Press Release

Insight beyond the rating.

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# DBRS Finalises Provisional Ratings on FT PYMES SANTANDER 12

**Bloomberg: DBRS Finalises Provisional Ratings on FT PYMES SANTANDER 12**
**Industry Group: Structured Credit**
**Sub-Industry: Collateralised Debt Obligations**

DBRS Ratings Limited (DBRS) has today finalised its provisional ratings on the following notes issued by FT PYMES SANTANDER 12 (the Issuer):

EUR 2,100 million Series A Notes: A (low) (sf) (the Series A Notes)
EUR 700 million Series B Notes: CCC (low) (sf) (the Series B Notes)
EUR 140 million Series C Notes: C (sf) (the Series C Notes, together, the Notes)

The transaction is a cash flow securitisation collateralised by a portfolio of term loans and credit lines originated by Banco Santander, S.A. (Banco Santander or the Originator) to small- and medium-sized enterprises (SMEs) and self-employed individuals based in Spain. As of 19 November 2015, the transaction's provisional portfolio included 42,035 loans and credit lines to 38,742 obligors, totalling EUR 2,971.9 million. At closing, the Originator has selected the final portfolio of EUR 2,800 million from the above-mentioned provisional pool.

The portfolio also contains loans originated by Banesto and Banif prior to its integration into Banco Santander completed in April 2014.

The rating on the Series A Notes addresses the timely payment of interest and the ultimate payment of principal payable on or before the Legal Maturity Date in December 2058. The ratings on the Series B and Series C Notes address the ultimate payment of interest and the ultimate payment of principal payable on or before the Legal Maturity Date in December 2058.

The provisional portfolio was moderately exposed to the "Building & Development" industry, representing 17.0% of the outstanding balance, "Food products" (10.4%) and "Business Equipment & Services" (8.9%) complete the top three industries based on the DBRS Industry classification. The provisional portfolio exhibits low obligor concentration. The top obligor and the largest ten obligor groups represent 0.7% and 6.7% of the outstanding balance, respectively. The top three regions for borrower concentration are Madrid, Catalonia and Andalusia representing approximately 21.3%, 17.3% and 13.0%, of the portfolio balance, respectively.

The historical data provided by Santander distinguishes between "normal" loans and credit lines and loans that have been restructured (reestructurados). The performance of both asset types is very different and for that reason DBRS uses two distinct probabilities of default (PD) for each. Loans classified as restructured represent

10.2% of the outstanding balance of the provisional pool. DBRS assumed a PD of 20.1% for such loans and a PD of 3.2% for the remaining portfolio.

These ratings are based upon DBRS's review of the following items:
-- The transaction structure, the form and sufficiency of available credit enhancement and the portfolio characteristics.
-- At closing, the Series A Notes benefit from a total credit enhancement of 30%, which DBRS considers to be sufficient to support the A (low) (sf) rating. The Series B Notes benefit from a credit enhancement of 5%, which DBRS considers to be sufficient to support the CCC (low) (sf) rating. Credit enhancement is provided by subordination and the Reserve Fund. In addition, the Series A and Series B Notes also benefit from available excess spread.
-- The Series C Notes have been issued for the purpose of funding the EUR 140.0 million Reserve Fund.
-- The Reserve Fund will be allowed to amortise after the first two years if certain conditions – relating to the performance of the portfolio and deleveraging of the transaction – are met. The Reserve Fund cannot amortise below EUR 70.0 million.
-- The transaction parties' financial strength and capabilities to perform their respective duties and the quality of origination, underwriting and servicing practices.
-- An assessment of the operational capabilities of key transaction participants.
-- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the approved terms. Interest and principal payments on the Series A Notes will be made quarterly on the 16th day of March, June, September and December with the first payment date on 16 March 2016.
-- The soundness of the legal structure and the presence of legal opinions which address the true sale of the assets to the trust and the non-consolidation of the special purpose vehicle, as well as consistency with DBRS's "Legal Criteria for European Structured Finance Transactions" methodology.

The PD for the Originator was determined using the historical performance information supplied. For this transaction, DBRS assumed two annualised PDs: a PD of 3.2% for normal loans and a PD of 20.1% for restructured loans.
-- The assumed weighted-average life (WAL) of the portfolio was 2.9 years.
-- The PD and WAL were used in the DBRS Diversity Model to generate the hurdle rate for the target ratings.
-- The recovery rate was determined by considering the market value declines for Spain, the security level and type of the collateral. For the Series A Notes, DBRS applied the following recovery rates: 59.3% for secured loans and 16.3% for unsecured loans. For the Series B Notes, DBRS applied the following recovery rates: 73.4% for secured loans and 21.5% for unsecured loans.
-- The break-even rates for the interest rate stresses and default timings were determined using the DBRS cash flow model.
-- The rating of the Series C Notes is based upon DBRS's review of the following considerations: (1) the Series C Notes are in the first loss position and, as such, are highly likely to default; and (2) given the characteristics of the Series C Notes as defined in the transaction documents, the default most likely would only be recognised at the maturity or early termination of the transaction.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology applicable is "Rating CLOs Backed by Loans to European Small and Medium-Sized Enterprises (SMEs)". DBRS has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

Other methodologies and criteria referenced in this transaction are listed at the end of this press release.

All DBRS methodologies can be found on www.dbrs.com at: http://www.dbrs.com/about/methodologies.

For a more detailed discussion of sovereign risk impact on Structured Finance ratings, please refer to DBRS's "The Effect of Sovereign Risk on Securitisation in the Euro Area" commentary at: http://www.dbrs.com/industries/bucket/id/10036/name/commentaries/

The sources of information used for this rating include the parties involved in the rating, including but not limited to the Originator, Banco Santander S.A., the Issuer and Santander de Titulización S.G.F.T., S.A.

DBRS does not rely upon third-party due diligence in order to conduct its analysis; however, Agreed upon Procedures (AUP) are included in the requested documentation. DBRS was supplied with an AUP report. Data checks were performed and DBRS did not apply additional cash flow stresses in its scenarios.

DBRS determined key inputs used in our analysis based on historical performance data provided for the Originator and Servicer as well as analysis of the current economic environment. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

Further information on DBRS's analysis of this transaction will be available in a rating report on http://www.dbrs.com or by contacting us at info@dbrs.com.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

These ratings concern newly issued financial instruments.

Information regarding DBRS ratings, including definitions, policies and methodologies is available on www.dbrs.com.

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To assess the impact a change of the transaction parameters would have on the ratings, DBRS considered the following stress scenarios, as compared to the parameters used to determine the rating (the Base Case):
-- Probability of Default Rates Used: Base Case PD of 3.2% for "normal" loans and 20.1% for "restructured" loans, a 10% increase of the base case and a 20% increase of the base case PD.
-- Recovery Rates Used: Base Case Recovery Rates of 22.5% at the A (low) (sf) stress level and 29.32% at the CCC (low) (sf) stress level for the Class A Notes and Class B Notes respectively, a 10% and 20% decrease in the Base Case Recovery Rates.

DBRS concludes that a hypothetical increase of the Base Case PD by 20% or a hypothetical decrease of the recovery rate by 20% would lead to a downgrade of the Series A Notes to BBB (high) (sf). A scenario combining both an increase in the Base Case PD by 10% and a decrease in the Base Case Recovery Rate by 10% would lead to a downgrade of the Series A Notes to BBB (high) (sf).

Regarding the Series B Notes, a hypothetical increase of the Base Case PD by 20% or a hypothetical decrease of the Base Case Recovery Rate by 20% would lead to a downgrade of the Series B Notes to CC (sf). A scenario combining both an increase in the Base Case PD by 10% and a decrease in the Base Case Recovery Rate by 10% would lead to a downgrade of the Series B Notes to CC (sf).

Regarding the Series C Notes, the stress analysis is not appropriate.

It should be noted that the interest rates and other parameters that would normally vary with the rating level, including the recovery rates, were allowed to change as per the DBRS methodologies and criteria.

For further information on DBRS's historic default rates published by the European Securities and Markets Administration (ESMA) in a central repository see:
http://cerep.esma.europa.eu/cerepweb/statistics/defaults.xhtml.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

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The rating methodologies and criteria used in the analysis of this transaction can be found at: http://www.dbrs.com/about/methodologies

-- Rating CLOs Backed by Loans to European Small and Medium-Sized Enterprises (SMEs)
-- Legal Criteria for European Structured Finance Transactions
-- Operational Risk Assessment for European Structured Finance Servicers
-- Operational Risk Assessment for European Structured Finance Originators
-- Unified Interest Rate Model for European Securitisations
-- Cash Flow Assumptions for Corporate Credit Securitizations
-- Rating CLOs and CDOs of Large Corporate Credit
-- Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda

A description of how DBRS analyses structured finance transactions and how the methodologies are collectively applied can be found at http://www.dbrs.com/research/278375.

| Issuer | Debt Rated | Amount (EUR) | Rating Action | Rating | Trend |
|---|---|---|---|---|---|
| FT PYMES Santander 12 | Series A Notes | 2,700,000,000 | Provisional Rating - Finalized | A (low) (sf) | - |
| FT PYMES Santander 12 | Series B Notes | 700,000,000 | Provisional Rating - Finalized | CCC (low) (sf) | - |
| FT PYMES Santander 12 | Series C Notes | 140,000,000 | Provisional Rating - Finalized | C (sf) | - |

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