

## NEW ISSUE REPORT

# Fondo de Titulización de Activos PYMES Santander 4

ABS/SME Loans/Spain

## Closing Date

16 November 2012

## Table of Contents

DEFINITIVE RATINGS	1
ASSET SUMMARY	1
LIABILITIES, CREDIT ENHANCEMENT AND LIQUIDITY	2
COUNTERPARTIES	2
MOODY'S VIEW	3
COMPOSITE V SCORE	4
STRENGTHS AND CONCERNS	5
STRUCTURE, LEGAL ASPECTS AND ASSOCIATED RISKS	6
ORIGINATOR PROFILE, SERVICER PROFILE AND OPERATING RISKS	9
COLLATERAL DESCRIPTION	10
CREDIT ANALYSIS	12
BENCHMARKING ANALYSIS	14
REPRESENTATIONS AND WARRANTIES	14
PARAMETER SENSITIVITIES	17
MONITORING	17
MOODY'S RELATED RESEARCH	18
APPENDIX 1: ORIGINATOR'S UNDERWRITING AND COLLECTION PRACTICES	19

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## Definitive Ratings

Series	Rating	Amount (Million)	% of Notes	Legal Final Maturity	Coupon	Subordi-nation	Reserve Fund	Total Credit Enhancement*
A	A3 (sf)	2,252.5	85%	February-36	3mEur + 0.30%	15%	20%	35%
B	Baa2 (sf)	397.5	15%	February-36	3mEur + 0.50%	0%	20%	20%
C	Ca(sf)	530.0	20%	February-36	3mEur + 0.50% +Extra part	0%	0%	0%
<b>Total</b>		<b>3,180.0</b>	<b>100%</b>					

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

\* No benefit attributed to excess spread.

V-score for the sector: Medium/High

V-score for the subject transaction: Medium/High

The subject transaction is a cash securitisation of small- and medium-sized enterprise (SME) and self-employed individual loans extended to obligors (borrowers) located in Spain, and is a pseudo-static structure. The portfolio consists of credit lines and standard loans, some secured by real estate and some unsecured, used to fund general working capital and long-term business expansion.

## Asset Summary (as of closing date)

Sellers/Originators:	Banco Santander, S.A. (Santander) (Baa2/P-2; Negative Outlook)
Servicer(s):	Santander
Receivables:	Standard loans and credit lines mainly granted to Spanish SMEs
Methodologies Used:	<ul style="list-style-type: none"> <li>» <a href="#">Refining the ABS SME Approach: Moody's Probability of Default Assumptions In The Rating Analysis of Granular Small and Mid-sized Enterprise Portfolios in EMEA, March 2009 (SF141058)</a></li> <li>» <a href="#">Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa, June 2007 (SF90890)</a></li> <li>» <a href="#">Moody's Approach to Rating the CDOs of SMEs in Europe, February 2007 (SF90480)</a></li> </ul>
Model Used:	ABSROM and CDOROM
Total Amount:	€2.65 billion
Length of Revolving Period:	Pseudo-static: daily acquisition of new draw-downs of the securitised credit lines until their maturity date.
Number of Loans/Credit Lines:	27,297
Number of Borrowers:	24,326
Effective Number:	Over 1,500
WA Remaining Term:	2.9 yrs

## Asset Summary (Continued)

WA Seasoning:	0.66 years
WAL Years:	2.0 years (assuming 0% CPR)
Avg. Interest Rate:	6.2%
WA Current loan to value (LTV) (First Lien):	83.4% (100% of mortgage secured sub-pool is first lien but represents only 5% of the definitive total pool)
Delinquency Status:	No assets in arrears at closing.

## Liabilities, Credit Enhancement and Liquidity

Excess Spread Range:	None guaranteed as transaction is unhedged
Credit Enhancement/Reserves:	20% reserve fund Subordination of the notes Pool spread
Form of Liquidity:	Cash reserve and principal to pay interest
Number of Interest Payments Covered by Liquidity:	No liquidity line for interest payments. However, at closing, the cash reserve covers more than four years of interest and senior fees, even considering three-month EURIBOR of 4% and 0.5% of stressed senior fees
% of Reserve Fund Dedicated to Liquidity:	None. The cash reserve does not have a liquidity ledger
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	16 February, May, August and November
Hedging Arrangements:	None

## Counterparties

Issuer:	FONDO DE TITULIZACIÓN DE ACTIVOS PYMES SANTANDER 4
Sellers/Originators:	Santander
Servicer:	Santander
Back-up Servicer:	None
Back-up Servicer Facilitator:	Santander de Titulización plays this role as part of its functions as management company
Cash Manager:	Santander de Titulización S.G.F.T; S.A
Back-up Cash Manager:	None
Interest Rate Swap Counterparty:	Not applicable
F/X Swap Counterparty:	Not applicable
Basis Counterparty:	Not applicable
Issuer Account Bank:	Santander
Collection Account Bank:	Santander
Paying Agent:	Santander
Note Trustee (Management Company):	Santander de Titulización S.G.F.T; S.A (Not Rated)
Issuer Administrator:	Santander de Titulización S.G.F.T; S.A (Not Rated)
Arranger:	Santander
Lead Managers:	Santander Santander de Titulización S.G.F.T; S.A (Not Rated)
Other Parties:	N/A

## Moody's View

<b>Outlook for the Sector:</b>	Negative
<b>Unique Feature:</b>	Automatic repurchase of additional draw-down amounts
<b>Degree of Linkage to Originator:</b>	Strong. Santander will act as servicer, liquidity line provider, issuer account bank and paying agent.
<b>Originator's Securitisation History:</b>	
Number of Precedent Transactions in Sector:	Twelve precedent SME transactions originated by Santander
% of Book Securitised:	NA
Behaviour of Precedent Transactions:	The performance of previous SME deals originated by Santander is in line with the market average.
Key Differences between Subject and Precedent Transactions:	NA
<b>Portfolio Relative Performance:</b>	
Default Rate Assumed/Ranking:	9.88%. Comparison on Default Rate can be found in the "Benchmarking Analysis" section.
Coefficient of Variation Assumed on Default Rate/Ranking:	53.7%. Comparison on CoV can be found in "Benchmarking Analysis".
Recovery Rate Assumed/Ranking:	35%. Comparison on Recovery Rate can be found in "Benchmarking Analysis".
<b>Potential Rating Sensitivity:</b>	
Chart Interpretation:	When the rating was assigned, if the assumed default probability of 9.88% used in determining the initial rating was changed to 12.88% and the recovery rate of 35% was changed to 25%, the model-indicated rating for Series A, Series B and Series C of A3(sf), Baa2(sf) and Ca(sf) would be Baa1(sf), Ba2(sf) and Ca(sf) respectively.
Factors Which Could Lead to a Downgrade:	In addition to the counterparty linkage, the following factors may have a significant impact on the subject transaction's ratings: further deterioration in the real estate market (beyond the recovery lag and stress that was modelled) and regulatory changes either at national or regional level.

TABLE 1

	Portfolio WA Probability of Default (PD) Assumption <sup>3</sup>	Recovery Rate		
		35%	30%	25%
Series A	9.88%	<b>A3*</b>	A3 (0)	A3 (0)
	11.38%	A3 (0)	A3 (0)	Baa1 (1)
	12.88%	Baa1 (1)	Baa1 (1)	Baa1 (1)
Series B	9.88%	<b>Baa2*</b>	Baa3 (1)	Baa3 (1)
	11.38%	Baa3 (1)	Baa3 (1)	Ba1 (2)
	12.88%	Ba2(3)	Ba2(3)	Ba2 (3)
Series C	9.88%	<b>Ca*</b>	Ca (0)	Ca (0)
	11.38%	Ca (0)	Ca (0)	Ca (0)
	12.88%	Ca (0)	Ca (0)	Ca (0)

1. Results are model-indicated ratings, which are one of the many inputs considered by Moody's rating committees, which take quantitative and qualitative factors into account in determining actual ratings. The analysis assumes that the deal has not aged. It is not Moody's intention to measure how the rating of the security might migrate over time, but rather, to measure how the initial rating of the security might have differed if key rating input parameters were varied.

2. Results under base-case assumptions indicated by '\*'. Change in model-indicated rating (number of notches) is noted in parentheses.

3. Moody's estimates a cumulative mean probability of default (PD) for the portfolio and the corresponding proxy rating applying its SME methodology, please refer to 'Refining the ABS SME Approach: Moody's Probability of Default Assumptions in the Rating Analysis of Granular Small and Mid-sized Enterprise Portfolios in EMEA' published in March 2009.

## Composite V Score

Breakdown of the V Scores Assigned to		Sector	Transaction	Remarks
Composite Score: Low (L), Medium (M) or High (H)		M/H	M/H	
<b>1</b>	<b>Sector Historical Data Adequacy and Performance Variability</b>	<b>M/H</b>	<b>M/H</b>	
1.1	Quality of Historical Data for the Sector	M/H	M/H	» Same as sector score
1.2	Sector's Historical Performance Variability	M/H	M/H	» Same as sector score
1.3	Sector's Historical Downgrade Rate	M/H	M/H	» Same as sector score
<b>2</b>	<b>Issuer/Sponsor/Originator Historical Data Adequacy, Performance Variability and Quality of Disclosure</b>	<b>M/H</b>	<b>M/H</b>	
2.1	Quality of Historical Data for the Issuer/Sponsor/ Originator	M/H	M/H	» Same as sector score » Internal ratings with the corresponding probability of default (PD) and loss given default (LGD) information has also been provided on a line-by-line basis. » Detailed cumulative historical information on defaults and recoveries has been made available
2.2	Issuer/Sponsor/Originator's Historical Performance Variability	M/H	M/H	» Same as sector score
2.3	Disclosure of Securitisation Collateral Pool Characteristics	L/M	L/M	» Detailed loan-by-loan data has been provided for the analysis of the transaction. » Information on Santander's internal rating system has been provided line by line.
2.4	Disclosure of Securitisation Performance	M	M	» Same as sector score » In common with most deals in this mature market, Moody's has not received a specific template for the monitoring report. Moody's expects that the management company (Santander de Titulización) will continue providing at least the same amount and quality of data as per previous deals, in addition to specific data related to the credit lines evolution and the associated daily purchase mechanism.
<b>3</b>	<b>Complexity and Market Value Sensitivity</b>	<b>M</b>	<b>M/H</b>	
3.1	Transaction Complexity	M	M/H	» The automatic purchase mechanism of additional draw-downs of the lines of credit increase significantly the level of complexity of this transaction.
3.2	Analytic Complexity	M	M/H	» No hedging mechanism
3.3	Market Value Sensitivity	M	M	» Same as sector score
<b>4</b>	<b>Governance</b>	<b>L/M</b>	<b>L/M</b>	
4.1	Experience of, Arrangements Among and Oversight of Transaction Parties	L/M	L/M	» Same as sector score
4.2	Back-up Servicer Arrangement	L	L	» Same as sector score: no agreement in place due to the current rating of Santander as of closing.
4.3	Alignment of Interests	L/M	L/M	» Same as sector score
4.4	Legal, Regulatory, or Other Uncertainty	L/M	L/M	» Same as sector score

## Strengths and Concerns

### Strengths:

- » **Granular portfolio:** The definitive portfolio's effective number of obligors is 1,500.
- » **Short Weighted Average Life:** the pool has a short weighted-average life (approximately 2.0 years) for SME deals. This implies a lower degree of uncertainty regarding Moody's quantitative assumptions.
- »
- » **Diversified Pool:** the debtors are located throughout Spain, with no single-region exposure exceeding 25%. The largest regions are Comunidad de Madrid and Catalonia, with a weight of 20.65% and 19.87%, respectively.
- » **Portfolio Arrears:** Loans in arrears have been excluded from the final portfolio.

### Concerns and Mitigants:

Moody's rating committees particularly focused on the following factors, listed in order of those most likely to affect the ratings:

- » **High degree of linkage to originator:** Besides acting as servicer, Santander holds the accounts receiving the pool collections and holding the reserve fund (commingling risk). It is also the liquidity line provider. Different triggers have been put in place in the deal to protect it against the different risks derived from this strong linkage. This feature has been taken into account in our analysis – as more fully explained in "Treatment of Concerns".
- » **Exposure to real estate:** around 17.85% of the portfolio is exposed to the Construction and Building sector (according to Moody's industry classification), and 5.6% correspond to loans granted to Real Estate Developers. This feature has been taken into account in

Moody's quantitative analysis – as more fully explained in the "Treatment of Concerns" section.

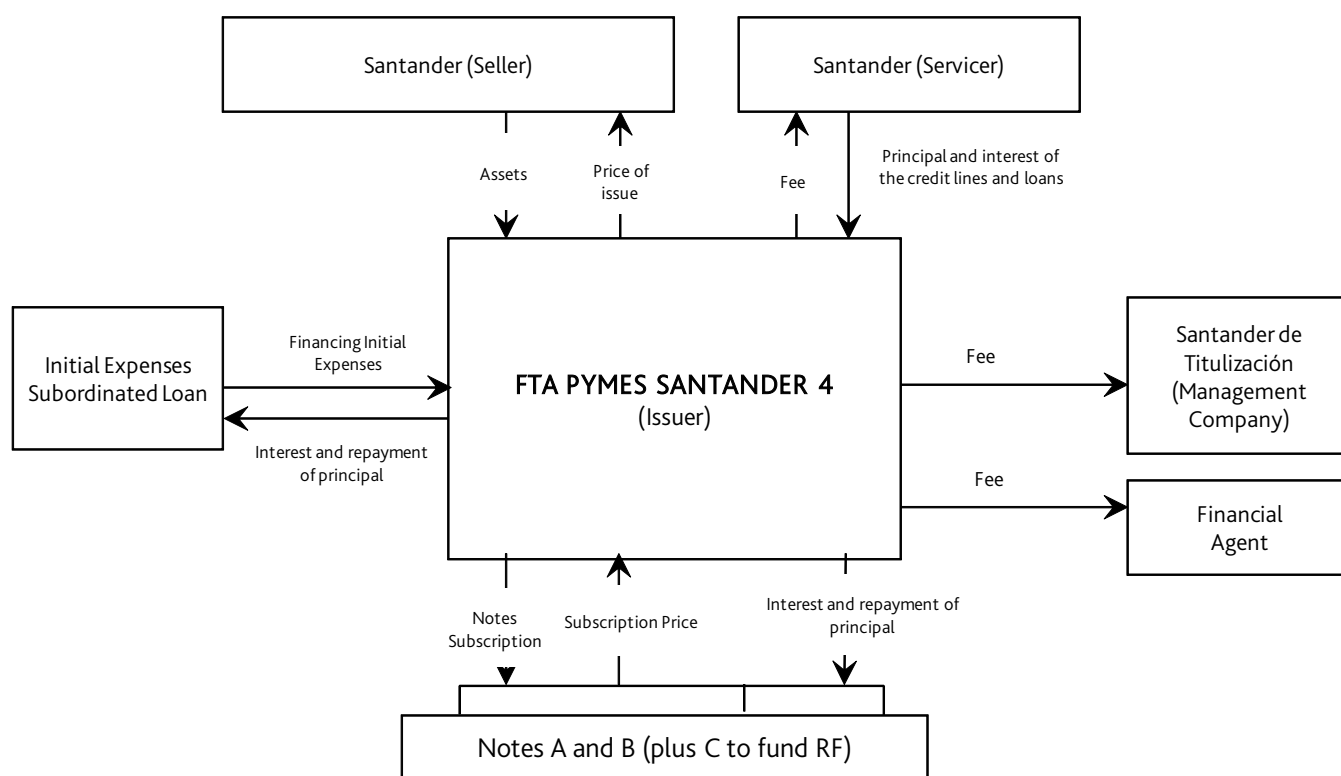
- » **Complex Structure:** the daily acquisition of new draw-downs of the securitised credit lines (until their maturity date) increase the structural complexity of the transaction. This feature has been taken into account in Moody's analysis – as more fully explained in "Treatment of Concerns".
- » **Interest rate risk:** At closing, 84.25% of the pool balance consist of floating rate loans and 15.75% fixed rate loans, whereas the notes are floating liabilities. Therefore, the structure is exposed to interest rate and basis risk as the transaction is not protected by an interest rate swap. This feature has been taken into account in our analysis as described in the section "Structure, Legal Aspects and Associated Risks".
- » **Bullet credits:** around 40% of the portfolio is bullet. This risk was treated in Moody's quantitative analysis – as further explained in "Treatment of Concerns".
- » **Deferral of interest:** The deferral of interest payments on each of series B benefits the repayment of series A, but increases the expected loss on it. The size of the reserve fund and the subordination address this potential deterioration on the expected loss.
- » **Sovereign risk:** As the euro area crisis continues, the rating of the structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could negatively impact the ratings of the notes. On 26 June 2012 we lowered to A3 the Spanish country ceiling, which signifies the maximum rating that we will assign to a domestic issuer, including structured finance transactions backed by Spanish receivables. For more details please see [Key Drivers of 13 June Decision to Downgrade the Kingdom of Spain's Rating to Baa3 and Review for Further Possible Downgrade.](#)

We have taken this into account in our quantitative analysis, as further explained under "Treatment of Concerns."

## Structure, Legal Aspects and Associated Risks

CHART 1

### Structure Chart



**Allocation of Payments/Waterfall:** On each quarterly payment date, the *Fondo's* available funds (i.e. amounts received from the portfolio, the reserve fund and interest earned on the transaction's accounts) will be applied in the following simplified order of priority:

1. Senior expenses
2. Interest on Series A and liquidity line (pro-rata)
3. Interest on Series B (if not deferred)
4. Principal repayment on Series A and B (sequential)
5. Interest on Series B (if deferred)
6. Reserve fund replenishment
7. Interest on Series C
8. Principal repayment on Series C
9. Junior costs

**Allocation of Payments/PDL mechanism:** A principal deficiency ledger (PDL) is defined as the negative difference

between the principal available funds and a target principal amount. A target principal amount is the difference between the notes' outstanding principal (taking into account any amount withdrawn from the LL for principal payments) and the performing assets. A non-performing asset is defined as (i) an asset with any amount due but unpaid for more than 12 months of the loans and six months for the credit lines, (ii) assets classified as such by the originator, or (iii) assets that have been written off according to management's discretion.

The "artificial write-off" speeds up the amortisation of non-performing loans (NPLs); thus, the amount of notes collateralised by NPLs is minimised, and, consequently, the negative carry. However, the most significant benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.



## Performance Triggers:

Trigger	Conditions	Consequence
Interest deferral	The cumulative (since closing) amount of written-off loans level exceeds 5%	Interest payments on series B will be brought to a more junior position (until the series senior to it is fully redeemed) and will be paid after the principal repayment.
Termination of Reserve Fund Amortisation	The arrears level exceeds 1.0%; or The reserve fund not funded at its required level on the previous payment date; or less than two years have elapsed since closing.	The target amount of the reserve fund will not be reduced on any payment date on which these occur.

**Reserve Fund:** The reserve fund has been funded up front, with the benefits from the issuance of Series C, for an amount equal to 20% of the notes. It provides both credit and liquidity protection to the notes.

After the first two years of the transaction, the reserve fund may amortise over the life of the transaction so that it amounts to the lower of the following:

- » 20% of the initial balance of Series A and B notes

The higher of:

- » 40% of the outstanding balance of Series A and B notes
- » 10% of the initial balance of Series A and B notes

The reserve fund will be used to cover potential shortfalls on interest or principal on an ongoing basis.

## Assets:

### Asset transfer:

**True Sale:** According to the legal opinion received, the sale of credit rights has been carried out in compliance with Spanish securitisation law.

**Bankruptcy Remoteness:** Under Spanish securitisation law, a Spanish SPV (*Fondo de Titulización/Fondo de Titulización Hipotecaria* or FTA/FTH) is not subject to the Spanish Insolvency Act. Only the management company, acting in the best interest of the noteholders, can decide to liquidate the *Fondo*.

**Claw-back risk upon default of the originator:** Claw-back risk is limited to those activities performed during a period of two years prior to the declaration of the bankruptcy estate, even in the absence of fraud. However, the activities performed under the regular business of the originator may not be cancelled under any circumstances, as the transfer of credit rights forms part of the normal activity of Santander.

**Daily purchase of additional line of credit (LoC) drawdowns:** The *Fondo* will purchase the additional drawdowns under the credit lines on a daily basis until their maturity, using the cash generated from principal repayment and prepayments (swept to the fund accounts every 48 hours) from the loans and the other credit lines. According to

Santander, the average level of disposal in the credit lines sub-pool will normally be around 70-80%. If there is not enough cash in the treasury account, the fund will make use of a liquidity line (characteristics described below).

Every month, Santander will generate a public document with the list of additional draw-downs purchased by the *Fondo* and send it to the Spanish Securities and Exchange Commission (CNMV).

**Liquidity Line:** at closing the liquidity line will be linked to the treasury account and a commission will only be charged for the drawn amounts. The size of the liquidity line will be equal to less than 20% of the outstanding balance of Series A (so the notes are eligible as collateral for repo deals with the ECB). However, this amount does not cover the worse case scenario so, in case a higher amount was needed, a new limit will be automatically established equal to the difference between 105% of the maximum balance of the credit lines if fully drawn and its total current balance as of that date. Under these circumstances, the deal will be liquidated in the next payment date.

Meanwhile a daily repurchase mechanism is in place, any amount drawn from the liquidity line will be returned on a daily basis, if possible, as new cash from principal payments are allocated to the treasury account.

A trigger is in place to protect the liquidity line from a possible downgrade of the short-term rating of the treasury account/liquidity line provider. If Santander's long-term or short-term rating falls below Baa3 or P-3 respectively, it will have to set up a deposit of an amount equal to the then available (without the 20% limit) credit under the liquidity line.

**Interest Rate Mismatch:** 17.25% of the portfolio corresponds to fixed-rate assets and 84.25% to floating-rate loans (mainly linked to three-month, six-month and 12-month EURIBOR), whereas the notes will be floating liabilities (three-month EURIBOR). As a result, the *Fondo* will be subject to base rate mismatch risk on the floating portion of the portfolio (i.e. the risk that the reference rate used to compute the interest amount payable on the notes will differ from the interest rate payable on the underlying assets) and fixed-floating risk (i.e. the risk that the reference rate of the

notes will differ from the interest rates payable on this portion of the portfolio).

Our analysis takes into account the potential interest rate exposure and is based on the observed historical volatility between the interest rate payable on the notes and the respective interest rates payable by the assets. The resulting adjustment to the gross margin on the loans would currently be in the range of 50bps.

The fixed-floating risk is quantified by making stressed assumptions on the evolution of the three-month EURIBOR over a period equivalent to the weighted-average remaining term of the fixed-rate sub-pool.

**Servicer:** Baa2 entity and management company acting as BUS facilitator. Not BUS trigger in place but enough liquidity (20% RF) is available so this set up complies with Moody's framework to achieve an A3 rating.

**Cash Commingling:** Santander collects all of the payments under the loans in its portfolio under a direct debit scheme into its account and transfers them every two days to an account in the name of the SPV. As a result, in the event of insolvency of Santander, until notification is delivered to the relevant debtors to redirect their payments, any payments made by the underlying debtors will continue to be collected by Santander and may be commingled with other funds belonging to Santander.

**Mitigant:** The following mechanisms have been put in place to mitigate this risk:

- » Triggers are in place to protect the treasury account from a possible downgrade of the Guaranteed Investment Contract (GIC) provider's ratings. If Santander's long-term or short-term rating falls below Baa3 or P-3 respectively, it will have to find a suitably rated guarantor or substitute.
- » Santander may notify the debtors of the transfer of the loans. The management company also has the ability to carry out the notification.

**Set-off:** 100% of obligors have accounts with the seller.

**Mitigant:** Set-off risk is very limited because only unpaid instalments prior to the declaration of insolvency might be offset against the deposits held by the debtors (considered as fully due and payable prior to the insolvency).



## Originator Profile, Servicer Profile and Operating Risks

Date of Operations Review:	Q4 2011
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### Originator Background:

Rating:	Santander
Financial Institution Group Outlook for Sector:	Negative
Ownership Structure:	N/A
Asset Size:	N/A
% of Total Book Securitised:	N/A
Transaction as % of Total Book:	N/A
% of Transaction Retained:	100%

### Servicer & Back-Up Servicer Background:

Servicer and Its Rating:	Santander
Total Number of Receivables Serviced:	Not made available
Number of Staff:	Not made available
<b>Servicer Assessment:</b>	
Strength of Back-up Servicer Arrangement:	N/A
Back-up Servicer and Its Rating:	N/A
Ownership Structure:	N/A
Regulated by:	N/A
Total Number of Receivables Serviced:	N/A
Number of Staff:	N/A

### Originator Related Triggers

Key Servicer Termination Events:	Insolvency; intervention by the Bank of Spain; breach of service obligation resulting in being substituted as servicer; or at the request of the management company (acting in the best interest of the noteholders)
Downgrade of Original Servicer's Rating to Certain Level	N/A
Appointment of Back-up Servicer Upon:	N/A
Key Cash Manager Termination Events:	Insolvency
Notification of Obligor of True Sale	Insolvency; intervention by the Bank of Spain; breach of service obligation resulting in being substituted as servicer; or at the request of the management company (acting in the best interest of the noteholders).
Conversion to Daily Sweep	Sweeping at least every 48 hours since closing
Notification of Redirection of Payments to SPV's Account	Insolvency; intervention by the Bank of Spain; breach of service obligation resulting in being substituted as servicer; or at the request of the management company (acting in the best interest of the noteholders).
Accumulation of Set Off Reserve	N/A

<b>Receivable Administration:</b>	
Method of Payment:	100% by direct debit
% of Obligor with Account at Originator:	100%

## Cash Manager:

Cash Manager and its Rating:	Santander de Titulización S.G.F.T; S.A (Not Rated).
Main Responsibilities:	<ul style="list-style-type: none"> <li>» Keeping the fund's accounts separate from that of the management company.</li> <li>» Complying with its formal, documentary and reporting duties to the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores or CNMV), the rating agencies and any other supervisory body.</li> <li>» Appointing and, if necessary, replacing and dismissing the auditor responsible for reviewing and audit the <i>Fondo's</i> annual accounts.</li> <li>» Complying with the calculation duties provided for, and taking the actions stipulated in the Deed of Constitution and in the Prospectus.</li> <li>» Checking that the mortgage credit income amount actually paid to the <i>Fondo's</i> matches the amounts that must be received by the <i>Fondo</i>, on the terms of issue of the pass-through certificates and on the terms of the relevant mortgage credits.</li> <li>» Calculating and determining on each determination date the principal to be amortised and repaid on each bond series on the relevant payment date.</li> <li>» Verifying that the amounts credited to the treasury account return the yield set in the agreement.</li> <li>» Instructing the transfer of funds between the various borrowing and lending accounts, and issuing all relevant payment instructions, including those allocated to servicing the bonds.</li> <li>» Calculating the available funds, the available funds for the notes amortisation, the liquidation available funds and the payment or withholding obligations to be complied with, and applying the same in the priority of payments or, as the case may be, in the liquidation priority of payments.</li> <li>» The management company may extend or amend the agreements entered into on behalf of the <i>Fondo</i>, and substitute, as necessary, each of the <i>Fondo's</i> service providers on the terms provided for in each agreement.</li> </ul>
Calculation Timeline:	Determination Date: Five days before the payment date.
Back-up Cash Manager and Its Rating:	N/A
Main Responsibilities of Back-up Cash Manager:	N/A

## Collateral Description

CHART 2

### Portfolio Breakdown by Year of Origination



CHART 3

### Portfolio Breakdown by Year of Maturity

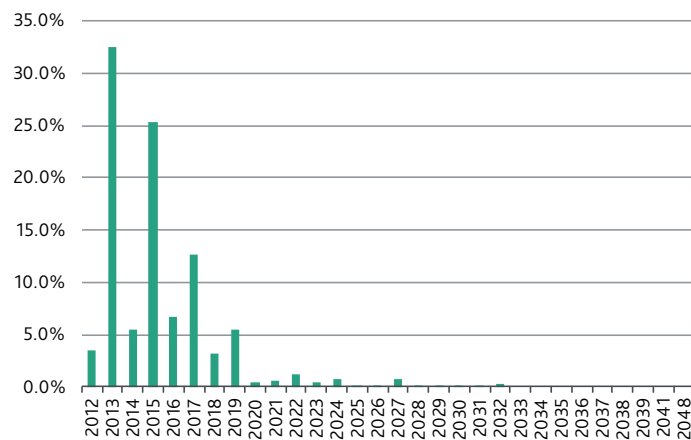


CHART 4

### Portfolio Breakdown by Industry Diversification

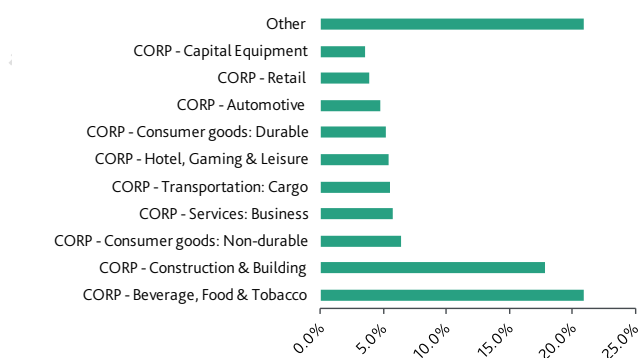
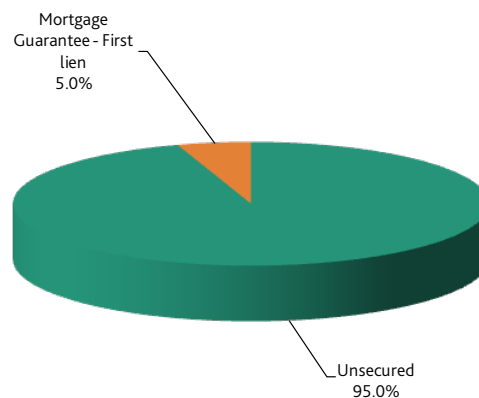


CHART 5

### Portfolio Breakdown by Guarantee Type



**Audits:** Performed by Deloitte, S.L. in compliance with the Spanish regulatory framework.

**Product Description:** The portfolio consists of standard loans and credit lines extended to Spanish companies and self-employed individuals. Some loans are secured by real estate (5%) but most are unsecured (58.4%) and all were granted to fund general working capital and/or long-term business expansion. The remaining 36.6% corresponds to unsecured credit lines.

The portfolio breakdown by company size is: 25.13 % micro-enterprises (turnover less than €2 million), 71.05% SMEs (turnover between €2 million and €50 million), and 3.82% self-employed individuals. The loans and credit lines were originated mainly between 2009 and 2011, with a weighted-average seasoning of 0.66 years and a weighted-average remaining term of 2.9 years. The longest loan matures in May 2048. Geographically, the pool is concentrated in Madrid (20.65%), Catalonia (19.87%) and Andalusia (13.1%). Loans are either subject to French amortisation (61.2%) or bullet amortisation (2.2%). Lines are bullet by product nature.

Around 35% of the portfolio corresponds to loans currently in principal grace periods, and the average time to complete this grace period is around 9 months.

In terms of debtor concentration, the pool includes exposures up to 1.49% of the issuance amount. Around 17.85% of the portfolio is concentrated in the "Construction and Building" sector according to Moody's industry classification. The Real Estate Developer sector represents almost 5.6% of the total pool.

#### Eligibility Criteria:

*The key eligibility criteria are as follows:*

- » All loans granted to SMEs according to definition in 2003/361/CE and self-employed individuals
- » The pool will not include lease contracts or syndicated loans
- » The mortgaged real estate properties have been built and they are located in Spain
- » All the loans are euro-denominated and pay by direct debit
- » No loan is a renegotiation of a loan previously in arrears
- » No loans more than 30 days in arrears included at closing.

**Credit lines:** A maximum credit amount is set in each line; the client can therefore make use of this credit line during a certain period (usually between 12-24 months). The main characteristics of the credit lines sub-pool are:

- » At closing, the lines included in the definitive pool were drawn, on average, at a 72% level.
- » The evolution of the average disposal level in the pool can change significantly over time.
- » None of the lines in the pool can be renewed automatically (i.e. criteria applied is as tight as for first-time origination). Nonetheless, once a line has matured, it will be removed from the pool even if renewed.
- » One fifth of the sub-pool is linked to the Construction & Building sector.
- » All the lines are unsecured.

Looking in detail at the credit lines product, some interesting characteristic to highlight are:

- » Santander can request additional real guarantees from the debtor if its credit quality deteriorates over time: to be provided in less than 30 days.
- » If the average drawn amount, over a three-month period, is lower than 50% of the maximum amount, the limit could be reduced to comply with this rule.
- » The debtor can request cancellation of the credit line.
- » In case of any termination event, the limit would be reduced automatically to the then disposal level. Additionally, Santander could request an early maturity on the contract.
- » The credit limit could be exceeded if approved at branch level (procedure known as "Excedidos"). Typically, the limit is not exceeded by more than 5%, and the interest to be paid on the "extra" amounts is quite high compared to the standard interest. Santander will purchase any credit line that exceeds 5% of the limit (unless it is more than 90 days in arrears).
- » The standard process to pay interest periodically on the credit lines is automatically drawn from the line itself. If the disposal limit is exceeded due to this capitalisation, it is considered in arrears, but the interest will continue to be paid until approximately day 150.

### Additional Information on Borrowers:

Top Debtor Concentration:	1.49%
Top 5 Debtors:	3.11%
Top 10 Debtors:	4.52%
Top 25 Debtors:	7.63%
Industry Concentration:	CORP - Beverage, Food & Tobacco 20.90% CORP - Construction & Building 17.85% CORP - Consumer goods: Non-durable 6.40% CORP - Services: Business 5.70%
Geographic Diversity:	Madrid (20.65%), Catalonia (19.87%) and Andalusia (13.1%)

### Additional Information on Portfolio:

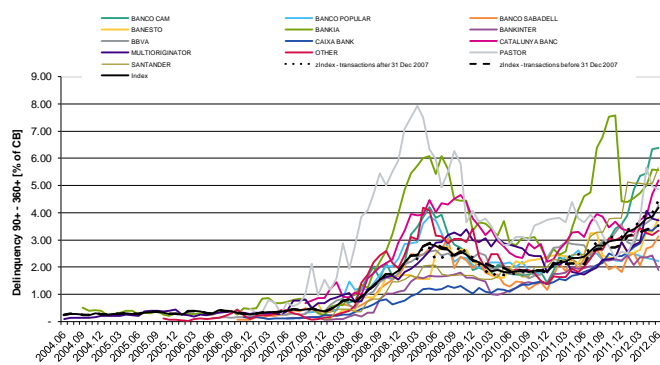
Number of Contracts:	27,297
Type of Contracts:	Standard loans and credit lines
Contract Amortisation Style:	61.2% French; remainder bullet
% Large Corporates (annual turnover more than €50 million):	0%
% Bullet Loans:	38.8% (including credit lines)
% Real Estate Developers:	5.6%
Avg. Interest Rate:	6.6%
LTV (first-lien):	83.4%
Guarantees:	Mortgage - First lien 5%; Unsecured 95%

## Credit Analysis

**Precedent Transactions' Performance:** Santander is one of the most active originators in the securitisation of SME loans in Spain. The performance of the originator's precedent transactions shows a worse performance than average in the market (details in charts 6 and 7).

CHART 6

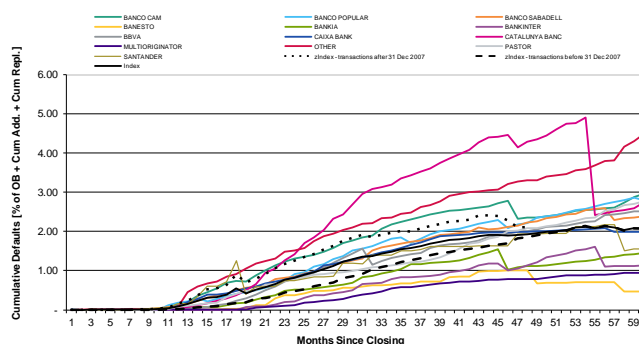
### Spanish SME 90-360 Days Delinquency – trend by originator



Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

CHART 7

### Spanish SME Cumulative Defaults – seasoning by originator

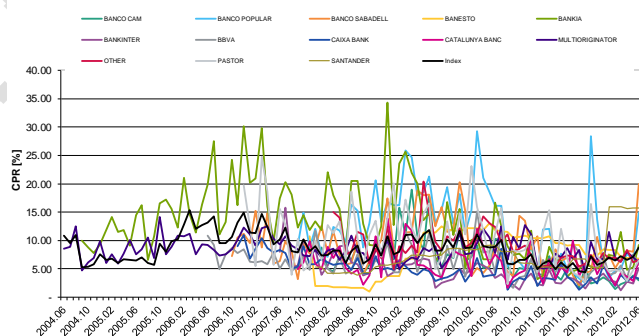


Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

**Default Definition:** In this transaction, a defaulted asset is defined as (i) an asset with any amount due but unpaid for more than 12 months of the loans and six months for the credit lines, (ii) assets classified as such by the originator or (iii) assets that have been written off according to management's discretion.

CHART 8

### Spanish SME Annualised Monthly CPR



Source: Moody's Investors Service, Moody's Performance Data Service (periodic investor/servicer reports)

**Data Quantity and Content:** Moody's has received quarterly origination data in order to perform a vintage analysis. Additionally, Moody's has received – for the provisional pool – line-by-line information on default probabilities according to Santander's internal ratings/scorings.

In addition, Moody's has available significant information about historical performance of previous Santander SME deals, as shown in Charts 6 to 8.

In Moody's view, the quantity of data received is in line with those transactions which have achieved investment grade ratings in this sector.

**Assumptions:** Note that other values within a range of the notional amount listed below may result in achieving the same ratings.

## Assumptions

CPR:	8%
Distribution:	Inverse Normal
Default rate:	9.88%
Standard deviation/mean:	53.7%
Timing of default:	Flat over 2.0 years
Recoveries:	Mean 35% (stochastic recoveries)
Recovery lag:	50% (in second year after default) and 50% (in third year)
Amortisation profile:	Actual pool amortisation
Fees:	0.50%
Fees floor:	€25,000
EURIBOR (three-month):	4%

**Derivation of default rate assumption:** Moody's analysed the performance monitoring data on previous deals as well as other sources of information (like macroeconomic data) to determine the default assumption.

Moody's has complemented the monitoring data analysis with a top-down approach, as detailed below.

Moody's split the portfolio into three sub-pools based on the economic sector in which the debtor was active: (i) Real Estate Developer, (ii) Construction and Building, and (iii) all other industries. Moody's rating proxies assumed are shown in the table below.

Borrower's main sector of activity	Rating Proxy
Construction & Building	B2/B3
Real Estate Developer	Caa1/Caa2
Other industries	Ba3/B1

The above-mentioned assumptions include some adjustments that take into account the current macroeconomic environment (generally in the range of one to two notches) as well as the originator's underwriting ability. Moody's has taken into consideration the current performance of Santander's SME deals in its assumptions.

Moody's further adjusted the assumptions to account for the size of the companies (one notch down for micro/small enterprises and self-employed individuals). We also adjusted the PD assumptions according to the product type (one notch benefit was given to the credit lines sub-pool due to better expected performance compared to traditional loans sub-pool) and characteristics. For assets with a current or potential principal grace period or potential payment holiday, an additional 10% PD stress was applied. In addition to the adjustments described above, the PD assumption for the credit lines sub-pool was also stressed (additional 25% stress) to account for (i) a potential deterioration of its credit quality given its dynamic nature and (ii) the risk associated to the liquidity line being senior to the series A notes during the period in which additional draws will be purchased daily.

**Timing of defaults:** Moody's tested several 'timing of default curves' to assess the robustness of the ratings. In the base-case scenario, the 'timing of defaults curve' assumed is flat over 2.0 years (with a 12-month lag).

**Derivation of Recovery Rate Assumption:** Assumptions for recoveries were made on the basis of (i) historical recovery information provided specifically for this deal and data available from previous deals of Santander; (ii) statistical information on the Spanish SME market; (iii) feedback from Moody's corporate team; and (iv) other quantitative and pool-derived aspects.

**Modelling Approach:** Given the number of assets and the size of the exposures in the portfolio (see section entitled "Collateral Description"), Moody's derived the default distribution curve by using the inverse normal density law. To determine such distribution, two main input parameters needed to be assessed: (i) the mean default probability of the portfolio, and (ii) the standard deviation of the default distribution (estimated using CDOROM).

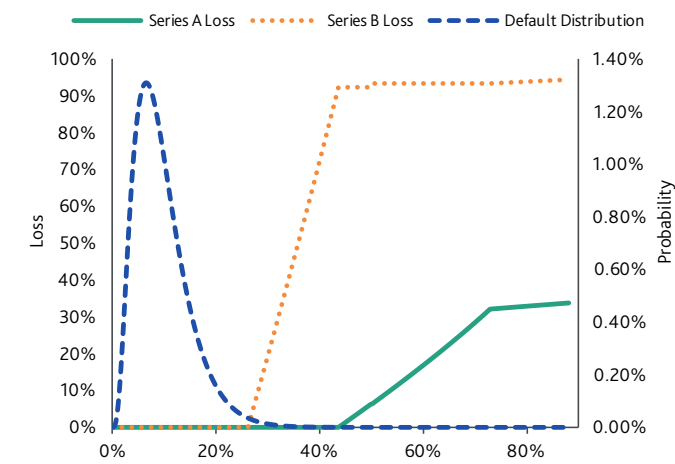
Moody's tested the credit enhancement levels by using its ABSROM cash flow model, which has been adjusted to take into account a number of structural features.

Moody's considered how the cash flow generated by the collateral was allocated to the parties within the transaction, and the extent to which various structural feature of the transaction might provide additional protection to investors, or act as a source of risk. In addition, Moody's analysed the strength of triggers to reduce the exposure of the portfolio to originator or servicer bankruptcy.

To determine the rating assigned to each series of notes, Moody's used an expected loss methodology that reflected the probability of default for each series of notes. With this purpose, and in order to allocate losses to the notes in accordance with their priority of payments and relatively size, Moody's built a cash flow model that reproduces many deal-specific characteristics (the main input parameter of the model is described in the table above). By weighting each default scenario's severity result on the notes with its probability of occurrence, Moody's calculated the expected loss average for each series of the notes as well as the expected average life. Moody's then compared the quantitative values to the Moody's idealised expected loss table to determine the ratings assigned to each series of the notes.

CHART 9

### Defaults Distribution and Loss Sensitivity



### Treatment of Concerns:

- » **High degree of linkage to originator (Commingling risk):** The deal is exposed to commingling risk. Considering the deal characteristics and the mitigants in place, we have assessed the probability and impact of a default of Santander on the ability of the Issuer to meet its obligations under the transaction, including the impact of the loss of any cash held with Santander should it default and any loss that may be incurred after that time due to any delay in redirecting payments to a new account or taking any other appropriate action.
  - » **Exposure to real estate:** Approximately 18% of the portfolio is exposed to the Construction and Building sector (according to Moody's industry classification). Moody's assumed a higher default probability for obligors operating in this industry (rating proxy equal to B2/B3; Caa1/Caa2 for Real Estate Developers) than for the rest of obligors (rating proxy equal to Ba3/B1).
- Complex Structure:** The daily acquisition of new draw-downs of the securitised credit lines (until their maturity date) increase the structural complexity of the transaction. Moody's tested several scenarios related to (i) the potential credit risk increase of the credit lines sub-pool and (2) the adequate size of the liquidity line.
- » **Bullet credits:** around 40% of the portfolio is bullet. Moody's increased the PD for this sub-pool, taking into consideration an additional one-year exposure to default at the time of refinancing.

**Sovereign risk:** On 26 June 2012 we lowered to A3 the Spanish country ceiling, which signifies the maximum rating that Moody's will assign to a domestic issuer, including structured finance transactions backed by Spanish receivables. The lowering of the ceiling was prompted by the increased risk of severe financial and

economic dislocation implied by the weakening of the Spanish government's creditworthiness, as reflected by our downgrade of Spain's government bond ratings to Baa3 from A3 on 13 June 2012.

Spain's revised country ceiling captures our assessment of 'country' risks that need to be factored into the rating of all locally domiciled obligors (i.e. risks that arise from immutable political, institutional, financial and economic factors within the country). They include the risk of systemic economic disruption, the crystallisation of severe financial stability risks and factors implying regulatory and legal uncertainty such as the possibility of currency redenomination. The assessment of country risk takes into account a number of the same factors that we consider when determining a sovereign's credit strength.

Hence the highest achievable rating for most Spanish structured finance transactions is now A3(sf). This ceiling also applies to Spanish structured finance transactions issued by non-Spanish issuers, as these are backed entirely by Spanish assets with material exposure to the risks reflected in the country ceiling.

### Benchmarking Analysis

**Performance Relative to Sector:** In Moody's view, the historical performance of 90-360 day delinquencies is worse than the sector index (see Chart 6 above). Please note that the performance shown is affected by several factors, such as the age of the transaction, the pool-specific characteristics, and the presence of a revolving period.

### Representations and Warranties

The Rule 17g-7 Report of Representations and Warranties is hereby incorporated by reference and can be found at [http://www.moody.com/viewresearchdoc.aspx?docid=PBS\\_SF306671](http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF306671)



## Benchmark Table Best practice:

Deal Name	FTA Santander Empresas 10	FTA Santander Empresas 9	BBVA Empresas 4, FTA	Santander Empresas 6, FTA
<b>Country</b>	<b>Spain</b>	<b>Spain</b>	<b>Spain</b>	<b>Spain</b>
Closing Date	24/11/2011	07/04/2011	21/07/2010	01/10/2009
Currency of Rated Issuance	Euro	Euro	Euro	Euro
Rated Notes Volume (excluding NR and Equity)	4,700,000,000	5,350,000,000	1,700,000,000	2.275.000.000
Originator 1	Santander	Santander	BBVA	Santander
Long-term Rating	Aa3	Aa2	Aa2	Aa1
Short-term Rating	P-1	P-1	P-1	P-1
Servicer 1	Santander	Santander	BBVA	Santander
Long-term Rating	Aa3	Aa2	Aa2	Aa1
Short-term Rating	P-1	P-1	P-1	P-1
<b>Contract Information (as % Total Pool)</b>				
(Fully) amortising contracts %	40.0%	42.0%	91.5%	100%
Bullet / balloon contracts %	60.0%	58.0%	8.5%	0%
Method of payment - Direct Debit (minimum payment)	100%	100%	100%	100%
Floating rate contracts %	86.5%	71.40%	76.60%	93,00%
Fixed rate contracts %	13.5%	28.60%	23.40%	7,00%
WA initial yield (Total Pool)	5.0%	3.70%	3.14%	5,18%
WAL of Total Pool (in years)	1.6	2.2	3.7	3.2
WA seasoning (in years)	0.6	1.0	1.2	1.0
WA remaining term (in years)	2.4	2.9	6.6	5.8
Portfolio share in arrears > 30 days %	0.0%	0.0%	0.00%	0.00%
No. of contracts	25,153	27,784	4,723	6,391
<b>Obligor Information (as % Total Pool)</b>				
No. of obligors	21,738	23,784	4,432	5,787
Name 1st largest industry	Construction & Building	Construction & Building	Construction & Building	Construction & Building
2nd largest industry	Beverage, Food & Tobacco	Beverage, Food & Tobacco	Beverage, Food & Tobacco	Beverage, Food & Tobacco
3rd largest industry	Banking	Hotel, Gaming & Leisure	Hotel, Gaming & Leisure	Beverage, Food & Tobacco
Size % 1st largest industry	30.52%	38.30%	40.6%	37,60%
2nd largest industry	13.53%	12.50%	13.0 %	7,10%
3rd largest industry	6.19%	10.90%	11.6%	
Effective Number (obligor group level)	341	221	351	285
Single obligor (group) concentration %	2.13%	2.80%	1.18%	2.20%
Top 10 obligor (group) concentration %	12.33%	11.63%	9.21%	13.50%
<b>Collateral Information (as % Total Pool)</b>				
WA RE collateralisation level (WA LTV)	4.7%	5.8%	43%	79%
Collateralised by first lien mortgage	4.7%	5.8%	43%	20%
<b>Geographical Stratification (as % Total Pool)</b>				
Name 1st largest region	Madrid	Madrid	Catalonia	Catalonia
2nd largest region	Cataluña	Cataluña	Madrid	Madrid
3rd largest region	Andalusia	Andalusia	Valencia	Andalusia
Size % 1st largest region	29.25%	29.30%	19%	22,40%
2nd largest region	19.97%	13.56%	17.5%	22,00%
3rd largest region	10.42%	11.86%	11.6%	11,60%
<b>Asset Assumptions</b>				
Gross default / Net loss definition in this deal	12 months for loans/6months for credit lines	12 months for loans/6months for credit lines	18 months	12 months
Type of default / loss distribution	Montercarlo	Inverse Normal	Montercarlo	Inverse Normal
Moody's equivalent rating for Non-RE subpool	Ba3/B1	Ba3/B1	Ba3	Ba3
Moody's equivalent rating for RE subpool	B3/Caa1	B3/Caa1	B2	B1
Mean gross default rate - initial pool	10.70%	14.10%	17.10%	9.1%

Deal Name	FTA Santander Empresas 10	FTA Santander Empresas 9	BBVA Empresas 4, FTA	Santander Empresas 6, FTA
Country	Spain	Spain	Spain	Spain
Stdev.	4.8%	6.35%	8.3%	5,90%
CoV	45.0%	45.0%	48.5%	64,60%
Stochastic Recoveries modelled?	Yes	Yes	Yes	Yes
Mean recovery rate	35.0%	37.0%	50%	25%- 35%
Stdev. recovery rate (if any)	20.0%	20.0%	20.00%	20,00%
Correlation severity / default	10.00%	10.00%	10.00%	10,00%
Correlation severity	10.00%	10.00%	10.00%	10,00%
Prepayment Rate(s)	8%	8%	8%	4%
Fees	0.50% outstanding balance / 25,000 floor	0.50% outstanding balance / 25,000 floor	0.50% outstanding balance / 25,000 floor	0.50% outstanding balance / 25,000 floor
<b>Capital structure (as % Total Pool)</b>				
Size of	Aaa rated class	80%	79%	100.00%
	Aa3 rated class			66,40%
	A3 rated class			10,40%
	Baa3 rated class			7,80%
	Ba3 rated class			5,75% (Baa2)
	B1 rated class or below	20%	21%	
	Equity	20%	20%	9,65%
Reserve fund	20%	20%	36.00%	9.75%

(1) Ratings and entities names are as of transaction closing date.

## Parameter Sensitivities

Parameter sensitivities provide a quantitative, model-indicated calculation of the number of notches that a Moody's-rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not Moody's intention to measure how the rating of the security might migrate over time, but rather, to measure how the initial rating of the security might differ as certain key parameters vary.

Parameter sensitivities for this transaction were calculated in the following manner: Moody's assumed nine scenarios derived from the combination of mean default rate: 9.88% (base case), 11.38% (base plus 1.5%) and 12.88% (base plus 3%) and recovery rate: 35% (base case), 30% (base minus 5%) and 25% (base minus 10%). The 9.88% - 35% scenario represents the base-case assumptions used in the initial rating process.

The charts below show the parameter sensitivities for this transaction with respect to all Moody's rated tranches\*.

TABLE 2

	Portfolio WA PD Assumption	Recovery Rate		
		35%	30%	25%
Series A	9.88%	<b>A3*</b>	A3 (0)	A3 (0)
	11.38%	A3 (0)	A3 (0)	Baa1 (1)
	12.88%	Baa1 (1)	Baa1 (1)	Baa1 (1)
Series B	9.88%	<b>Baa2*</b>	Baa3 (1)	Baa3 (1)
	11.38%	Baa3 (1)	Baa3 (1)	Ba1 (2)
	12.88%	Ba2(3)	Ba2(3)	Ba2 (3)
Series B	9.88%	<b>Ca*</b>	Ca (0)	Ca (0)
	11.38%	Ca (0)	Ca (0)	Ca (0)
	12.88%	Ca (0)	Ca (0)	Ca (0)

\* Results under base case assumptions indicated by asterisk '\*'. Change in model-indicated rating (number of notches) is noted in parentheses.

**Worst-case scenarios:** When the rating was assigned, if the assumed default probability of 9.88% used in determining the initial rating was changed to 12.88% and the recovery rate of 35% was changed to 25%, the model-indicated rating for Series A, Series B and Series C of A3(sf), Baa2(sf) and Ca(sf) would be Baa1(sf), Ba2(sf) and Ca(sf) respectively..

## Monitoring

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

**Originator Linkage:** Strong. Santander will act as servicer, issuer accounts bank, liquidity facility provider and paying agent.

**Significant Influences:** In addition to the counterparty issues noted, the following factors may have a significant impact on the subject transaction's ratings: further deterioration in the real estate market causing longer the recovery lags and higher price declines than the stressed values which were assumed in our modelling.

Counterparty Rating Triggers	Condition	Remedies
Issuer Accounts Bank	Loss of Baa3 or P-3	Replace/Eligible guarantor
Liquidity Facility Provider	Loss of Baa3 or P-3	Set up deposit in entity rated at least Baa3/P-3

**Monitoring Report:** Moody's has reviewed the standard monitoring report (publicly available at the management company website for previous similar deals) and would welcome the following important data in addition to the information reflected on the report:

- » All the transaction's triggers details
- » The amount of gross excess spread before write offs
- » The cumulative 90 days "defaults" (as obtained for the rating process of the deal)
- » Quarterly loan-by-loan pool evolution reports (including recovery data)
- » Specific data related to the credit lines evolution and the associated daily purchase mechanism

## Moody's Related Research

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

### Methodologies Used:

- » [Refining the ABS SME Approach: Moody's Probability of Default assumptions in the rating analysis of granular Small and Mid-sized Enterprise portfolios in EMEA](#), March 2009 (SF141058)
- » [Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa](#), June 2007 (SF90890)
- » [Moody's Approach to Rating the CDOs of SMEs in Europe](#), February 2007 (SF90480)

### Rating Implementation Guidance:

- » [Framework for De-Linking Hedge Counterparty Risks from Global Structured Finance Cashflow Transactions Moody's Methodology](#), October 2010 (SF73248)

### Credit Opinion:

- » [Santander, June 2012](#)

### Special Report:

- » [V Score and Parameter Sensitivities in the EMEA Small-to-Medium Enterprise ABS Sector](#), June 2009 (SF155092)
- » [Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread](#), January 2004 (SF29881)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

## Appendix 1: Originator's Underwriting and Collection Practices

Originator Ability:	<p>With total assets of EUR1.252 trillion at year-end 2011, Santander is the largest banking group in Spain and among the 15 largest banking groups in Europe. Santander benefits from leading market positions in several major markets. With 35% of the loan book, the UK accounts for the largest share, followed by Spain with 28%, Brazil at 11% and US at 5%. However, Brazil is the major driver of earnings at 28% of profits, followed by the UK at 12%, Mexico at 10% and domestic retail at 9% - reflecting both the high margins obtained in Latin America and the increasing pressure on earnings in Santander's mature markets, namely Spain and Portugal. Continental Europe accounted for 31% of 2011 profits.</p> <p>Retail banking (including asset management and insurance), which accounts for around 75% of profits, is Santander's main source of earnings, a factor that has underpinned its solid performance during the global financial crisis. We note, however, that more than 50% of the group's profits are generated from Latin America. In our view, these profits tend to be more vulnerable to event risk, despite their retail nature. Despite Santander's presence in more stable markets - such as Spain, the US, Portugal and the UK - the bank is also facing very challenging operating conditions, which will continue to translate into higher credit costs (namely in Spain and Portugal), low business growth and costly access to market funds.</p>
Sales and Marketing Practices:	<p>Santander provides services to its customers through a multi-channel distribution:</p> <ul style="list-style-type: none"> <li>» Branch network in Spain: N/A</li> <li>» Employees in Spain: N/A</li> </ul>
Underwriting Policies and Procedures:	<ul style="list-style-type: none"> <li>» Banco Santander has established two different approaches when sanctioning a new transaction, which can be broadly summarised as: <ul style="list-style-type: none"> <li>○ "Standardised": For customers for whom the bank's exposure is below €500,000 a more automated process is applied, mainly based on a scoring system.</li> <li>○ "Individualised": For customers for whom the bank's exposure is €500,000 or above, a risk analyst is assigned to the transaction.</li> </ul> </li> <li>» In the "Standardised" approach, most of the origination is performed at the branch level. The branch is responsible for collecting all the information related to the obligor's credit quality, which comprises a variety of data sources including financial and tax reports, as well as checks with credit bureaus such as RAI, Experian and CIRBE for adverse credit. When all data is gathered, the branch creates an electronic file. The basis of the approval system is an automated scoring system, although the branch can reject applications deemed not viable.</li> <li>» In the "Individualised" approach, following the identification of the customer's financing needs a credit analyst is assigned from the beginning to the end of the approval process. The process includes regular visits to the customer as well as the usual data and documentation gathering. Obligors are assigned a rating, and the system also assigns an expected loss specific to the type of exposure.</li> <li>» Several internal rating and credit scoring systems are in place which play a key role in Santander's underwriting process. The entity has four different models: three for SMEs according to size, and one for large corporates. The internal rating system for corporate assesses six quantitative and qualitative aspects of the obligor. Ratings are updated annually (when the financial statements are published) or more often if an alert is triggered. The scoring system for self-employed individuals is a very efficient tool, with scores updated monthly. The standardised and individualised approaches have already been certified by the Bank of Spain (therefore the size of regulatory capital needed is estimated with them).</li> <li>» Loan applications are approved at different levels, whereby the required authority depends on the amount, maturity and guarantees of the transaction. The highest approval level is the Executive Risk Management Board.</li> <li>» Business segment: Risk metrics in the approval process: <ul style="list-style-type: none"> <li>○ Ratings: essential element in the analysis. Controls are set up to ensure that the ratings are used in analysing the risk of each loan. If the rating has not been updated the system rejects the operation.</li> <li>○ System of risk adjusted prices. This complements the assessment of risk adjusted return at customer level, calculated monthly as benchmark spread (risk cost) versus margin on risk (customer level margin).</li> </ul> </li> </ul>
Collateral Valuation Policies and Procedures:	<ul style="list-style-type: none"> <li>» Banco Santander uses 17 approved independent valuation companies.</li> <li>» The valuator for each transaction is selected in a centralised manner by SIBASA (part of the group), which is in charge of supervising the whole valuation process (also for broker originated loans), including the quality control of the valuers.</li> <li>» It is worth mentioning that if the purchase price of the property is lower than the valuation, Banco Santander will take the lower of the two.</li> <li>» Quality of valuations in Spain is standardised by the Bank of Spain, which certifies valuers or <i>Sociedades de Tasacion</i>.</li> </ul>
Closing Policies and Procedures:	<ul style="list-style-type: none"> <li>» Random internal audits are carried out to double-check the inputs fed into the system.</li> <li>» At closing all the documentation is scanned and a digital file is created.</li> <li>» Banco Santander is in line with the Spanish standards.</li> </ul>
Credit Risk Management:	<ul style="list-style-type: none"> <li>» Banco Santander presents 17 regional units (one per region in Spain) with an average of 43 staff in each unit.</li> </ul>
<b>Originator Stability:</b>	<p>Banco Santander, S.A. (Santander) (Aa3/P-1 ; Negative Outlook) – as of the publication date of this report the entity is rated Baa2/P-2/C-; under review for possible downgrade.</p>
Quality Controls and Audits:	<ul style="list-style-type: none"> <li>» Santander is regulated by the Bank of Spain and carries out annual external audits</li> <li>» The pool to be securitised has been audited.</li> </ul>
Regulated by:	<ul style="list-style-type: none"> <li>» Bank of Spain</li> </ul>
Management Strength and Staff Quality	<ul style="list-style-type: none"> <li>» Banco Santander is a well established originator with a high level of sophistication.</li> </ul>

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**Arrears Management:**

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Number of Receivables per Collector:	» Not Available.
Staff Description:	» Banco Santander branches are divided into three different categories depending on their arrears levels, and up to 95% of branch staff incentives are linked to arrears management. The bank combines the strength of its internal resources with the support of some external entities. » In addition to the branch, and these external companies, Banco Santander allocates 84 staff (internally) for transactions less than 90 days in arrears, 26 staff for transactions between 91 and 150 days in arrears, and 79 staff for transactions above 151 days in arrears.
Early Stage Arrears Practices:	» Transactions up to 30 days in arrears are monitored by the branch, although from day 10 external contact centres might also be utilised. » From day 30 onwards, the transaction could be monitored by the branch as well as experts from the correspondent regional unit. » From day 91 to day 150, the recovery of transactions below €30,000 are outsourced externally. » Obligors under the "Individualised" approach (i.e. those with total exposure of €500,000 or above) are managed by the specific analyst originally assigned to cover these assets in arrears .
Late Stage Arrears Practices:	» If after 151 days the arrears have not been resolved (either repayment or renegotiation), the bank prepares for the commencement of litigation procedures. Transactions below €30,000 are outsourced to external lawyers (Banco Santander works with 156 different law firms throughout Spain). » The auction usually takes place no less than 18 months from the moment the claim is submitted
Average Time to Repossess:	» Not Available
Loan Modifications:	» Not Available

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