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FTA PYMES Santander 10

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Ratings

Debt	Par Amount (EUR)	Initial Credit Enhancement (%)	Investor Coupon (p.a.)	ISIN	DBRS Rating	Rating Action
Series A Notes	2,907,000,000	43.5%	3M Euribor + 0.35%	ES0305054001	AA (high) (sf)	Provisional Rating – Finalised
Series B Notes	893,000,000	20%	3M Euribor + 0.60%	ES0305054019	BB (high) (sf)	Provisional Rating – Finalised
Series C Notes	760,000,000	--	3M Euribor + 0.65%	ES0305054027	C (sf)	Provisional Rating – Finalised

Kingdom of Spain, Sovereign Rating: A (low), Stable Trend
Closing Date: 28 November 2014

Transaction Summary

FTA PYMES Santander 10 (the Issuer or SPV), a Fondo de Titulización, is a special-purpose vehicle (SPV) incorporated in accordance with Spanish legislation for the purpose of issuing asset-backed securities and acquiring loans and credit lines. The SPV issued two series of asset-backed notes to finance the purchase of a EUR 3,800 million portfolio of term loans and credit lines granted by Banco Santander, S.A. and Banco Español de Crédito, S.A. (Banco Santander and Banesto, together the Originators) to small- and medium-sized enterprises (SMEs) and self-employed individuals in Spain. In addition, the SPV issued the Series C Notes to finance a Reserve Fund and entered into a Subordinated Loan Facility to finance the initial expenses of the SPV. Interest and principal income received by the SPV will be distributed quarterly according to the Priority of Payments established under the transaction documents.

All obligations under the credit lines are also transferred to the Issuer, which means that future drawing under the credit lines will form part of the portfolio securitized and will be funded by the Issuer. To ensure that the Issuer has sufficient resources to attend to future drawings on the credit lines, the transaction benefits from a liquidity line provided by Banco Santander. The liquidity line is available to fund any future drawings on the credit lines if available principal collections are insufficient.

This is the first transaction in the FTA PYMES Santander series that contains loans originated by Banesto. Banesto has been part of the Santander Group since 1994. At the end of 2012, Banco Santander decided to acquire the remaining shares of Banesto that it did not own and to absorb Banesto through a merger. The full integration of Banesto into Banco Santander was completed in April 2014.

The securitized pool contains 44,130 loans and credit lines granted to 39,969 borrower groups and totalling EUR 3,800 million. Loans and credit lines originated by Banesto represents 18.7% of the total outstanding pool balance.

DBRS Ratings Limited (DBRS) has finalized its provisional ratings on the FTA PYMES Santander 10 notes as listed in the table above. This securitisation has been structured as a public transaction with Series A Notes, Series B Notes and Series C Notes (collectively, the Notes). The Series A Notes are senior and supported by 43.5% subordination provided by the Series B Notes and the Reserve Fund. The Series B Notes are supported by 20% subordination provided by the Reserve Fund. The Series C Notes are the most junior tranche in the structure.

Methodologies Applied

The following are the primary methodologies that DBRS applied to assign a rating to the above-referenced transaction, which can be found on www.dbrs.com under the heading Methodologies. Alternatively, please contact info@dbrs.com, or contact the primary analysts whose contact information is listed in this report.

- *Rating CLOs Backed by Loans to European Small and Medium-Sized Enterprises (SMEs)* (October 2013)
- *Legal Criteria for European Structured Finance Transactions* (September 2014)
- *Operational Risk Assessment for European Structured Finance Servicers* (November 2013)
- *Cash Flow Assumptions for Corporate Credit Securitizations* (January 2014)
- *Rating Methodology for CLOs and CDOs of Large Corporate Credit* (January 2014)
- *Unified Interest Rate Model for U.S. and European Structured Credit* (January 2013)
- *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda* (August 2014)

Rating Rationale

The ratings are based on a review by DBRS of the following analytical considerations:
- The transaction's capital structure and the form and sufficiency of available credit enhancement.
- Relevant credit enhancement in the form of subordination, Reserve Fund and excess spread.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms of the transaction documents.
- The Originator's capabilities with respect to origination, underwriting, servicing and financial strength.
- The credit quality of the collateral and the ability of the Servicer to perform collection activities on the collateral.
- The structure of the Priorities of Payments.
- The legal structure and presence of legal opinions addressing the assignment of the assets to the Issuer, and the consistency with the DBRS *Legal Criteria for European Structured Finance Transactions* methodology.

Strengths
- The EUR 760 million Reserve Fund, which corresponds to 20% of the initial aggregate balance of the portfolio and is available as additional credit enhancement for Series A and Series B Notes.
- Low obligor concentration, with the largest one, ten and 20 obligors representing 0.8%, 5.8% and 9.3% of the portfolio balance, respectively.
- Relatively low regional concentration, with the largest three regions accounting for 23.0% (Madrid), 15.9% (Catalonia) and 14.6% (Andalusia) of the portfolio.
- Relatively low industry concentration, with the top three industries based on DBRS industry classification being building and development (17.9% of the portfolio balance); food products (9.6%); and business equipment and services (9.3%).

Challenges
- The reliance on Banco Santander to perform most of the relevant ancillary roles in the transaction. Banco Santander was the Originator of the loans and will act as Servicer and financial agent where all of the Issuer's bank accounts (including collections and Reserve Fund cash) will be held.
- The absence of any hedging agreements to mitigate the interest rate risk in the transaction.
- The exposure to credit lines (which allow for future drawings and could increase by up to EUR 133.9 million if the credit lines were to be fully drawn by borrowers), which would have a dilutive effect on the credit enhancement provided by the Reserve Fund and Series B Notes.
- The exposure to loans that resulted from debt restructuring (8.8% of the portfolio balance), which have a higher expected annualised probability of default (PD).
- The challenging economic environment in the Eurozone and, specifically, in Spain.

Mitigating Factors
- DBRS maintains public ratings, private ratings or private internal assessments to evaluate and monitor the potential risk that counterparties pose to the performance of the Notes. At the time of assigning these ratings, all transaction participants either meet or exceed DBRS counterparty requirements, which are publicly available in the published legal criteria referenced on page one of this report.

- The exposure to interest rate risk is addressed in DBRS analysis by incorporating stressed spread assumptions in its cash flow modelling. In addition, the Reserve Fund can be used to pay the interest on the Series A Notes in case of a shortfall in the available proceeds.
- The potential dilution of credit enhancement due to drawings on the Liquidity Line is taken into consideration in DBRS's cash flow analysis.

Transaction Parties and Relevant Dates

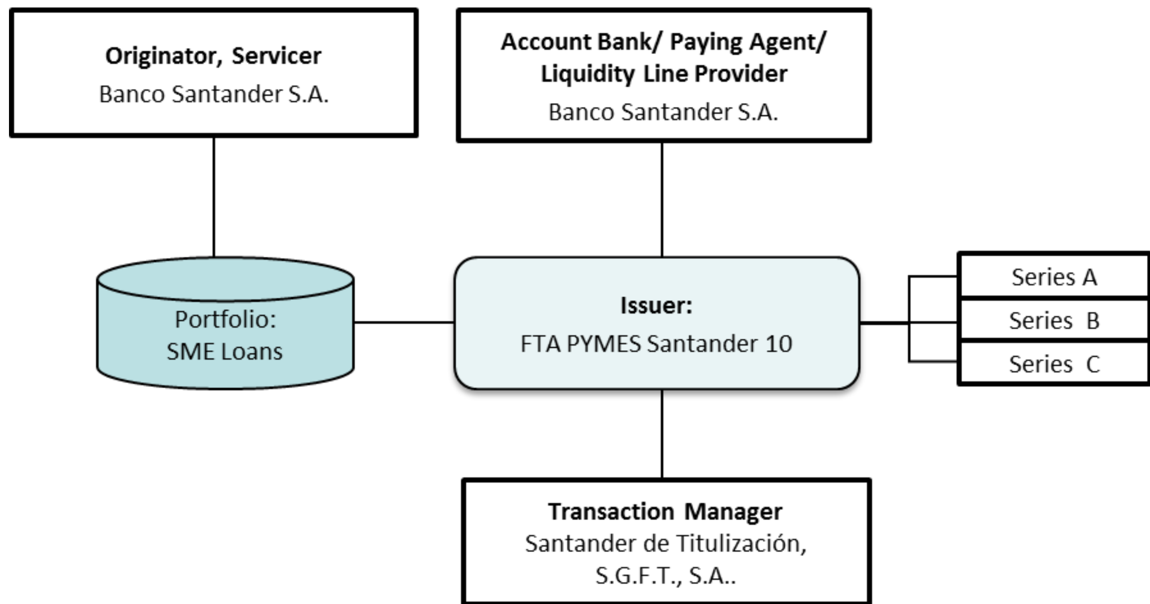
Transaction Parties

Type	Name	Current Rating (Long-Term/Short-Term)
Issuer	FTA PYMES Santander 10	N/A
Originator/Seller/Servicer	Banco Santander, S.A.	A/R-1 (low)
Account Bank/Paying Agent	Banco Santander, S.A.	A/R-1 (low)
Reserve Fund Account Bank	Banco Santander, S.A.	A/R-1 (low)
Transaction/Fund Manager	Santander de Titulización, S.G.F.T., S.A.	N/A
Arrangers	Banco Santander, S.A.	A/R-1 (low)

Relevant Dates

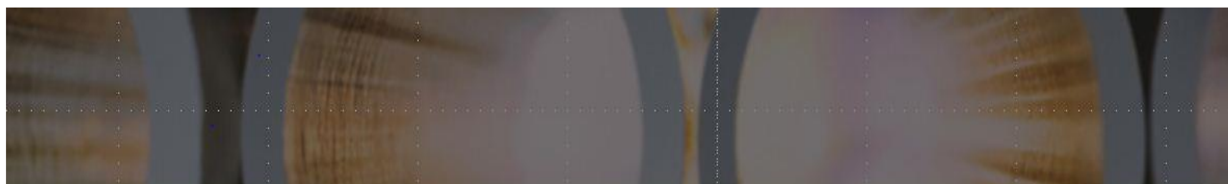
Type	Date
Issue Date	28 November 2014
Rating by DBRS Date	28 November 2014
First Interest Payment Date	20 February 2015
Payment Frequency	Quarterly, on the 20th day of February, May, August and November
Call Date	When the asset balance is less than the 10% of the original portfolio
Early Amortisation Date	N/A
Legal Final Maturity Date	20 August 2057

Transaction Structure



Transaction and Counterparty Overview

DBRS evaluates the potential credit impact on its ratings based on the performance of counterparties that face issuers in the capacity of derivative counterparties, account banks, custodian or other roles. To minimise the impact that the failure of such counterparties would have on the DBRS-rated debt, each relevant counterparty is required to satisfy minimum rating, collateral posting or other requirements as outlined in the publicly available and current DBRS *Legal Criteria for European Structured Finance Transactions* methodology. For this transaction, each counterparty satisfies such criteria, based on DBRS public ratings, DBRS private ratings or DBRS private internal assessments of the creditworthiness of counterparties that do not have a DBRS public rating.



Role	Counterparty Name	Minimum Rating	Actual Rating
Issuer Account Bank/Paying Agent	Banco Santander, S.A.	A	A/R-1 (low)
Liquidity Line Provider	Banco Santander, S.A.	A	A/R-1 (low)
Servicer	Banco Santander, S.A.	BBB (low)	A/R-1 (low)

Issuer
FTA PYMES Santander 10 (the Issuer) is an SPV created in accordance with Spanish securitisation law and regulated by Royal Decree 926/1998. Under the securitisation laws, the SPV is a separate and independent patrimony from the Originator (Patrimonio Separado), but does not have any legal personality or capacity. The Issuer is represented by Santander de Titulizacíon, S.G.F.T., S.A. (the Management Company or Sociedad Gestora). All acts performed and all contracts, transactions or agreements executed by the Management Company on behalf of the Issuer are considered, under Spanish law, acts performed and transactions, agreements or contracts executed by the Issuer.

Originator and Servicer
Banco Santander will be responsible for collecting all payments due from the borrowers on the assets, managing relationships with borrowers, monitoring the performance of the credit rights and initiating recovery processes against defaulted or non-performing borrowers. Banco Santander will transfer all collections received from the loan portfolio to the Treasury Account on a daily basis.

Management Company
Santander de Titulizacíon, S.G.F.T., S.A. acts as the Management Company and legal representative of the Issuer. It will be responsible for all administrative functions, including Priority of Payments calculations, instructing payments to and from the Treasury Accounts, maintaining the financial accounting of the Issuer, preparing performance reports and providing information to regulators and rating agencies. The Management Company is also responsible for representing the noteholders' interests in the Issuer as well as determining whether counterparties should be replaced under certain circumstances.

Banco Santander owns 81% of Santander de Titulizacíon S.G.F.T., S.A.

Collections Account
Banco Santander will act as the Collection Account Bank. All payments received on the loans will initially be domiciled in the Collections Account. All collections of principal and interest are then transferred to the Treasury Account and Interest Account, respectively, within a maximum of two days.

Account Bank, Reserve Fund Account Bank and Paying Agent
Banco Santander will act as the Account Bank and maintain the Treasury and Interest Accounts. The Treasury Account will hold all principal collections as well as interest earned on the Treasury Account. The treasury account will also feature an overdraft facility known as the Liquidity Line that can be used to cover potential future drawings on the credit lines.

The Interest Account will hold all interest collections received on the portfolio, any interest earned on the Interest Account and Cash Reserve amounts. In addition, once all credit lines in the portfolio have amortised in full, the Interest Account will also hold all principal collections and the Treasury Account will cease to exist.

As per the transaction documentation, in case of withdrawal of the rating or downgrade of the long term rating of the Account Bank below "A", the Account Bank must either i) be replaced within 30 calendar days by a financial institution with a DBRS public rating, private rating, or internal assessment of at least "A", or ii) find a guarantor with a public rating, private rating, or internal assessment from DBRS of at least "A". If there are any costs incurred by these options, they will be at the expense of the original Account Bank or guaranteed Account Bank.

In addition, to ensure that the Liquidity Line mechanism is available to cover obligations under the credit lines, once the long-term rating of Banco Santander is downgraded below "A" or withdrawn, Banco Santander must constitute a deposit (calculated as 105% times the credit lines maximum limit minus the drawn balance on the credit lines) within 30 calendar days in a financial institution rated at least "A" by DBRS.

Origination and Servicing

DBRS conducted an operational review of Banco Santander's SME operations in March 2013 in Madrid, Spain. DBRS considers the origination and servicing practices of Banco Santander to be consistent with those observed among other Spanish SME lenders.

Company background

Banco Santander was founded in 1857 and is based in Santander, Spain. Historically, Banco Santander has had a strong presence abroad, initially expanding to South America in 1947, and since then has maintained a strong presence throughout Europe as well as in both North and South America. Banco Santander is engaged in broadly diversified activities across retail and corporate banking, consumer finance and asset management.

At the end of June 2013, Banco Santander had total assets of EUR 1.22 trillion, making it the largest bank in Spain and the largest in the Eurozone by market capitalisation. As of this date, Banco Santander had approximately 187,000 employees worldwide.

DBRS's long-term rating of Banco Santander was confirmed at "A" with a Negative trend in August 2013. On the same date, the short-term rating was confirmed at R-1 (low) with a Stable trend.

For more information on Banco Santander, please see the most recent rating report and press release available on DBRS's website: http://www.dbrs.com.

Origination

The origination process for SME loans starts at the branch network. The branch agent acts as the main point of contact with the client and is responsible for collecting all information and managing the client's credit application. Agents, however, do not have the autonomy to approve transactions.

Banco Santander classifies SME clients in two different categories based on the client's risk. If Banco Santander has or is expected to have an exposure to the client of greater than EUR 500,000, this client is classified as *Carterizados,* and the application is managed by a risk analyst. Clients with borrowings of less than EUR 500,000 are classified as *Estandarizados* and do not have a risk analyst assigned.

Underwriting

Information that is used as part of the underwriting process depends on the product and on the guarantees, which include the following parameters:
- Financial statements for the last three years.
- Reports from the Bank of Spain (such as CIRBE).
- Use of delinquent data bases (such as RAI and ASNEF).
- Assets declaration for the debtor and the guarantors.
- Appraised value of the guarantee (mortgage).
- Forecasts for the coming years.
- Information about guaranties (deposit, shares, etc.).
- Income taxes and value-added tax declarations.

The underwriting approval faculties are assigned to different internal departments depending on the amount of credit, tenor and collateral/guarantees. The different levels of authorisation for loans are (listed from lower authorisation power to higher):
- Branch Analyst.
- Manager of the SME Department.
- Risk Commission.
- Regional Risk Commission.
- Credit Risk Department Commission.
- Risk Committee.
- Executive Risk Committee.

Banco Santander's approval authority limits are generally consistent with other Spanish banks. Approval levels are set according to competency and size (particularly branch level authority) as well as the risk profile of the borrower and the loan type (secured or unsecured). DBRS also notes that the approval limits are based on the total borrower or economic group exposure and not to individual loans, and such a policy is consistent with the wider Spanish market and in compliance with regulatory guidelines.

For clients classified as Carterizados, Banco Santander uses internal rating models for the purpose of assessing risk. The rating of customers is based on their credit profile, terms of the deal and other transaction-specific features. Furthermore, the internal rating model assigns a total PD based on the risk associated with the client. All models are developed by Santander Analytics (SA), which tests each model regularly. There are currently 16 models in admission and 11 models used for surveillance. Model approval is done centrally, with a specific methodology and approval for each model development.

The internal rating system analyses six key areas given below:
(1) Product/market.
(2) Shareholders and management.
(3) Access to credit.
(4) Profitability.
(5) Cash flow generation.
(6) Solvency.

For clients classified as Estandarizados, Banco Santander uses a scoring system based on the information provided on each borrower. This scoring system is not a binding system and loan application can be authorised, refused or further referred to a risk analyst. The decision model has been in place since 2003 and the approach is similar throughout the different countries in which Santander operates.

For SME loans, the automated decision accounts for between 40% and 60% of all loans. The remaining decisions are made by analysts. Santander has a team of 84 dedicated analysts in their VDO (credit underwriters) department who look at loan applications and perform surveillance for clients in situations where the scoring indicated that a closer, more detailed analysis should be carried out. This department was organised on a decentralised basis (by region) until October 2009. Since then, the VDO department has been formally centralised in Madrid.

The branch can appeal if the system automatically rejects applications, but only if it can provide further qualitative or quantitative information to justify the appeal (e.g., data that was not considered by the model). The appeal needs approval from the branch manager, the regional manager or the area manager before being reviewed by a VDO analyst. A maximum of 10% of system rejections can be appealed. Loans to companies operating in specific sectors must always be determined by VDO analysts (e.g., construction or other areas that may pose a reputational risk to the bank such as media and communications). VDO decisions are normally taken by the VDO analyst directly. Analysts are assigned approval faculties based on their experience and expertise in each sector.

Valuations
Banco Santander has an internal appraisal department responsible for carrying out valuations of select properties based on internal guidelines, managing external valuers and reviewing all valuations conducted by external appraisers. All appraisals are performed according to Banco Santander guidelines and standard valuation templates are used. For loans less than EUR 500,000, the valuation process is outsourced and the values set for commercial assets are typically haircut by 10% to 15%.

All assets are revalued annually using statistical valuation data (indexation), although a full appraisal is conducted for assets more than EUR 3 million, and a second appraisal may be deemed necessary if a 15% variance exists from the previous valuation.

Risk Monitoring
Banco Santander employs an alert system to monitor the credit quality of clients and their transactions. Clients are classified in the system as either Normal or Special Surveillance, depending on the performance of the borrower. Under the Special Surveillance category, the branch together with the surveillance analyst will determine the level of risk associated with specific clients based on the severity of the alerts.

The alerts are used to track the progress of a loan, anticipate credit issues and take preventive measures to mitigate risk. This system is based fundamentally on the analysis of a set of variables relating to transactions and to customers in order to detect possible anomalous deviations in their behaviour. The alerts system will notify the surveillance analyst of situations such as:
- Problems affecting a specific sector;
- Changes in the company management structure or with the shareholders;
- Increase in debt levels;

- Variations in the rating levels;
- Overruns;
- Overdrafts; and
- Any delinquency from that borrower in the banking system (flagged by external databases such as CIRBE, RAI, EXPERIAN, etc.).

The rating of each client is reviewed at least twice per year, but reviews could occur more frequently depending on the system alerts.

Arrears Management and Foreclosures
The recovery process at Banco Santander is performed by a dedicated department that provides surveillance for all flagged loans and follows a recovery plan for all irregular portfolio movements created by such loans.

The recovery process is divided into phases based on the number of days in arrears:
- One day to 90 days in arrears: In this phase, different departments are involved (such as the branch staff, recovery call centres, arrears management department and SME analysis unit) depending on the type of client (i.e., Estandarizado or Carterizado).
- Between 91 days to 150 days in arrears: All internal agents of the Bank continue with their recovery activities along with the outsourced recovery companies.
- More than 150 days in arrears (judicial process): Banco Santander will employ external recovery management companies for those borrowers with an exposure less than EUR 50,000. For borrowers with an exposure greater than EUR 50,000, the Bank assigns those loans to internal recovery managers who attempt to reach a solution with the borrower. If that is not possible, the judicial process is initiated.

Most common solutions for clients who went into arrears include debt refinancing and full or partial debt amortisation. If a lawsuit is initiated, the judicial process can extend for an additional 11 months to 15 months, generally resulting in foreclosure. Once this process is completed, Banco Santander will perform an updated valuation of the assets and assign those properties to real estate agents who will be responsible for the marketing and sale of the foreclosed assets.
The operational loan management department, centralised in Madrid, is responsible for all loan management and servicing activities. Primary borrower contact is managed at the branch level, including early arrears management activities.

Similar to most Spanish banks, payments are primarily made through direct debit, although borrowers can submit payments or pay directly at the branch. The majority of loans are on monthly payment schedules, although the portfolio does include some quarterly, semi-annual and annual schedules which are in line with the overall Spanish market.

Banco Santander follows standard collections and arrears management strategies including compliance with regulatory guidelines surrounding delinquency, watchlist and default definitions. Borrower contact is managed through the local branch. Automated, standard letters are generated through the servicing system and sent to the borrower on days 15 and 30, approximately. Banco Santander's internal rating system is used to monitor the loan (including updates to the rating) and sets the appropriate workout strategy. Legal proceedings are generally initiated after a loan is officially classified as a default and all previous attempts at an out-of-court resolution have been exhausted.

Summary Strengths
- Monthly surveillance activities of Banco Santander's entire SME portfolio segregated by customer segment.
- Centralised servicing operations, particularly for medium- and late-term arrears, with no use of external collection agencies.

Summary Weaknesses
- Rising levels of arrears and defaults, coupled with less robust management strategies surrounding such assets.

Legal Structure

Laws Impacting Transaction
The Issuer is incorporated and regulated under Spanish laws. The key Spanish securitisation laws regulating this transaction are the (i) Royal Decree 926/1998 governing Asset-Backed Securitisation Funds and Securitisation Funds Managing Companies and (ii) Law 19/1992 on Real Estate Investment Companies and Funds and Mortgage Securitisation Funds.

The securitisation laws do not include a full and complete legal framework for securitisations and, in many respects, the legal analysis relies on general law, including laws regarding commingling, tax, transfer of assets and risks related to the counterparties of the Issuer. In addition, the general law of the mortgage market, Law 2/1981 and Royal Decree 716/2009 (the Mortgage Market Laws) are key considerations in mortgage-backed securities transactions and any rating analysis by DBRS also takes these laws into consideration.

More details on the legal framework in Spain can be found in DBRS's *Legal Criteria for European Structured Finance Transactions*, published in September 2014, and in the DBRS commentary *Legal Commentary - Spain* published in April 2013.

Additionally, the changes to the Spanish insolvency law introduced by the Royal Decree Law 4/2014 introduce additional risks and uncertainties which could have an adverse effect on the performance of SME collateralised loan obligation (CLO) transactions. The key risks that could impact SME CLO transactions include:
(1) Potential extension in the asset maturities.
(2) Uncertainty as to how the voting rights will be used in the approval of restructuring plans.
(3) Uncertainty about how certain loss or default triggers will be calculated following the implementation of restructuring plans, which may include changes to the debt instruments held by the SPV (such as debt conversion).

Further details on how the Royal Decree Law 4/2014 may affect SME CLO transactions can be found in the DBRS commentary *Spanish Insolvency Law Changes: The Good, the Bad and the Uncertain for SME CLOs*, published on 14 April 2014 and available at www.dbrs.com.

Current Transfer/Assignment of Receivables
In Spanish securitisations, the transfer of receivables must be made in writing, but the consent of the underlying obligor is not necessary. Neither Royal Decree 926/1998 nor the Mortgage Market Laws require the formalisation of the transfer in a public deed; however, the transfer of receivables either through the issuance of mortgage securities (Participaciones Hipotecarias or Certificados de Transmisión de Hipoteca) or through the ordinary transfer of non-mortgage receivables is usually documented in a public deed for a record of the date of execution for the purposes of its effect vis-à-vis third parties and, therefore, to be recognised by regulators or insolvency officers.

In this transaction, the transfer of the loans and the credit lines on the mortgaged collateral from Banco Santander to the Issuer is done directly in the public deed on the date of incorporation of the Issuer. The transfer of the assets from the mortgage loans is also transferred on the incorporation date through the issuance of mortgage transfer certificates (Certificados de Transmisión de Hipoteca) and their subscription by the Issuer.

Asset Eligibility Criteria
The following is a selection of the representations given to the Issuer relating to the collateral. For a full list, please see the Prospectus.
- All credit rights are duly documented and formalised, and the corresponding agreements are available to the Management Company.
- All credit rights exist and are valid and enforceable.
- Banco Santander rightfully holds all credit rights, and there are no restrictions on their sale to the Issuer.
- All assets were originated by Banco Santander and Banesto in their normal course of business and using their normal criteria and policies.
- All credit rights have been serviced by either Banco Santander or Banesto since the date of origination. Currently, all loans are serviced by Banco Santander in accordance with its current procedures.

- All credit rights derive from loans and credit lines granted to SMEs that comply with Recommendation 2003/361/CE of the European Commission.
- All credit rights derive from loans and credit lines which are being serviced by Banco Santander.
- There are no legal claims against the credit rights that may adversely affect their validity.
- At the date of transfer, Banco Santander has no knowledge of any bankruptcy of any of the borrowers included in this portfolio.
- None of the loans have been made to companies related to Banco Santander.
- All credit rights have a final payment date before 31 July 2054.
- No credit rights finance unfinished real estate promotions.
- No credit rights result from the renegotiation of loans that were in arrears.
- At the transfer date, there are no credit rights in arrears for more than 15 days.
- At the transfer date, the outstanding balance of restructured loans does not represent more than 10.31% of the total outstanding portfolio principal balance

Buy-Back/Indemnity Mechanics for the Breach

In case it is detected that any mortgage loans have hidden defects or breached any of the representations, the seller will agree to repair the hidden defect within 15 days following its identification or notification. In case the above is not possible, the seller will replace the corresponding mortgage loans with another with similar characteristics with respect to maturity profile, interest rate, notional and loan-to-value level if approved by Santander de Titulización S.G.F.T., S.A.

Any expenses incurred with the repair or replacement of such loans will be paid by the seller. In the event that the seller is not able to replace or repair the affected loans within ten business days of notification, the Management Company will request that the seller buy back the affected loans, including accrued and unpaid interest, and deposit such amounts in the fund's Treasury Account.
For unsecured loans, if any hidden defects or breach of any of the representations occurs and is identified, the seller will agree to repurchase the loan (together with any accrued and unpaid interest) within 15 days following its identification or notification and deposit such amounts in the fund's Treasury Account.

Financial Structure

Transaction Cash Flow

The Servicer will collect all payments received on interest and principal (including recoveries) from the portfolio on an ongoing basis. On each payment date, the amounts available in the Treasury and Interest Accounts will be distributed in accordance with the Priority of Payments as summarised below.

Priority of Payments

(i) Taxes and senior expenses;
(ii) Interest on the Series A Notes and on the Liquidity Line (pro rata);
(iii) Interest on the Series B Notes, only if the cumulative outstanding balance of defaulted loans is below 5% of the original portfolio balance;
(iv) Series A and Series B Notes principal redemption (according to the notes redemption rules);
(v) Interest on the Series B Notes if deferred from point (iii) above;
(vi) Top up Reserve Fund to the required level;
(vii) Interest on the Series C Notes;
(viii) Principal of the Series C Notes;
(ix) Interest and principal on the Subordinated Loan (in this order);
(x) Servicer fees; and
(xi) Extraordinary interest on the Series C Notes.

Note Redemption rules

- The Series A Notes will start amortising on the first payment date in October 2014.
- The Series B Notes will amortise once the Series A Notes have been fully redeemed.

Given that the Liquidity Line is arranged in the form of a bank account overdraft, any principal collections received daily on the Treasury Account will be used first to reduce the overdraft to zero.

Early Liquidation Events

- Once the outstanding balance of the assets is less than 10% of the initial balance and the proceeds from the sale of the assets are sufficient to pay down all the Notes outstanding.

- If there are circumstances that permanently affect the financial stability of the SPV.
- If the Management Company is declared bankrupt and a substitute is not appointed within four months.
- In case of a non-payment indicating a serious and permanent imbalance that affects the transaction.
- The first payment date that falls six months before the Legal Final Maturity Date.
- If the outstanding balance of the Liquidity Line exceeds 10% of the outstanding balance of the Series A Notes, but only if the proceeds available from the sale of the assets are sufficient to pay down the outstanding Notes in full.

Liquidation Priority of Payments

(i) Taxes and expenses;
(ii) Interest on the Series A Notes and on the Liquidity Line (pro rata);
(iii) Principal on the Series A Notes and amortisation of the Liquidity Line (pro rata);
(iv) Interest on the Series B Notes;
(v) Principal on the Series B Notes;
(vi) Interest on the Series C Notes;
(vii) Principal on the Series C Notes;
(viii) Interest and principal on the Subordinated Loan (in this order);
(ix) Servicer fees; and
(x) Extraordinary interest on the Series C Notes.

Payment Timing

Interest due on the Notes for each subsequent period is determined two days before the applicable payment date. The transaction pays interest and principal on a quarterly basis on the 20th day of February, May, August and November of each year. Interest on the Notes is based on three-month Euribor.

Security

Receivables

The portfolio consists of credit rights (loans and credit lines) granted by Banco Santander and Banesto to SMEs and self-employed individuals in Spain. Approximately 22.2% of the outstanding balance of the securitized pool was secured by mortgages on residential and commercial property situated in Spain.

Transaction Accounts

Treasury Account

The Treasury Account, which is linked to the Liquidity Line, receives the principal amounts from the credit rights. The Treasury Account may have a negative (overdraft) or positive balance because of the fluctuations in the committed and drawn amounts of the credit lines.

The Treasury Account will be cancelled once all credit lines have amortised and, ultimately, the Liquidity Line would cease to exist. Upon the termination of the Treasury Account, all outstanding balances would be transferred to the Interest Account.

Interest Account

The Interest Account receives all interest from the credit rights and, on each payment date, the amount in the Interest Account will be transferred to the Treasury Account. Upon the cancellation of the Treasury Account, both the interest and principal collection amounts will be deposited into the Interest Account.

Liquidity Line

Any drawing on the credit lines after closing is funded by proceeds from the reductions on other credit lines and proceeds from amortisations of the term loans. If this is not sufficient, the Treasury Account will start to use the Liquidity Line to fund the difference. On each day, all principal proceeds received by the Fund will be first used to reduce the Liquidity Line's outstanding drawn amount to zero.

Servicer Agreement

Banco Santander will act as the Servicer of the portfolio of SME loans and credit lines. The Servicer will employ standard due diligence to ensure that the payments are collected in accordance with the terms and contractual conditions of the credit rights.

Mechanics of Servicing

The Servicer is expected to monitor and manage the credit rights sold to the Issuer with the same care and diligence as it does with its own loans and credit lines. The Servicer will be responsible for collecting all payments due from the borrowers on the credit rights, managing relationships with borrowers, monitoring the performance of the loans and initiating recovery processes against defaulted or non-performing borrowers.

The Servicer is allowed to negotiate changes to existing credit rights within the permitted variations foreseen in the Servicing Agreement. The permitted variations are mainly limited to changes in the interest rate and maturity of the credit rights.

Commingling Risk

The Servicer will pay all amounts received from loans within two business days of being collected to the Issuer's Treasury Account opened with the Accounts Bank; however, as the Account Bank is Banco Santander, there is a significant exposure of the Issuer to Banco Santander. Nevertheless, DBRS gains comfort from the fact that Banco Santander is rated A/R-1 (low) with a Negative trend and that there are provisions established in the transaction documentation to take certain remedial actions if the long-term rating of Banco Santander falls below BBB (low).

The remedial actions upon a rating downgrade of the Servicer below BBB (low) by DBRS include one of the following options: appoint a Backup Servicer; appoint a replacement Servicer; or constitute a deposit to mitigate the commingling risk.

Servicer Termination

The Servicer Agreement can be terminated under certain conditions by the Management Company. The primary reasons for which a Servicer could be terminated include: a breach of the obligations of the Servicer under the Servicer Agreement; the insolvency or bankruptcy of the Servicer; or if the Servicer ceases to have the necessary authorisation by the Bank of Spain to provide such services. In cases where a Servicer Agreement is terminated, the Management Company will appoint a replacement Servicer.

The Servicer Agreement can also be voluntarily terminated by the Servicer only when the Servicer has proposed a new replacement Servicer, which does not add additional costs to the Issuer and does not negatively affect the ratings of the Notes. Any event of the Servicer replacement needs to be communicated to the Comisión Nacional del Mercado de Valores, the Spanish financial securities markets regulator, and to the rating agencies.

Credit Enhancement

The Series A Notes benefit from credit enhancement in the form of the excess of the balance of the portfolio above the notional of the outstanding balance of the Series A Notes. Additionally, credit enhancement is provided by the Reserve Fund. The transaction also benefits from excess spread that can be used to replenish the Reserve Fund in the case of defaults of the credit rights.

Reserve Fund

As of the Closing Date, the balance in the Reserve Fund is EUR 760 million, equivalent to 20% of the portfolio.

The Reserve Fund is available to cover senior expenses as well as missed interest and principal payments on the Series A and Series B Notes throughout the life of the transaction.

The Reserve Fund balance must be maintained at the Minimum Level, defined as the lower of:

- EUR 760 million; and
- The higher of:
  - 40% of the Outstanding Principal Balance of the Series A and Series B Notes;

- 10% of the original Balance of the Series A and Series B Notes.

However, no reduction of the required Reserve Fund level will be allowed: (i) in the first two years, (ii) if the Reserve Fund was not funded to the Minimum Level on the previous payment date or (iii) if the outstanding principal balance of the portfolio in arrears over 90 days is higher than 1% of the outstanding principal balance of the performing portfolio.

Performance Triggers
Interest on the Series B Notes can be deferred to a lower priority on the Priority of Payments to allow excess spread to be used either to pay down the Series A Notes and to replenish the Reserve Fund or to prevent principal proceeds from the portfolio being used to pay interest on the Series B Notes.

Interest on the Series B Notes will be deferred to a lower priority if the cumulative outstanding principal balance of the defaulted credit rights divided by the initial balance of the portfolio is greater than 5%.

Interest Rate Risk

The Issuer has not entered into any interest rate hedging agreements and is therefore exposed to basis risk as well as potential liquidity risks because of the timing mismatches between payments on the Notes (quarterly) and payments collected on the asset portfolio (a mixture of monthly, quarterly, semi-annual and annual paying credit rights).

The basis risk could affect the performance of the transaction, potentially leading to an interest shortfall resulting from adverse movements in the interest rate index on the Notes versus the interest rate indices on the loan portfolio. This risk is partially mitigated by the excess spread that the loan portfolio generates, which can be used to cover this potential shortfall to a certain extent. As such, the benefit normally given to available excess spread needs to be adjusted to take these potential negative effects of the basis risk into consideration.

DBRS has analysed the historical relationship between different Euribor indices to determine stressed basis risk between the different indices pairs. Based on the interest rate distribution of the portfolio, DBRS assumed a stressed basis of 0.58% per annum. This basis risk is addressed in DBRS's cash flow model analysis by reducing the spread paid by the floating portfolio by 58 basis points.

Data Quality

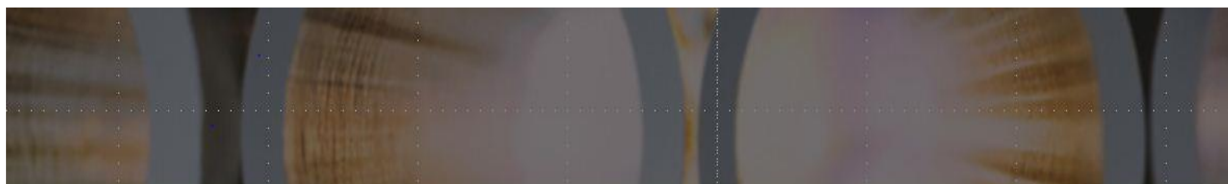
Banco Santander has provided a complete data set regarding the information on the loan portfolio that is consistent with the DBRS data template. Banco Santander has also provided historical performance data on the performance of SME loans including a separate dataset for loans classified as restructured. This was the first time that Santander provided historical data for both normal loans and restructured loans. The historical data was organised by vintage, with information on the number and amount of loans over 90 days in arrears as well as recovery data.

No information on historical loan amortisation was provided as requested by DBRS's new data template; therefore, the DBRS analysis performed incorporates its views on the loan amortisation based on the average loan tenor profile of similar Santander portfolios. The loan amortisation assumption is required to calculate the base-case PD under the Rating CLOs Backed by Loans to European Small and Medium-Sized Enterprises (SMEs) methodology.

DBRS determined key inputs used in its analysis based on historical performance data provided for the Originator and Servicer as well as analysis of the current economic environment.

The sources of information used for this rating include parties involved in the rating, including but not limited to Banco Santander.

DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.



Collateral Analysis

Collateral Summary (as of 28 November 2014)

Asset Type (% of securitized portfolio notional)	Normal	
	Term Loans (secured)	17.8%
	Term Loans (unsecured)	56.3%
	Credit Lines	17.1%
	Restructured	
	Term Loans (secured)	4.4%
	Term Loans (unsecured)	3.5%
	Credit Lines	0.9%
Borrower Type (% of securitized portfolio notional)	Micro Companies	40.4%
	Medium Companies	25.0%
	Small Companies	20.8%
	Self-employed Individuals	13.9%
Performing Balance (EUR million)	3,800	
Number of Loans	Total	44,130
	Loans	39,871
	Secured	1,411
	Unsecured	38,460
	Credit Lines	4,259
Number of Borrower Groups	39,969	
Floating/Fixed (% of securitized portfolio notional)	Floating	80.1%
	Fixed	19.9%
Average Loan Size (EUR)	86,109	
Average Borrower Exposure (EUR)	95,074	
Weighted-Average Floating Spread (per annum)	2.8%	
Weighted-Average Fixed Interest Rate (per annum)	5.1%	
Mortgage Guarantee (1st lien) as defined by seller (% of securitized portfolio notional)	22.2%	
Mortgage Guarantee considered in DBRS analysis (% of provisional portfolio notional)	19.3%	
Weighted-Average Maturity	5.0 years	
Weighted-Average Life	2.1 years	
Obligor Concentration (% of securitized portfolio notional)	Largest	0.8%
	Top 10 Largest	5.8%
	Top 20 Largest	9.3%
Credit Rights Origination Dates	1985-2014	
Delinquency	Loans in Arrears (1-15 days)	1.9%
	Loans in Arrears (over 15 days)	0.0%

Please note that all figures refer to the outstanding balance of the securitized pool and do not account for any future drawings on credit lines.
Source: Banco Santander, DBRS.

Portfolio Distribution – Largest Exposures

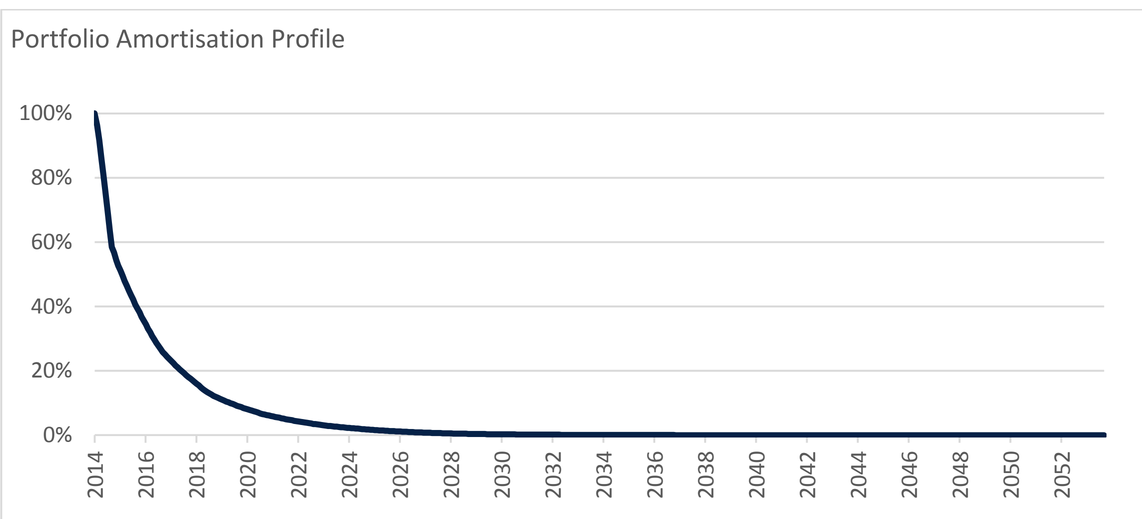
The portfolio is well diversified across borrowers. The largest borrower exposure represents 0.75% of the portfolio, the top ten obligors represent 5.83% of the outstanding balance of the portfolio.

Rank	Balance (EUR)	Percentage of Portfolio	Region	Industry
1	28,394,000	0.75%	Andalusia	Lodging & casinos
2	25,627,678	0.67%	Castille-León	Leisure goods/activities/movies
3	24,206,250	0.64%	Balearic Islands	Lodging & casinos
4	23,300,000	0.61%	Madrid	Business equipment & services
5	22,548,539	0.59%	Madrid	Utilities
6	21,820,466	0.57%	Andalusia	Building & Development
7	21,521,281	0.57%	Madrid	Leisure goods/activities/movies
8	20,621,484	0.54%	Catalonia	Building & Development
9	17,890,053	0.47%	Catalonia	Building & Development
10	15,777,118	0.42%	Madrid	Building & Development
Total	**221,706,869**	**5.83%**		

Note: Due to rounding, the items in the columns might not add up to the stated totals.
Source: Banco Santander, DBRS.

Amortisation Profile

As of closing, the collateral portfolio has a weighted-average (WA) life of 2.1 years. The Series A Notes are expected to begin amortising from the first payment date, given the scheduled amortisation profile (assuming 0% constant prepayment rate (CPR)) of the underlying loans (please see the chart below).



Source: Banco Santander, DBRS.

Portfolio Distribution – Borrower Industry Sector Classification

The portfolio is well diversified across industries grouped by DBRS industry classification. The building and development industry represents approximately 17.85% of the portfolio balance, which is consistent with other Spanish SME CLOs originated recently and rated by DBRS.

DBRS Industry (as of the Close Date)	Percentage of Balance
Building & Development	17.85%
Food products	9.55%
Business equipment & services	9.32%
Farming/agriculture	8.71%
Retailers (except food & drug)	6.16%
Food/drug retailers	4.61%
Surface transport	4.34%
Leisure goods/activities/movies	3.93%
Lodging & casinos	3.72%
Chemicals & plastics	2.87%
Food service	2.66%
Automotive	2.66%
Health care	2.58%
Utilities	2.26%
Clothing/textiles	2.04%
Beverage & Tobacco	1.88%
Nonferrous metals/minerals	1.86%
Conglomerates	1.60%
Miscs	1.49%
Industrial equipment	1.32%
Ecological services & equipment	1.16%
Remaining Industries	7.45%
Total	**100.00%**

Note: Due to rounding, the items in the columns might not add up to the stated totals.
Source: Banco Santander, DBRS.

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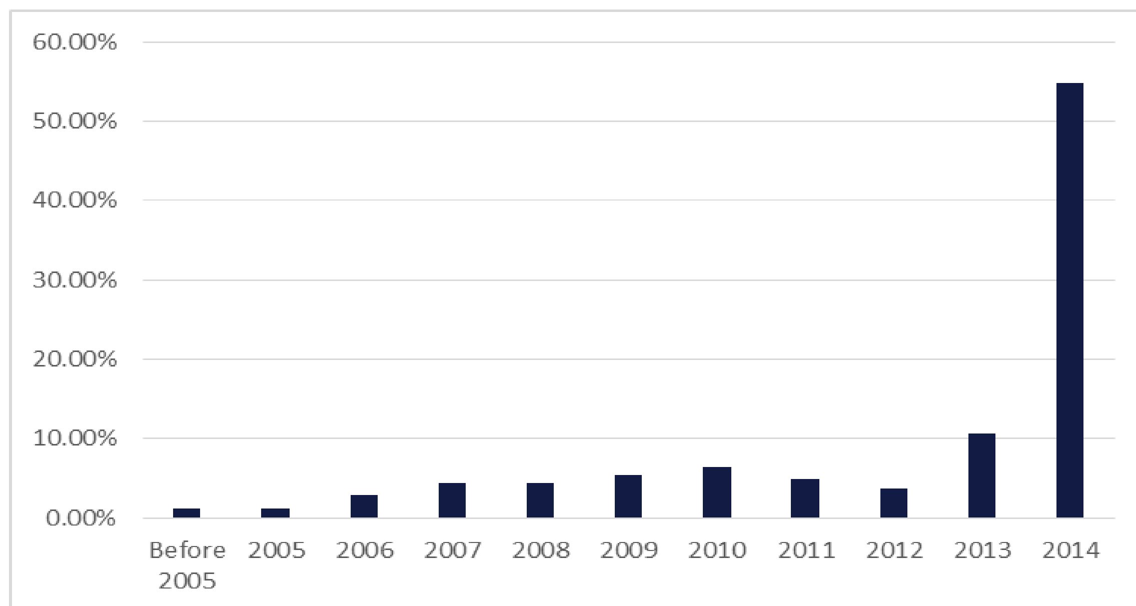
Portfolio Distribution – Borrower Location by Region

Region Classification (as of the Close Date)	Percentage of Balance
Madrid	23.6%
Catalonia	15.5%
Andalusia	14.4%
Valencian Community	10.1%
Basque Country	5.5%
Castille-Leon	5.3%
Galicia	4.7%
Canary Islands	3.9%
Castille-la Mancha	3.3%
Aragon	3.1%
Extremadura	2.2%
Balearic Islands	2.1%
Murcia	2.1%
La Rioja	1.2%
Cantabria	1.2%
Navarre	0.9%
Ceuta and Melilla	0.1%
Total	**100.0%**

Note: Due to rounding, the items in the column might not add up to the stated totals.
Source: Banco Santander, DBRS.

Portfolio Distribution – Loans Origination by Year



Source: Banco Santander, DBRS.

DBRS Analysis

Asset Analysis

DBRS used its Diversity Model to determine a lifetime default rate at the required rating levels. The Diversity Model takes key loan-by-loan information of the securitised portfolio (such as borrower ID, borrower notional amount and industry ID for each loan), the expected WA life of the portfolio and the annualised PD assumption estimated by DBRS based on the historical data provided. The Diversity Model employs a Monte Carlo simulation to determine cumulative default rates (or hurdle rates) at each rating stress level.

Break-even default rates (BDRs) on the Notes were determined using the DBRS CDO Cash Flow Model. The minimum BDR is computed over nine combinations of default timing and interest rate stresses. At the AA (high) (sf) and BB (high) (sf) rating levels, the BDRs for the average of the nine scenarios must exceed the respective hurdle rate calculated by the Diversity Model.

Average Annualised Default Rate

The average annualised default rate is determined from the historical data supplied by the Originator. Banco Santander supplied historical default data split into the six different asset types for normal loans and six asset types for restructured loans. The performance data was split by type of borrower: Estandardizados (borrowers with overall bank exposure less than EUR 500,000) and Carterizados (borrowers with overall bank exposure greater than EUR 500,000) and by asset type (credit lines, unsecured loans and secured loans).

For this transaction, DBRS considered a base-case PD of 4.4% for normal loans and a base-case PD of 19.8% for restructured loans. The DBRS base-case PDs were based on the historical performing data of the last seven years and calculated based on the WA default rate of the six different loan types in the pool.

Granularity Default Risk

Borrower concentration is taken into account in the DBRS Diversity Model. In exceptional cases, DBRS may require additional analysis to be conducted in order to ensure that the risk associated with specific borrowers is accounted for appropriately. It was determined that there were no borrowers that required additional analysis in the portfolio for this transaction.

Correlation

DBRS employs a two-factor correlation model as the basis for the SME default modelling. This correlation structure is implemented in the DBRS Diversity Model, allowing for explicit concentration in obligor and industries while utilising a Monte Carlo process to generate the stressed default rates. To account for the increased concentration risk inherent in SME pools due to obligor and industry, DBRS applies a rating level-based correlation stress using the DBRS Diversity Model.

Recovery Rates and recovery delay

For assets that are unsecured or that are secured by collateral other than real estate, DBRS applies recoveries for the applicable proposed rating and country tier in line with *its Rating Methodology for CLOs and CDOs of Large Corporate Credit*.

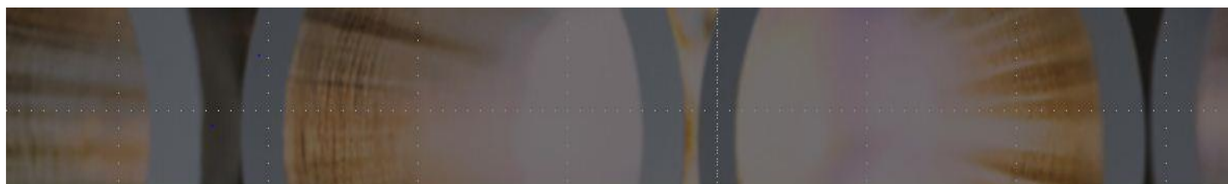
For assets secured by residential or commercial real estate, market value decline (MVD) assumptions are applied to the collateral value, with the resulting stressed value available for loan repayment. In the case of multiple loans or liens, DBRS considers all available data and computes the appropriate recovery. The resulting recovery rate is floored at the senior unsecured recovery rate for the applicable proposed rating and country tier. The MVD assumptions for assets secured by residential real estate can be found in DBRS's *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*, published in August 2014. MVD assumptions for assets secured by commercial real estate are based on residential real estate MVDs, with additional stress applied. DBRS MVDs for commercial real estate are contained in the commentary *Real Estate MVDs in CLOs Backed by Loans to European SMEs*, published in October 2013.

DBRS treated loans that benefit from a mortgage on a collateral classified as other as unsecured. Collateral classified as other represented 2.8% of the provisional pool.

Recovery timing is assumed to vary according to the domicile of the obligor. In general, recovery delay assumptions have been determined by examining the average timing to resolve insolvencies as well as the legal framework regarding relative debtor/creditor friendliness in a particular jurisdiction. For Spain, DBRS assumes a recovery delay of 2.25 years for unsecured loans and 4.0 years for secured loans.

Please refer to *Rating Methodology for CLOs and CDOs of Large Corporate Credit*, published in January 2014, for country tiers and delays for commercial real estate and unsecured recoveries as well as the *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda* for recovery delays by country for residential real estate.

Collateral Seniority (DBRS definition)	Collateral Type (DBRS definition)	Percentage of provisional portfolio
Secured	Residential	7.8%
	Commercial	11.5%
Unsecured	Unsecured and 2nd lien	80.7%



The portfolio is primarily unsecured with 19.3% of the loan balance being backed by mortgages. Approximately 59.7% of the secured loans were backed by commercial property and 40.3% were backed by residential property.

A summary of the recovery rates and recovery delays assumptions used for this transaction is shown in the table below.

Parameters	Values (at AA(high) (sf) Rating Stress)	Values (at BB (high) (sf) Rating Stress)
WA Unsecured Recovery Rate	15.8%	20.8%
Unsecured Recovery Delay for Spain	2.25 years	2.25 years
WA Secured Recovery Rate	42.6%	61.1%
Secured Recovery Delay for Spain	4.0 years	4.0 years

Overall Rating Parameter Inputs for the DBRS Diversity Model
The inputs used to calculate the portfolio default rates are:

Parameters	Values (at A (low) (sf) Rating Stress)	Values (at BB (high) (sf) Rating Stress)
Weighted-Average Life of SME Portfolio (years)	2.1	
Assumed One-Year Default Rate – normal loans	4.3%	
Assumed One-Year Default Rate – restructured loans	19.8%	
Inter-Industry Correlation	11.75%	8.25%
Intra-Industry Correlation	29.38%	20.63%

The expected portfolio Lifetime Total Default Rates for the required ratings (based on the inputs described in the table above) are indicated below:

Target Rating	Lifetime Total Default Rate
AA (high) (sf)	47.5%
BB (high) (sf)	26.3%

Interest Rate Scenarios
The purpose of the interest rate stress scenarios is to determine whether the transaction has any systemic interest rate risk exposure, such as having all floating-rate liabilities and at least some fixed-rate assets without an adequate hedge. DBRS uses its cash flow model to test the impact on the Notes' BDRs for three interest rate scenarios: a forward interest rate curve, stressed increasing rate scenarios and stressed decreasing interest rate scenarios.

The higher the target rating, the more extreme the level of interest rate stress that is used. For example, the interest rates assumed under the increasing interest rate stress scenario are higher for a target rating of AA (high) (sf) than they are for a target rating of BB (high) (sf). The interest rate stresses are discussed in the DBRS methodology *Unified Interest Rate Model for U.S. and European Structured Credit*, published in January 2013.

Default Timing Vectors Scenarios
In addition to the interest rate scenarios, DBRS also varies the timing of when the defaults occur. There are three scenarios that are used for all target ratings:

Default Vector	Year 1	Year 2	Year 3	Year 4
Front	40%	30%	20%	10%
Back	20%	30%	40%	10%
Smooth	30%	30%	30%	10%

Overall Cash Flow Model Summary
The Lifetime Total Default Rate is the cumulative default rate (or hurdle rate) that the transaction must survive if the specified Notes are assigned the target rating, under the nine interest rate and default timing vector scenarios described above.

Specifically, in order to pass the AA (high) (sf) rating level, the Series A Notes must not have any losses when 47.5% of the portfolio is defaulted, as per the default timing vectors above, under the average of the nine scenarios. In order to pass the BB (high) (sf) rating level, the Series B Notes must not have any losses when 26.3% of the portfolio is defaulted, as per the default timing vectors above, under the average of the nine scenarios.

Liquidity Line Modelling Assumptions

The transaction analysis was based on a provisional pool that contained credit lines that allow for future drawdowns. The drawn balance of the credit lines represented 18.7% of the aggregate provisional pool balance. Based on the provisional portfolio, these credit lines, if fully drawn, could increase the liabilities by an additional EUR 1075 million; however, much of the undrawn balance belongs to credit lines with a current drawn amount of zero. Excluding these credit liens, the undrawn exposure reduces to EUR 480 million from EUR 1075 million. The final portfolio will exclude any credit lines with zero balance outstanding.

Any future drawings under the credit lines are funded by the available principal proceeds on each period resulting from partial reductions on other credit lines, scheduled amortisations or prepayments of term loans. If the available principal proceeds are not sufficient to cover the further drawings on the credit lines, the Issuer can draw on a Liquidity Line that is provided by Banco Santander that is senior to the Series A Notes.

The analysis was conducted assuming the final portfolio contained the same amount of undrawn credit lines as the provisional pool, but excluding credit lines with current zero drawn balances. This represents a potential liability increase of EUR 480 million. If the credit lines are fully drawn after closing, it will increase the portfolio to EUR 4,280 million from EUR 3,800 million and, consequently, result in a dilution to the credit enhancement levels available to support the Series A and Series B Notes to 38.6% and 17.8% from 43.5% and 20%, respectively.

DBRS considers that, even if the credit lines were to be fully drawn by EUR 480 million, the use of the Liquidity Line would most likely be below this amount. This opinion is based on the fact that any future drawings are first funded through the principal proceeds available from the amortisation of the term loans. Furthermore, the final portfolio typically contains less exposure to undrawn credit line balances as observed in previous Santander transactions. In addition, the relative short life and dynamic nature of the credit lines indicates that this risk is short lived. Over 90.9% of the credit lines are expected to amortise by September 2015.

Based on the above reasoning, DBRS analysis assumed that the Liquidity Line would increase by EUR 240 million (equal to half of the undrawn credit lines in the provisional pool). This was taken into consideration in the cash flow model by creating a Liquidity Line liability of EUR 240 million paid senior to the Series A Notes and applying the stressed default rate assumptions on a maximum portfolio of EUR 4,040 million.

The final portfolio was selected on the Closing Date and contained EUR 681.5 million of drawn credit lines, equivalent to 17.9% of the final portfolio balance. The credit lines can increase to a maximum of EUR 815.3 million, representing a potential maximum increase of EUR 133.9 million through future draw downs. The final portfolio contained significantly less exposure to undrawn credit lines at EUR 133.9 million compared to EUR 480 million in the provisional portfolio. Although the analysis conducted by DBRS was based on the provisional portfolio, it covers the potential credit enhancement dilution of the final portfolio due to drawing on the Liquidity Line.

Cash Flow Model Results

Factor / Result	Series A Notes	Series B Notes
Rating stress	AA (high) (sf)	BB (high) (sf)
Expected Lifetime Default Rate (at relevant rating stress)	47.5%	26.3%
Average Cash Flow Model Breakeven Default Rate (BDR)	51.9%	28.5%
Cushion	4.4%	2.2%

The results of the cash flow model analysis indicate that:

- The average BDRs for the Series A Notes is higher than the AA (high) (sf) stress lifetime default rate, supporting the decision to assign AA (high) (sf) rating to the Series A Notes.
- The average BDRs for the Series B Notes is higher than the BB (high) (sf) stress lifetime default rate, supporting the decision to assign BB (high) (sf) rating to the Series B Notes.

The rating of the Series C Notes is based on a qualitative assessment of its ability to repay as well as the following considerations:

- The Series C Notes are the first loss position, as its proceeds were used to fund the Reserve Account.
- DBRS does not expect the principal of the Series C Notes to be repaid in full.

- Because the rating of the Series C Notes addresses the ultimate payment of interest and principal, default would most likely occur at the maturity of the transaction.

Sensitivity Analysis

The sensitivity analysis conducted highlights the likely impact on the ratings when one key risk parameter is stressed while holding all others constant. In addition, the sensitivity analysis also demonstrates the impact on the ratings where two risk parameters stresses are combined.

DBRS considered the following stress scenarios as compared with the parameters used to determine the rating (the base case):

- PD rates: base-case PD of 4.4% for normal loans and 19.8% for restructured loans, a 10% increase of the base case and a 20% increase of the base-case PD.
- Recovery Rates: base-case Recovery Rate, a 10% and 20% decrease in the base case Recovery Rates at each rating level.

Series A Notes - rating sensitivity to changes in key risk parameters

	Relative changes to Recovery Rate		
Relative changes to PD	**Original (Base Case)**	**-10%**	**-20%**
Original (Base Case)	AA (high)	AA (high)	AA (high)
+10%	AA (high)	AA (high)	AA (high)
+20%	AA (high)	AA	AA

Series B Notes - rating sensitivity to changes in key risk parameters

	Relative changes to Recovery Rate		
Relative changes to PD	**Original (Base Case)**	**-10%**	**-20%**
Original (Base Case)	BB (high)	BB (high)	BB (high)
+10%	BB (high)	BB	BB (low)
+20%	BB	BB (low)	BB (low)

Assessment of the Sovereign

At the Report Date, the ratings on the Kingdom of Spain's Long-Term Foreign and Local Currency debt were A (low), both with Stable trends. The change in the trend from Negative to Stable in October 2014 reflects DBRS's view that the risks facing the Spanish economy are more balanced. The recovery has benefited from the Spanish government's forceful policy response to the crisis as well as monetary policy support from the European Central Bank, resulting in employment gains and moderate gross domestic product growth.

For more information, please refer to the most recently published press release by DBRS entitled "DBRS Assigns Stable Trend to Spain's Sovereign Credit Ratings," dated 10 October 2014, regarding the Kingdom of Spain.

Monitoring and Surveillance

The rating of the Series A and Series B Notes depends on the portfolio performance and counterparties' ratings. The main triggers that DBRS will rely on for monitoring are:

- Evolution of the Reserve Fund level;
- Updated SME default data from Banco Santander;
- Changes in the public or private credit ratings or private internal assessments by DBRS of the counterparties engaged in the transaction as well as implementation of the remedial actions foreseen in the transaction agreements; and
- Any event of default by the Issuer.

DBRS will monitor the transaction on an ongoing basis to ensure that it continues to perform as expected. Any subsequent changes in the rating will be publicly announced.

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Note:
This report is based on information as of November 2014, unless otherwise noted. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.

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