / CCC-]
Expected BIS II Weighting <sup>2</sup>	[7%]	[7%]	[7%]	[15%]	[20%]	[75%]	[425%]	N/A
Payment Frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Final Legal Maturity	[October 2049]	[October 2049]	[October 2049]	[October 2049]	[October 2049]	[October 2049]	[October 2049]	[October 2049]
Expected Final Amortisation Date <sup>3</sup>	[16/04/2008]	[16/04/2012]	[16/01/2018]	[16/01/2018]	[16/01/2018]	[16/01/2018]	[16/01/2018]	[16/01/2018]
Repayment	Fully Sequential except if performance triggers are hit	Fully Sequential except if performance triggers are hit	Fully Sequential except if performance triggers are hit	Fully Sequential	Fully Sequential	Fully Sequential	Fully Sequential	In line with Reserve Fund release amounts
Estimated Weighted Average Life <sup>3</sup>	[0.44]	[2.38]	[7.56]	[10.64]	[10.64]	[10.64]	[10.64]	[7.12]
Interest	Floating - Act / 360	Floating - Act / 360	Floating - Act / 360	Floating - Act / 360	Floating - Act / 360	Floating - Act / 360	Floating - Act / 360	Floating - Act / 360
	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps	3m EURIBOR + [•] bps

<sup>1</sup> Plus [65] bps guaranteed spread swap

<sup>2</sup> Ratings Based Approach – Basel Committee on Banking Supervision, June 2004

<sup>3</sup> Assumptions include: (i) All loans are subject to a [5]% CPR; (ii) no loan of the initial pool is substituted during the life of the transaction; (iii) no modifications to the terms of any of the loans within the initial pool; (iv) [0.10]% delinquencies with a recovery rate of [100]% [12] months later; (v) the Clean-up Call is exercised; and (vi) the Classes A1, A2 and A3 are not amortised on a pro-rata basis

Source: Grupo Santander

## Credit Support

- **Excess Spread** – Should any losses be realised, excess spread is first used to cover those losses through the waterfall priority of payments. Excess spread is guaranteed for a gross amount of [65] bps through the swap. It is estimated that this amount is likely to come down to [62-63] bps net due to senior expenses <sup>1</sup>.
- **Reserve Fund** – Where excess spread is insufficient to cover a loss, amounts may be drawn from the Reserve Fund for this purpose. The Reserve Fund is fully funded at closing ([1.30]% or EUR [45.5] million). The maximum Reserve Fund during the life of the transaction will be calculated according to a formula described in the following slide.
- **Subordination** – In the unlikely event that losses exceed the above resources, the uncovered amounts will be allocated to investors in reverse seniority order.
- FTA Santander Empresas 3 transaction includes **Performance Triggers** that govern:
  - Release of funds from the Cash Reserve
  - Artificial write-off mechanism trapping of excess spread to cover future losses
  - Pro-rata versus sequential amortisation for Classes A Notes
- In addition, protection against losses is enhanced through an **interest deferral mechanism**:
  - The payment of interest on the Series B, C, D and E notes will be brought to a more junior position if the following criteria are met:
    - B Series: written-off loans > 7.85% of the initial amount, and more senior notes are not redeemed.
    - C Series: written-off loans > 6.50% of the initial amount, and more senior notes are not redeemed.
    - D Series: written-off loans > 5.60% of the initial amount, and more senior notes are not redeemed.
    - E Series: written-off loans > 4.70% of the initial amount, and more senior notes are not redeemed.

# Hedging and Liquidity Support

## INTEREST RATE SWAP

- Santander (Aa1/AA/AA) guarantees via the interest rate swap a gross level of excess spread equal to [65] bps on a notional amount equal to the outstanding balance of the performing assets (performing assets defined as current or not in arrears for longer than 90 days and excluding written-off loans)
- The issuer pays the equivalent of all interest actually received from the pool
- The issuer receives an amount equal to the sum of (i) 3-month Euribor, (ii) the weighted average margin applicable to the notes, (iii) [0.65]% on a swap notional which is equal to the outstanding balance of the performing assets (performing assets defined as current or not in arrears for longer than 90 days and excluding written-off loans)

## EXCESS SPREAD

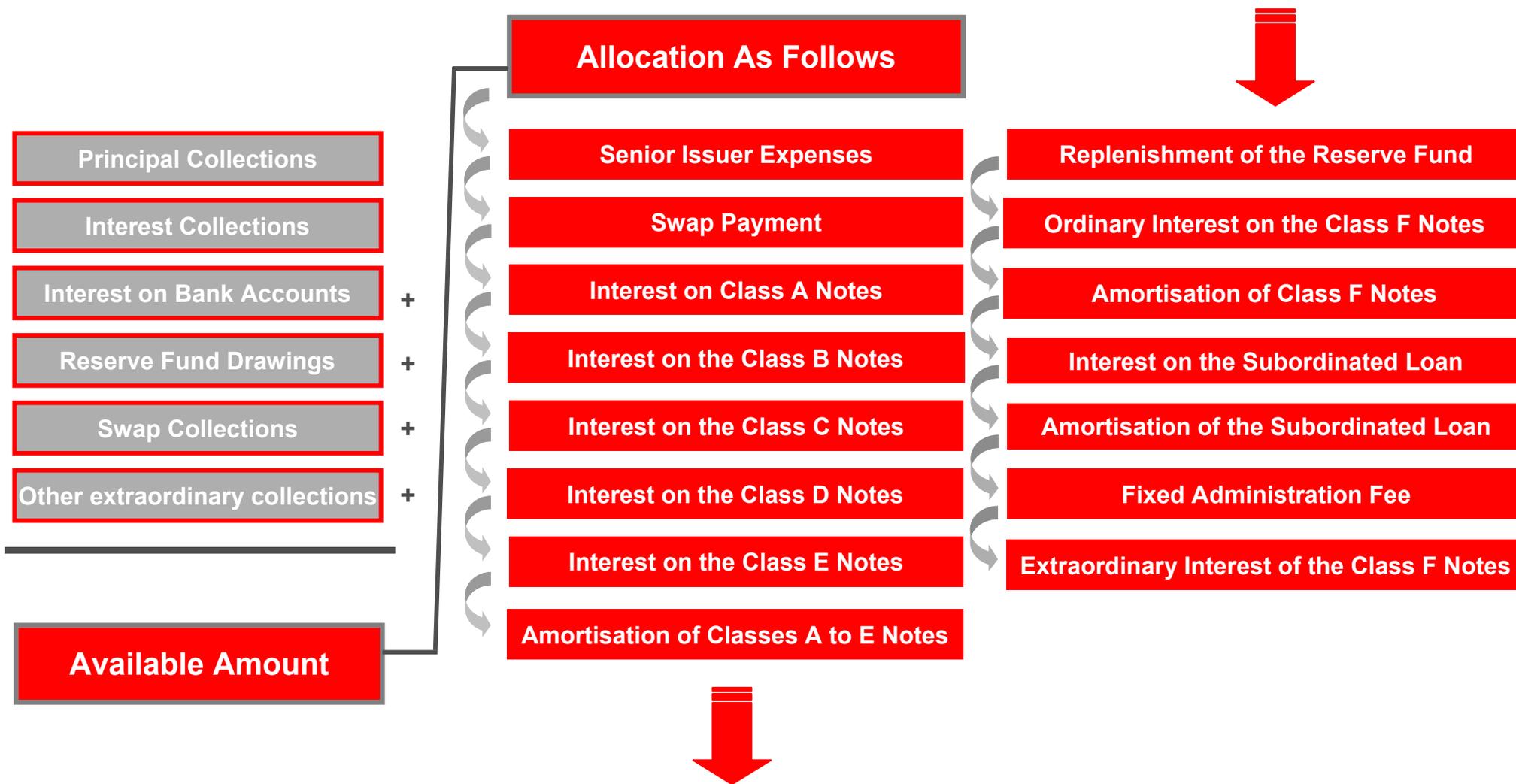
- Excess spread will be used to meet any shortfalls before its release to the ultimate beneficiaries

## CLASS F / RESERVE FUND

- Initial Amount: EUR [45.5] million. Fully funded on the Closing Date
- The maximum size of the Reserve Fund initially funded by the Class F shall be equal to the lower of:
  - EUR [45.5] million; and
  - The higher of:
    - [1.30]% of the outstanding principal balance of the notes (except class F); and
    - [0.65] % of the initial principal balance of the notes (except class F)
- The size of the Cash Reserve will not be reduced between two subsequent Payment Dates if either:
  - Within the first 3 years of the transaction in any case.
  - The ratio defined as: (i) the outstanding balance of defaulted loans (more than 12 months in arrears); divided by (ii) the outstanding balance of the loans, is equal to, or greater than 1%; or
  - The Cash Reserve was not at its required level on the previous Payment Date
  - If the net accumulated loss is greater than 1% of the initial balance of the assets

Source: Grupo Santander

# Priority of Payments – Standard Application of Funds



Source: Grupo Santander

## Priority of Payments – Exceptional Application of Funds

Exceptionally, the normal order of funds application may be changed in case that certain events occur:

- If a Back-up Servicer was to be activated, its fees would become number 1 in the Revenue Priority of Payments
- Interest deferral triggers will bring interest payment on the B, C, D and E notes to a more junior position (without affecting the overall subordination of the notes) upon certain conditions being triggered:
  - Series B: Gross cumulative outstanding balance of Loans in Default is greater than 7.85% of the initial amount of the Assets and A series are not redeemed in full
  - Series C: Gross cumulative outstanding balance of Loans in Default greater than 6.50% of the initial amount of the Assets and A & B series are not redeemed in full
  - Series D: Gross cumulative outstanding balance of Loans in Default greater than 5.60% of the initial amount of the Assets and A, B & C series are not redeemed in full
  - Series E: Gross cumulative outstanding balance of Loans in Default greater than 4.70% of the initial amount of the Assets and A, B, C & D series are not redeemed in full

# Principal Allocation Priority

- **Paydown Rules**

- Payments of principal on each of the Classes A to E Notes will be made on a sequential amortisation schedule, as opposed to pro-rata, starting by Class A1 and ending on Class E. No class of Notes will start amortising until the previous one has been redeemed in full

- **Exceptional Paydown Rules**

- If the Outstanding of the Loans with any instalment in arrears  $\geq 3$  months and  $\leq 12$  months represents more than 1.5% of the non-defaulted<sup>1</sup> Outstanding Balance of the Loans, Classes A will start amortising on a pro-rata basis



Source: Grupo Santander

(1) That is with no installment in arrears for more than 12 months

## WAL Sensitivity at different prepayment speeds

CPR	3%	5%	7%
<b>CLASS A1</b>			
WAL (YEARS)	[0.46]	[0.44]	[0.41]
DURATION (YEARS)	[0.44]	[0.41]	[0.39]
FINAL MATURITY <sup>1</sup>	[16/04/2008]	[16/04/2008]	[16/04/2008]

CPR	3%	5%	7%
<b>CLASS A2</b>			
WAL (YEARS)	[2.58]	[2.38]	[2.21]
DURATION (YEARS)	[2.36]	[2.16]	[2.02]
FINAL MATURITY <sup>1</sup>	[16/01/2013]	[16/04/2012]	[16/10/2011]

CPR	3%	5%	7%
<b>CLASS A3</b>			
WAL (YEARS)	[8.28]	[7.56]	[6.75]
DURATION (YEARS)	[6.95]	[6.23]	[5.66]
FINAL MATURITY <sup>1</sup>	[16/10/2019]	[16/01/2018]	[16/10/2016]

CPR	3%	5%	7%
<b>CLASS B</b>			
WAL (YEARS)	[12.39]	[10.64]	[9.39]
DURATION (YEARS)	[9.37]	[8.32]	[7.52]
FINAL MATURITY <sup>1</sup>	[16/10/2019]	[16/01/2018]	[16/10/2016]

CPR	3%	5%	7%
<b>CLASS C</b>			
WAL (YEARS)	[12.39]	[10.64]	[9.39]
DURATION (YEARS)	[9.36]	[8.31]	[7.51]
FINAL MATURITY <sup>1</sup>	[16/10/2019]	[16/01/2018]	[16/10/2016]

CPR	3%	5%	7%
<b>CLASS D</b>			
WAL (YEARS)	[12.39]	[10.64]	[9.39]
DURATION (YEARS)	[9.34]	[8.3]	[7.5]
FINAL MATURITY <sup>1</sup>	[16/10/2019]	[16/01/2018]	[16/10/2016]

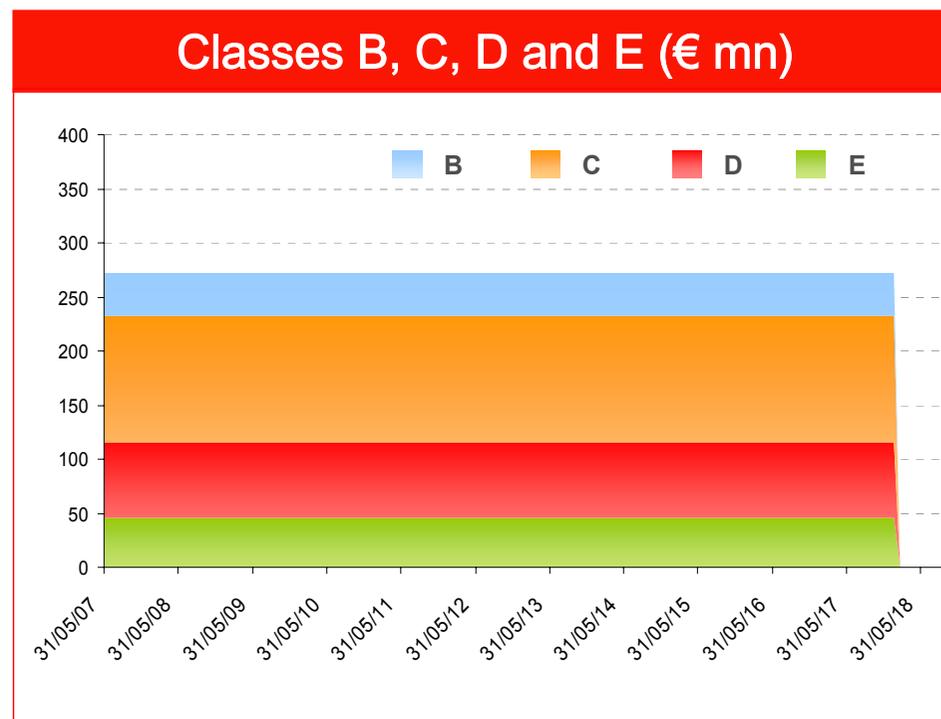
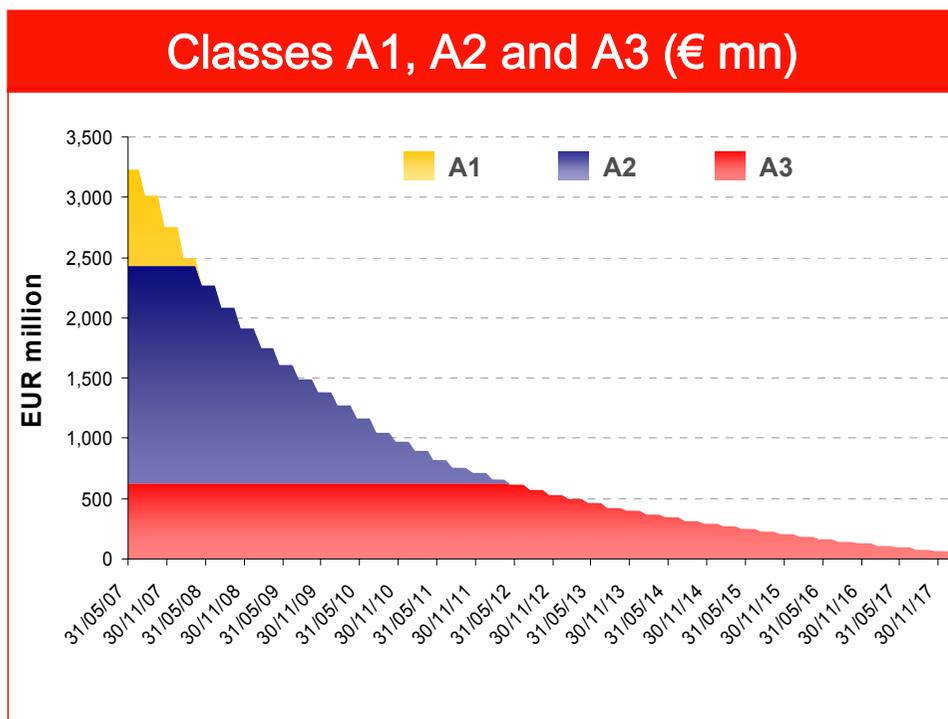
CPR	3%	5%	7%
<b>CLASS E</b>			
WAL (YEARS)	[12.39]	[10.64]	[9.39]
DURATION (YEARS)	[8.53]	[7.66]	[6.98]
FINAL MATURITY <sup>1</sup>	[16/10/2019]	[16/01/2018]	[16/10/2016]

CPR	3%	5%	7%
<b>CLASS F</b>			
WAL (YEARS)	[8.11]	[7.12]	[6.41]
DURATION (YEARS)	[7.32]	[6.61]	[6.08]
FINAL MATURITY <sup>1</sup>	[16/10/2019]	[16/01/2018]	[16/10/2016]

(1) Expected

Assumptions include: (i) All loans are subject to a [5]% CPR; (ii) no loan of the initial pool is substituted during the life of the transaction; (iii) no modifications to the terms of any of the loans within the initial pool; (iv) [0.10]% delinquencies with a recovery rate of [100]% [12] months later; (v) the Clean-up Call is exercised; and (vi) the Classes A1, A2 and A3 are not amortised on a pro-rata basis.

# Expected Amortisation Profile of the Notes



NOTE: Assumptions include:

- (i) All loans are subject to a [5]% CPR;
- (ii) no loan of the initial pool is substituted during the life of the transaction;
- (iii) no modifications to the terms of any of the loans within the initial pool;
- (iv) [0.10]% delinquencies with a recovery rate of [100]% [12] months later;
- (v) the Clean-up Call is exercised; and (vi) the Classes A1, A2 and A3 are not amortised on a pro-rata basis

Source: Grupo Santander

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# Origination & Approval: a Successful Risk Model



## Segmentation

- The clients are split into two categories. Each category applies different risk management methodologies, reflecting the different risk behaviours. These categories are:
  - **Analyst Management:** actual or potential risk within the Group over EUR 500,000 (inclusion in portfolio).
  - **Systematic Management:** actual or potential risk within the Group less than EUR 500,000. <sup>(1)</sup>

## Integrity

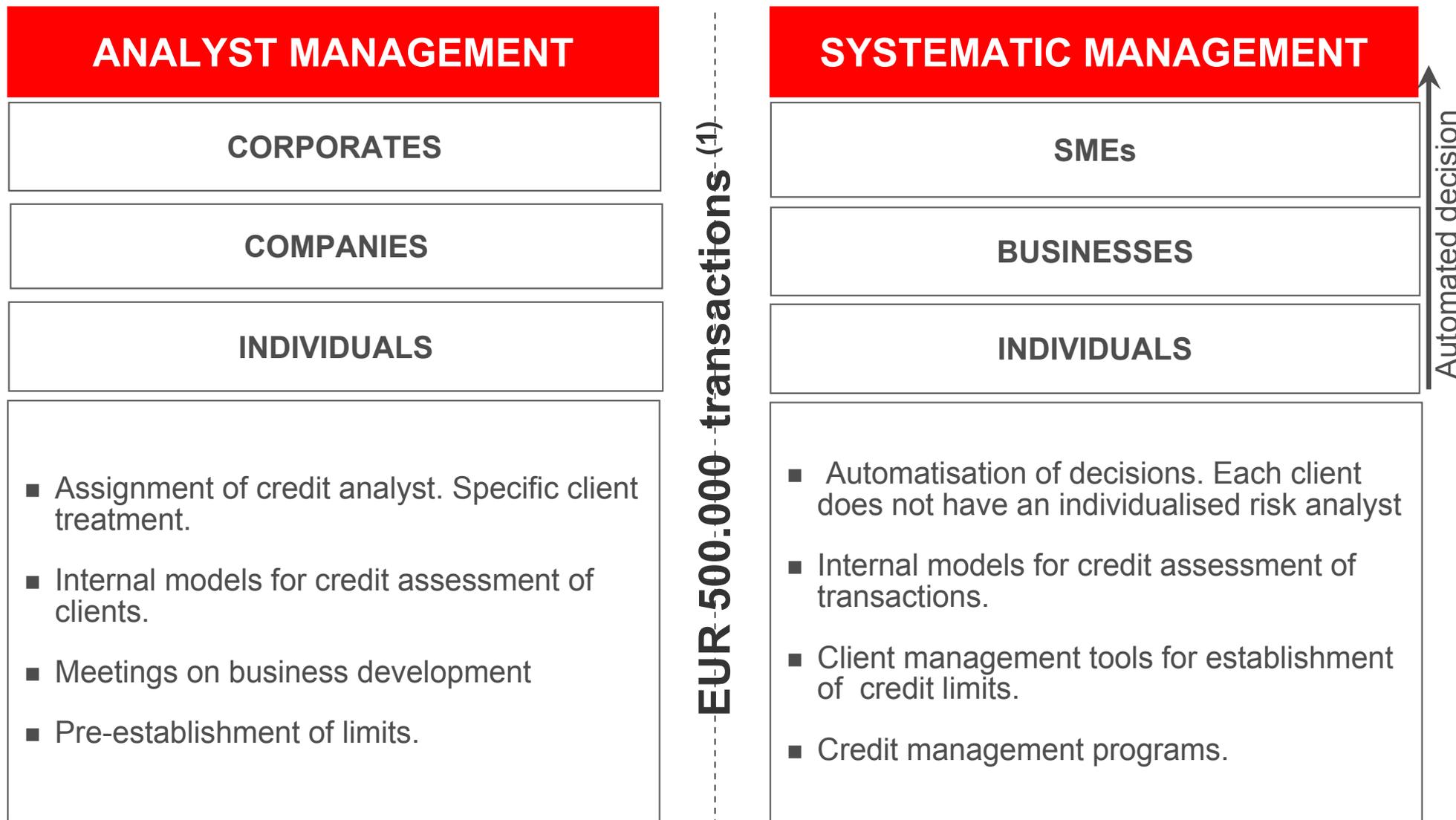
- All the risk related process within the group (origination, monitoring and recovery) is managed from a single department: the Credit Risk Department. This design allows for an homogeneous policy for all risks within Grupo Santander.
- The Commercial Banking Risk Group is in charge of the origination and monitoring processes.
- The Recoveries Group is in charge of the recovery process.

## Independence

- Grupo Santander's Risk Area is independent from the Commercial Banking Area. The Risk Area supports the Commercial Area in all the processes.
- In any case the risk management objectives for both areas are the same, in order to guarantee no discrepancies between both areas.

<sup>(1)</sup> In some very specific cases, despite the potential risk of the customer being over EUR 500,000, if it is believed that there will not be considerable business with this customer, the operation may fall under *Systematic Management*

# Origination & Approval: Risk Management Perimeter

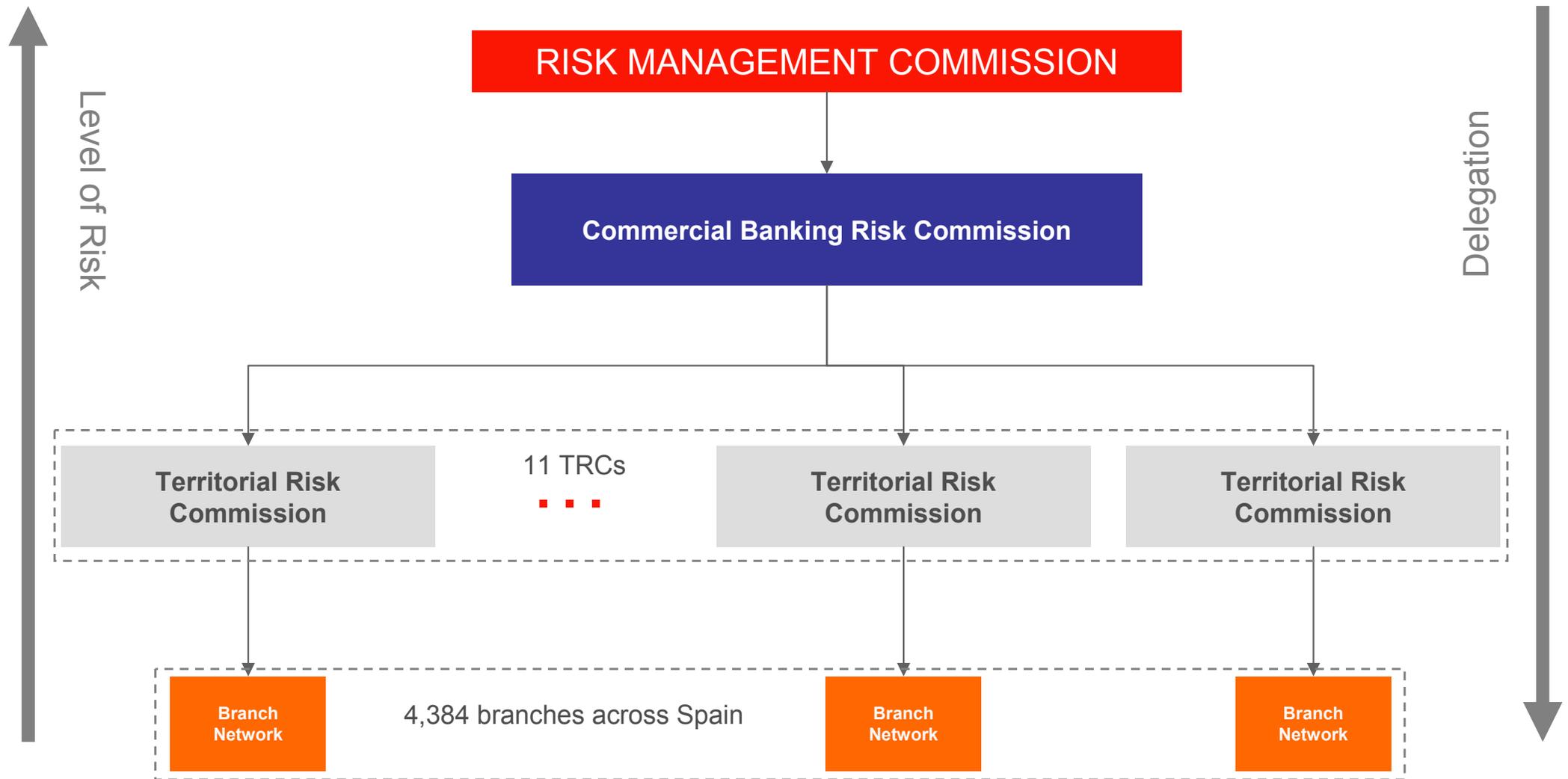


Source: Grupo Santander

<sup>(1)</sup> In some very specific cases, despite the potential risk of the customer being over EUR 500,000, if it is believed that there will not be considerable business with this customer, the operation may fall under *Systematic Management*

# Origination & Approval: Risk approval and delegation structure

- ◆ The Risk Area includes 615 people inside the Grupo Santander:



Source: Grupo Santander

## Origination & Approval: Analyst Management

### Rating Assignment Process

- Santander rating model follows an **analytic approach**: it defines analysis areas that have to be independently valued, with the final rating being a **weighted average** of the different areas' valuation

Area	Valuation	Description
Product / Demand / Market	20%	50% valuation of the environment (country, sector, market, etc.) 50% relative position among their competitors
Shareholders / Managers	15%	50% shareholders and 50% managers
Access to Credit	10%	Ability to get credit in the banking system and/or capital markets
Profitability	15%	Ability to generate income in the next future
Resource Generation	25%	Ability to generate cashflow within its normal business
Solvency	15%	Ability to “survive” in a long-medium term

- Each area must be valued from 1 (Ca/CC) to 9.3 (Aaa/AAA), in increments of 0.1 points
- Each customer rating is reviewed at least twice a year

Source: Grupo Santander

# Origination & Approval: Analyst Management

## Rating Definition, Scale and Mapping

- Santander's Rating System target is to measure the default probability of each counterparty.
- It's a local rating: It's the default probability of the senior liabilities, pari passu, under domestic legislation, in any currency, assuming no existence of any restriction to access foreign currency.
- There is a direct relationship between rating and default probability.
- It uses a single scale that includes any default event excluding transfer risk and convertibility risk.

Santander mapped rating with main rating Agencies and Default probabilities.			
Internal rating	Moody's	Standard & Poors	Def. Probl. 1 year
9,3	Aaa	AAA	0,017%
9,2	Aa1	AA+	0,018%
9,0	Aa2	AA	0,022%
8,5	Aa3	AA-	0,035 %
8,0	A1	A+	0,056 %
7,5	A2/A3	A/A-	0,089 %
7,0	A3/Baa1	A-/BBB+	0,142 %
6,5	Baa1/Baa2	BBB+/BBB	0,226 %
6,0	Baa2	BBB	0,361 %
5,5	Baa3	BBB-	0,575 %
5,0	Ba1	BB+	0,917 %
4,5	Ba2	BB	1,461 %
4,0	Ba3	BB-	2,330 %
3,5	B1	B+	3,714 %
3,0	B1/B2	B+/B	5,922 %
2,5	B2	B	9,441 %
2,0	B3	B-	15,051 %
1,5	Caa1	CCC	23,996 %
1,0	Ca	CC	38,257 %

Source: Grupo Santander

# Follow Up: Analyst Management

## Clients in special surveillance situation (FEVE)

### RISK ANTICIPATION ACTION. PLAN AND TIMELINE

DEGREE	DEFINITION	POLICIES TO FOLLOW
TO REMOVE (1 <sup>st</sup> Degree)	The decision to leave was taken (showing the date if it is possible)	Remove all the risk
TO ASSURE (2 <sup>nd</sup> degree)	We try and can obtain guarantees for a client whom we want to work with	Assure with real guarantees Assure with personal guarantees
TO REDUCE (3 <sup>rd</sup> degree)	We want to continue operating, but at another level	Reduce risk of short/long term Reduce risk of a specific range
TO CONTINUE (4 <sup>th</sup> grade)	There's a minor worry. We are waiting for some new information or event	Not to increase risk Attend with normality

Source: Grupo Santander

## Follow Up: Analyst Management

### Rating Reviews

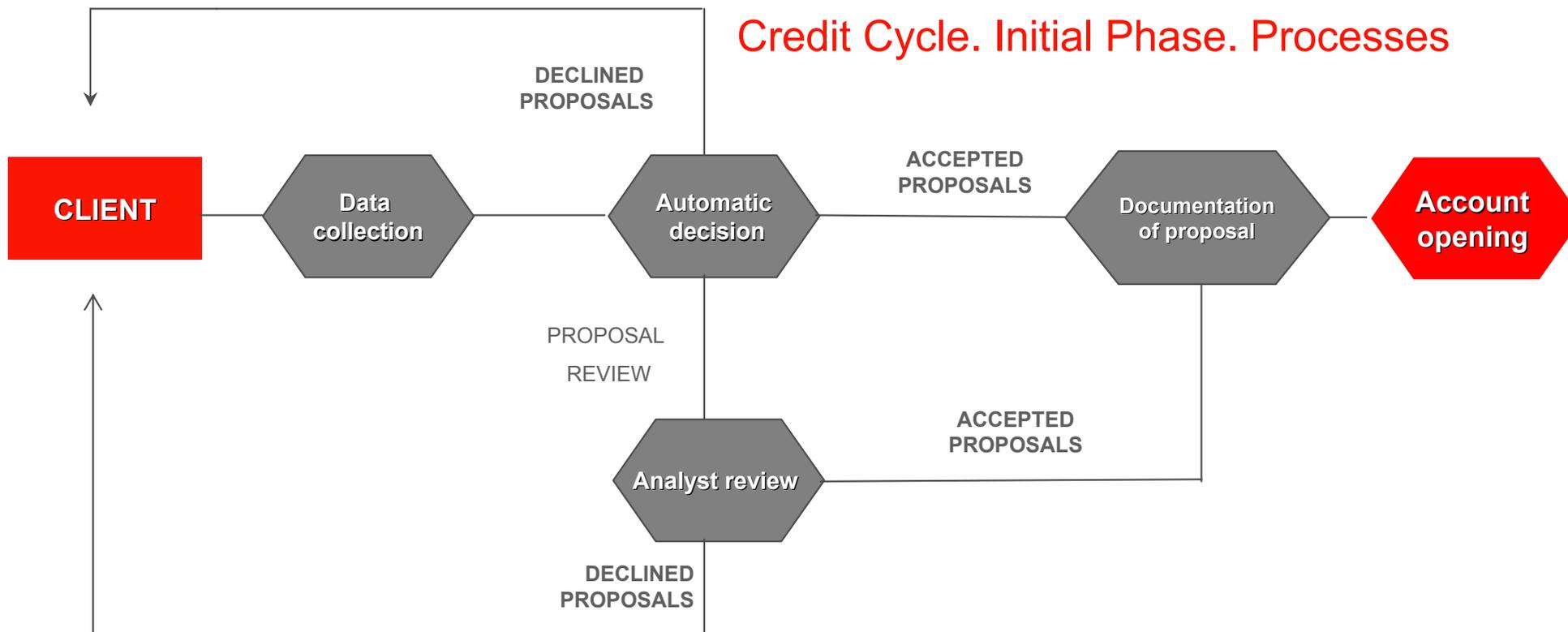
- Half-yearly reviews will be done for:
  - Pre-classified Companies
  - Companies in FEVE To Continue (limits lower than or equal to EUR 1 million)
- Quarterly reviews will be done for:
  - For clients qualified in Serious FEVE\* (with independence of the amount and the degree)
  - For clients qualified in To Continue FEVE (limits bigger than EUR 1 million)
- A review will be done also if:
  - There is any relevant information that advices a review
  - An operation is solved by significant amount in relation to risks supported with the company

(\* ) Serious FEVE: To reduce, to assure, to remove

Source: Grupo Santander

# Origination & Approval: Systematic Management

## Credit Cycle. Initial Phase. Processes

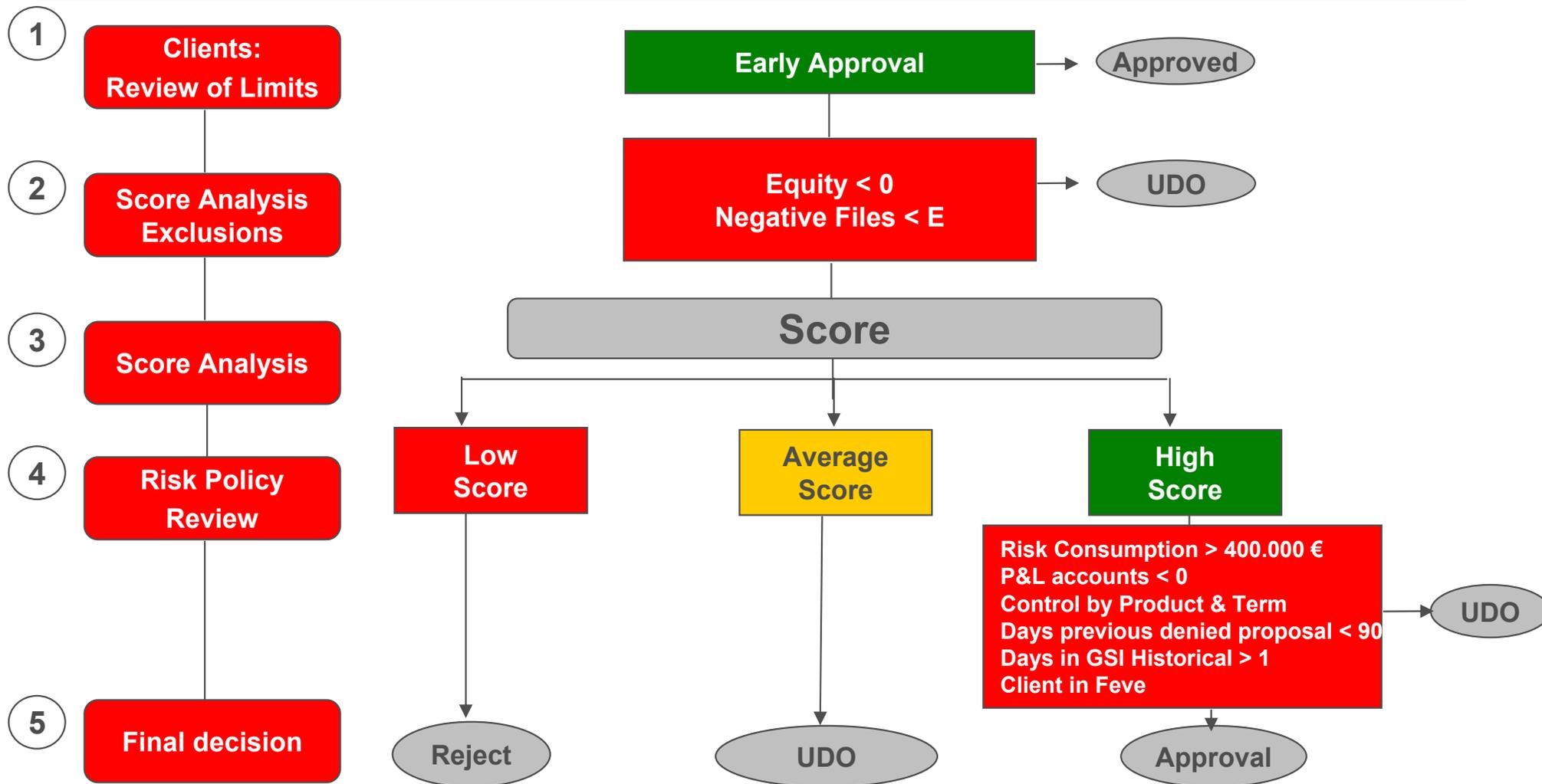


DATA COLLECTION	DECISION		DOCUMENTATION
<ul style="list-style-type: none"> <li>Application, Applicant's data</li> <li>Data provided</li> <li>Data researched: Externally and Internally</li> <li>Electronic Applications. Documentation does not travel</li> </ul>	<p>Automatic System:</p> <ul style="list-style-type: none"> <li>Scoring</li> <li>Decision rules</li> <li>Strategy</li> </ul>	<p>Manual System:</p> <ul style="list-style-type: none"> <li>Analysts</li> <li>Procedure</li> </ul>	<ul style="list-style-type: none"> <li>Verification of data compiled in application</li> <li>Identification and signature of all parties to transaction</li> <li>Perfection of contractual documentation</li> </ul>

Source: Grupo Santander

# Origination & Approval: Systematic Management

## Credit Cycle. Admission Phase. Automated Decision Model



Source: Grupo Santander

# Origination & Approval: Systematic Management

## Evaluation of Applications by Analysts

Applications where:

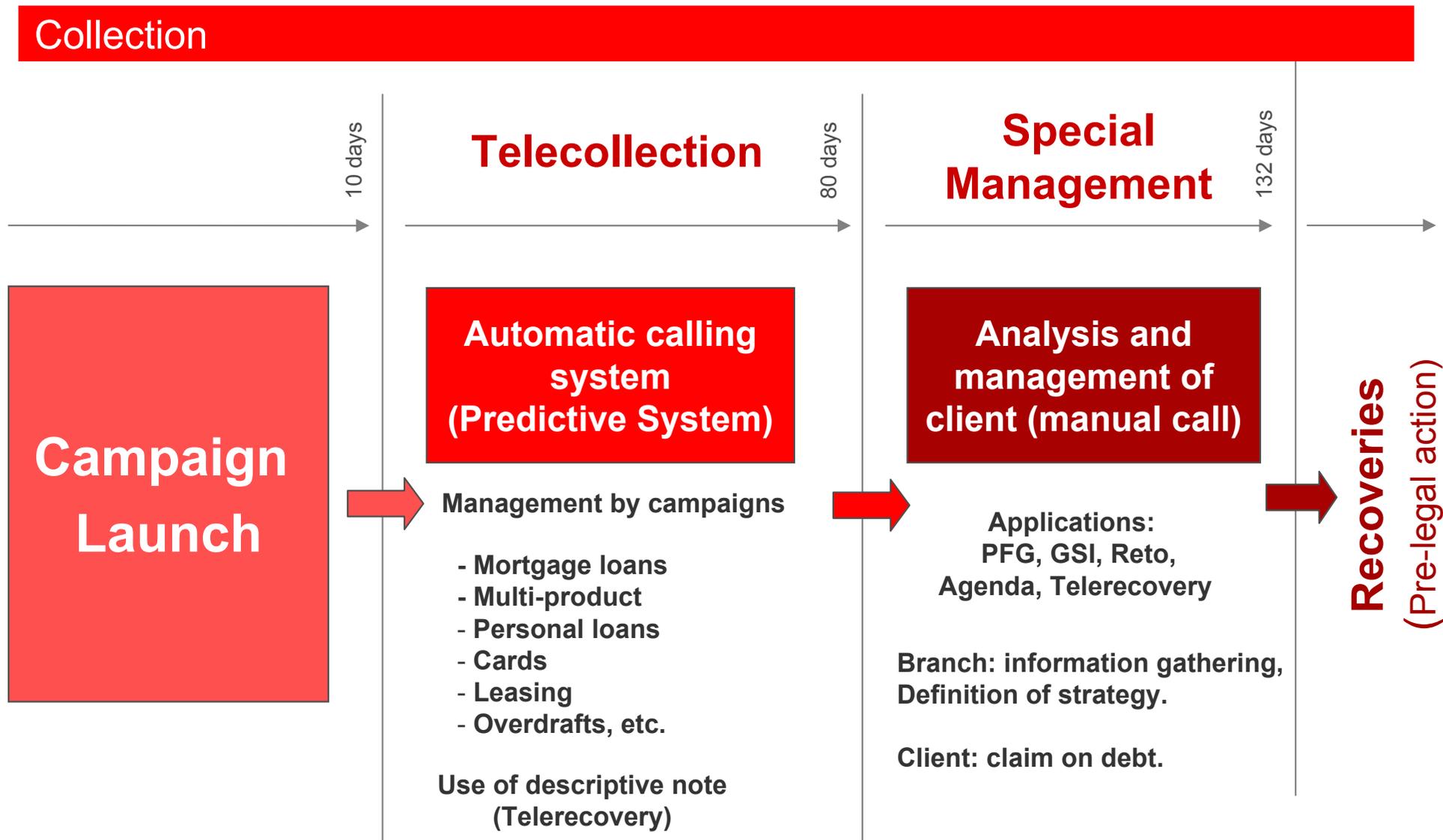
- The automatic resolution falls under “Grey Zone” or “Manual Review”.
- The automatic resolution was “application rejected” and a reconsideration has been requested.

Operations to be reviewed by risk authorisation centre.

- ✓ 95 Analysts located in Operation Decision Units decentralized in 11 Territorials that allow major proximity client/analyst
- ✓ Specialization in Business Operation: Territorial UDO’s specialized in operations purpose business.
- ✓ Rapid Response: high levels of efficiency & productivity
- ✓ Independence in decision-making
- ✓ UDO analyst’s analysis added to automatic decision system result

Source: Grupo Santander

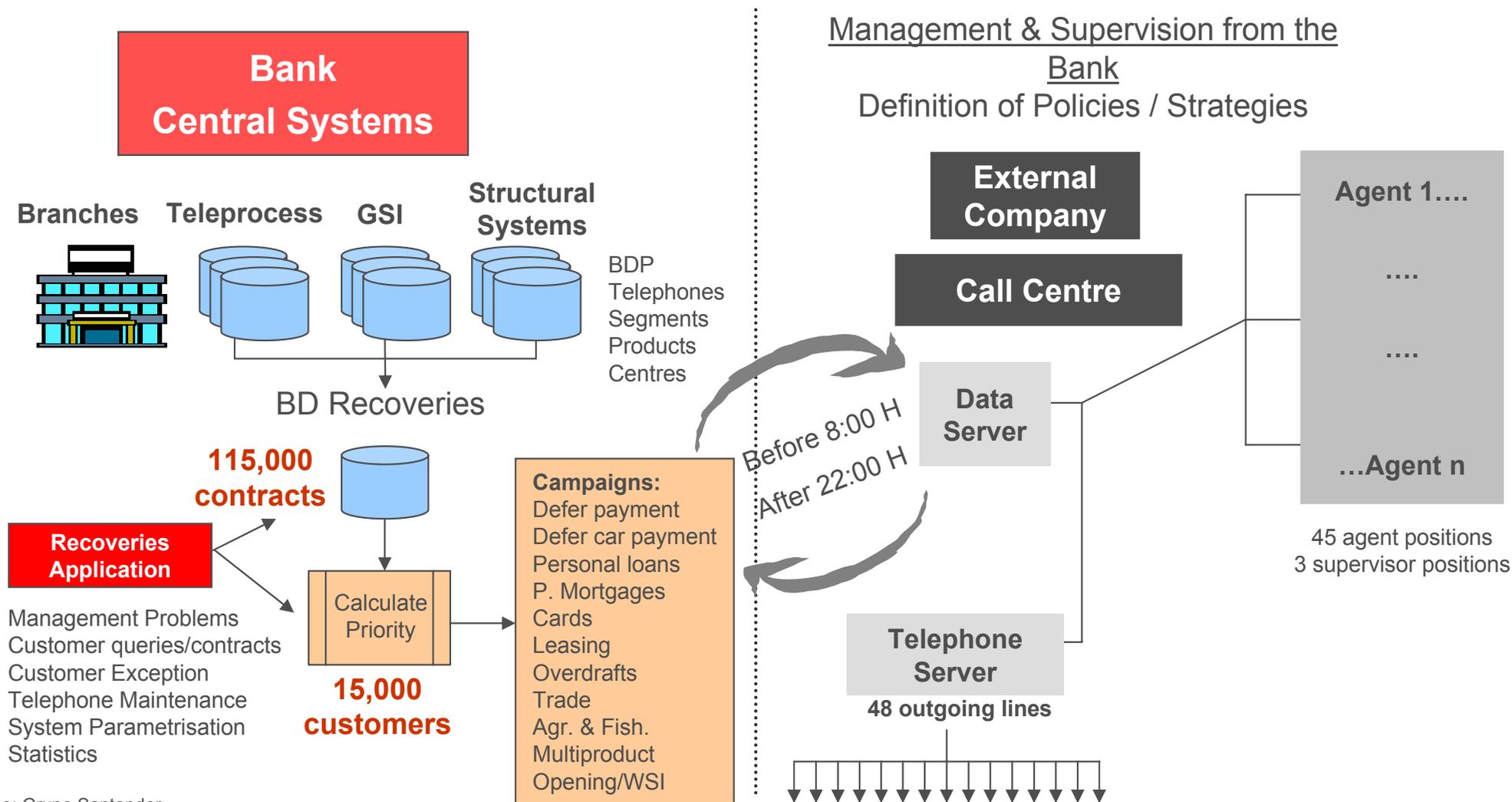
# Follow Up: Systematic Management



Source: Grupo Santander

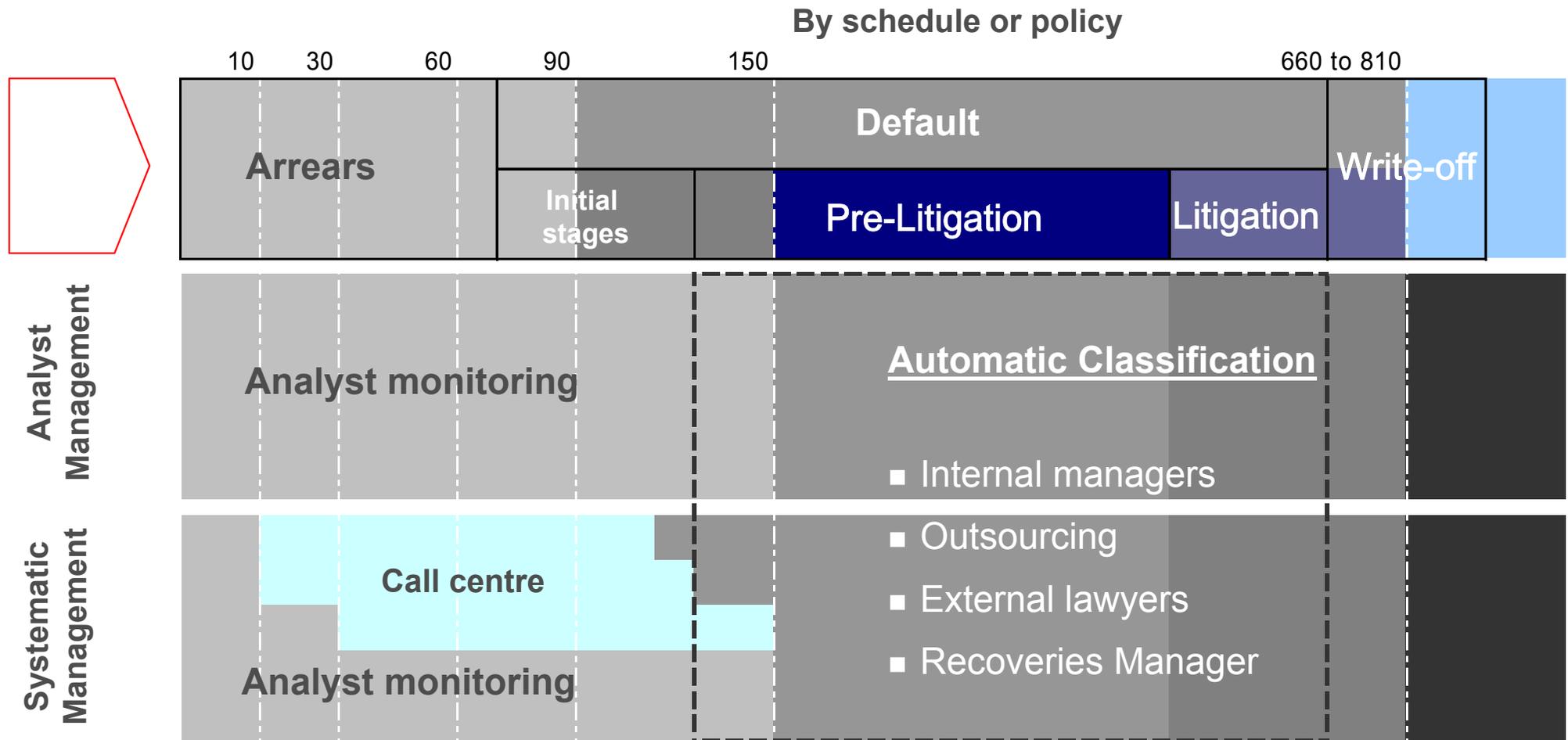
# Follow Up: Systematic Management

## Collection: Reporting & Systems Circuit



Source: Grupo Santander

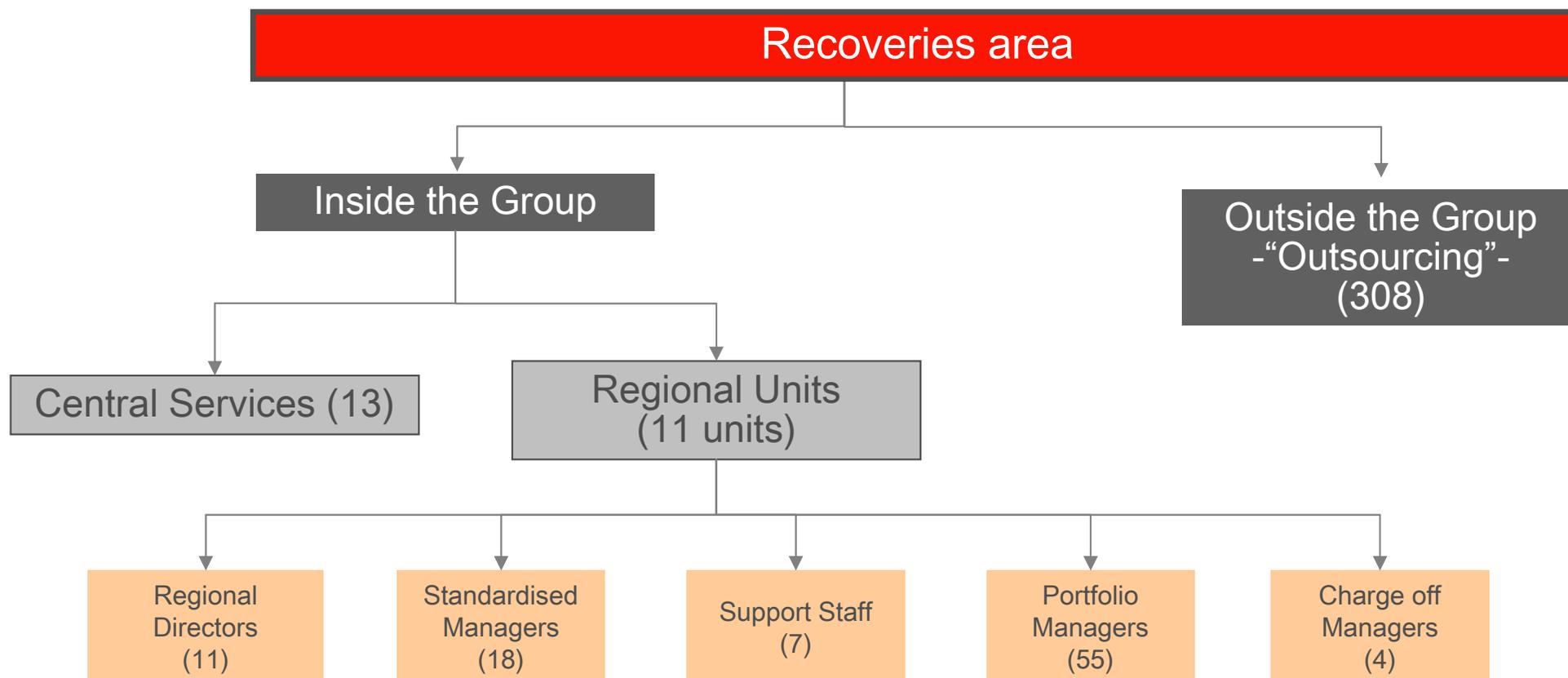
# Recoveries: Global Vision



Source: Grupo Santander

## Recoveries: Process & Organisation

- The Recoveries Area includes 416 people inside (108) and outside (308) Grupo Santander:



Source: Grupo Santander

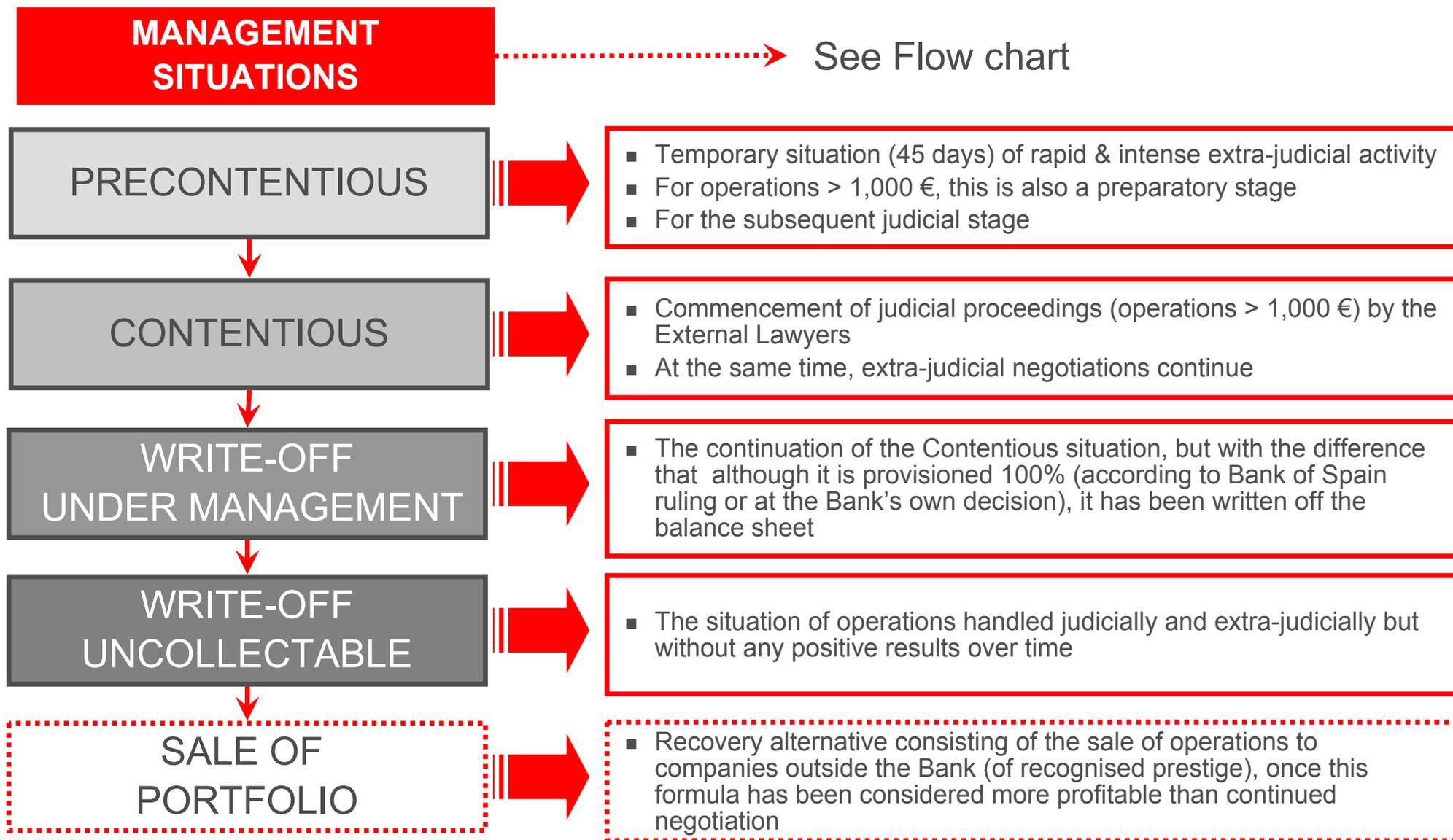
## Recoveries: Recovery Participants



(\*) The remuneration of these collaborators consists of a success-related fee; therefore they do not consume fixed resources.

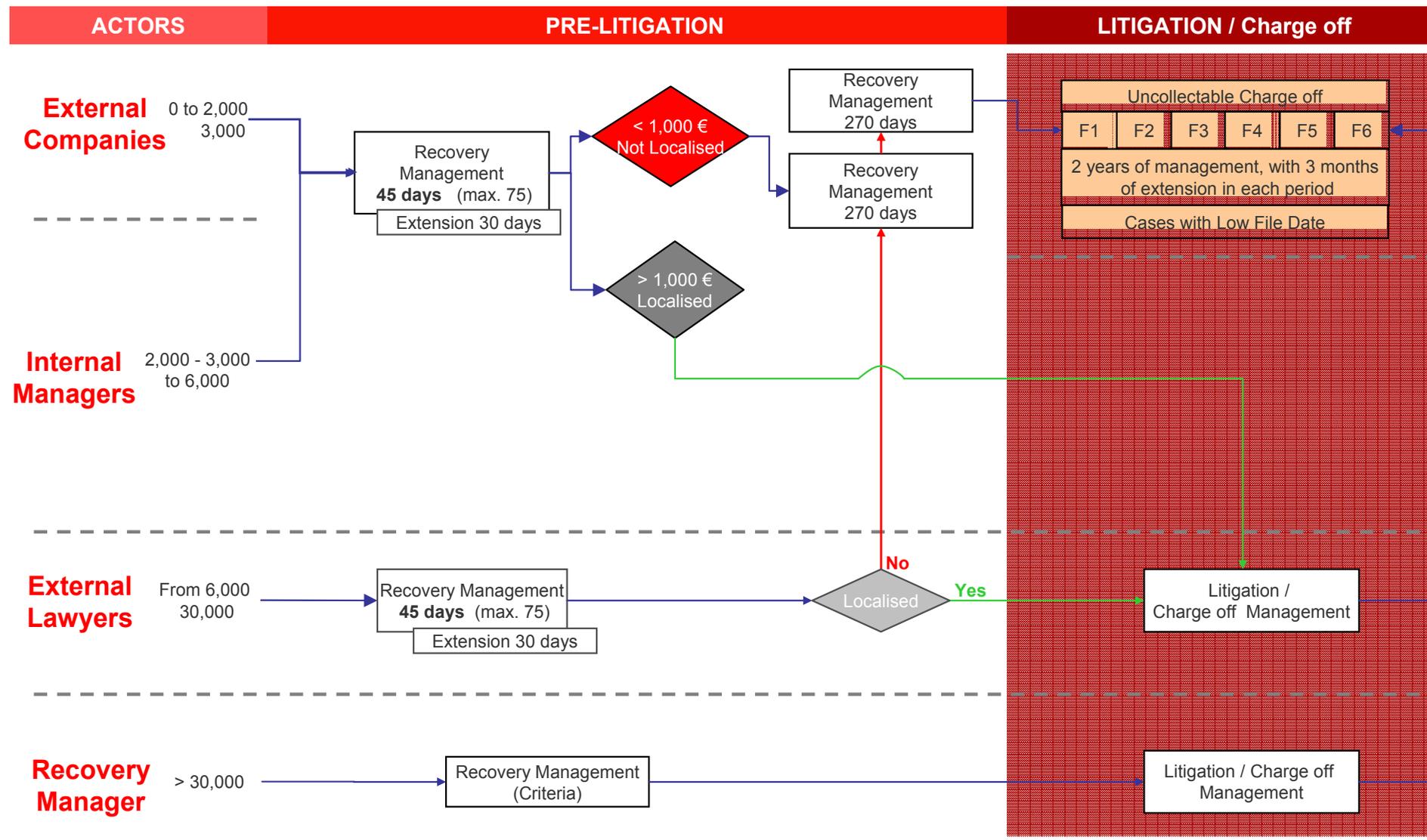
Source: Grupo Santander

# Recoveries: Global View for Spain



Source: Grupo Santander

# Recoveries: Flow Chart

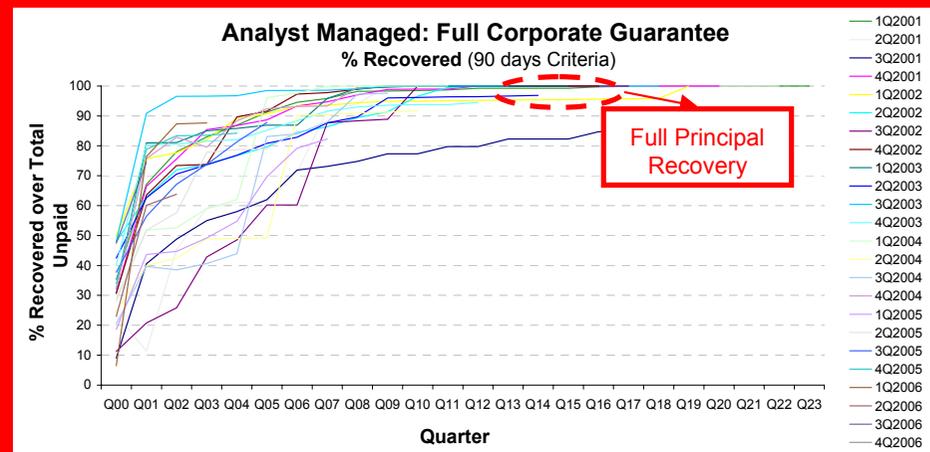
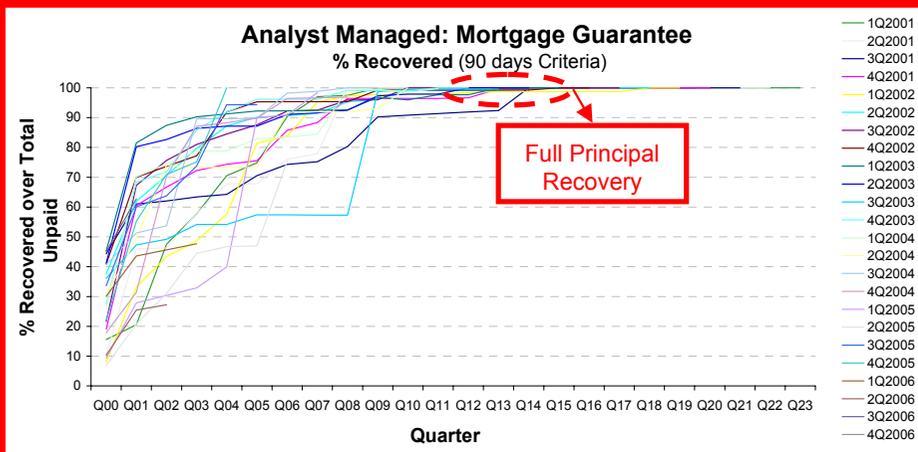
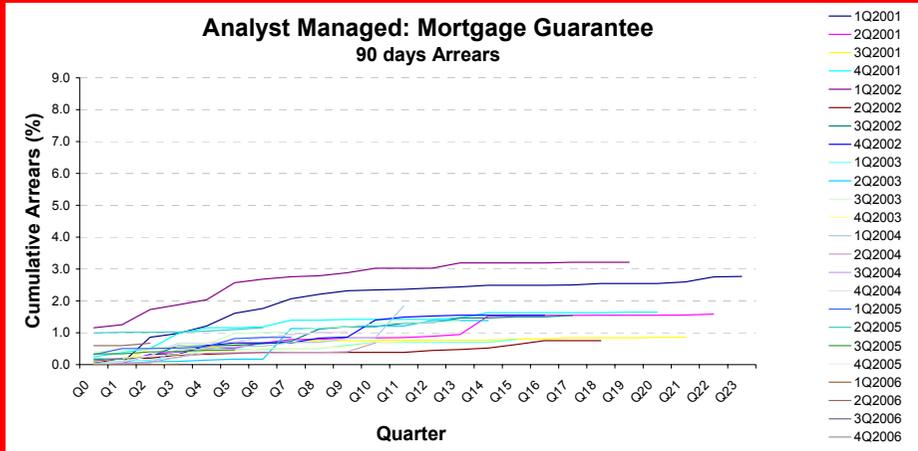


Source: Grupo Santander

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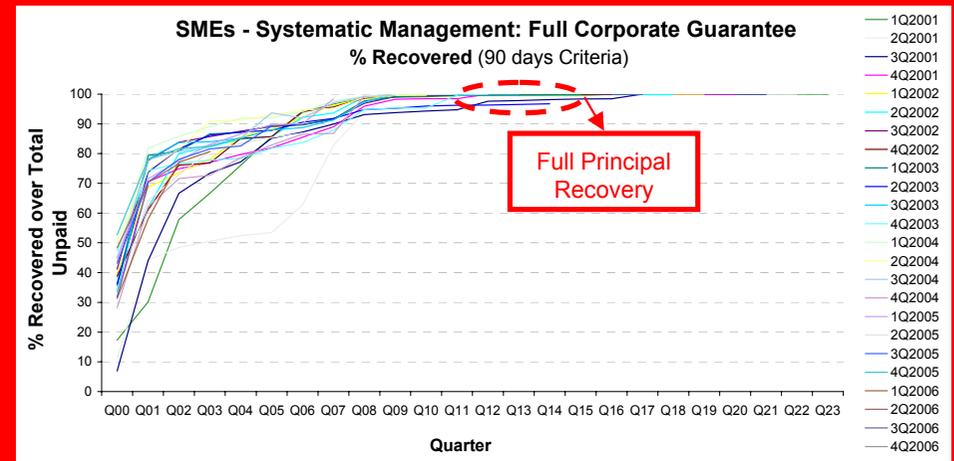
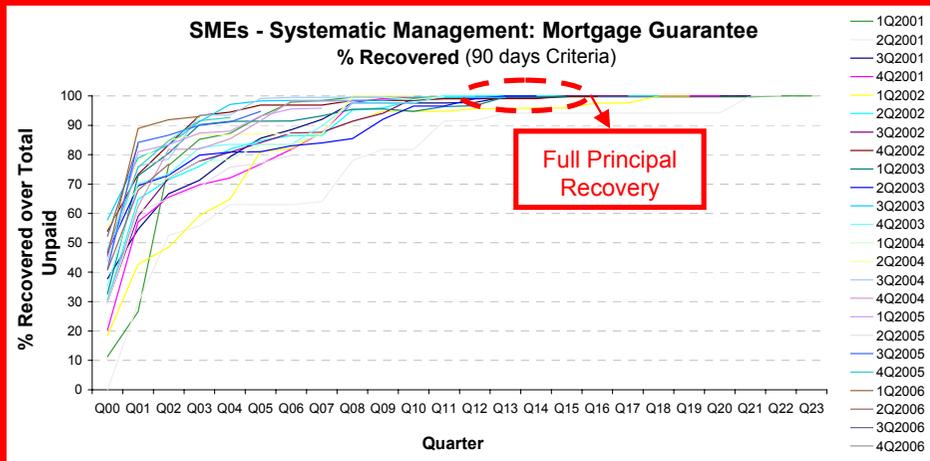
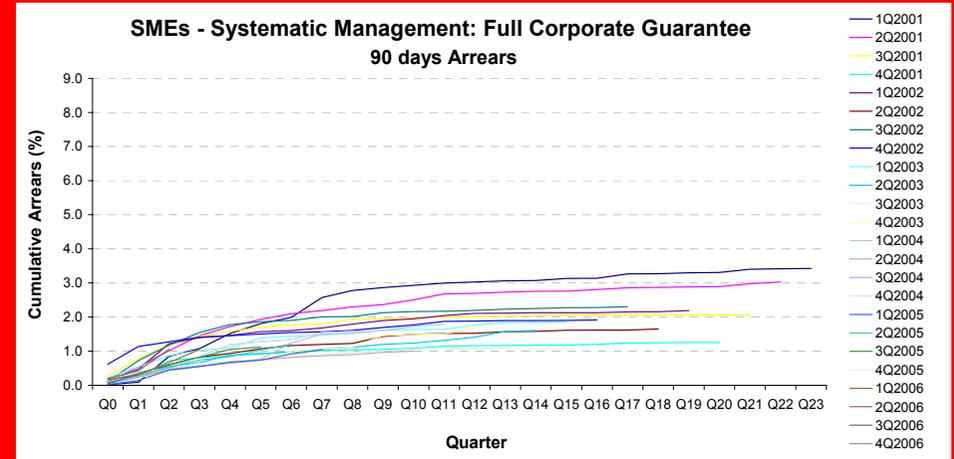
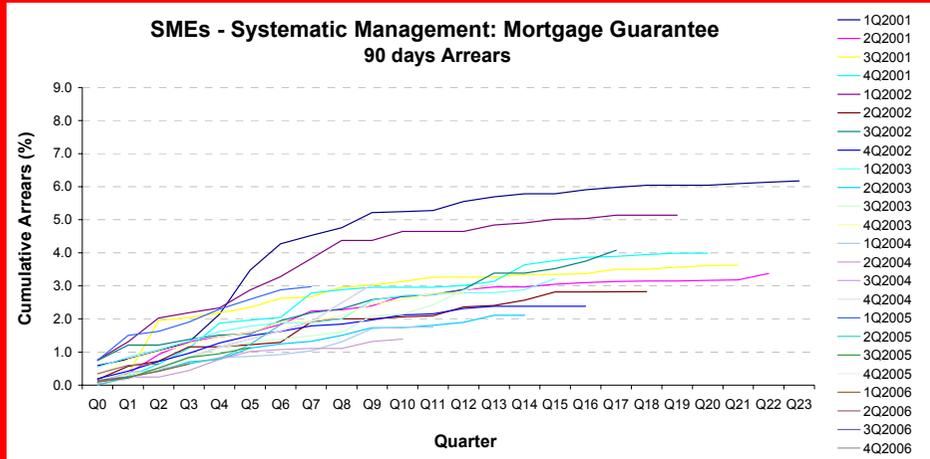
# Analyst Managed: 90+ days arrears & recoveries historical study



Note: Recoveries are calculated over the amount that entered in arrears during the corresponding period, regardless of the vintage of origination

Source: Grupo Santander

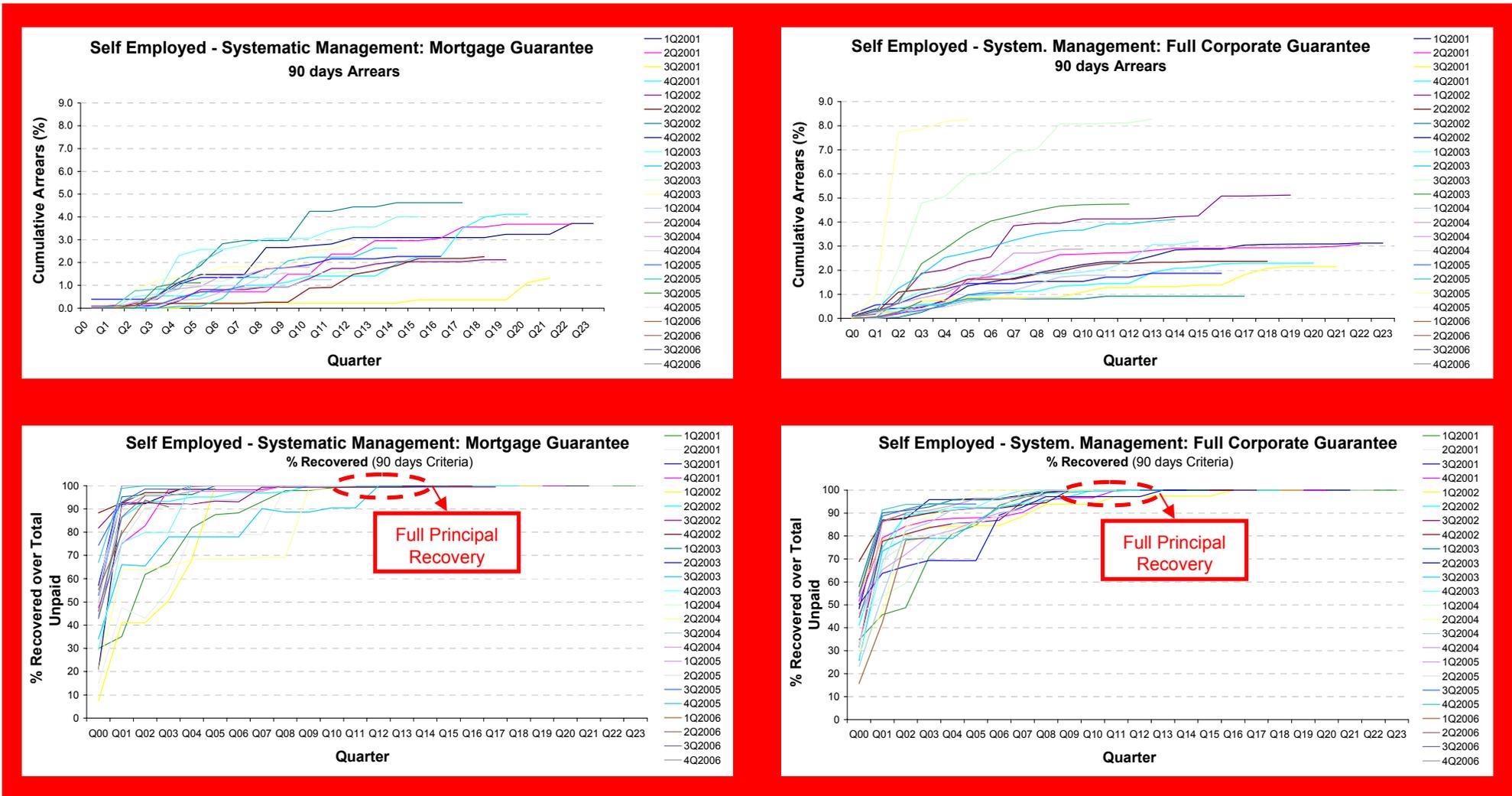
# Systematic Management - SME's: 90+ days arrears & recoveries historical study



Note: Recoveries are calculated over the amount that entered in arrears during the corresponding period, regardless of the vintage of origination

Source: Grupo Santander

# Systematic Management - Self Employed: 90+ days arrears & recoveries historical study



Note: Recoveries are calculated over the amount that entered in arrears during the corresponding period, regardless of the vintage of origination

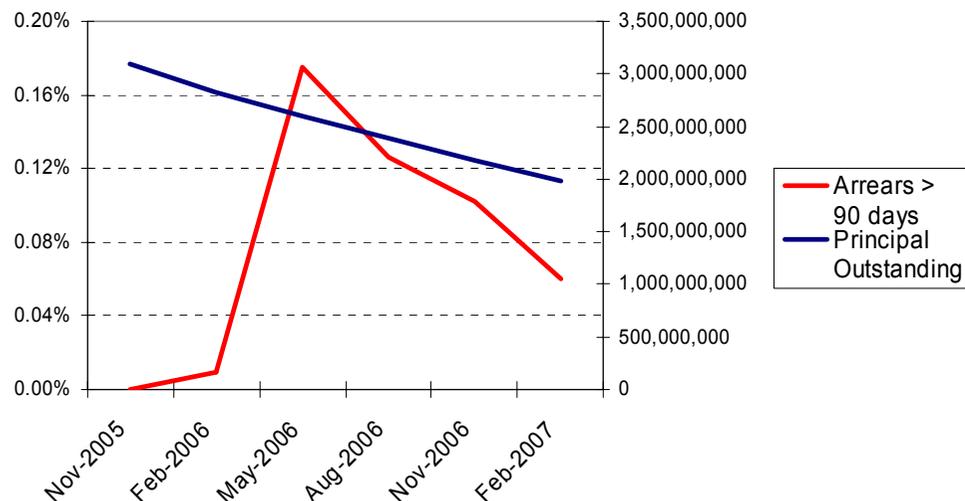
Source: Grupo Santander

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# Previous Santander Empresas transactions performance

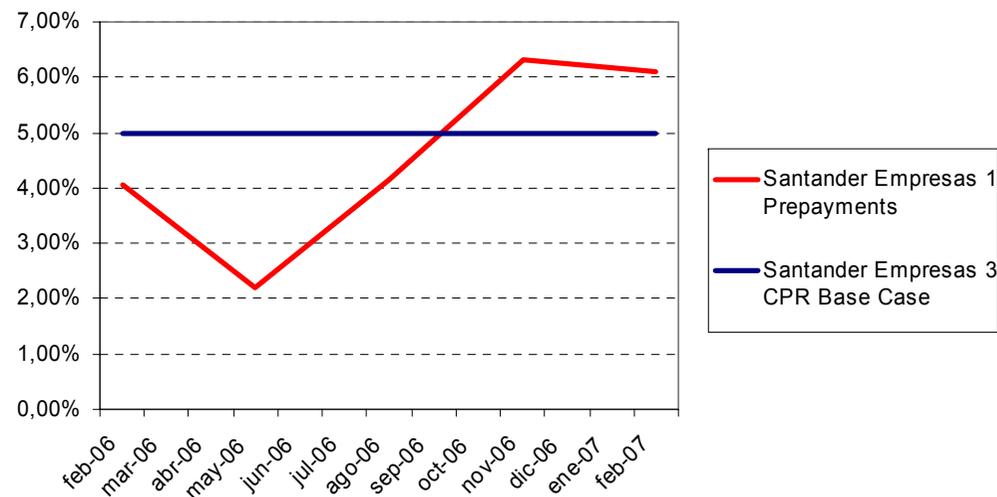
Santander Empresas 1 Arrears Performance



*As Santander Empresas 2 was closed in December 2006, there is no relevant information on performance yet*

*Santander Empresas 1 had a good performance both in arrear levels and recoveries*

Santander Empresas 1 CPR since Constitution



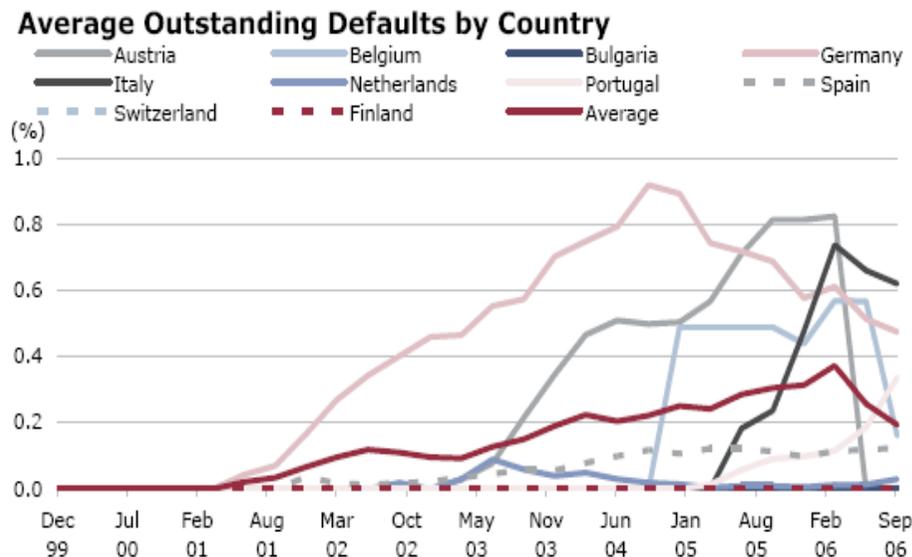
*Moderated prepayment speed.*

*5% CPR is a very conservative assumption for Santander Empresas 3*

Source: Grupo Santander. Santander Empresas 1 Investor reports

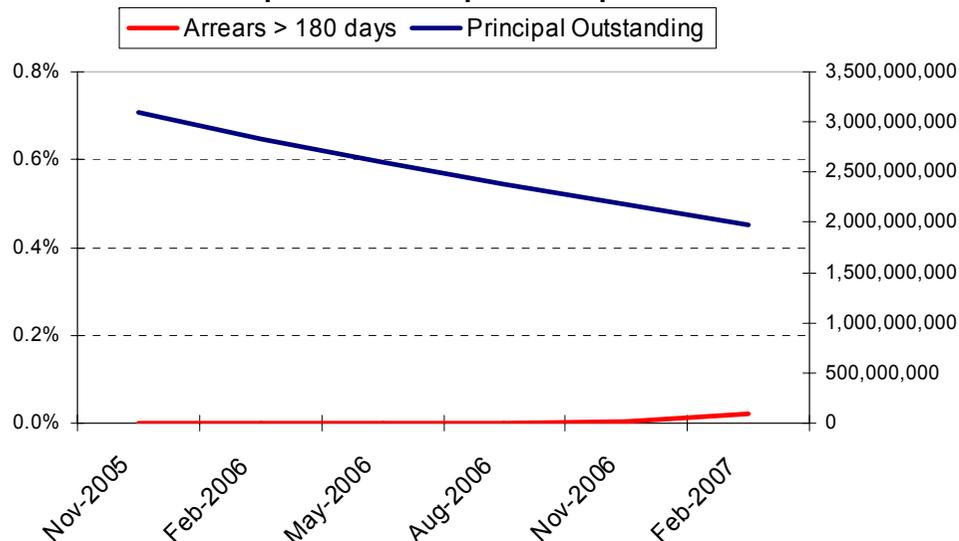
# Previous Santander Empresas transactions performance (cont'd)

*According to Fitch Ratings - SME European SME CDO Performance Tracker -, Spain has one of the lowest default levels amongst European countries*



Source: DerivativeFitch. Pan-European SME CDO Performance Tracker. Feb 2007

## Santander Empresas 1 delinquencies performance



Source: Grupo Santander. Santander Empresas 1 Investor reports

*Santander Empresas 1's performance is even better than the Spanish average*

# Comparison of Santander Empresas deals

Deal	Santander Empresas 1	Santander Empresas 2	Santander Empresas 3	Santander Empresas 3
Issue Size	EUR 3,100,000,000	EUR 2,954,000,000	EUR 3,500,000,000	EUR 3,500,000,000
Closing Date	October 2005	December 2006	May 2007	May 2007
Legal Final Maturity	November 2038	June 2050	October 2049	[October 2049]
Rating Agencies	Fitch / S&P	Fitch / Moody's / S&P	Fitch / Moody's / S&P	Fitch / Moody's / S&P
<b>Capital Structure</b>				
AAA	88.80%	91.90%	92.21%	[92.21%]
AA	2.60%	2.90%	1.13%	[1.13%]
A	3.10%	2.15%	3.35%	[3.35%]
BBB	5.50%	2.05%	2.00%	[2.00%]
BB	N/A	1.00%	1.30%	[1.30%]
Reserve Fund (as of Issue Date)	2.30%	1.85%	1.30%	[1.30%]
<b>Credit Enhancement</b>				
AAA	13.50%	9.95%	9.09%	[9.09%]
AA	10.90%	7.05%	7.95%	[7.95%]
A	7.80%	4.90%	4.60%	[4.60%]
BBB	2.30%	2.85%	2.60%	[2.60%]
BB	N/A	1.85%	1.30%	[1.30%]
Guaranteed Excess Spread	65 bps	65 bps	65 bps	[65] bps
<b>WAL's assumptions as per Folleto</b>				
Class A1 (AAA)	0.80	0.87	0.44	[0.44]
Class A2 (AAA)	3.23	3.88	2.38	[2.38]
Class A3 (AAA)	N/A	N/A	7.56	[7.56]
Class B (AA)	6.64	7.68	10.64	[10.64]
Class C (A)	7.02	7.68	10.64	[10.64]
Class D (BBB)	7.02	7.68	10.64	[10.64]
Class E (BB)	N/A	7.68	10.64	[10.64]
<b>Type of Amortisation</b>				
	Fully sequential	Fully sequential	Fully sequential	Fully sequential
	Pro-rata among A classes under certain conditions			
<b>Artificial Write-Off</b>				
	18 months	12 months	12 months	12 months

Source: Grupo Santander. Rating Agencies

## Comparison of Santander Empresas deals (cont'd)

Deal	Santander Empresas 1	Santander Empresas 2	Santander Empresas 3
<b>Portfolio Characteristics</b>			
Number of Loans	17,821	21,198	[25,882]
Average Loan Size	180,908	144,917	[144,000]
Mortgage guaranteed	29.52%	19.24%	[42.19%]
Largest 10 Obligors (%)	7.90%	9.50%	[9.66%]
<b>Seasoning, Term</b>			
WA Seasoning (months)	19	18	[22]
WA Time to Maturity (months)	88	76	[112]
<b>Interest Rate</b>			
WA Interest Rate	3.06%	3.96%	[4.37%]
Min Interest Rate	1.00%	1.00%	[1.50%]
Max Interest Rate	13.50%	18.00%	[18.00%]
<b>Geographic Concentration</b>			
Madrid	20.75%	25.82%	[24.66%]
Catalonia	15.94%	13.39%	[17.46%]
Andalucia	14.73%	12.13%	[12.30%]
Valencia	11.57%	6.58%	[7.30%]
<b>Type of Borrower</b>			
Self-Employed	14.17%	11.75%	[21.04%]
Micro-Enterprise	29.60%	19.61%	[21.68%]
SME's	18.05%	21.12%	[18.51%]
Enterprise	26.37%	29.74%	[26.02%]
Big Enterprise	11.81%	17.78%	[12.75%]
<b>Industry Group Distribution</b>			
Real Estate	21.99%	28.15%	[26.10%]
Construction	9.36%	7.88%	[8.36%]
Other managements activities	7.72%	8.05%	[4.34%]
Food and beverage Industry	7.65%	5.70%	[4.51%]
Wholesale trade	7.38%	5.26%	[5.41%]

Source: Grupo Santander. Rating Agencies

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## Grupo Santander at a glance

### Profile

- First financial company in the euro zone by market capitalisation and twelfth in the world (Dec'06)
- First financial group in the Iberian Peninsula
  - First in Spain\*
  - Fourth in Portugal\*<sup>1</sup>
- Sixth banking group in the UK<sup>2</sup>
- Among the leaders in consumer finance in Europe
- Leader in Latin American banking franchise
- Largest retail network in Western countries

### Basic data Q1'07

■ Market capitalisation (30/03/07)	€83.6bn
■ Customer funds <sup>3</sup>	€771bn
■ Gross loans	€531bn
■ Total funds under management <sup>4</sup>	€1,025bn
■ Attributable profit (Dec.'06)	€7.6bn
■ Attributable profit (Q1'07)	€1.8bn
■ Customers (millions)	69
■ Employees (#)	134,638
■ Branches (#)	10,978
■ Shareholders (millions)	2.3

(\*) By credits, deposits and mutual funds

(1) 2<sup>nd</sup> privately-owned bank in Portugal by net income

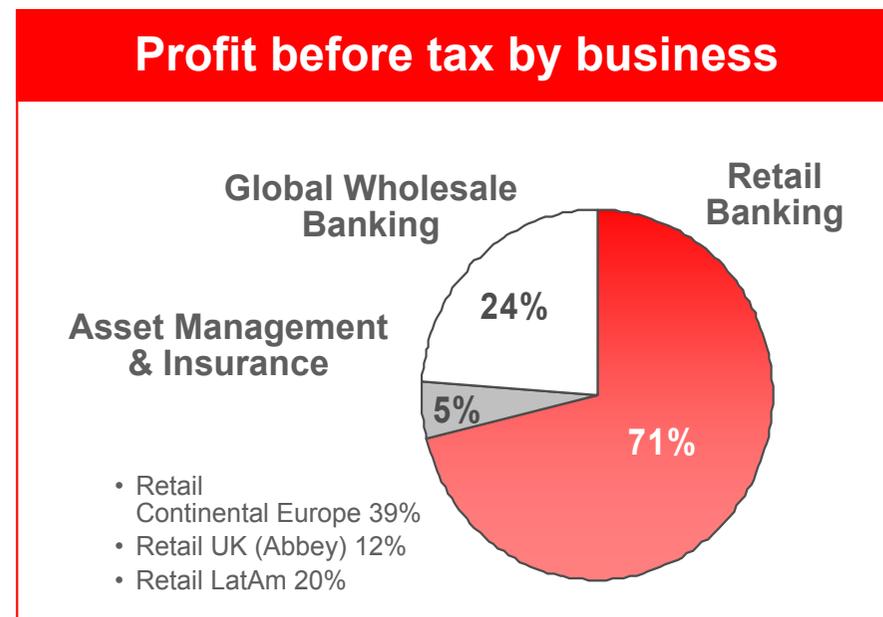
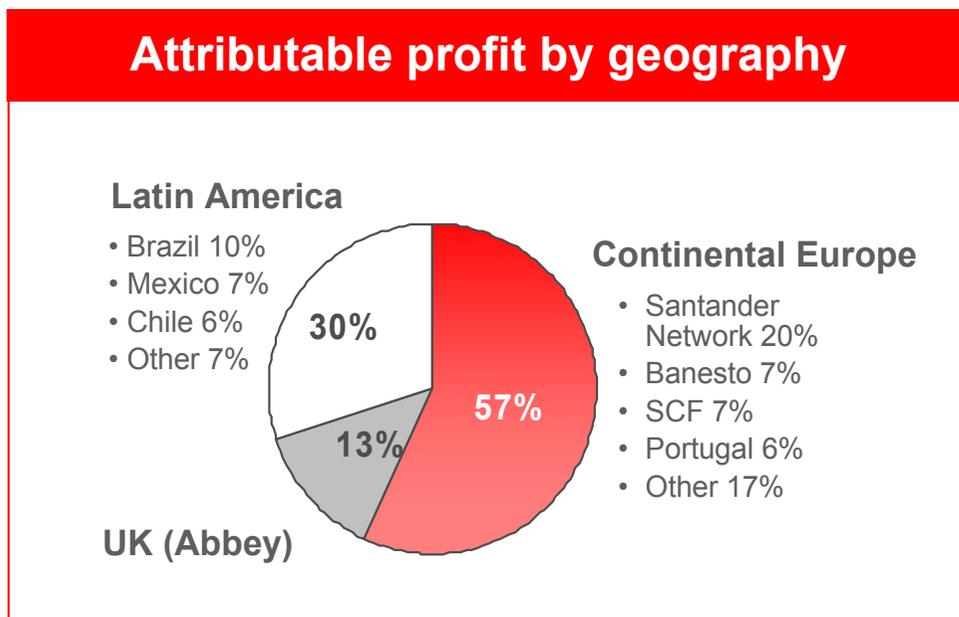
(2) By assets, and 3<sup>rd</sup> by mortgages

(3) Total funds on and off-balance

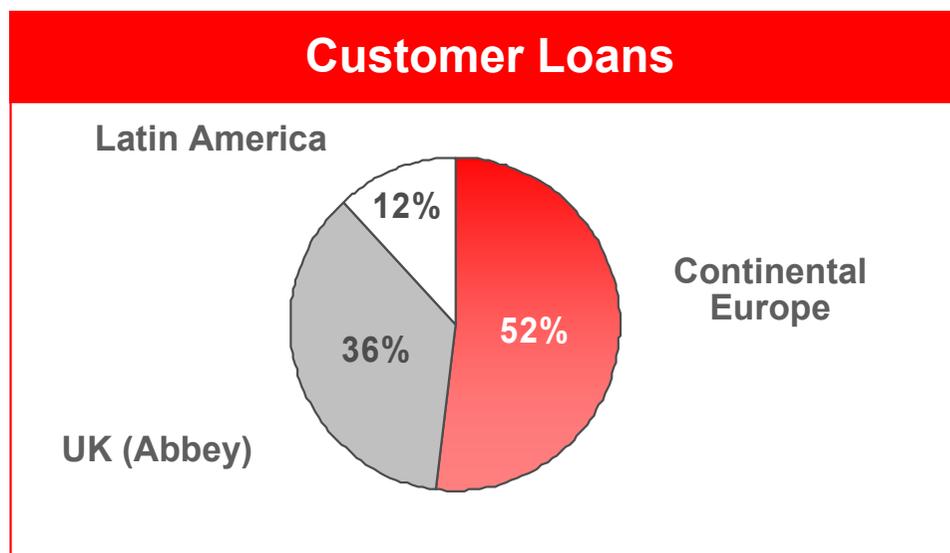
(4) Total assets + off-balance sheet funds

Source: Grupo Santander

# ... with Diversified Business & Location

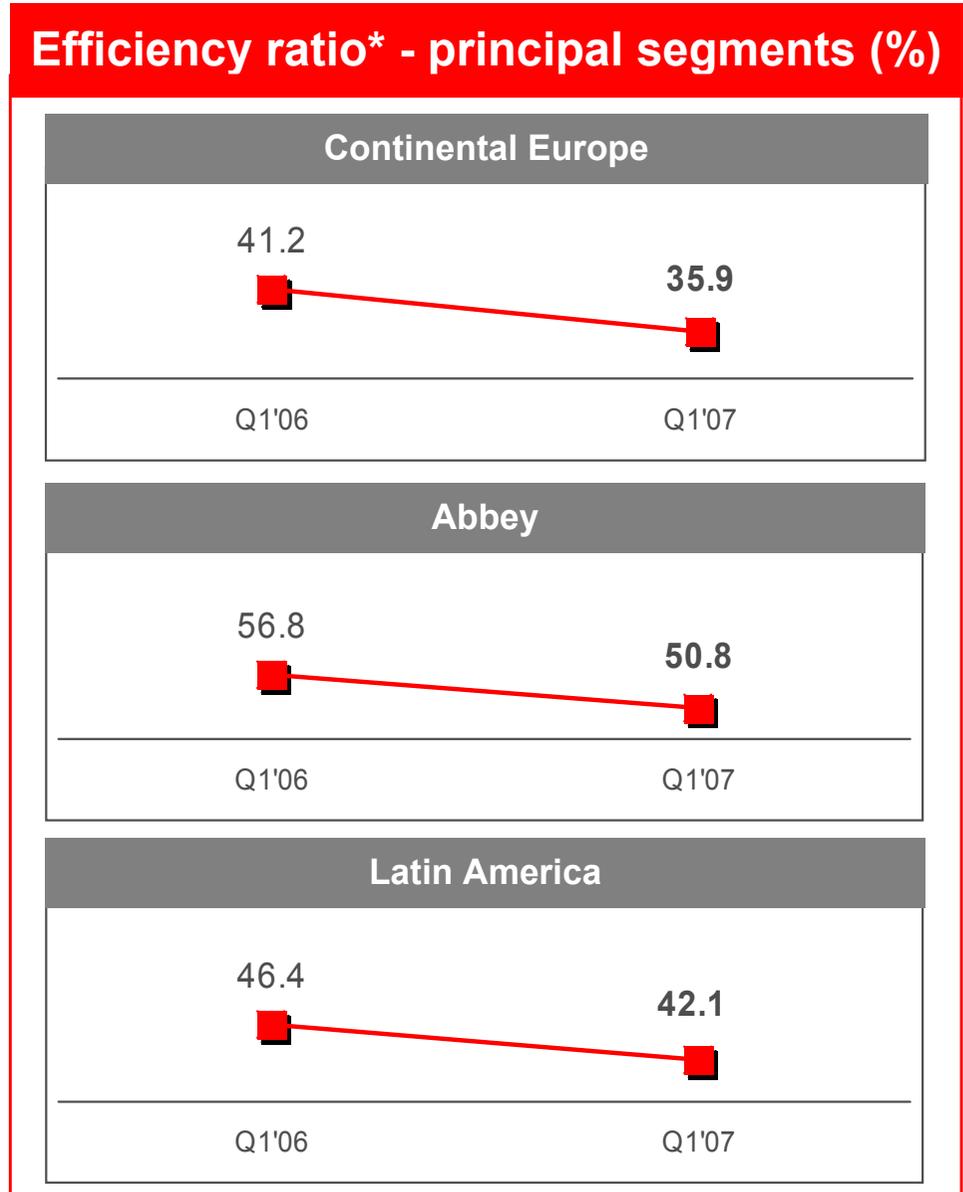
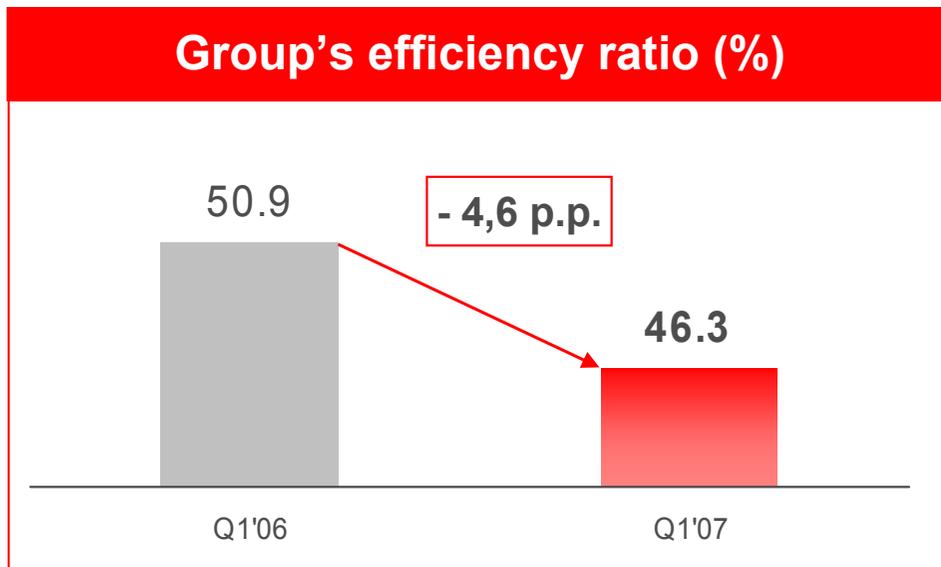


Note: Data as of Q1 '07



Source: Grupo Santander

# Group's efficiency ratio

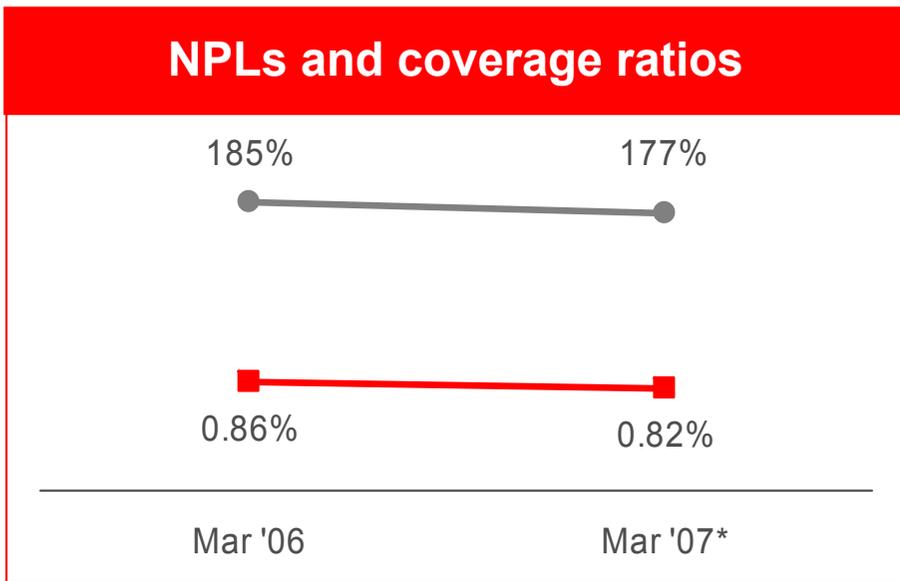


Source: Grupo Santander

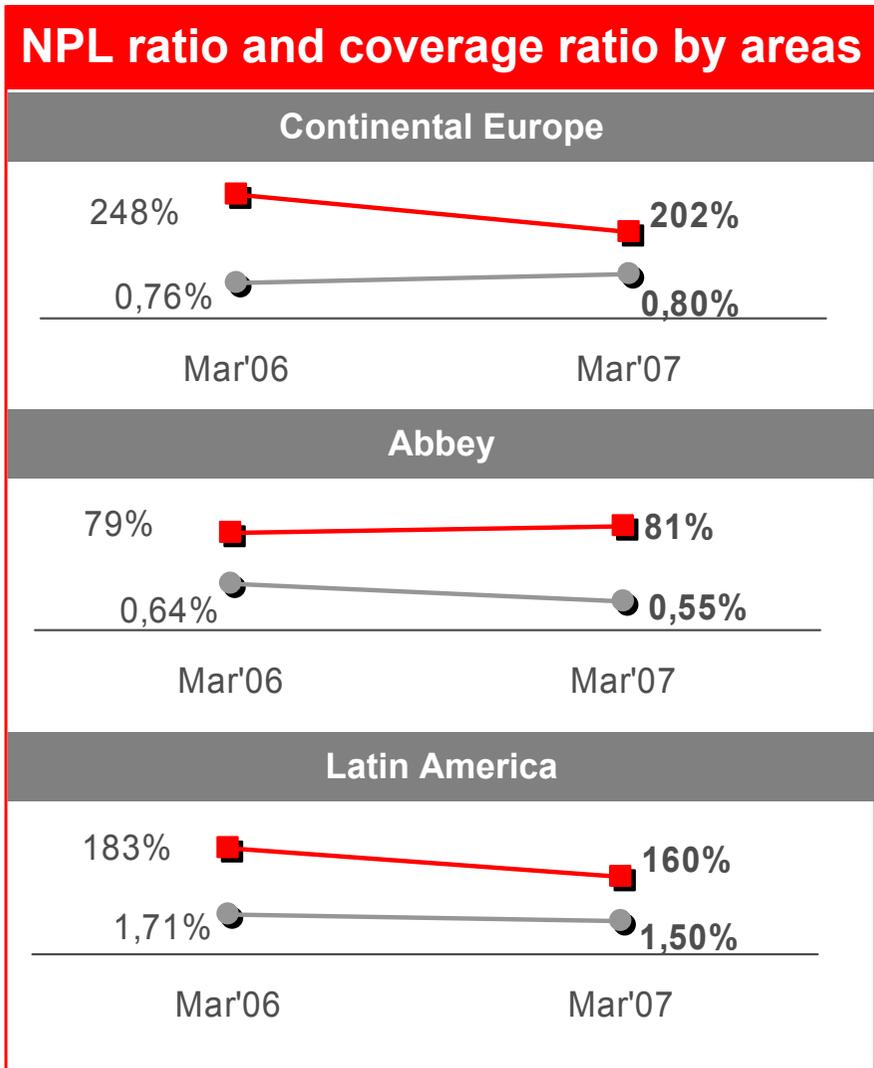
(\*) Including amortisations

# Risk Quality: One of the Group's Trademarks (I)

Maintaining historical lows in NPL ratios with a high coverage ratio, compatible with the change in business mix ...



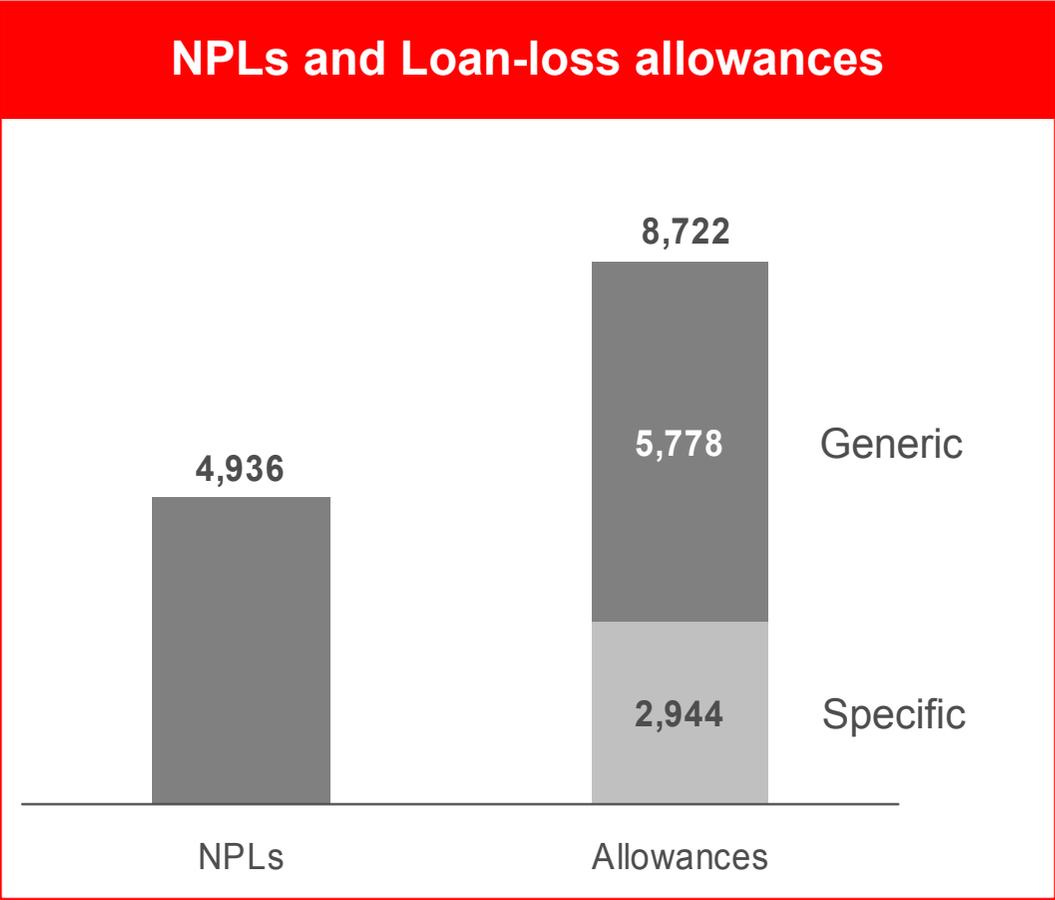
■ Coverage ratio ● NPL ratio



Source: Grupo Santander

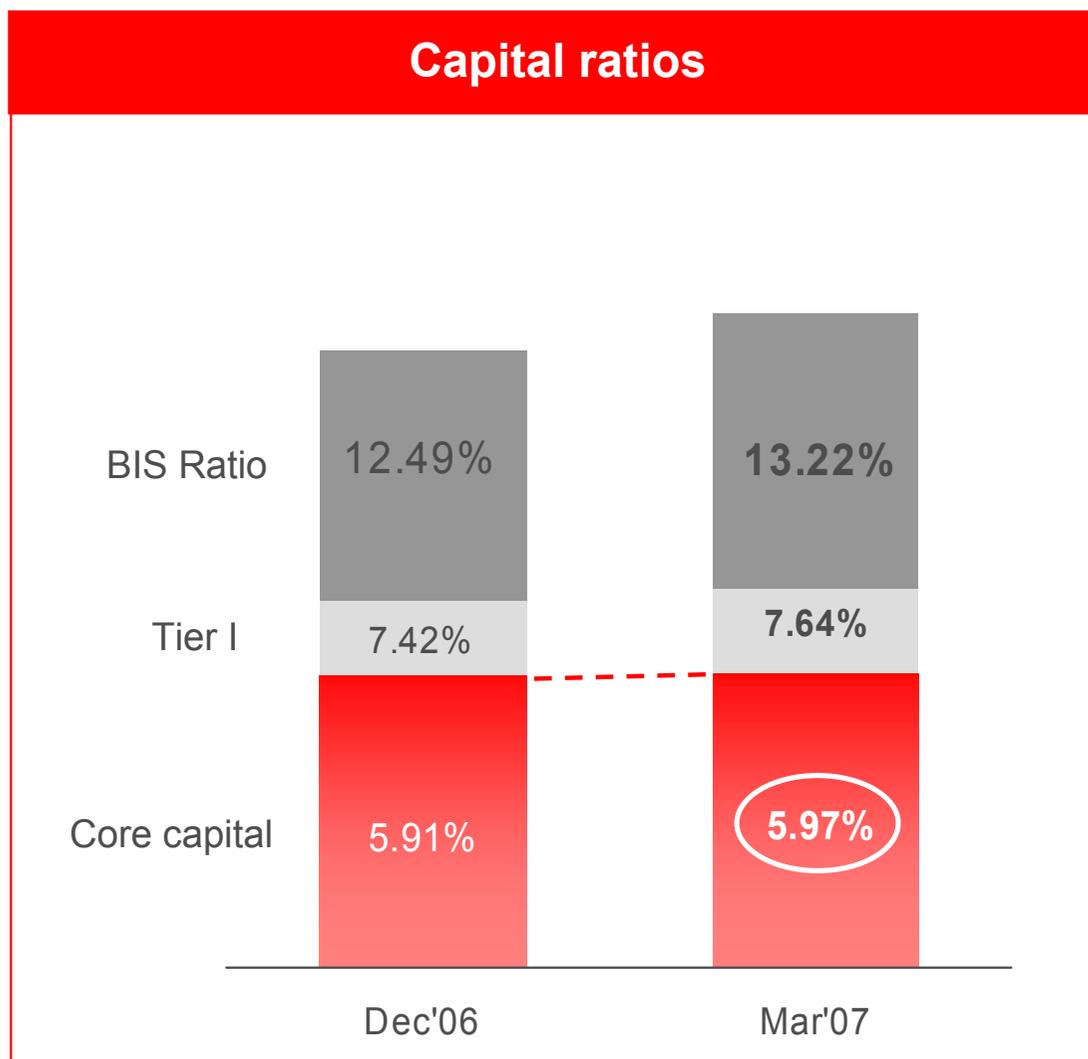
## Risk Quality: One of the Group's Trademarks (II)

... and substantial loan-loss allowances (approximately EUR 5.7 billion of generic funds)



Source: Grupo Santander

# Grupo Santander's Regulatory Capital



Source: Grupo Santander

## Key highlights

- Maintaining strong liquidity ratios by limiting recourse to short term funding
- Diversifying funding by markets, products and currencies
- Optimising balance sheet management, by issuing covered bonds and securitisation
- Monitoring and managing interest rate and currency risk exposure
- Measuring and optimising the use of economic capital
- Managing proactively credit risk exposure
- Coordinating global ALM policy



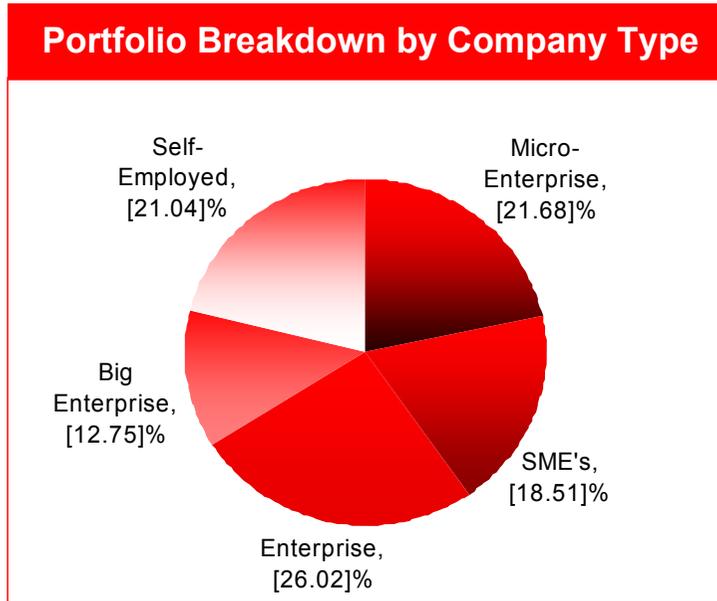
**Santander Asset and Liability Management policies are focused on maintaining balance sheet strength**

Source: Grupo Santander

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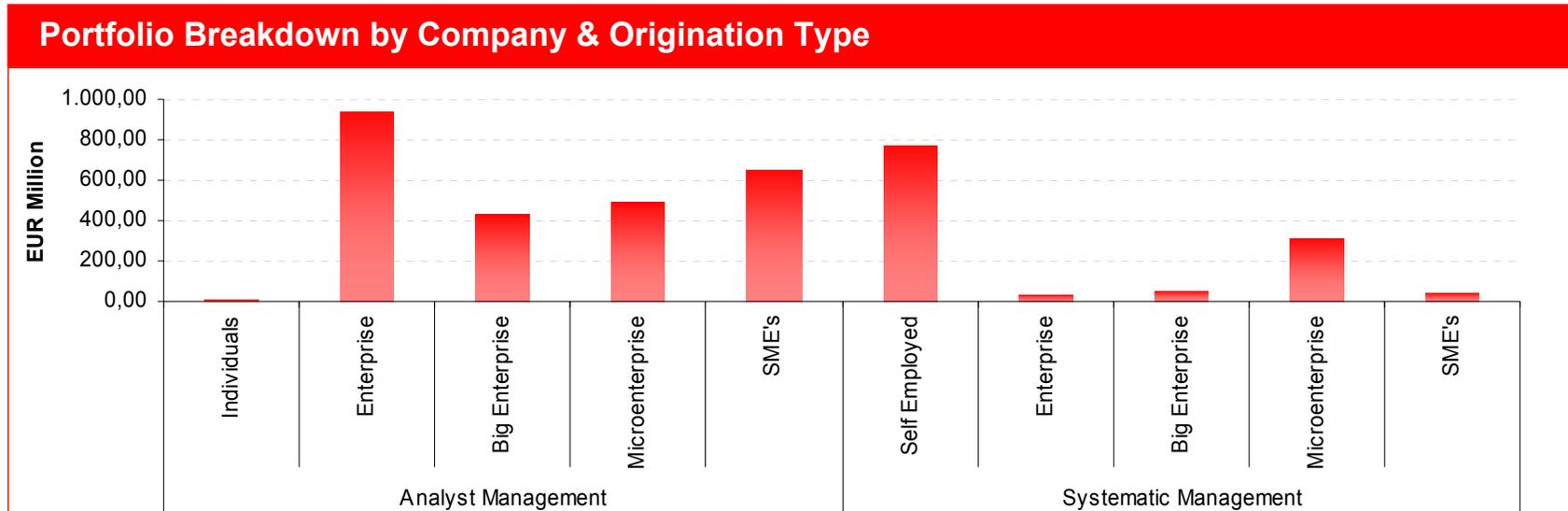
# Santander Empresas 3 - Breakdown by Company Type



*Micro-enterprises and SME's account for 40% of the outstanding balance.*

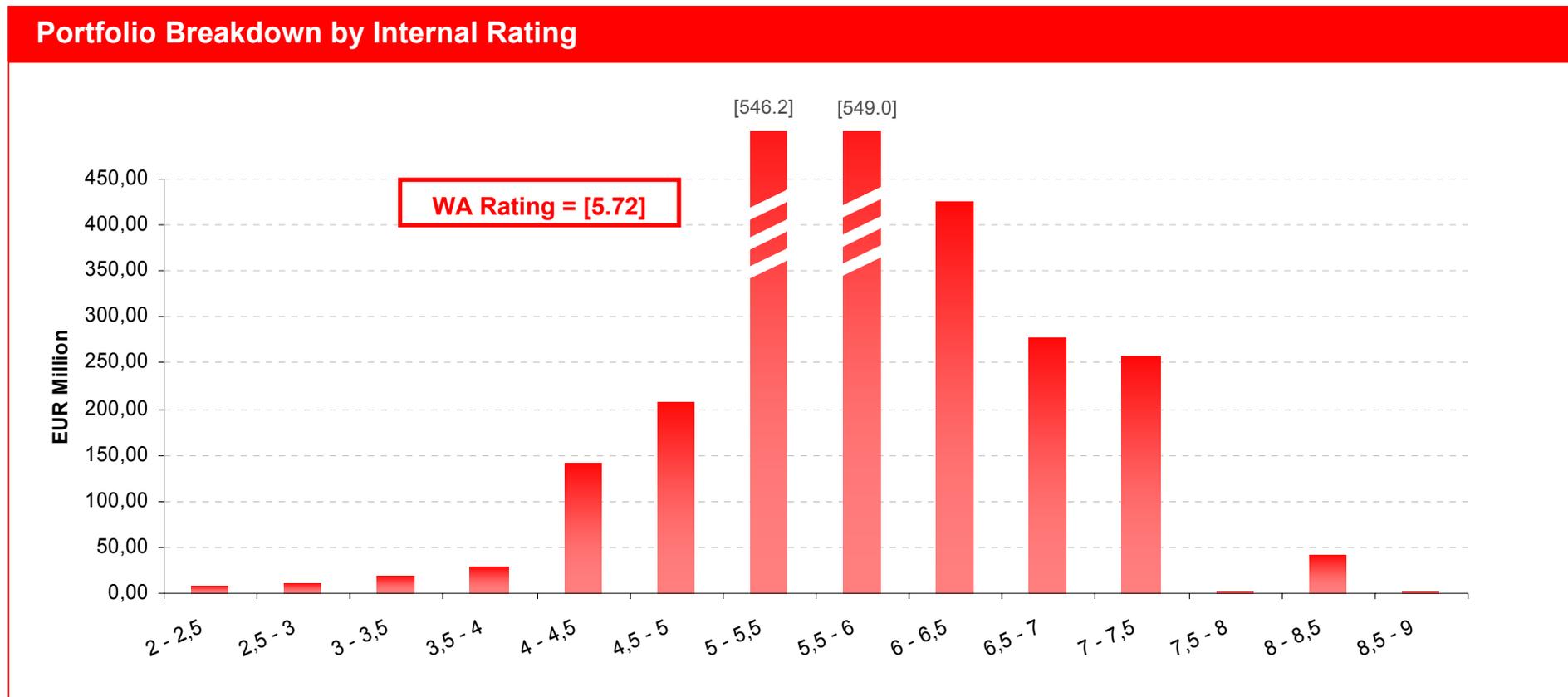
### Company classification in terms of sales

Micro-Enterprises:	Sales <= EUR 2mn
SME's:	Sales = EUR 2-10mn
Enterprises:	Sales = EUR 10-18.030mn
Big Enterprises:	Sales > EUR 18.030mn
Self Employed (Individuals):	N/A



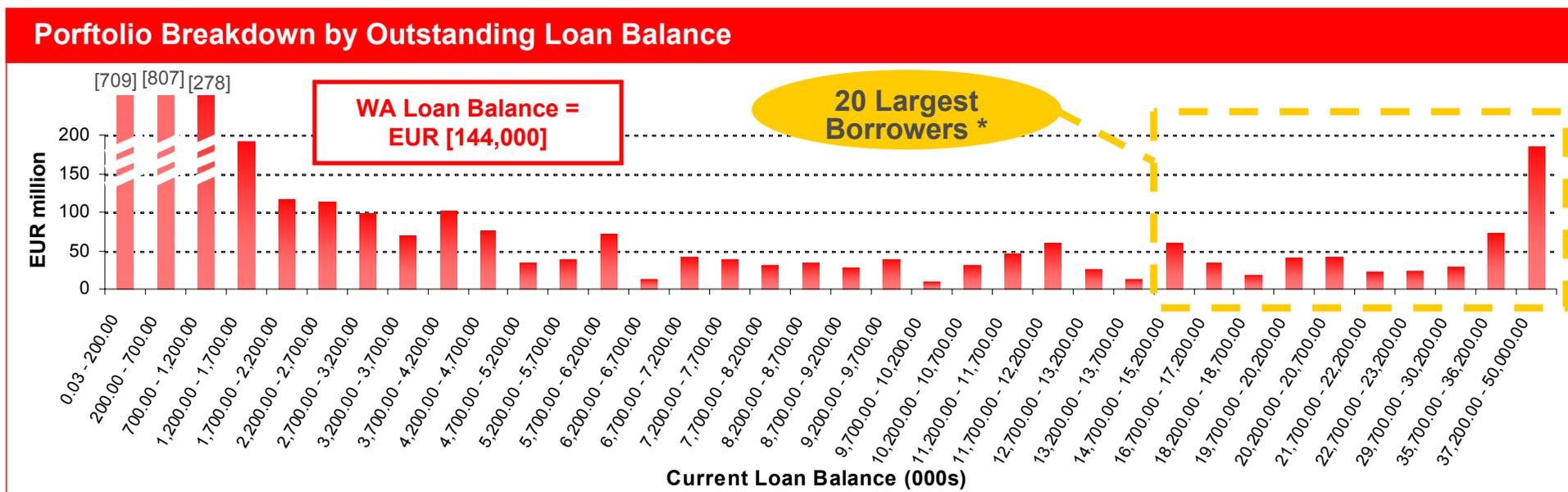
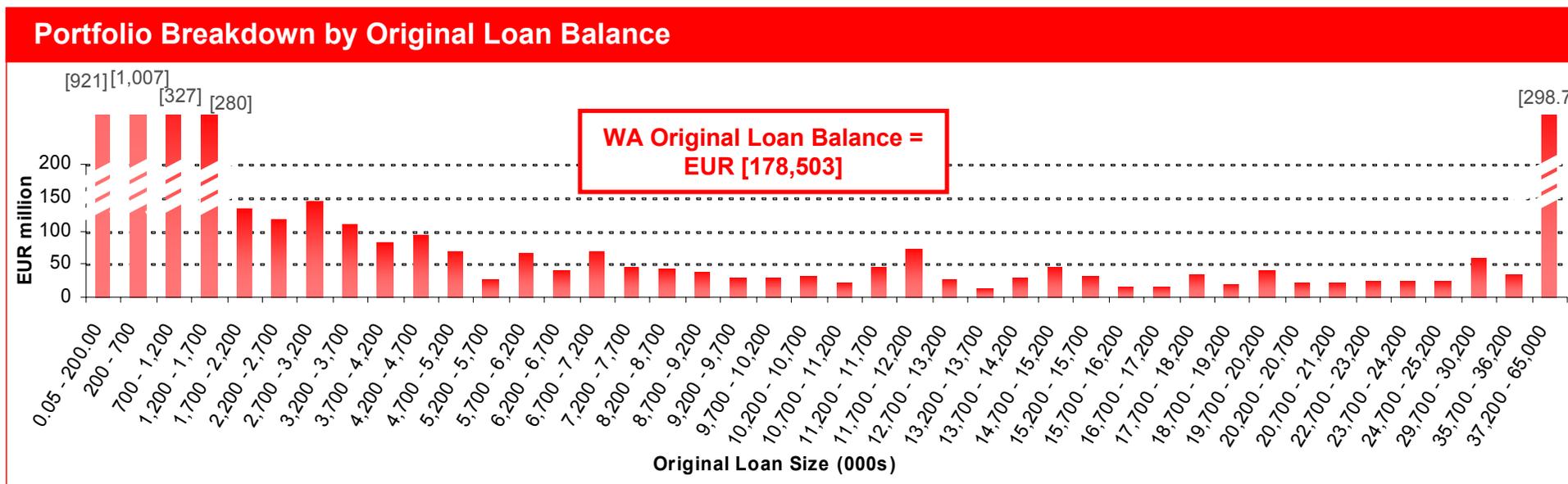
Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Internal Rating



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Original & Current Loan Balance

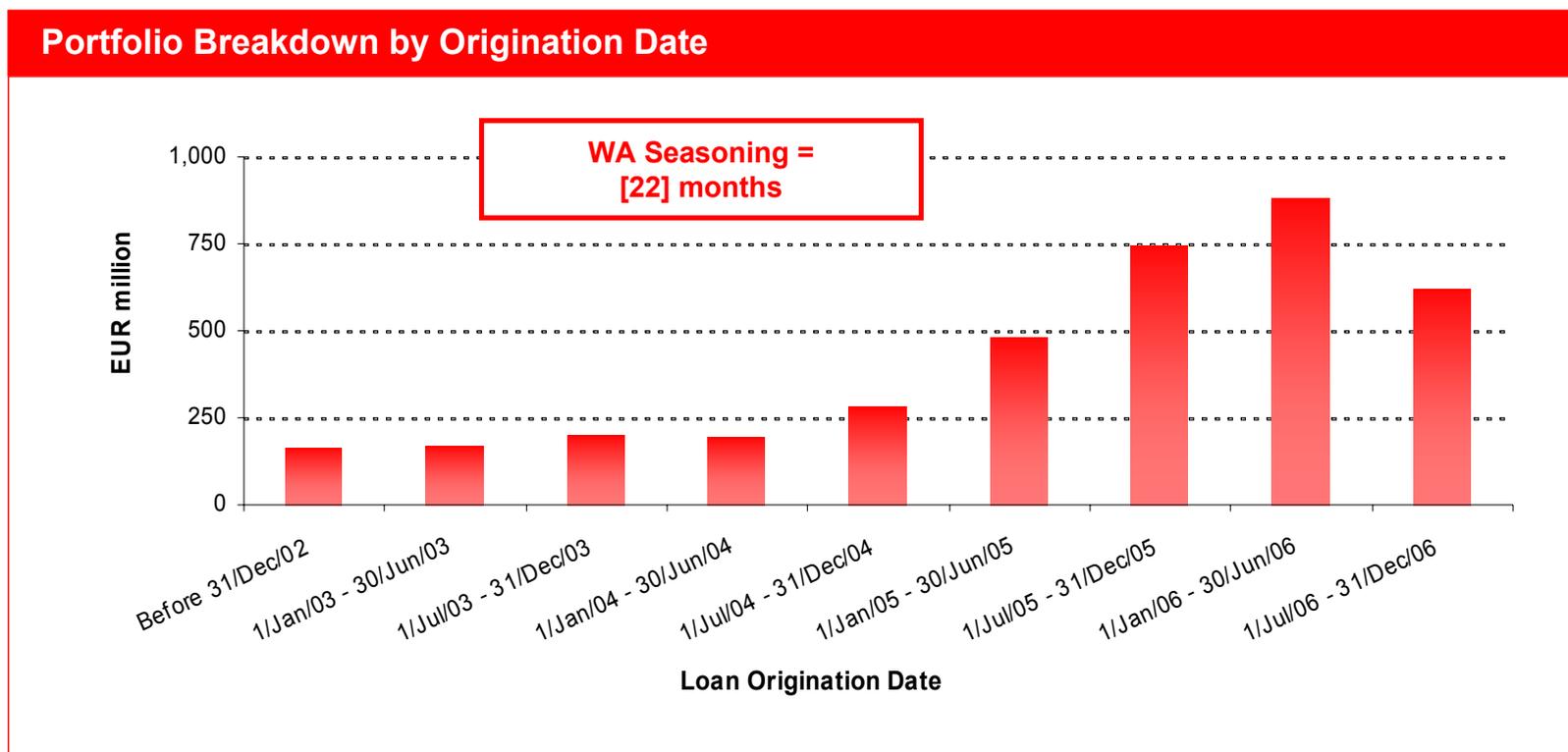


Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

(\* ) These loans are separately analysed in the next section

# Santander Empresas 3 - Breakdown by Loan Origination Date

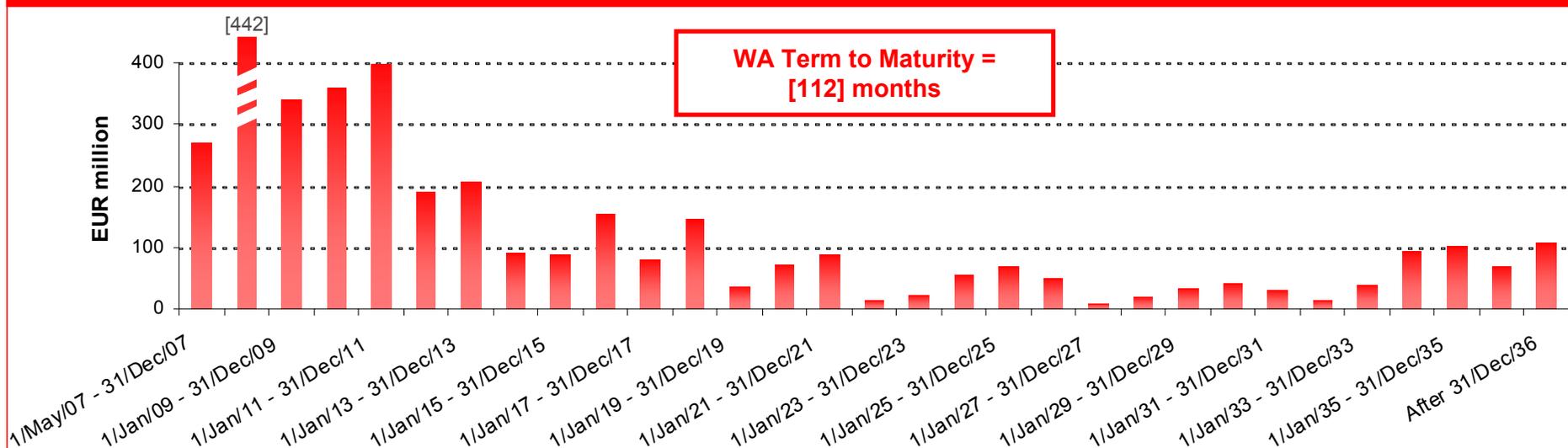
*The provisional portfolio has a weighted average Seasoning of [22] months. The highest of all Santander Empresas deals*



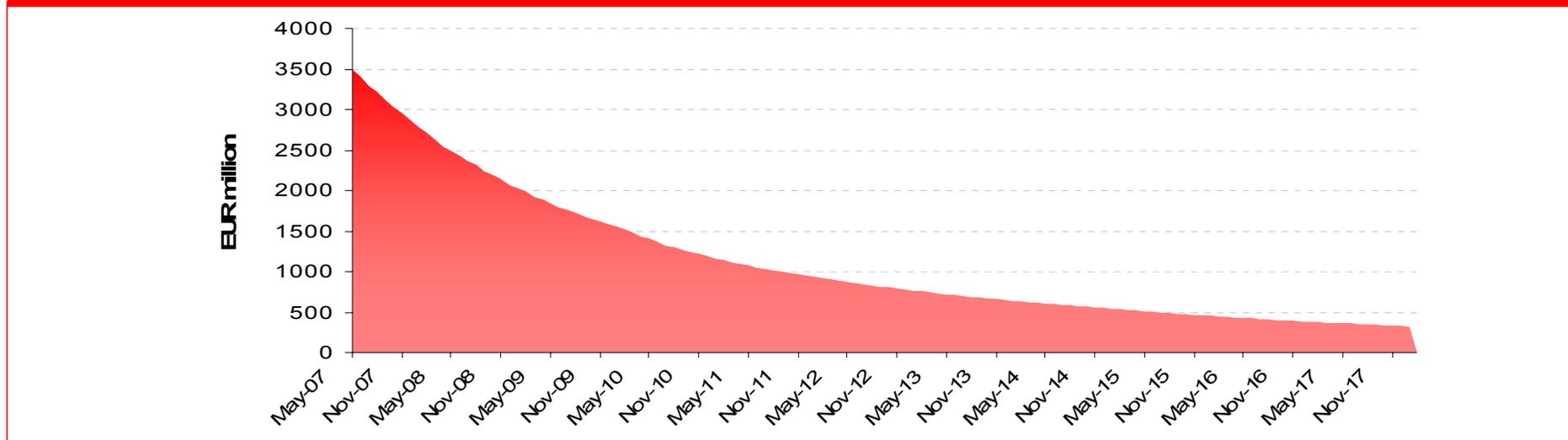
Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Maturity Date & Exp. Amortisation Profile

## Portfolio Breakdown by Maturity Date



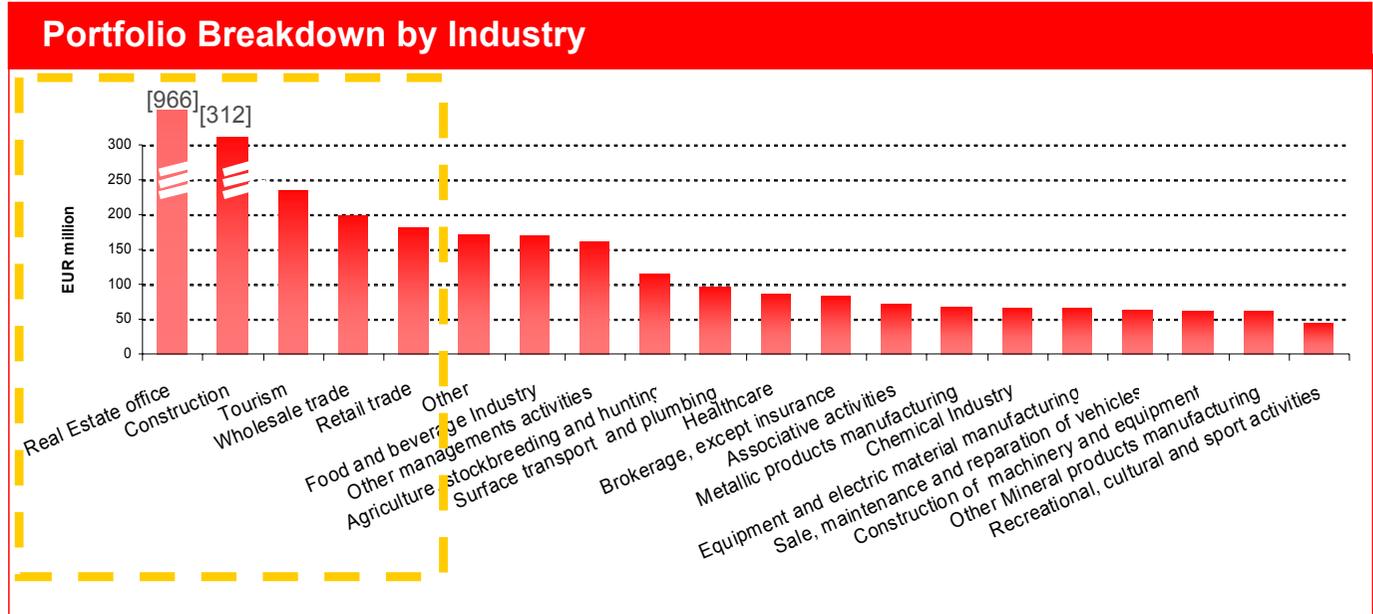
## Expected Amortisation Profile at 5% CPR



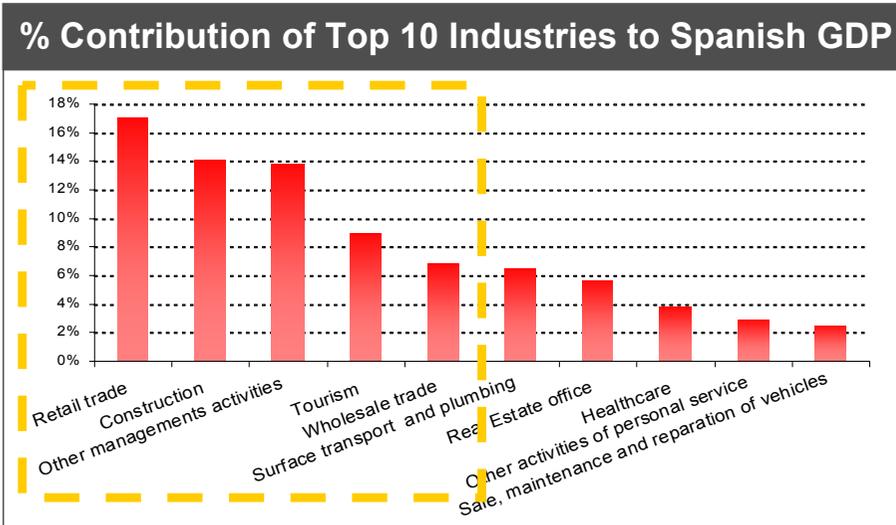
Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Industry

*The Industry type breakdown of the pool follows the pattern of the Spanish industries' contribution to GDP*



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007



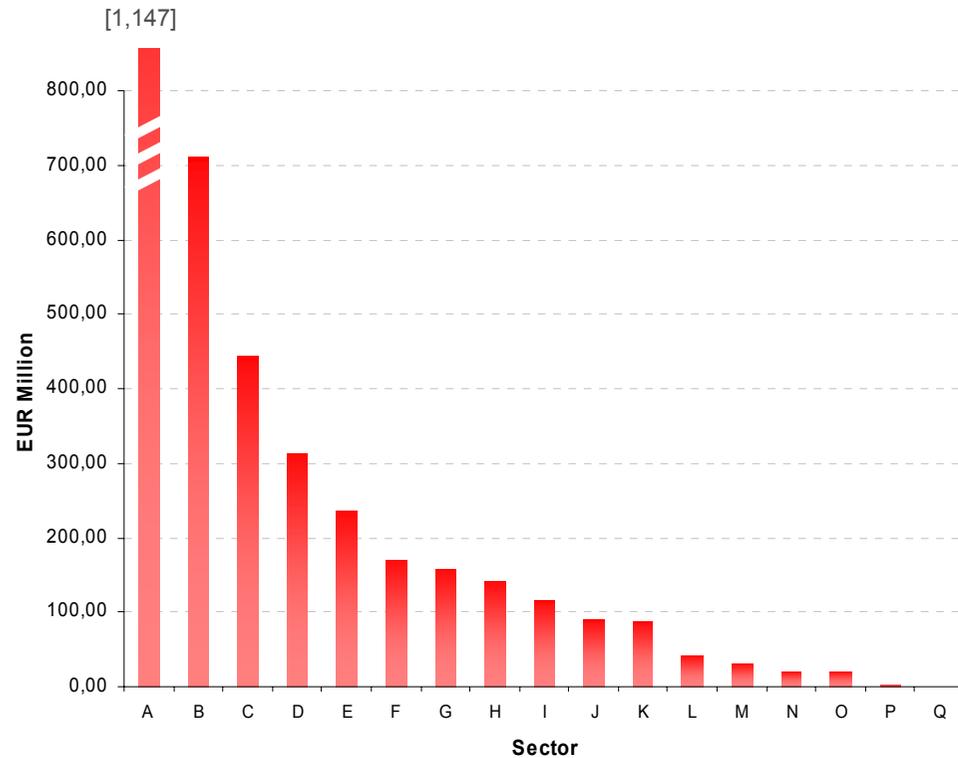
Source: INE - Instituto Nacional de Estadística (National Statistics Institute, Spain)

*Despite the concentration in real estate and construction, there are no loans granted to real estate developers for construction*

*The sole purpose of the loans is either financing economic activities or property acquisition (only self-employed)*

# Santander Empresas 3 - Breakdown by Concentrated Group of Industries

## Portfolio Breakdown by Concentrated Group of Industries

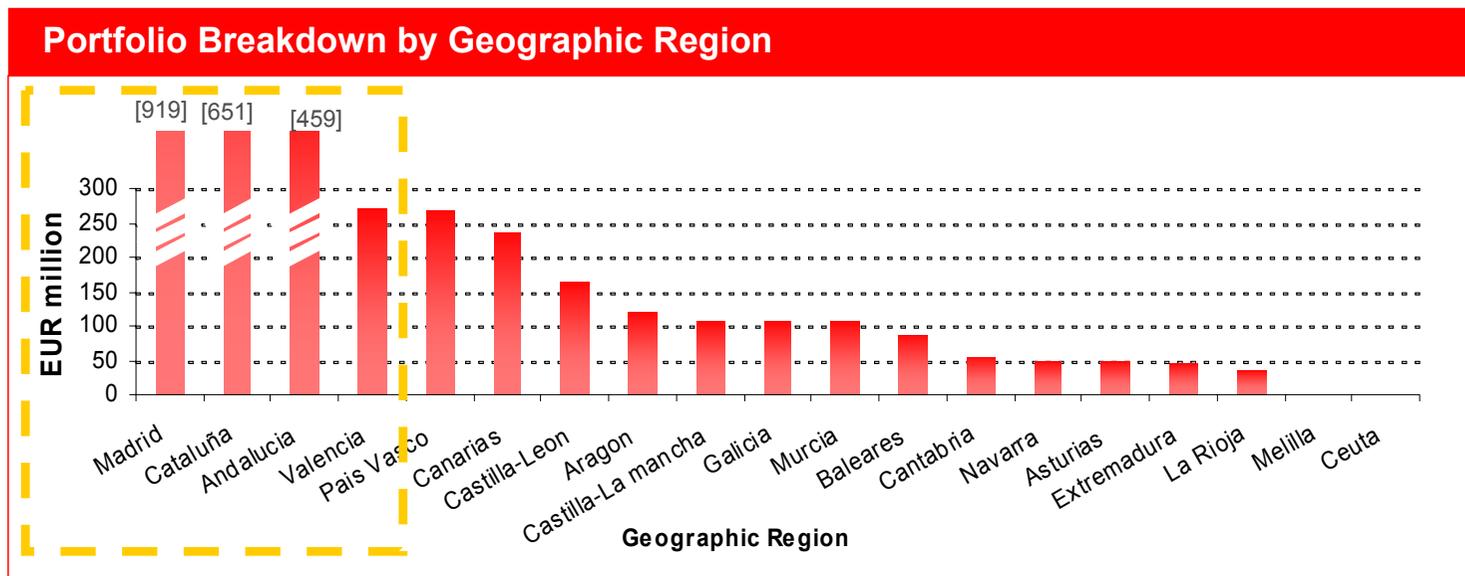


CODE	INDUSTRY
A	Real Estate, rental & management activities
B	Manufacturing Industries
C	Trade; Maintenance and reparation of vehicles and personal service
D	Construction
E	Tourism
F	Others
G	Other activities of personal service
H	Transport, storage and communications
I	Agriculture, stockbreeding, hunting & forestry
J	Brokerage
K	Healthcare
L	Production and distribution of electrical energy, gas and water
M	Education
N	Fishing
O	Extraction industries (mineral, ferrous, etc...)
P	Public Administration, defense and obligatory social security
Q	Household service

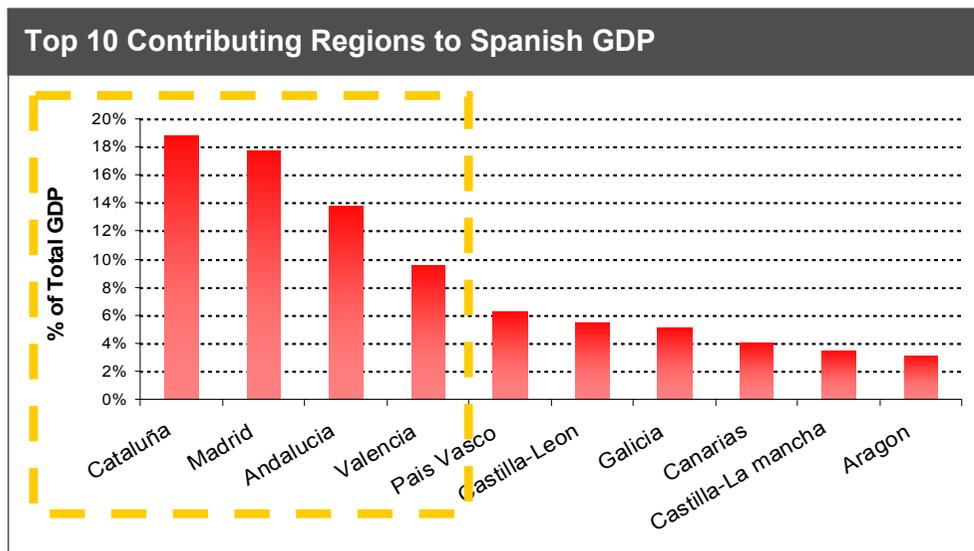
Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Geographic Region

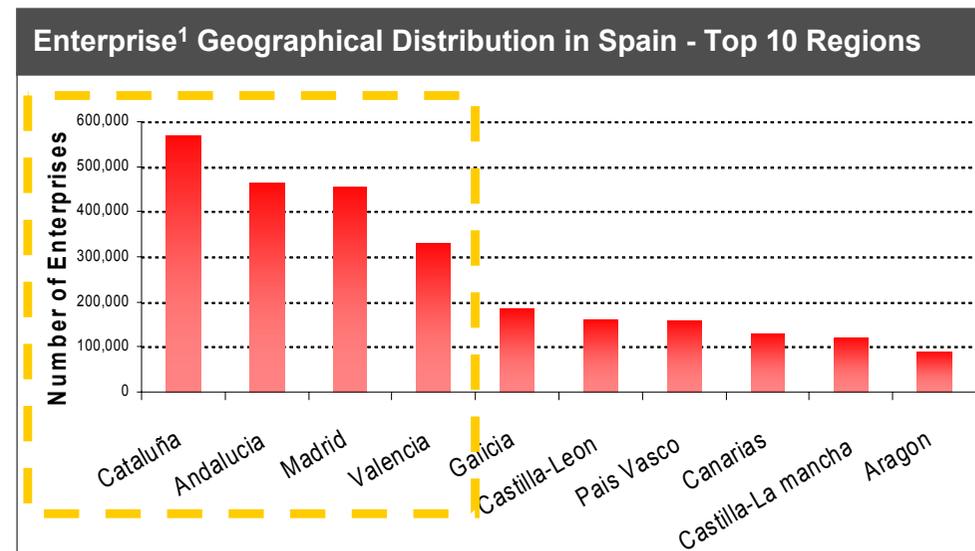
The regions with the highest outstanding balances are also the ones with the highest contribution to Spanish GDP and those with the largest number of enterprises



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007



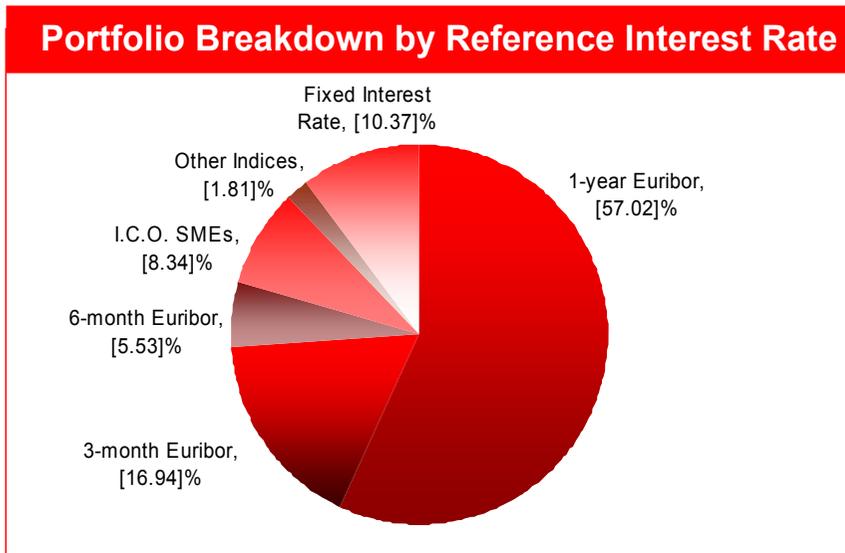
Source: INE - Instituto Nacional de Estadística (National Statistics Institute, Spain)



(1) Including Self Employed

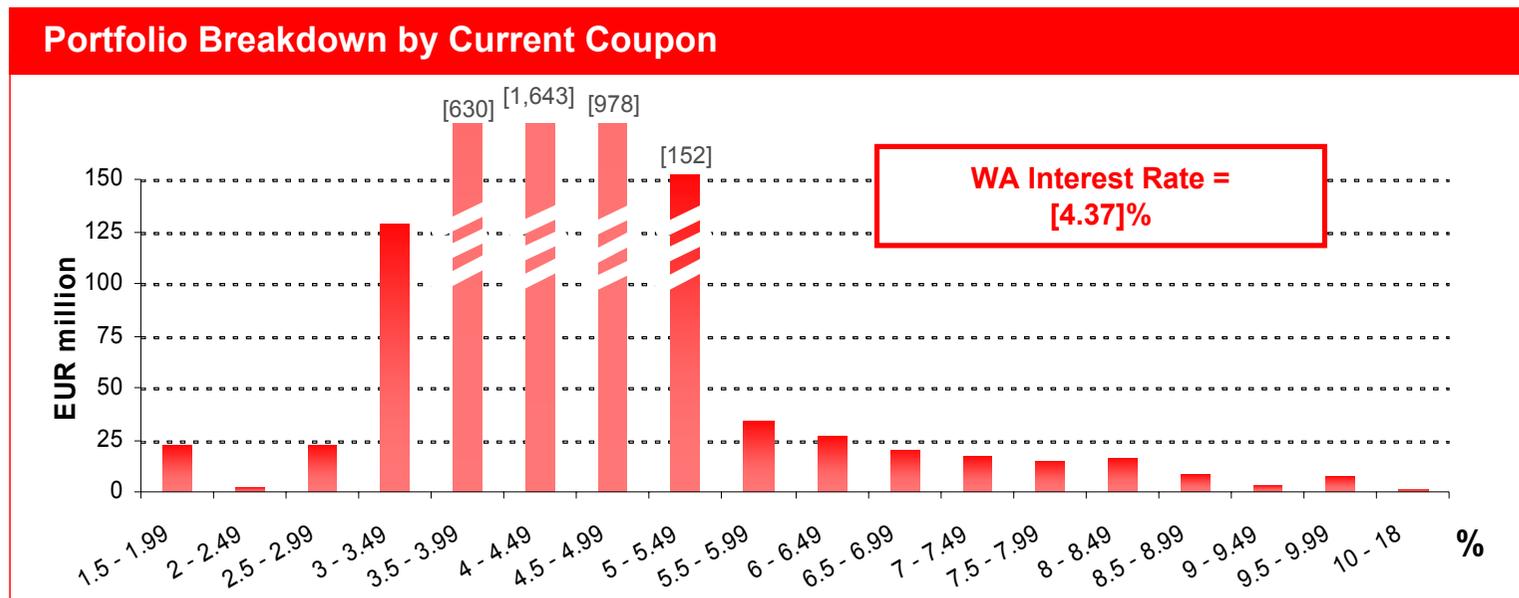
\* Source: Spanish Industry, Tourism and Commerce Ministry

# Santander Empresas 3 - Breakdown by Reference Interest Rate & Current Coupon



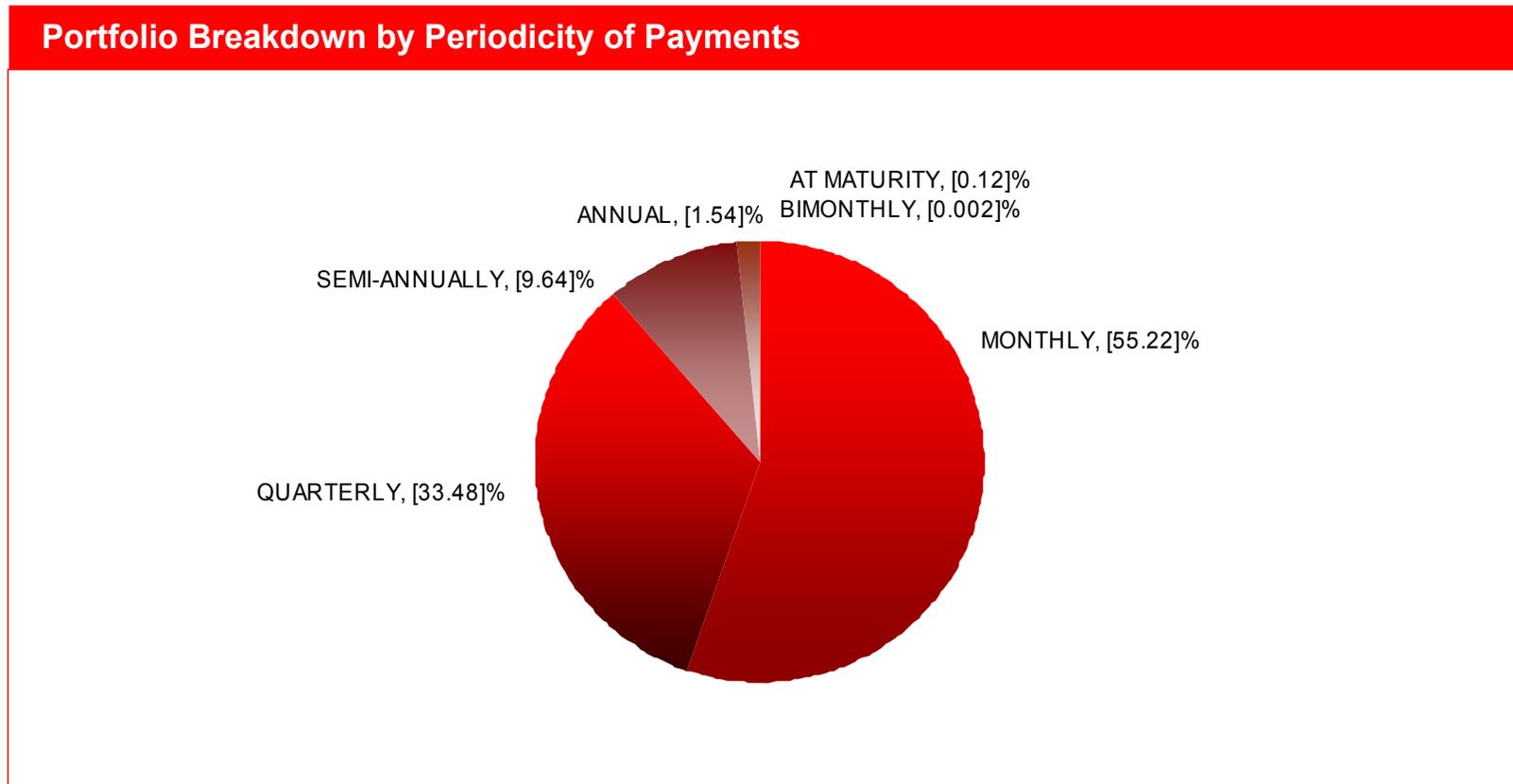
The interest rate mismatch is mitigated by the **guaranteed Interest Rate Swap**

The weighted average interest rate of the portfolio is [4.37]%



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

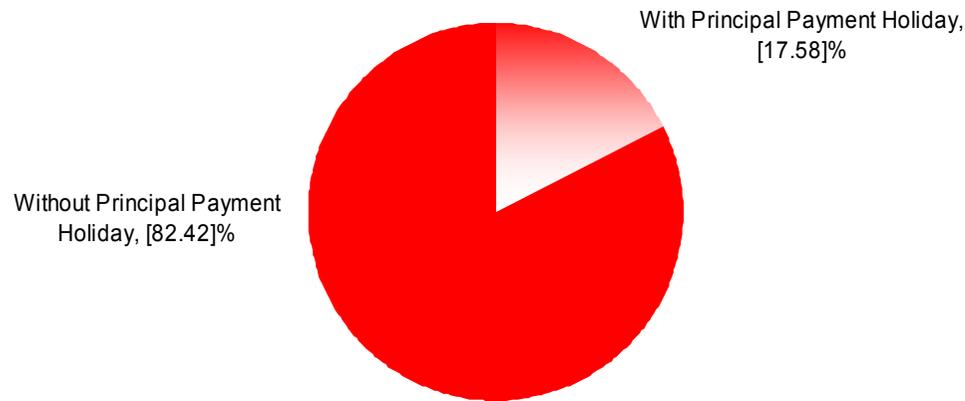
## Santander Empresas 3 - Breakdown by Periodicity of Payments



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Principal Payment Holiday

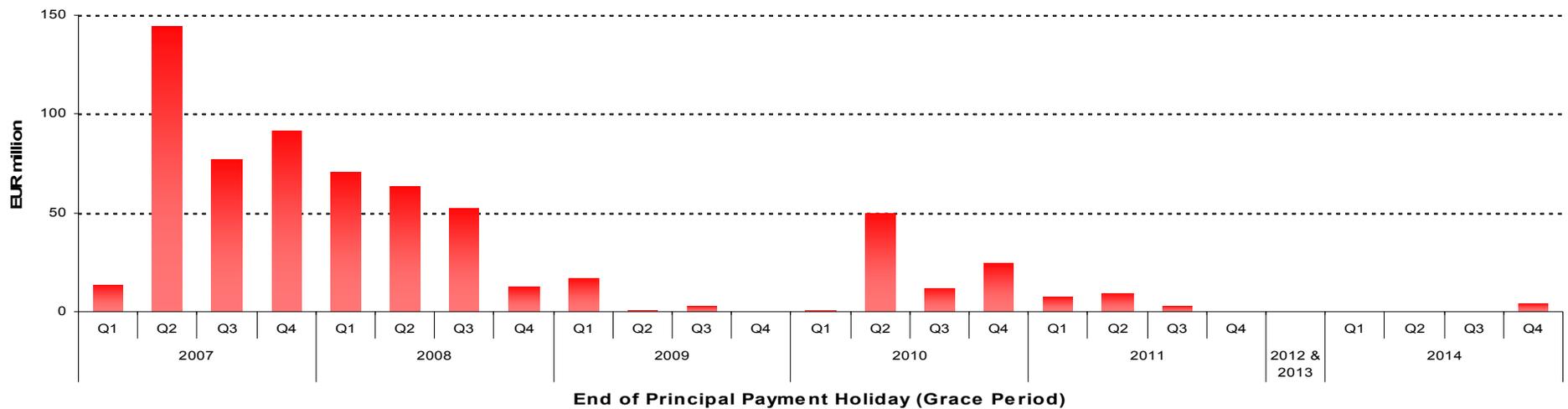
## Portfolio Breakdown by Principal Payment Holiday



*Only [17.6]% of the pool has principal payment holiday (that is, only interest is paid during this period)*

*Nevertheless most of these payment holidays are ending within the period 2007-2008*

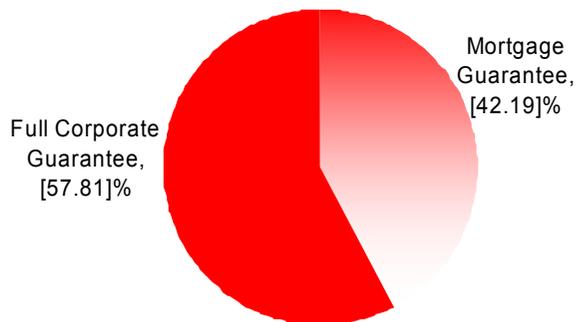
## Portfolio Breakdown by Date of End of Principal Payment Holiday



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

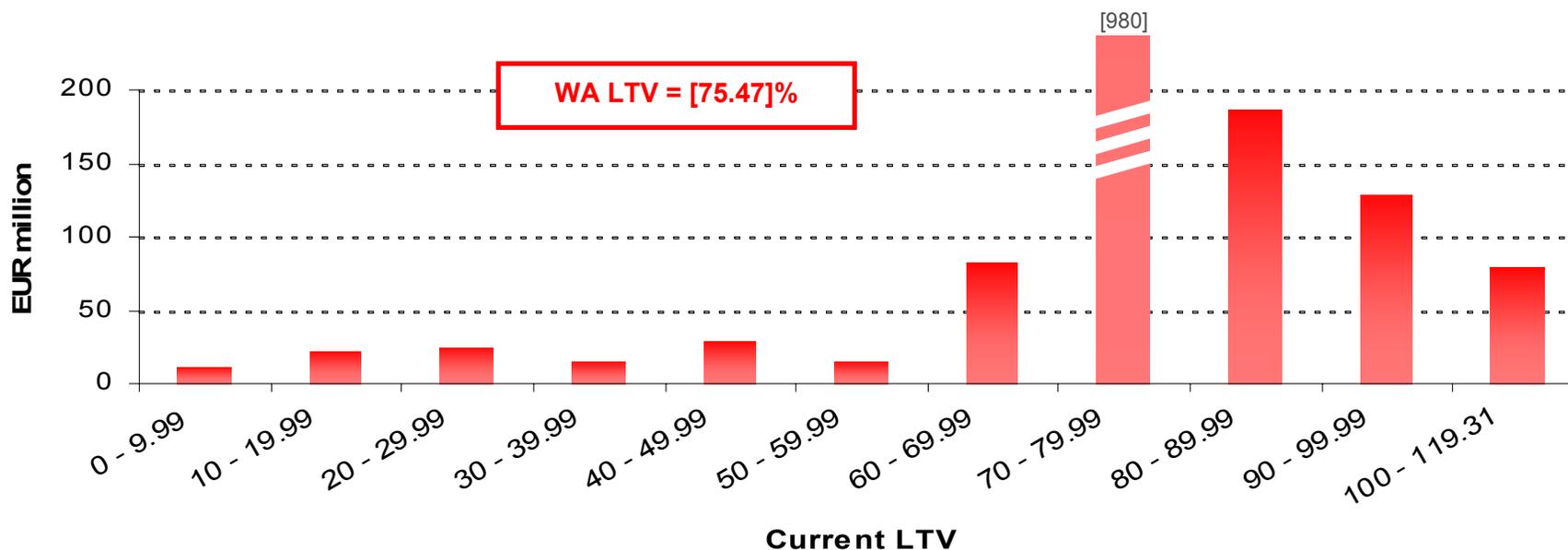
# Santander Empresas 3 - Breakdown by Type of Guarantee & Current LTV

## Portfolio Breakdown by Type of Guarantee



*[42]% of the portfolio has the extra guarantee of a first-lien commercial mortgage: the highest of all Santander Empresas deals*

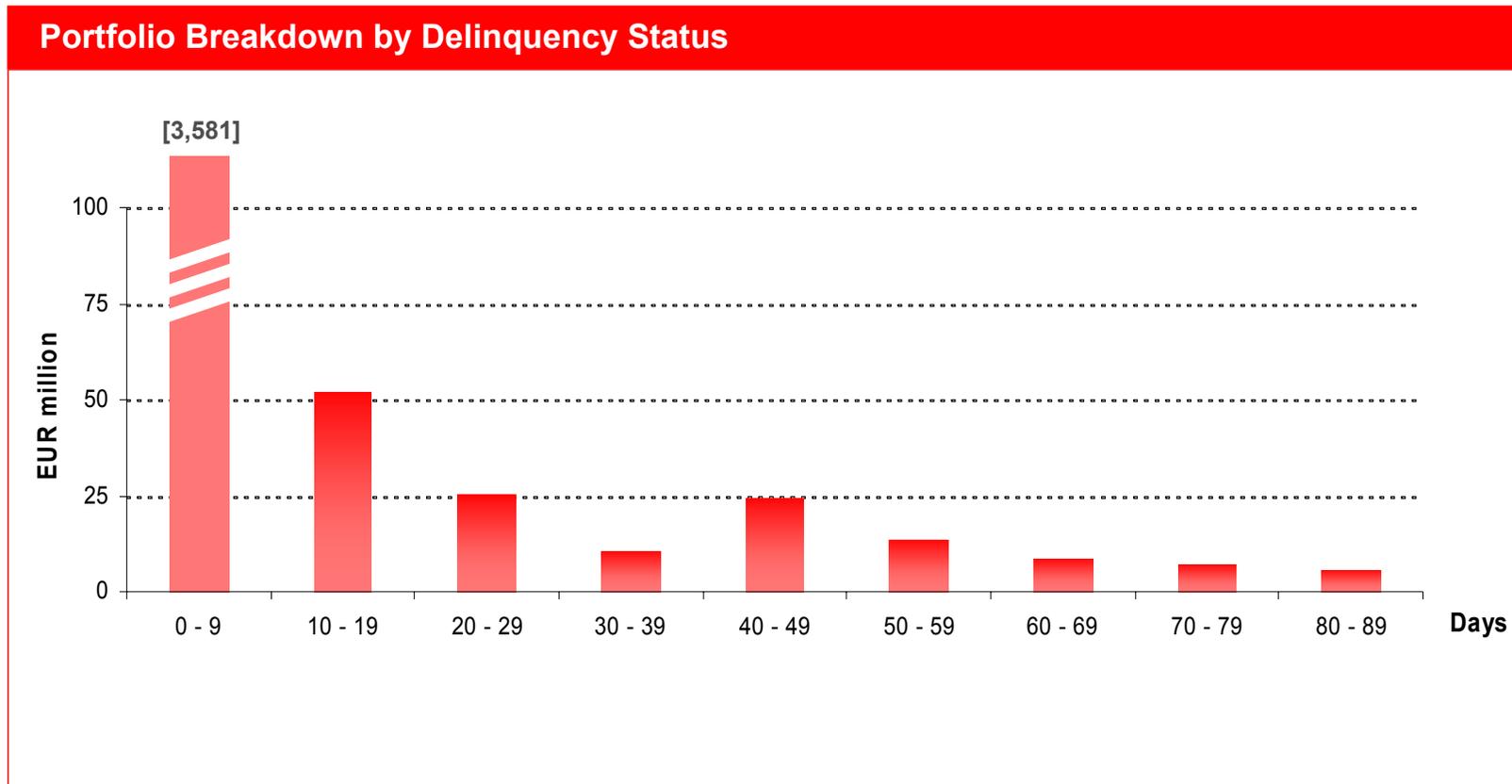
## Portfolio Breakdown by Current LTV



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Breakdown by Delinquency Status

*Only [1.85%] of the provisional pool is in arrears for more than 30 days. Nevertheless, at the issue date there will be no loans in arrears for more than 30 days*

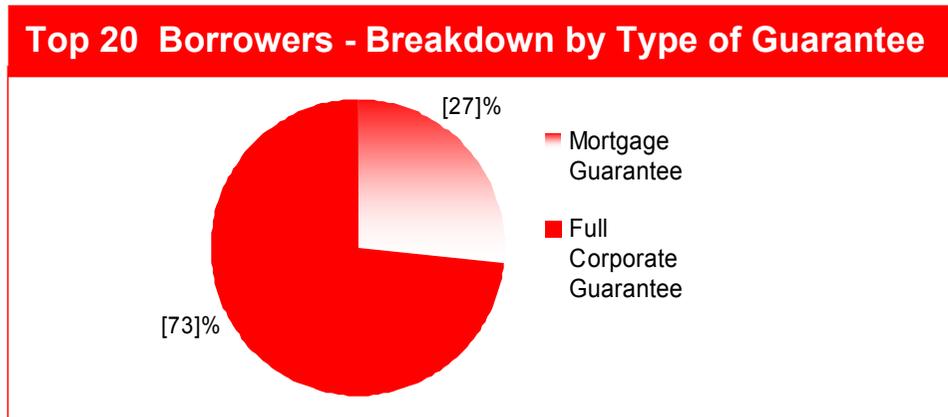


Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

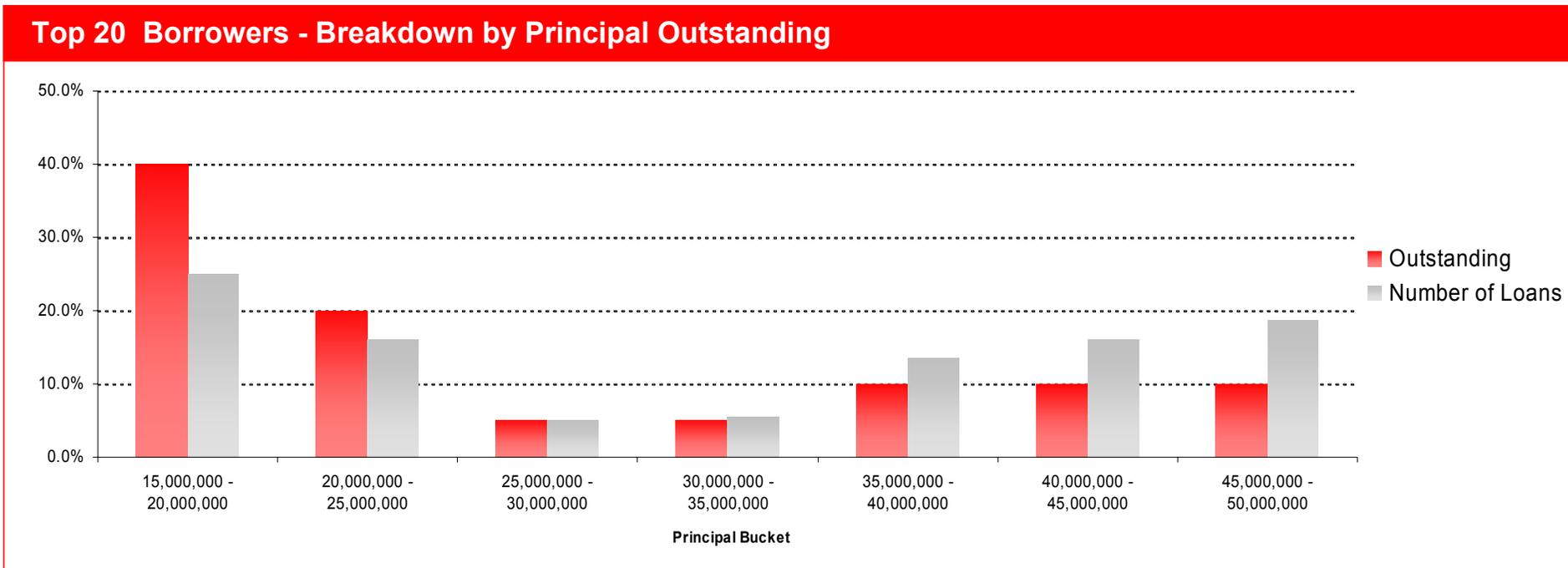
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# Santander Empresas 3 - Top 20 Borrowers: Breakdown by Principal Outstanding & Type of Guarantee



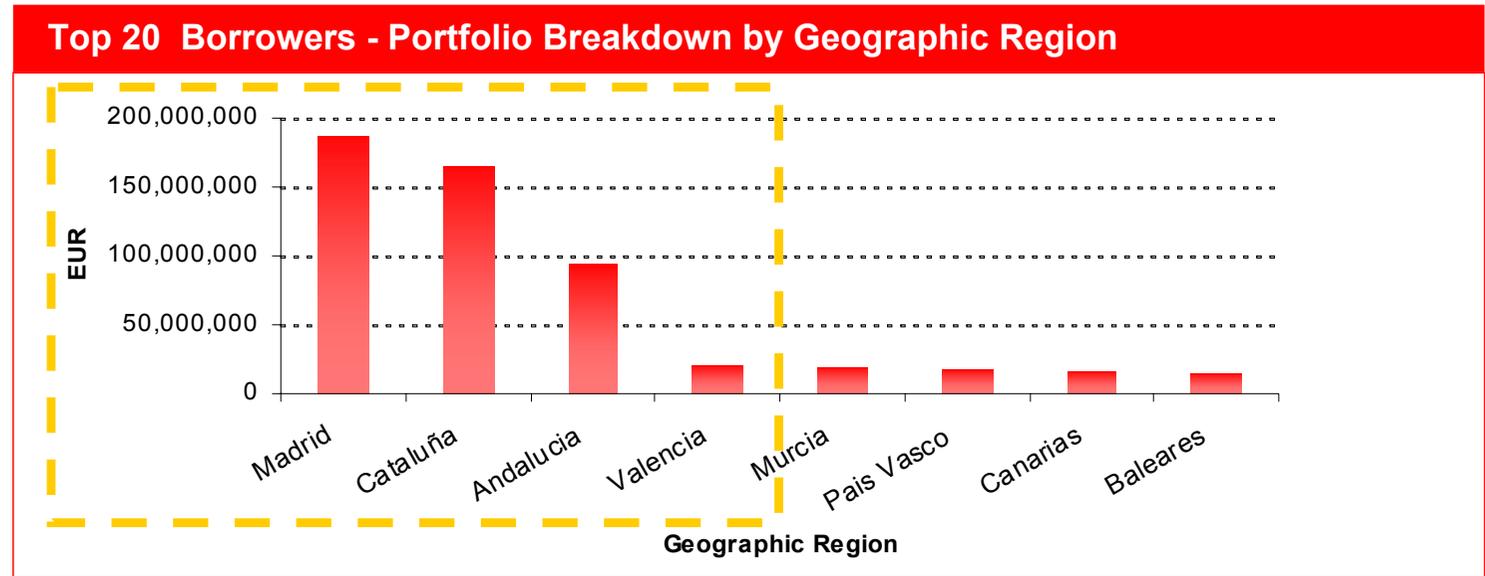
*Even among the top 20 borrowers there are mortgage guarantees in place up to nearly [30]%*



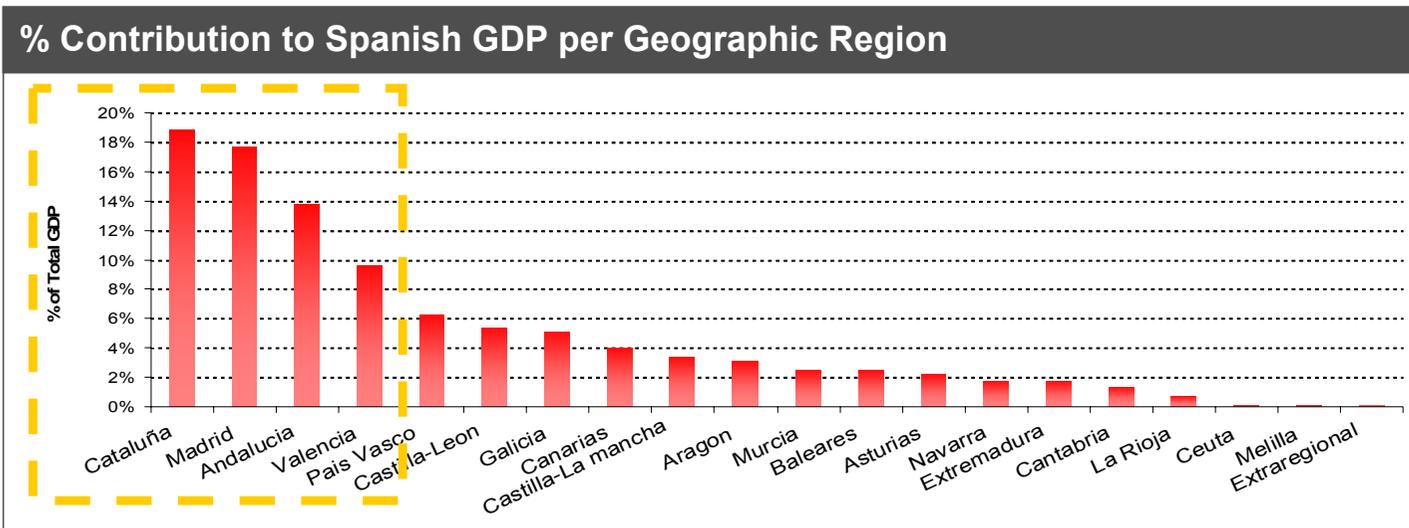
Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

# Santander Empresas 3 - Top 20 Borrowers: Breakdown by Geographic Region

The top 20 borrowers are located in the regions with the highest contribution to Spanish GDP

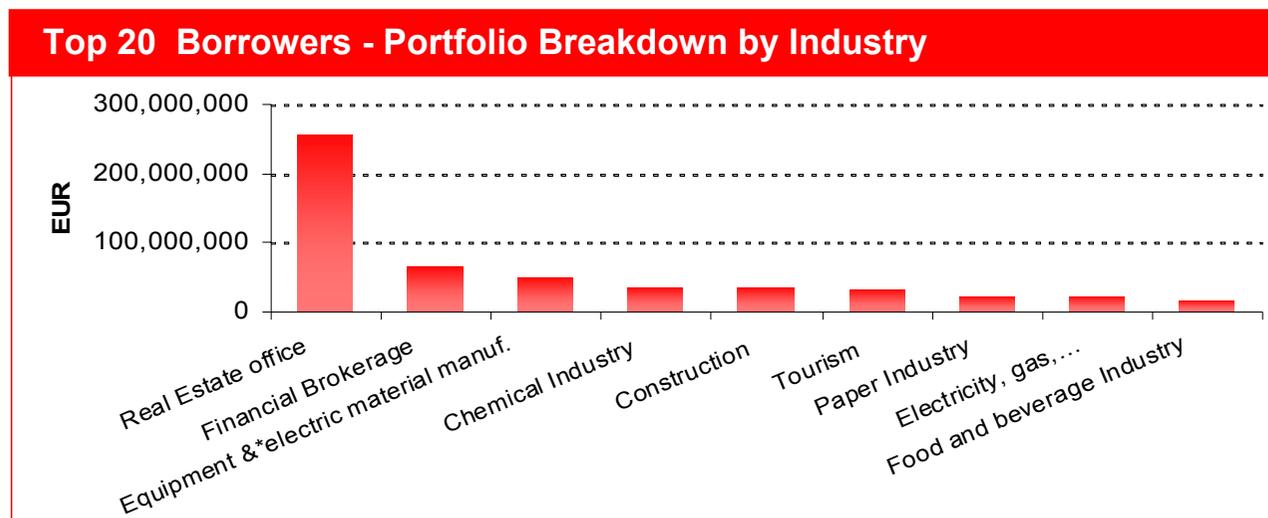
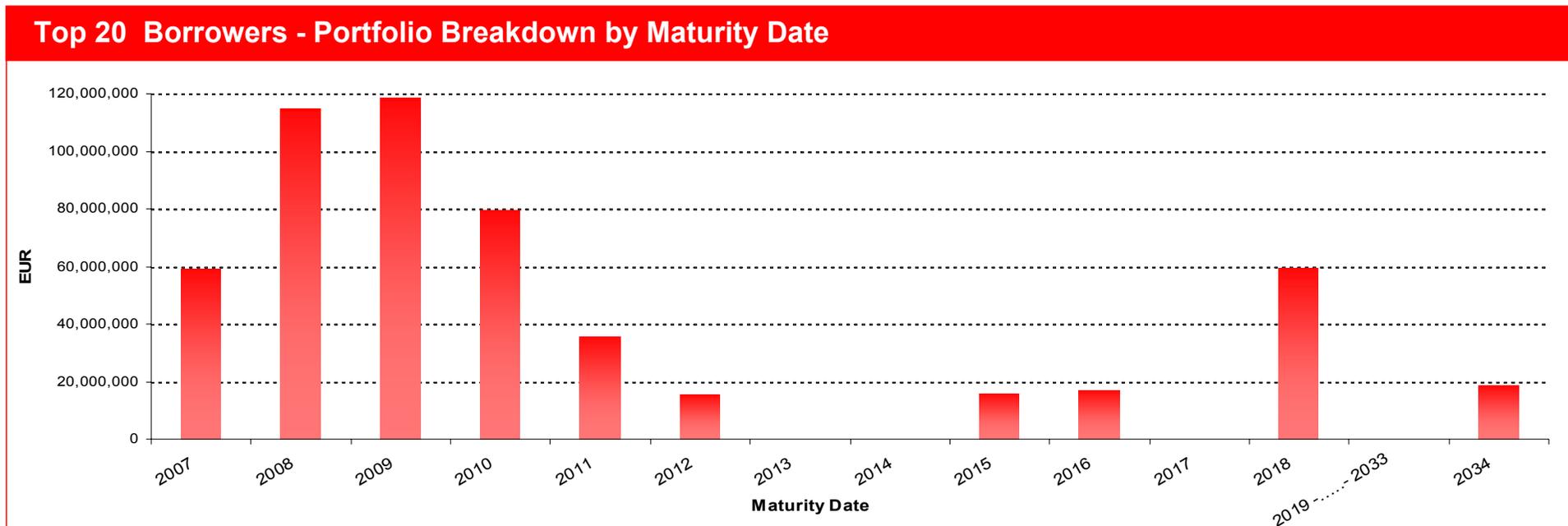


Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007



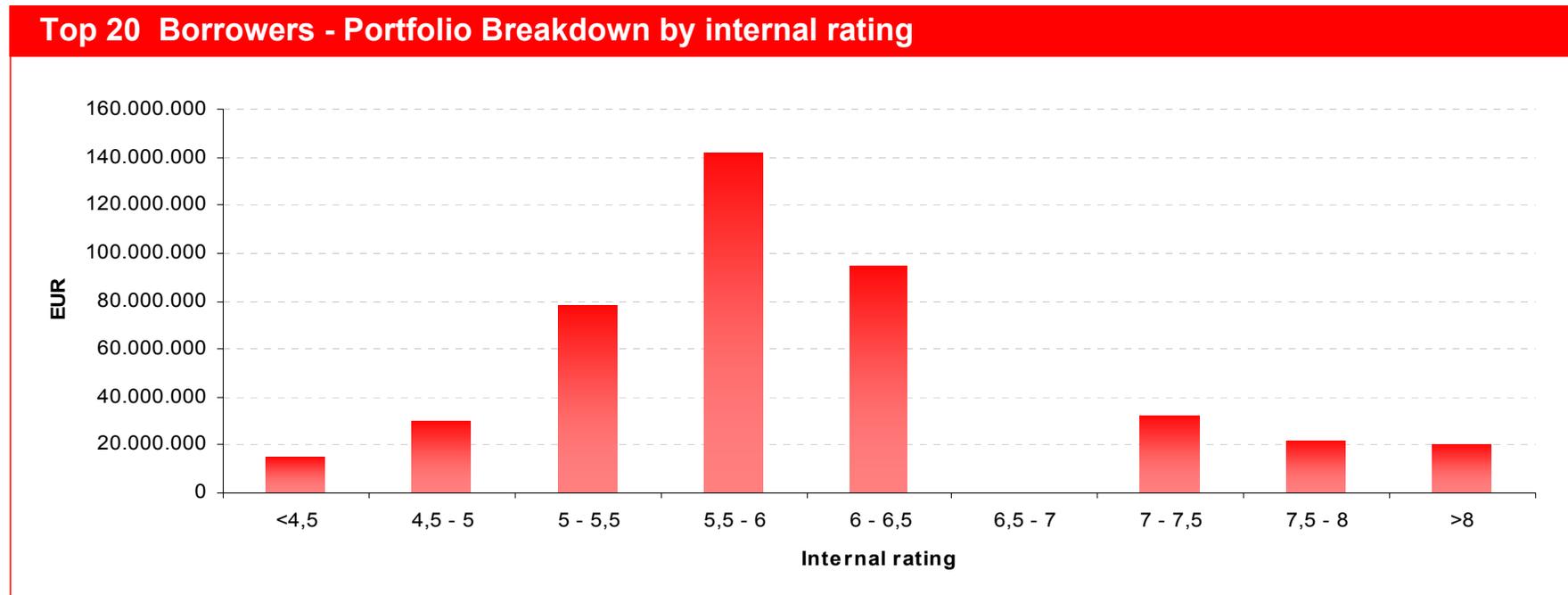
Source: INE - Instituto Nacional de Estadística (National Statistics Institute, Spain)

# Santander Empresas 3 - Top 20 Borrowers: Breakdown by Maturity Date & Industry



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

## Santander Empresas 3 - Top 20 Borrowers: Breakdown by internal rating



Source: Grupo Santander. Provisional Pool as of 18<sup>th</sup> April 2007

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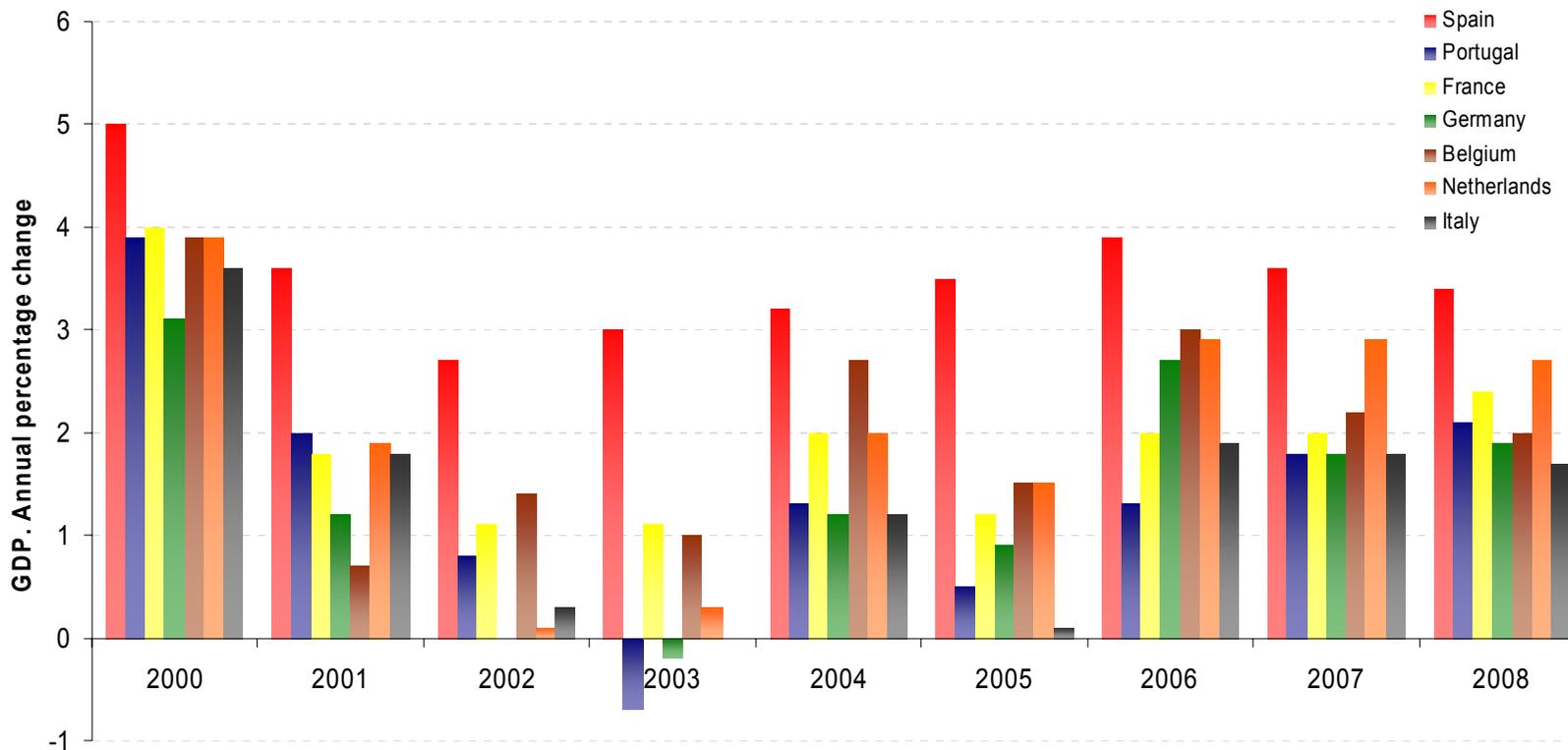
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# Spanish Economy Outlook



# Spanish GDP growth compared with main Eurozone countries

*The Spanish economy enjoyed another year of remarkable growth in 2006, further extending its prolonged expansion*



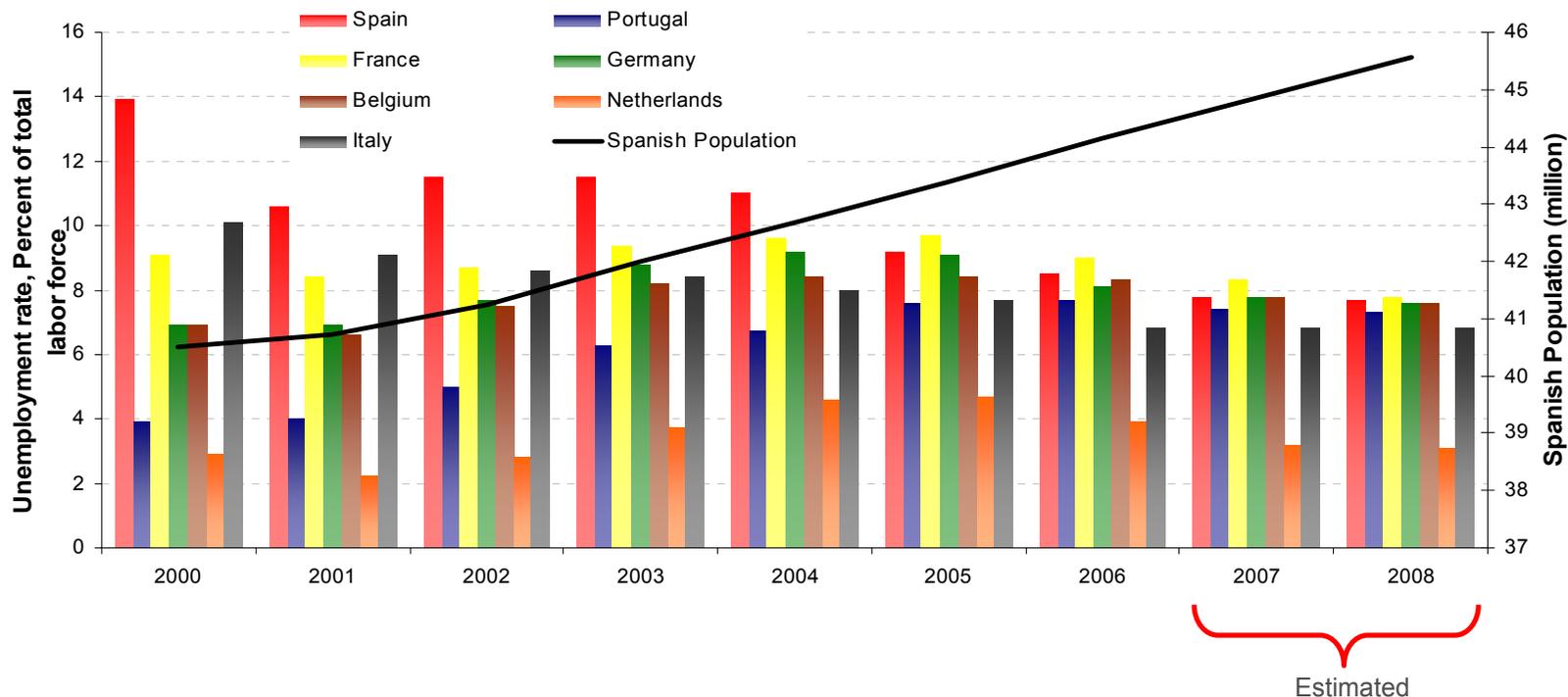
Source: IMF World Economic Outlook Database, April 2007

Estimated

*Spain—2007 Article IV Consultation, Preliminary Conclusions of the IMF Mission March 26, 2007*

# Spanish unemployment rates compared with main Eurozone countries

*The immigration phenomenon has endowed the Spanish economy with a de facto flexibility that has contributed to its strong performance to date*



*Spain—2007 Article IV Consultation, Preliminary Conclusions of the IMF Mission March 26, 2007*

Source: IMF World Economic Outlook Database, April 2007

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## Expected Timetable

- Announcement: [•] May
- Roadshow: Week of 14 May
- Bookbuilding: Week of 21 May
- CNMV Approval: [22 / 24] May
- Fund's constitution / signing: [28] May
- Settlement date: [31] May

May 2007						
M	T	W	T	F	S	S
30	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31	1	2	3

# Contact Details



## Securitisation

### Structuring

Ignacio Ortega + 34 91 289 32 89  
[iortega@gruposantander.com](mailto:iortega@gruposantander.com)

Maria José Herencias +34 91 289 33 00  
[mjherencias@gruposantander.com](mailto:mjherencias@gruposantander.com)

### Legal

Maria José Olmedilla +34 91 289 32 87  
[mjolmedilla@gruposantander.com](mailto:mjolmedilla@gruposantander.com)



## Capital Markets

### ABS Syndicate

Ana Arias + 34 91 257 20 98  
[anarias@gruposantander.com](mailto:anarias@gruposantander.com)

Silvana Borgatti +34 91 257 20 29  
[silborgatti@gruposantander.com](mailto:silborgatti@gruposantander.com)

Lorena Ramirez +34 91 257 20 29  
[lramirez@gruposantander.com](mailto:lramirez@gruposantander.com)

### Fixed Income Origination

Luis Ordoñez +34 91 257 20 26  
[lordonez@gruposantander.com](mailto:lordonez@gruposantander.com)

Carlos Gamallo +34 91 257 20 31  
[cgamallo@gruposantander.com](mailto:cgamallo@gruposantander.com)

### ABS Structuring

Germán Escrivá de Romani +34 91 257 21 44  
[gescriva@gruposantander.com](mailto:gescriva@gruposantander.com)



### ABS Syndicate

Ben Metcalfe +44 20 7678 9655  
[Ben.Metcalf@uk.abnamro.com](mailto:Ben.Metcalf@uk.abnamro.com)

Hina Haque +44 20 7678 3489  
[Hina.Haque@uk.abnamro.com](mailto:Hina.Haque@uk.abnamro.com)

### ABS Structuring

Joao Ferreira Marques +44 20 7678 4164  
[Joao.Ferreira.Marques@uk.abnamro.com](mailto:Joao.Ferreira.Marques@uk.abnamro.com)

Julio Soto +34 91 423 6888  
[Julio.Soto@es.abnamro.com](mailto:Julio.Soto@es.abnamro.com)



## Merrill Lynch

### ABS Syndicate

Ashley Kibblewhite +44 207 995 3032  
[Ashley\\_kibblewhite@ml.com](mailto:Ashley_kibblewhite@ml.com)

James Crispin +44 20 7995 3032  
[james\\_crispin@ml.com](mailto:james_crispin@ml.com)

### ABS Structuring

Patrizia Canziani +44 207 996 3556  
[patrizia\\_canziani@ml.com](mailto:patrizia_canziani@ml.com)

Lisa Macedo +44 207 995 3911  
[lisa\\_macedo@ml.com](mailto:lisa_macedo@ml.com)

Valentina Santo +44 207 995 1130  
[valentina\\_santo@ml.com](mailto:valentina_santo@ml.com)



150  
AÑOS

