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RMBS

FTA RMBS Santander 3

Closing Date
17 November 2014

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Ratings

Debt	Current Balance €	Size[1]	Credit Enhancement	Investor Coupon (p.a.)	Rating	Action
Series A	5,395,000,000	83.00%	32.00%[2]	3m Euribor + 0.58%	AA (sf)	Provisional Rating - Finalised
Series B	1,105,000,000	17.00%	15.00%[3]	3m Euribor +0.63%	BB (sf)	Provisional Rating - Finalised
Series C[4]	975,000,000			3m Euribor + 0.65% + extraordinary fee[5]	C (sf)	Provisional Rating - Finalised
Series A and B Total Initial Balance	6,500,000,000	100%				

Notes:
(1) Size is expressed as a percentage of the total Series A and Series B balance.
(2) Series A credit enhancement consists of subordinated Series B plus the Reserve Fund
(3) Series B credit enhancement consists of the Reserve Fund
(4) Series C note issuance proceeds will fund the Reserve Fund
(5) Extraordinary fee relates to remaining excess spread after payments are made on the transaction waterfall

Transaction Summary

This transaction is a securitisation of prime residential mortgage loans originated by Banco Santander, S.A. (Santander) and Banco de Credito Español (Banesto). The portfolio will be sold at closing to the issuer FTA RMBS Santander 3 (Issuer or Santander 3) a securitisation fund under Spanish securitisation law. The Series A and B bonds will be issued to finance the purchase of a portfolio of prime mortgages, secured over first lien raking properties in Spain, while Series C will be issued to fund the reserve fund. The transaction is managed by Santander de Titulización, SGFT (the Management Company). The Portfolio will be serviced by Santander.

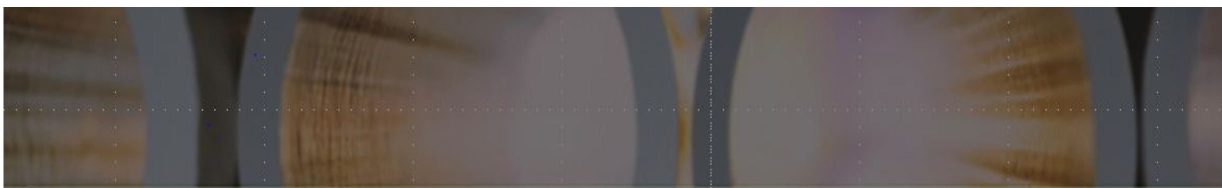
The €5.395 billion Series A bonds benefit from 32% credit enhancement that consists of €1.105 billion subordination of Series B and a €975 million Reserve Fund. The Reserve Fund is available for paying senior fees, interest and principal of Series A and B.

The Series B Bonds benefit from 15% credit enhancement of a €975 million Reserve Fund. The Class B Bonds interest can be deferred subject to certain triggers being breached.

The proceeds of the subscription of Class C bonds will be used to fund the €975 million Reserve Fund. The Class C will amortise as the Reserve Fund amortises.

Notable Features:

- 67.6% of the portfolio was originated by Banesto and the remaining 32.4% by Santander. After the merger between Banesto and Santander in January 2013 Santander is the seller of the assets and will act as servicer.
- 19.5% of the mortgage loans of the portfolio were modified since loan origination. Loan modifications are the result of a restructuring process where borrowers with less than three months in arrears were granted either one or more changes to their original loan agreements such as (1) the reduction in margin; (2) extension of maturity; or (3) granting of a grace period. Typically, this restructuring occurs as a consequence of consolidating certain other debt contracts a borrower might have under the mortgage loan. DBRS has applied additional stresses to factor potential risk of credit deterioration on modified loans.



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- Most of the loans have formed part of either Banesto's or Santander's covered bond program, but after the re-evaluation of the property values the securitised assets have become non-eligible as the updated loan-to-value ratio exceeded the 80% threshold. As a result the weighted average current indexed loan-to-value (WACILTV) on the updated valuation is 104% which compares to an original LTV of 80%.
- The Series A notes benefit from a fully sequential amortisation. The Series B notes will not amortise until Class A bonds are redeemed in full.

Strengths

- The mortgage portfolio is well-seasoned at 6.5 years. The level of seasoning is considered positive as historical data indicates the probability of borrower default is higher during the first five years of the mortgage loan.

- Portfolio is diversified granularly (45,318 loans) and geographically distributed among the largest autonomous communities in Spain. The top three regions where the property is located and measured in outstanding portfolio balance are Andalusia (24.4%), Madrid (19.8%) and Catalonia (11.8%). Both, the granularity and the geographic diversification are viewed as positive as the transaction has limited exposure to a small group of borrowers or house price fluctuations in a particular region.

- The Series A notes benefits from full sequential amortisation. Principal amortisation includes a provision mechanism for defaults (loans more than 18 months in arrears) through the utilisation of excess spread in the transaction waterfall. Furthermore in high default scenarios the scheduled interest of the subordinated Series B notes will be deferred and the monies will instead be applied for the repayment of the Series A notes.

- The Reserve Fund provides credit support to the Series A and Series B notes.

Challenges and Mitigating Factors

- 19.6% of the mortgage pool is considered as loans to higher risk borrowers, as 19.5% of those borrowers had a modification of the original loan document and 0.1% were identified as bearing higher risk of default due to a missed payment in the past two years in combination with an update to the loan contract. **Mitigants:** Even though none of the loans had been more than three months in arrears and missed payment can be due to technical issues DBRS deems these loans to be riskier, thus additional stresses were applied to factor potential increase on defaults.
- 5.1% of loans were granted to foreign borrowers or borrowers without provided nationality. **Mitigants**: Foreign borrower loans were stressed by applying a default penalty of 1.2.
- 8.5% of loans were granted with grace periods that end between 2014 and 2019. **Mitigants**: (1) DBRS has assumed loans with a grace period as Short Term Interest-Only loans to compute base case assumptions. (2) All loans with a grace period were modified loans and included in portfolio of riskier loans, (3) the payment profile was reflected in the cash flow modelled.
- Santander is able to renegotiate the maturity and margin on the loans subject to strict criteria. **Mitigants:** DBRS reflected this optionality in its cash flow modelling by extending for 10% of the portfolio the maturity to the longest possible and compressing the spread of the loan margins to 1% where applicable in line with the renegotiation criteria.
- Macroeconomic conditions in Spain remain uncertain, even though there have been recent improvements recorded by a decreasing unemployment rate to 23.7% as of Q3 2014 or 2% better than a year ago (INE data) there is still financial pressure on both the public and private sector which might crystallise in increased delinquencies and defaults. **Mitigants:** (1) Series A, B and C are able to withstand stressed cash flow assumptions relating to defaults and recovery values, (2) the Reserve Fund provides credit support to Series A and B and (3) a sovereign stress was applied to the base case.
- Property values for the first time since 2007 showed a sign of rebounding having marginally increased from 63.3 to 64.7 according to INE data. It might be still too early to call this a reversal

of the trend, but it seems that the housing market has found a bottom, which is still 35.3 points away from 2007. **Mitigants:** Spanish market value declines (MVDs) were stressed to reflect DBRS' outlook of the Spanish house prices.

- The basis risk in this transaction is unhedged. **Mitigants:** (1) Basis risk is limited as the collateral pays 12-month Euribor with all the loans paying monthly and having a reset period of 12 months while the notes pay 3-Month Euribor. (2) The Reserve Fund and subordination of Class B help to mitigate this risk.

Rating Rationale

The rating of the Series A notes addresses the timely payment of interest and full payment of principal by the legal final maturity date in accordance with the terms and conditions of the Notes. The ratings of the Series B and Series C notes addresses the ultimate payment of interest and full payment of principal by the legal final maturity date in accordance with the terms and conditions of the Notes. DBRS has based the rating on:

- The transaction's capital structure, form and sufficiency of available credit enhancement.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to terms in which they have invested.
- The transaction parties' capabilities with respect to originations, underwriting, servicing and financial strength.
- The credit quality of the collateral
- A review of the legal structure, transaction documents and opinions.

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Sovereign Assessment

As of 10 October 2014, DBRS confirmed the ratings of the Kingdom of Spain at A (low) and changed its trend to Stable from Negative. For more in-formation, please refer to the most recent published press release by DBRS on www.dbrs.com.

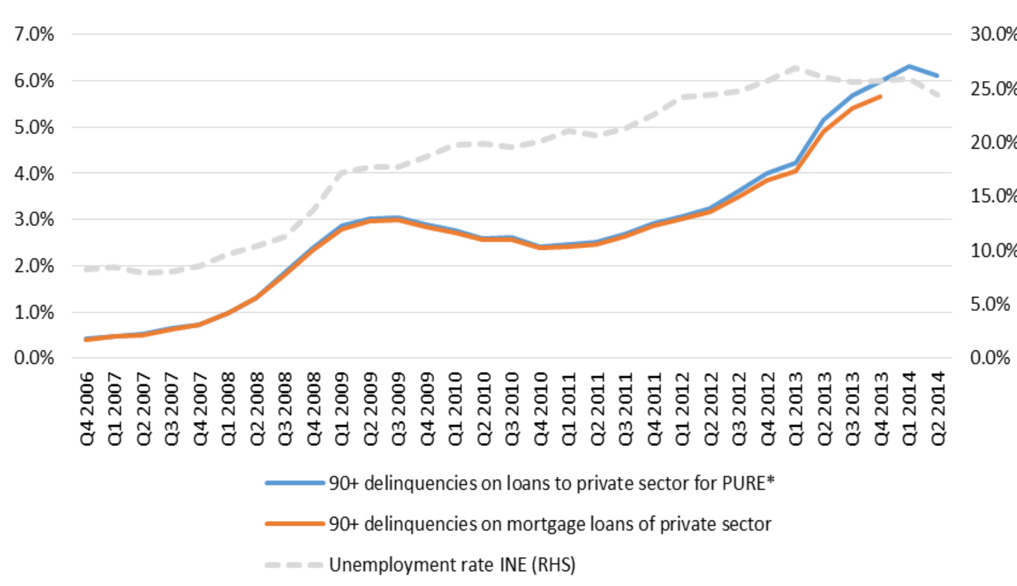
Sector Analysis

The macroeconomic situation in Spain has slightly recovered with unemployment rate reported by Instituto Nacional de Estadistica (INE) being at 23.7% as of Q3 2014 compared to 25.7% a year earlier. At the same time, doubtful loans seem to backlog this development. The ratio of loans more than 90 days in arrears for the purpose of purchasing a property has continued to increase on a year-to-year basis to 5.1% from 4.3%, but showed signs of stabilisation on a quarter to quarter basis.

Mortgage Market

The Bank of Spain doubtful mortgages rate (90+ delinquencies) for financial institutions reached its initial peak in 2009 at 2.8%, thereafter doubtful mortgages declined to 2.4% in Q4 2010. Since then doubtful mortgages have steadily increased to reach a new peak of 5.7% as of Q4 2013 (Bank of Spain, Statistical Bulletin - Credit Institution Lending). This upward trend is expected to stabilise in case the recovery of the labour market continues. The unemployment rate as of Q3 2014 stands at 25.7%. The overall level of doubtful mortgage loans appears to be associated to unemployment albeit the gap between arrears and the level of unemployment in particular during 2009 and 2013 has been larger than might be expected.

Figure 1: Evolution of mortgage arrears and unemployment in Spain



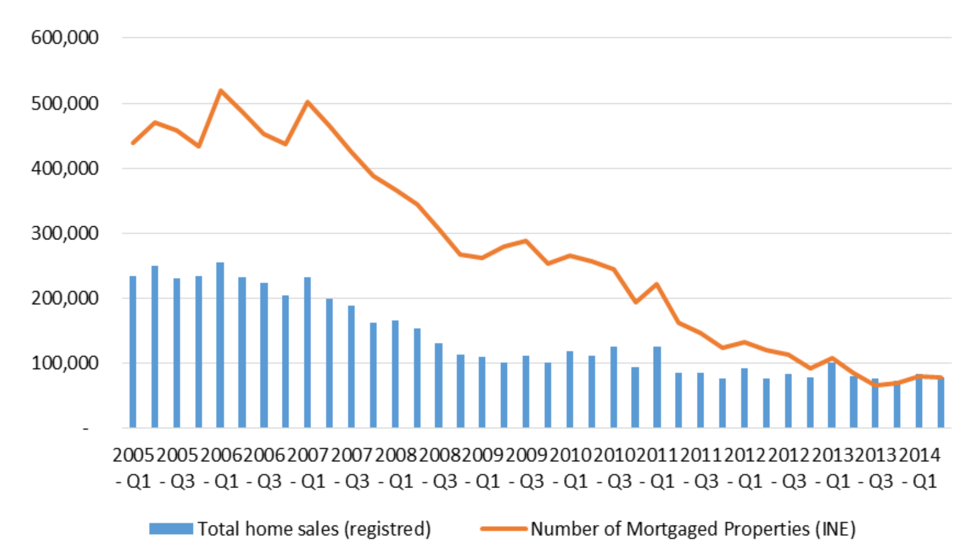
Source: Instituto Nacional de Estadistica and Bank of Spain

*PURE stands for Purchase or Refurbishment of residential properties and includes both mortgage and non-mortgage loans. The data series published by the Bank of Spain for 90+ delinquencies for mortgage loans stopped in Q4 2013. Given the close proximity, the ratios linked to PURE should give a good proxy for residential mortgage related debt performance.

Housing demand and housing credit supply remain constrained. The number of mortgages originated has been flat for most of 2013 and 2014 at around 81,000 newly mortgaged properties per quarter (INE). The number of total registered home sales has also remained constant at a level similar to that of newly mortgaged properties or roughly 82,000 properties per quarter. These figures are far from the transaction

volume the Spanish market experience in 2005 to 2007 when the prices peaked as depicted by the graph below.

Figure 2: Evolution of registered home sales and newly mortgaged properties



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Housing Market

Following the bursting of the housing bubble in Spain, house prices have declined by 37.2% from the peak in Q2 2007 to trough. House prices seem to have ultimately found in bottom, with prices in some regions starting to rebound again. The chart below shows the evolution of the indices for Spain, Andalusia, Madrid and Catalonia representing the biggest regions by population and in the portfolio. According to figure 4 house price evolution of the past year and quarter has been heterogeneous per region and observation period.

Figure 3: INE house price index (2007=100) for Spain and the pool's highest concentrated regions

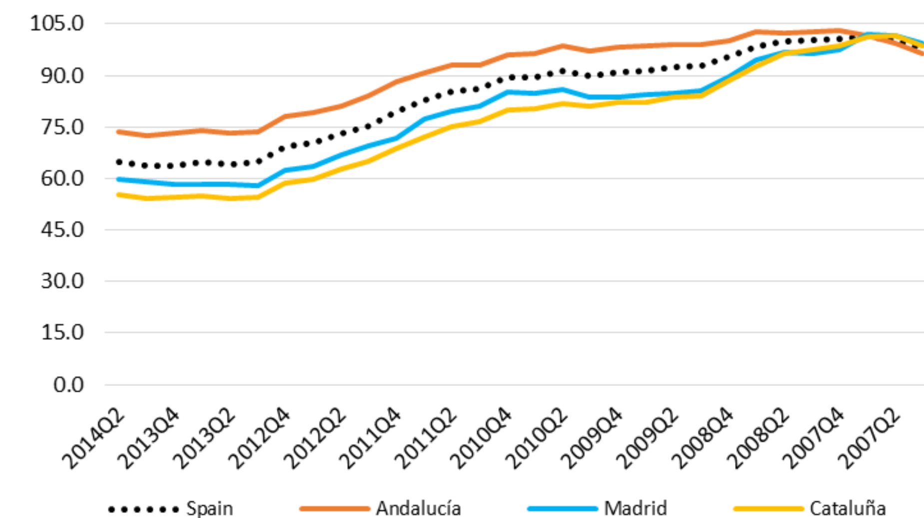


Figure 4: Top and bottom three regions on year-over-year (YOY) and quarter-over-quarter (QOQ) house price changes

Top/Bottom 3 regions YOY	Increase	Top/Bottom 3 regions QOQ	Increase
Madrid	2.7%	Comunitat Valenciana	3.1%
Comunitat Valenciana	2.3%	Canarias	2.8%
Cantabria	1.8%	Murcia	2.6%
Navarra	-6.1%	Basque Country	-0.9%
Extremadura	-3.5%	Cantabria	-0.3%
Asturias	-2.3%	Balearics	0.0%

The expected total number of properties in Spain is 25.3[1] million, from which second homes are 3.68 million and empty properties 3.4 million. Empty properties are deemed to be properties available for sale, rent or abandoned. Due to low housing demand and the limited supply of finance, it is expected the oversupply of properties will remain high and consequently prevent recovery of house prices in the near future.

Transaction Parties and Relevant Dates

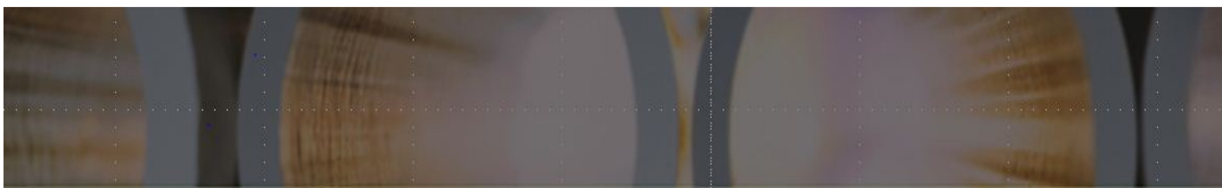
Transaction Parties

Type	Name	Rating
Issuer	FTA RMBS Santander 3	N/A
Originator/Seller	Banco Santander S.A.	A /Neg Trend/R-1L/Stable Trend
Servicer	Banco Santander S.A.	A /Neg Trend/R-1L/Stable Trend
Treasury Account Bank	Banco Santander S.A.	A /Neg Trend/R-1L/Stable Trend
Paying Agent	Banco Santander S.A.	A /Neg Trend/R-1L/Stable Trend
Subordinated Loan Provider	Banco Santander S.A.	A /Neg Trend/R-1L/Stable Trend
Arranger and Management Company	Santander de Titulizaciones, SGFT	NR

Relevant Dates

Type	Date
Closing Date	17 November 2014
First Interest Payment Date	18 February 2015
Payment Frequency	Quarterly
Payment Dates	18th day of February, May, August and November of each year
Collection Period	Each day of any calendar month
Legal Final Maturity Date	18 February 2064

[1] 2011 Census of population and properties published by INE on March 2014



Origination and Servicing

DBRS conducted an updated operational review of Banco Santander's residential mortgage operations in June 2014. DBRS considers the originations and servicing practices of Santander to be consistent with those observed among other Spanish banks. For the loan portion originated by Banesto pre-merger DBRS analysed the relevant policies and procedures of Banestos' underwriting and servicing processes in place at origination the securitised assets.

Santander was founded in 1857 and it is based in Santander, Spain. Historically, Santander has had a strong presence abroad, beginning in 1947 with expansion into South America. Today, the bank is the largest banking group in Spain and is active in over 30 countries with around 187,000 employees, over 14,300 branches and over 100 million customers worldwide.

In December 2012 it was agreed by the board of Banco Santander to fully integrate Banesto into the Santander Group with the finalisation of the process in May 2013. Since then the operational integration has been undertaken.

As of end-June 2013, Santander's mortgage loan portfolio totalled €81.4 billion equating to just over 8% of the total Spanish mortgage market. Santander plans to gradually increase its presence in the mortgage market over the next three years, aiming for a 15% market share by 2016.

Santander's senior unsecured long-term debt rating as at August 2013 is "A" with a negative trend. More information on Santander's ratings can be found at www.dbrs.com.

(1) Origination & Underwriting

Origination

All originations for Santander are internally sourced through their respective branch networks with oversight and support from the regional or territory offices. Santander specialises in providing retail banking services to individuals, professionals, SMEs and large corporates although corporates. The branches are responsible for managing the relationship with the borrower as well as collecting data and the required documentation and inputting the information into the respective credit scoring system and rating model, where applicable.

Santander offers the standard mortgage loan products common in the Spanish market including fixed and variable rate loans. Residential mortgage loans are typically capped at an 80% LTV although higher LTVs are possible with additional guarantees and approval outside the branch office. The LTV limit for loans backed by commercial properties has been lowered in recent years and ranges from 60-70% depending on the asset type. The maximum lending amount for non-owner occupied residential assets is typically below 80%. Variable rate loans with an interest rate floor comprise the bulk of the mortgage portfolio although fixed rate loans are available. As with other Spanish banks, the vast majority of loans are on monthly payment schedules although quarterly and/or semi-annual payment options are available with head office approval.

Underwriting

The underwriting and loan approval process at Santander is generally consistent with the overall Spanish market and performed at the local branch. As consistent with the overall Spanish market, full income verification is conducted on all individual borrowers including collection of pay stubs, review of bank accounts

and tax returns particularly for self-employed applicants. For SME and corporate clients, the last two years' audited financial statements, tax returns, acts of incorporation and lists of outstanding loans are reviewed.

Santander employs credit scoring and rating models that incorporate credit bureau data, sector data, financial statements and qualitative elements. The internal ratings apply mainly to SMEs and corporates and some self-employed borrowers. Ratings are based on a standard probability of default (PD) calculation and have been reviewed and approved by the Bank of Spain. The internal rating systems are also regularly back-tested and validated. The ratings (and credit scores for individual borrowers) are mainly used for assessing the borrower's creditworthiness and overall risk profile and are used as an on-going monitoring tool including some behavioural scoring functionality with monthly or quarterly updates of credit bureau data.

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 policy is consistent with the wider Spanish market and in compliance with regulatory guidelines.

If a loan is rejected by the system, the branch can only appeal the decision with additional supporting information and the approval of at least the branch manager before being reviewed by a risk analyst. Only 10% of system rejections can be appealed.

For Banesto the process is conceptual very similar, as it is also consistent with the overall Spanish market. Differences can be found in more specific aspects, such as the calibration of the scoring models and the resulting approval rates. These differences are possible to observe in the vintage analysis.

Valuations

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 Santander guidelines and standard valuation templates are used. For loans less than €500,000, the valuation process is outsourced and the values set for commercial assets are typically haircut by 10-15%.

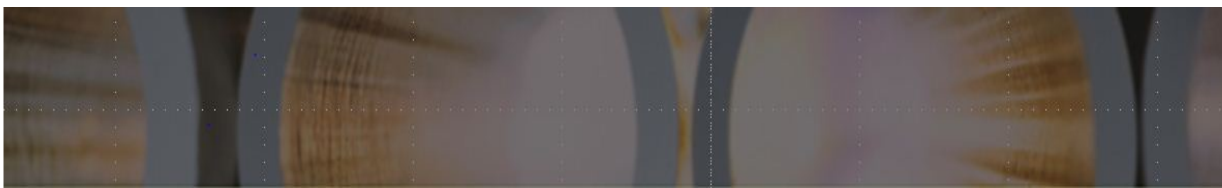
All assets are revalued annually using statistical valuation data (indexation) although a full appraisal is conducted for assets more than €3 million and a second appraisal may be order if a 15% variance exists from the previous valuation. Again, similar processes are in place for Banesto as the whole of the business is exposed to the same rules and regulations.

Summary Strengths

- All loan activity is sourced internally with no use of brokers.
- Largest Spanish bank and top 20 global bank with significant opportunities for growth within the Spanish mortgage market given low market share (<8%).
- Strong securitisation experience with numerous transactions covering all major asset classes issued since 2001.

Summary Weaknesses

- Majority of loans approved at the branch level.
  Mitigant(s): Branch approval based on size and competency level of the respective management team and subject to policy rules. The risk profile of the borrower is also taken into account in set-



ting approval limits. Lower limits for unsecured positions and good experience among the underwriting and credit risk team.

(2) Servicing

Servicing activities at Santander are comparable to other Spanish banks with some centralisation of administrative functions in the respective bank's head office and primary borrower contact including collections and early arrears management activities managed with the local branches. Payments are primarily made through direct debit as most of the borrowers have current accounts with the respective caja.

Santander's commercial management and risk management departments have a close relationship, and the Bank has different systems to manage the monitoring of risk.

Santander's alert system is based on monitoring the credit quality of the clients and their transactions. The clients are classified in the system as either "Normal" or "Special Surveillance". Under the Special Surveillance category, the branch agent will determine the level of risk associated with specific clients.

The alerts are used to track the progression of a loan, anticipate credit issues and take early preventative measures to mitigate risk. This system is based fundamentally on the analysis of a set of variables relating to transactions and customers in order to detect possible anomalous deviations in their behaviour and to be notified of situations such as:

- A problem within a sector;
- Changes in the company structure or with the shareholders;
- High debts;
- Variations in the rating levels;
- Overruns;
- Overdrafts;
- A delinquency tracking data base (CIRBE, RAI, EXPERIAN, etc.).

The rating of the client is reviewed at least twice a year, but this review could be earlier depending on the system alerts.

Up until 2009, the recovery process was handled in the risk division; however since 2009 the recovery process at Santander is performed by a dedicated department in the commercial area. The team provides surveillance for all the flagged loans and follows a recovery plan for all irregular portfolio movements created by these flagged loans. Additionally Santander branches are used within the recovery process to contact the borrowers and aid recoveries.

The recovery process is broken down into phases based on the number of days in arrears:

- Day 1 to Day 90: In this phase, different departments are involved (such as the branch staff, call centres, agents and analysts) depending on the type of the client (i.e. Estandarizado or Carterizado).
- Day 91 to Day 150: All internal agents of the Bank continue with their recovery activities along with the outsourced recovery companies.

Most probable solutions of the proceedings are that delinquent clients are able to refinance the debt, pay-off the debt in part or full; however, this is not always possible as the client may no longer be considered credit worthy. If a lawsuit is presented, the judicial process can extend for 11 to 15 months, generally resulting in foreclosure. Once this process is finished, Santander will try to sell the foreclosed assets.

The operational loan management department is responsible for all loan management and servicing activities. Primary borrower contact is managed at the branch level including early arrears management activities.

Like 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.

The bank follows standard collections and arrears management strategies including compliance with regulatory guidelines surrounding delinquency, watch list 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 around day 15 and day 30. The bank's internal rating system is used to monitor the loan including updates to the rating and helps to set the appropriate workout strategy. Generally, legal proceedings are initiated after a loan is officially classified as a default and all previous attempts at an out-of-court resolution have been exhausted.

Throughout the process of collection, Santander may restructure loans by way of a payment holiday. Currently the bank has €3 million of loans that have been granted a payment holiday which can last for up to two to three years. For SME loans, the restructuring can also be completed via a new loan that lasts between seven and ten years to increase the overall term of the loan.

Summary Strengths

- Centralised servicing operations particularly for medium- and late-term arrears.
- Significant enhancements to arrears management practices including increase in workforce, use of external collectors and additional focus on technology and system improvements.

Summary Weaknesses

- N/A.

Opinion on Back-Up Servicer: No backup servicer at closing of the current RMBS transaction. DBRS believes that Santander's current financial condition mitigates the risk of a potential disruption in servicing following a servicer event of default including insolvency.

Collateral Analysis Details

Data Quality

DBRS was provided with historical static vintage delinquency and recovery data. The data represents the performance of the relevant mortgage book originated with an updated LTV of 80% and above for Santander and Banesto respectively. The historical data ranges from Q1 2005 to Q2 2014 and is segregated into branch and broker-originated loans for Santander and Banesto. For the Banesto data DBRS was also provided with a split between modified and non-modified loans. In addition, DBRS was provided with loan-by-loan data related to the securitised portfolio.

DBRS considered the quality of the data as satisfactory and was able to assess the benchmark Two-Year Probability of Default (2YR PD) for the mortgage portfolio.

Collateral Analysis

The Portfolio represents residential mortgages originated by Santander through its branch network and brokers.

The portfolio date on which the calculations were performed is 8 October 2014. At closing the collateral balance has been slightly reduced by €237,311,829 to match the bond balance. Balances are in euros.

Summary	
Number of Loans	45,318
Number of Borrowers	45,166
Original Balance	7,869,527,369
Current Balance	6,787,311,829
Average Loan Size	173,651
Loans Originated by Banesto (CB)	4,590,462,621
Loans Originated by Santander (CB)	2,196,849,208
Largest Loan	2,861,890
Smallest Loan	18,000
Largest Property	5,300,000
Smallest Property	19,256
WA Original Term (years)	31.7
WA Remaining Term (years)	25.2
WA Seasoning (years)	6.5
WAC (%)	1.70
WAS (%)	0.84
WA Current LTV	69.6%
WA Original LTV	80.0%
WA Indexed LTV (INE Q4 2013)	104.9%

Source: Santander 3 data tape

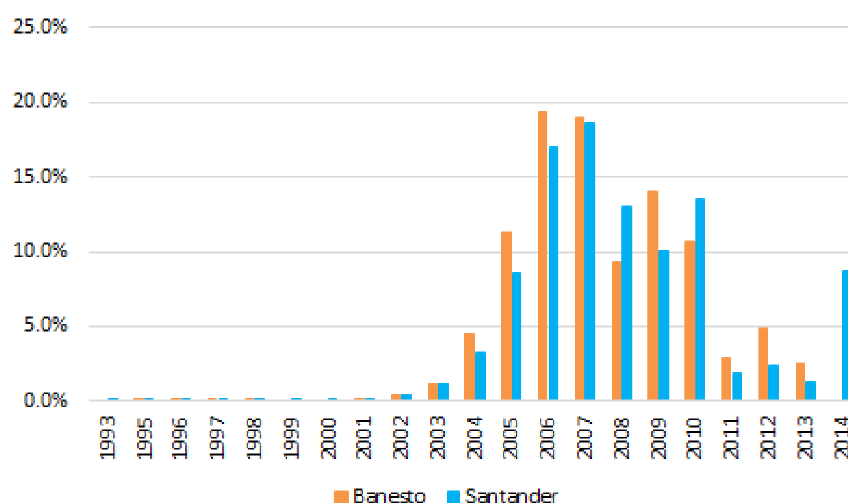
Distribution by balance, margin and coupon

The weighted average spread (WAS) of the portfolio stands at 0.84% over 12-month Euribor and 1.70% the weighted average coupon (WAC). The pool is very granular with 45,318 loans and an average loan size of €173,651.

Distribution by vintage of origination and current/indexed LTV

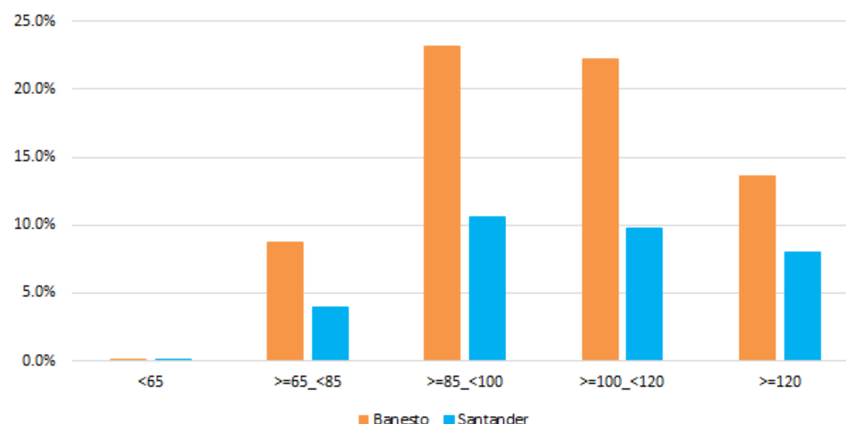
The portfolio is well-seasoned with a weighted average of 6.5 years. 46.4% of loans were originated post-crisis after 2008. The weighted average current un-indexed loan-to-value (CLTV) stands at 69.6% and weighted average CILTV at 104.9% (INE Q4 2013 – due to the re-assessment of property valuations we assume that this is the cut-off date). Loans with an indexed CLTV higher than 100% are 53.6% of the loan portfolio.

Figure 5: Distribution of current balance by origination year



Source: Santander 3 data tape

Figure 6: Updated indexed LTV in % distribution by lender



Source: Santander 3 data tape

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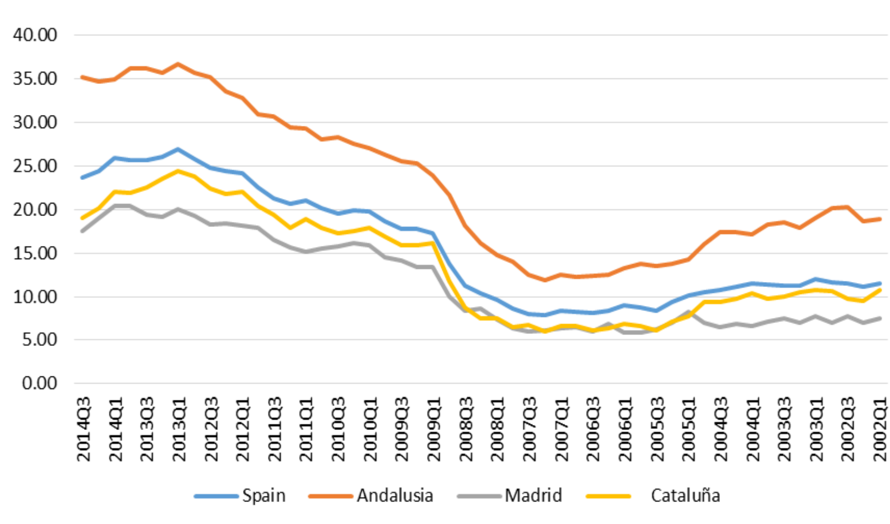
Geographical Distribution and Unemployment

The portfolio is concentrated in Andalusia, Madrid and Catalonia, which contribute 55.9% to the outstanding loan balance. As can be seen per figure 4, the unemployment rate is slowly decreasing on a national level and even faster in Madrid and Catalonia. Nevertheless, it seems that there is a different speed between regions, as e.g. Andalusia has not experienced a significant reduction in unemployment yet.

Figure 7: Unemployment rates in Spain by top concentrated regions in %



Source: INE

Interestingly, current indexed LTV (CILTV) in the portfolio has been lower than average in Catalonia and Madrid, while higher in Andalusia, whereas peak-to-trough house price index (HPI) declines were greatest in Catalonia and lowest in Andalusia.

Figure 8: Geographic concentration and LTV

Region	% of CB	CILTV	CLTV	INE HPI Peak to Trough
Andalusia	24.4%	105.7%	69.1%	29.7%
Madrid	19.8%	103.2%	69.3%	43.1%
Catalonia	11.8%	103.7%	70.3%	46.6%
Valencia	10.4%	104.8%	69.3%	34.9%
Canarias	6.0%	107.0%	70.3%	32.6%
Castilla-La Mancha	5.0%	108.1%	69.0%	35.8%
Castilla-Leon	4.8%	103.4%	67.7%	37.1%
Galicia	3.2%	102.2%	71.1%	31.0%
Balearics	2.6%	108.0%	70.4%	34.7%
Basque Country	2.4%	103.6%	72.7%	40.7%
Cantabria	2.3%	107.8%	67.2%	39.6%
Murcia	2.1%	107.1%	68.1%	31.8%
Aragón	2.1%	103.7%	67.9%	45.0%

Asturias	1.1%	105.6%	76.8%	33.9%
Extremadura	0.9%	102.2%	74.8%	31.2%
Navarra	0.6%	105.3%	72.6%	46.8%
La Rioja	0.6%	103.5%	71.7%	43.3%
Ceuta	0.1%	97.7%	69.7%	34.0%
Melilla	0.0%	101.6%	83.8%	31.7%
Total	**100.0%**	**104.9%**	**69.6%**	**37.2%**

Source: Santander 3 data tape

Mitigant: DBRS MVD assumption at the respective rating level considers a house price stress that is in line with the historic experience observed recently in Spain.

Non-nationals

The portfolio is 5.1% exposed to foreign borrowers resident in Spain. **Mitigants:** DBRS has stressed foreign borrowers by applying a default multiple of 1.2.

Modified loans and missed payment

Santander provided loan-level information on loans for both Santander and Banesto that have been modified since loan origination. Santander explained that modified loans consist of loans that never entered into three months in arrears and Santander offered a grace period, maturity extension or reduction in the loan's margin to improve borrower's affordability. The portfolio contains 19.5% of these modified loans.

A loan modification can be triggered by difficulties of the borrower to honour one of its outstanding debt contracts, e.g. a consumer loan, and the borrower has the opportunity to consolidate the debt under one contract, secured by a first-ranking mortgage on the borrower's property. Modified loans can also result from reasons different to that mentioned above, such as a renegotiation of the term and conditions of the original loan document. In general, DBRS assumes that loan modification are offered rather as debt consolidation product than a simple renegotiation, and are hence riskier than non-modified loans.

Figure 9: Modified loans by originator and outstanding balance

	Type of loan	Outstanding balance	% of Outstanding balance
Banesto	Modified	882,424,343	13.0%
	Non Modified	3,708,038,278	54.6%
Santander	Modified	440,415,540	6.5%
	Non Modified	1,756,433,668	25.9%
Total		**6,787,311,829**	**100.0%**

Source: Santander 3 data tape

Santander provided data of the last missed payment on each of the loans of the securitised portfolio. Santander explained that loans with a missed payment never entered into three months in arrears and most of the missed payments should be due to technical reasons, e.g. the payment due under the loan the 5th of the month and the salary received the 7th of the month. The table below shows that 35% of the pool had a missed payment within the past two years.

Figure 10: Missed payments

Number of years since last missed payment	Outstanding balance	% of Outstanding balance
<=2	2,391,758,811	35.24%
<=4	797,477,796	11.75%
>4	678,856,614	10.00%
Never	2,919,218,608	43.01%
Grand Total	6,787,311,829	100.00%

Source: Santander 3 data tape

DBRS was also provided with the information of the last update to the loan contract, e.g. a renegotiation of the loan contracts or a addition or removal of guarantors was carried out. Given the lack of more detailed information around the reasons of the missed payment or the loan contract update (please note that this is different from a loan modification) and the potential for an indication of adverse credit quality, DBRS considered loans where the two issues coincided within the past two years as well as riskier. DBRS computed an additional exposure of riskier loans of €7.2 million or 0.1% of the outstanding balance to be added to the amount of modified loans. This is a deviation from a similar assessment done for FTA Santander RMBS 1 and 2 where DBRS considered all non-modified borrowers with a missed payment within the last one year as potentially riskier. This refinement lowers the potential amount of riskier borrowers as DBRS assumes that most of the borrowers with a missed payment within the past year have been due to technical issues.

Mitigants: DBRS has assumed a higher probability of default for the portion of modified loans originated by Banesto of 40% compared to 33% for Santander. The reason for differentiating between the two portfolios of modified loans is mainly explained by the historic performance observed in the vintage data (please refer to Historic Performance section).

Permitted variations:

Santander has adhered to the code of good practice (Código de Buenas Prácticas) launched in March 2012 by the Government of Spain to help borrowers in a difficult economic situation. Financial institutions adhering to the code of good practice will agree to help borrowers to continue paying their mortgages or accept the property as a payment for any amounts due.

Restructuring:

- Interest-only period of up to five years. Unpaid principal may be deferred as a bullet payment at maturity or paid pro-rata after the interest-only period.
- Maturity extension up to 40 years since the loan origination date.
- 25 basis points (bps) margin reduction for a period of 5 years.

Additional support:

- If the restructuring of the loan does not avoid the borrower failing to pay the loan, then borrowers may have the option to apply for a partial debt forgiveness of the mortgage loan.
- Debt forgiveness amount may be (1) 25% debt reduction, (2) reduction equal to the principal amortised as of today or (3) an amount equal to the difference between the appraisal value of the property as of loan origination and the current valuation of the property.

Alternative measures to repossession:

- 12 months after the restructuring of a loan, borrowers falling under (1) above may be eligible to repay in full their debt with the property (Dación en pago). The borrower will have the right to live in the property for two years, paying a social annual rent of 3% of the outstanding debt amount of the date of the Dación en pago.

Eligible borrowers for restructuring:

- Household income lower than three times the Public Income Index (Indicador Público de Renta de Efectos Multiples) which stands at €6,390 (approximately €19.17 thousand) as of 2014.
- Affordability of the household has been reduced by 1.5 times in the last four years. Affordability measured as mortgage payment versus household income.
- Any other household which are:

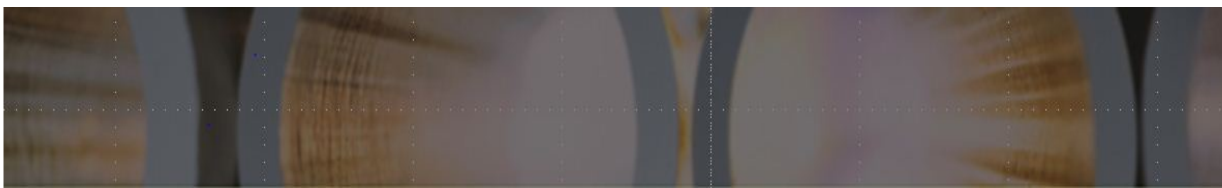
- Family households with three or more children
- Single parents with at least 2 children
- Family households where a family member is disabled (33%)
- Households with a family member younger than three years old
- Family households where their monthly mortgage instalment is 50% higher than the household's net income

Borrowers eligible for payment in lieu must comply with the aforementioned requirement and the following items:

- Household family members do not have any additional guarantees or goods to repay the debt
- The loan is a first lien mortgage back by the property of family household.
- Loan without any additional guarantees
- In case of additional borrowers acting as guarantor, they must comply with the above.

The Management Company authorises the Seller to apply the code of good practice to eligible borrowers of the portfolio. The Sellers will inform the Management Company of any loan modification under the code of good practice.

Mitigants: (1) Low number of borrowers approved since the code of good practice law was passed in March 2013. The number of applications received by the 45 financial institutions adhered to the code of good practice as of Q3 2013 is 14,368 of which 3,833 were approved. 2,827 loans were restructured and



1,006 were Dación en Pago. Debt forgiveness was not applied to any of the applications approved. (2) Restructured loans may help borrowers to continue paying their mortgage and mitigate defaults.

Beside modifications under the code of good practice, the servicer will be able to conduct permitted variations within the mortgage portfolio. These modifications can be made without the Management Company's consent and are subject to the following limit concentrations:

Maturity extension:

Number of loans modified cannot exceed 10% of the original collateral balance. In any case, the maturity extension must fulfil the following requirements:

(1) The maximum extended maturity date must be 1 November 2061
(2) The frequency of amortization payment is maintained or increased

Spread reduction:

The weighted average spread of the must be at least 1%.

Mitigants: Weighted average maturity was extended for 10% of the pool up to November 2061 and for all loans the margin was capped at 1%.

Origination Channel

The portfolio consists primarily of loans originated via Santander or Banesto branches or brokers. Santander branch originated loans represent 28.9% and Banesto 66.6%. The remaining 4.5% were originated through brokers, which is a different marketing channel compared to the banks' branches, but the origination process is the same as at the branch level.

Mitigants: DBRS analysed the vintage data per origination channel and applied the findings into its PD outcome.

Foreign Nationals

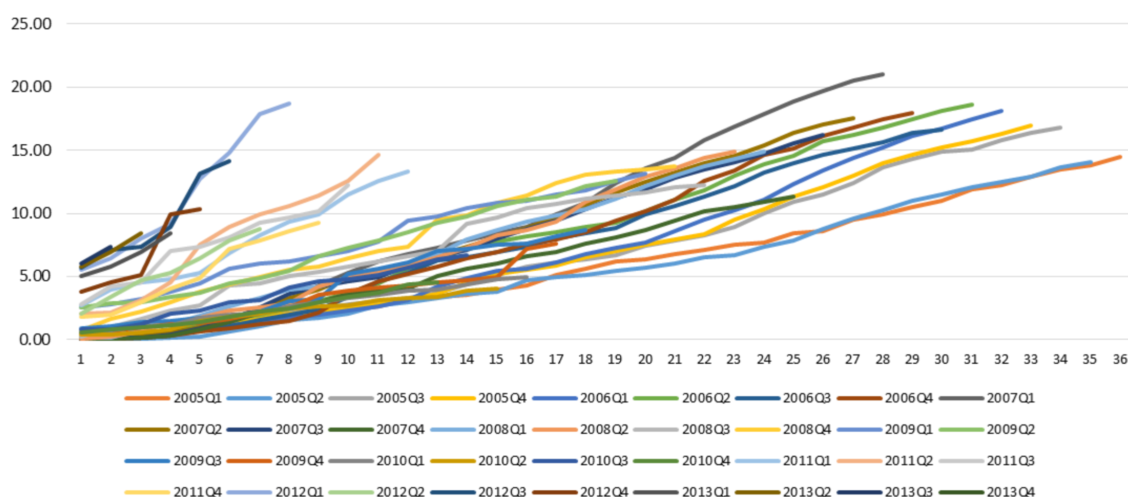
5.1% of the portfolio's current balance is exposed to foreign borrowers resident in Spain. DBRS has stressed loans granted to foreign nationals through an adjustment to the default probability. Foreign nationals generally tend to have a limited credit history and are more likely to return to their nation at times of economic stress.

Historical Performance

DBRS received historical static delinquency and recovery data. The data represents performance on the mortgage book of Santander with a current updated LTV equal to or above 80%. The historical data ranges from Q1 2005 and Q4 2013 and is distinguished between branch and broker originations. In addition, DBRS received the same data for Banesto, with the only difference being that the data was split into a portfolio of modified and non-modified loans.

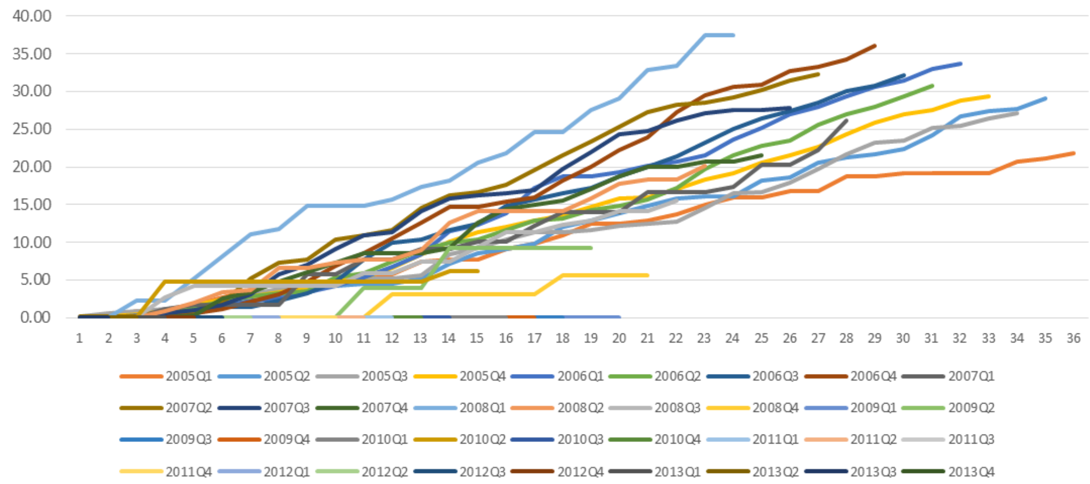
Cumulative 90+ Delinquencies Santander

Figure 11: Branch originated loans cumulative defaults 90+ days in % of originated volume



Recently originated vintages experienced spikes in arrears up to 18.7% (as of Q1 2012). It is DBRS's understanding that this is due to the accounting practices adopted; a loan that is restructured is classified as repaid in full (100% recovery) as of the vintage of origination. Thereafter the loan is considered re-issued as of the date of restructuring and 100% defaulted as of day one.

Figure 12: Broker-originated loans cumulative defaults 90+ days in % of originated volume



The broker portion performed worse in the long term with maximum cumulative default rates observed so far at 37.5% compared to 21.0% at the branch originated vintages.

DBRS estimated a total 2YR PD assumption of 3.2% for the total portfolio, which consists of the weighted average 2YR PD of 3.1% for the branch originated loans and a 2YR PD of 3.5% for the broker-originated loans.

Cumulative 90+ Delinquencies Banesto

Figure 13: Branch-originated loans cumulative defaults 90+ days in % of originated volume non-modified

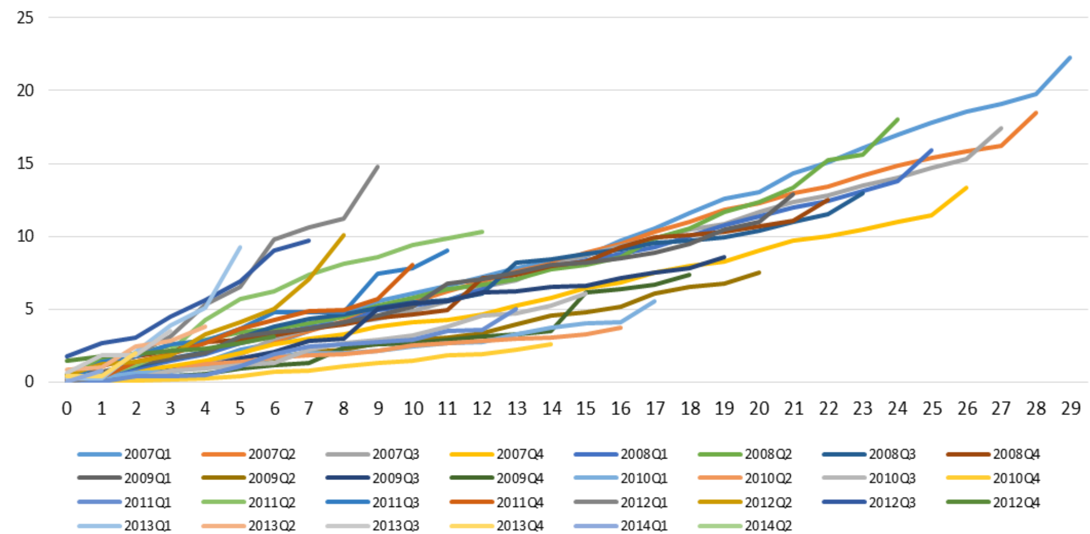


Figure 14: Branch-originated loans cumulative defaults 90+ days in % of originated volume modified

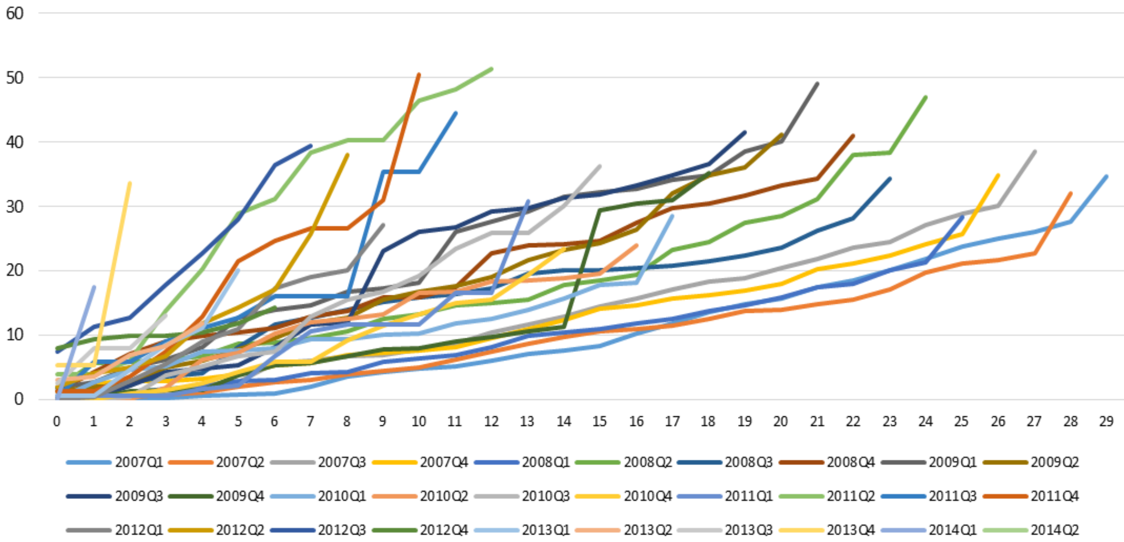


Figure 14: Broker-originated loans cumulative defaults 90+ days in % of originated volume non-modified

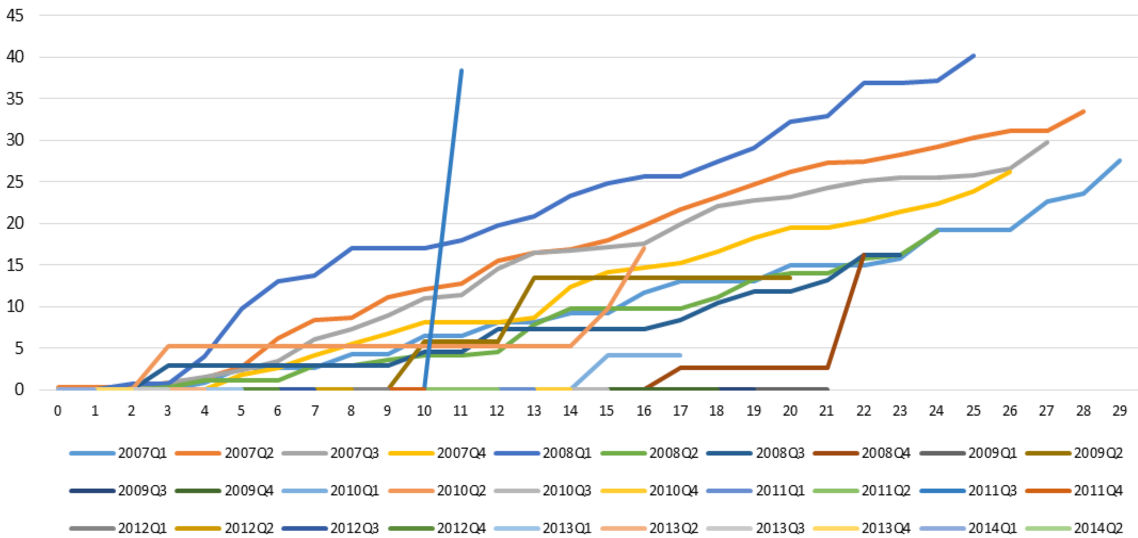


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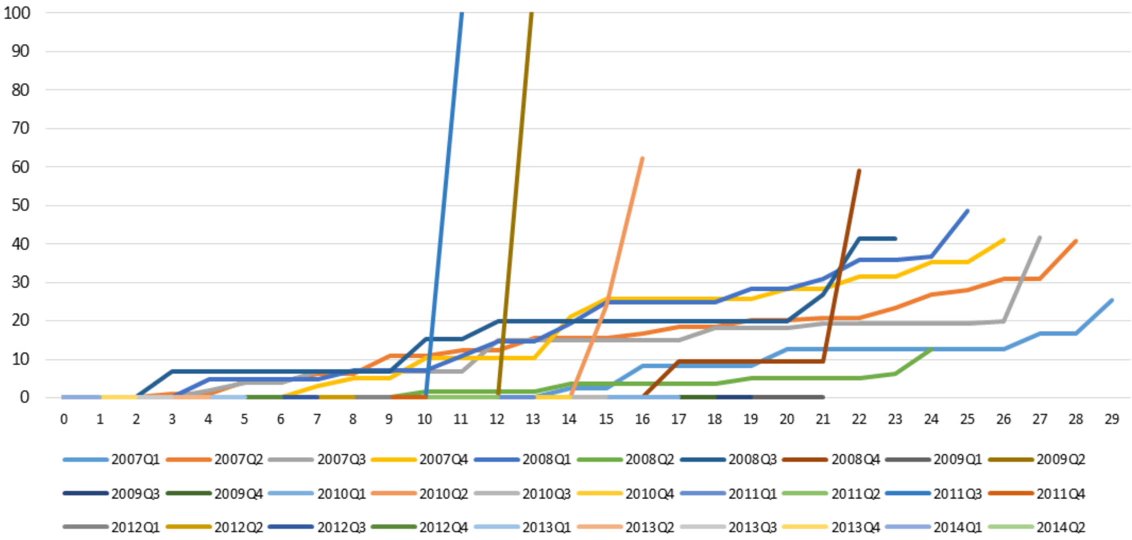
Figure 15: Broker-originated loans cumulative defaults 90+ days in % of originated volume modified

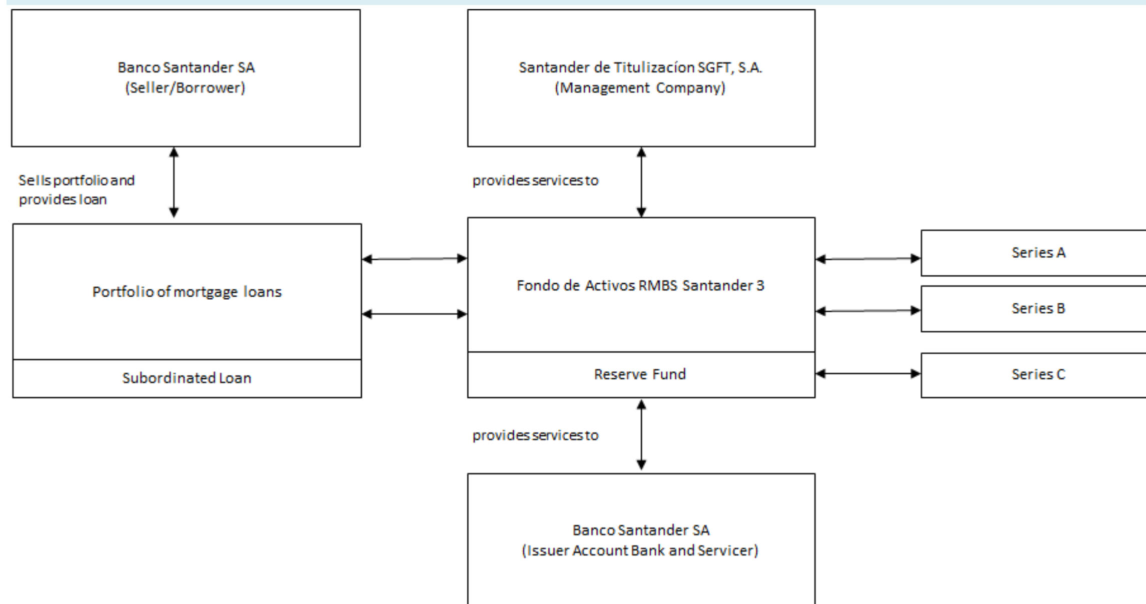


DBRS estimated for the non-modified portion of the Banesto originated loans a two-year PD of 3.4% for the total portfolio, which consists of the WA 2 YR PD of 3.3% for the branch-originated loans and a WA 2 YR PD of 6.1% for the broker-originated loans.

As explained above, the standard lifelong PD assumption for modified loans in the context of this transaction has been 33%. Nevertheless, the performance indicated by the vintages, in particular in the last quarter, suggests that higher defaults in the range of 40% could be expected. As a result, DBRS amended the standard lifelong PD for modified loans for the Banesto portion to 40%.

Transaction Structure

Transaction Diagram



Source: DBRS's simplified illustration

Structural Features

Transaction Overview

At closing, the Series A and Series B notes were issued to fund the purchase of the mortgage portfolio. The proceeds from the issuance of the Series C notes were used to fund the Reserve Fund.

Available Funds

The transaction has a combined waterfall, where the available funds are summarised as:

- Principal collections received from the mortgage loans
- Interest collection received from the mortgage loans
- The Reserve Fund
- Return on amounts deposited in the bank account
- Any amount derived from the collateral mortgage pool, such as the proceeds received from the sales on foreclosed properties

Credit Enhancement

The Series A notes benefit from 32.0% credit enhancement consisting of the subordinated Series B notes and the Reserve Fund equal to €975 million. The Series B notes benefit from 15.0% credit enhancement consisting of the subordinated Series C notes funded by the Reserve Fund. The Reserve Fund is available to meet payments on the senior fees, interest on the Series A and Series B notes, and principal on Series A and Series B notes.

Pre-Enforcement Waterfall

The available funds are distributed through the following combined waterfall:

(1) Ordinary and extraordinary expenses and the administration fee. If Santander ceases to be the servicer and/or the paying, the replacement entities will charge an additional fees;
(2) Interest due on the Series A notes;
(3) Interest due on Series B notes unless the payment is deferred to 5th place in the priority of payments based on the trigger condition defined below;
(4) Amounts retained to amortise Series A and Series B notes in accordance with the transaction documentation;
(5) Interest due on the Series B notes (Deferred from 3rd place due to breach of trigger condition);
(6) Replenishment of the Reserve Fund;
(7) Interest due on the Series C notes;
(8) Amount required to amortise Series C notes in accordance with the transaction documentation;
(9) Interest due on the Subordinated Loan;
(10) Principal due on the Subordinated Loan;
(11) Administration fee (with Santander as the servicer);
(12) Payment to Series C notes using excess spread remaining after steps 1 to 11 above.

Upon liquidation of the Fund at the legal final maturity date or early termination of the Fund, the following items will be distributed through the Post-Enforcement Waterfall:

- The Available Funds.
- Amount received by the Fund after the sale of the remaining mortgage portfolio.

Post-Enforcement Waterfall

(1) Ordinary and extraordinary expenses and the administration fee. If Santander ceases to be the servicer and/or paying, the replacement entities will charge an additional fee;
(2) Interest due on the Series A notes;
(3) Principal due on Series A notes;
(4) Interest due on Series B notes;
(5) Principal due on Series B notes;
(6) Interest due on the Series B notes;
(7) Principal due on the Series C notes;
(8) Interest due on the Subordinated Loan
(9) Principal due on the Subordinated Loan
(10) Administration fee (as long as Santander is the servicer)
(11) Payment of the Extraordinary Payment of the Series C notes (any excess spread remaining after 1 to 10)

Principal amortisation

Available funds to amortise principal are defined as the lower of (1) amortisation amounts for the Series A and Series B notes and (2) amounts available after payment of items 1 to 3 of the pre-enforcement waterfall.

The amortisation of Series A and Series B notes will equate to the positive difference between (1) the amount outstanding of Series A and Series B notes on each interest payment date and (2) the outstanding balance of the non-defaulted portfolio. According to the transaction documents defaulted loans are defined as loans more than 18 months in arrears.

The Series A notes benefit from full sequential amortisation, with principal payments on the Series B notes starting once the Series A notes are redeemed in full.

The Series C notes will amortise in line with the amortisation of the Reserve Fund. The amortisation of the Series C notes will equate to the positive difference between the principal amount outstanding of the Series C notes and the Reserve Fund Target Amount. The Series C notes can only amortise if the following events are met:

1. The Reserve Fund is replenished up to its target amount
2. Loans in 90+ arrears are below or equal than 1% of the performing collateral balance
3. The seasoning of the notes is greater than three years

Series B Notes Interest Deferral Trigger

Interest due on the Series B notes interest will be deferred to item 5 of the Pre-Enforcement waterfall if the cumulative outstanding amount of defaulted loans as a percentage of the original outstanding balance of the mortgage portfolio is above 20%.

Reserve Fund

The transaction benefits from a €975 million Reserve Fund which will be funded at closing through proceeds of the Series C notes issuance. The Reserve Fund is available to cover shortfalls on the payment of senior fees, Interest and principal shortfalls on Series A and Series B notes.

Once the notes are paid down in an amount which results in the Reserve Fund amount equalling 30% the principal outstanding amount of the Series A and Series B notes, the Reserve Fund is able to amortise quarterly on each interest payment date, in an amount which maintains the 30% ratio between the Reserve Fund and the Series A and Series B notes. The Reserve Fund has a floor which equals 7.5% the Initial principal outstanding amount of the Series A and Series B notes or €487,500,000. At legal final maturity the Reserve Fund Target Amount will equal zero.

The Reserve Fund will only amortise if:

(1) The Reserve Fund is replenished up to its target amount
(2) Loans in 90+ arrears are below or equal than 1% of the performing collateral balance
(3) The seasoning of the notes is greater than three years

Definitions
Defaulted loans: 18+ months in arrears
Delinquent loans: 90+ days in arrears

Transaction Accounts

Cash Collection

At closing, the Management Company on behalf of the fund will establish a treasury account bank at Santander (rated “A” with a Negative trend, R-1 (low) with a Stable trend) by DBRS. The account will hold the following funds:

- Principal and interest collections.
- Amount derived from the collateral mortgage pool, such as the proceeds received from the sale of foreclosed properties.
- The Reserve Fund amount.
- Interest earned on amounts deposited in the bank account. The interest earned on amounts deposited in the banks account is equal to 3-month Euribor.

Commingling

Borrower payments on the mortgage loans are collected by Santander under a direct debit scheme. Payments are transferred from the servicer account to the account bank in the name of the fund no later than 48 hours after receipt by the servicer. Following servicer insolvency and until notification has been delivered to the relevant borrowers instructing them to redirect their mortgage payments, collections may be commingled with other funds belonging to servicer.

DBRS believes that Santander’s financial condition mitigates the risk of a disruption in servicing activities following a servicer event of default including insolvency. Furthermore, in a potential scenario in which Santander’s long-term rating should fall below “A”, Santander would need to (1) find a replacement servicer with a DBRS long-term rating at or above “A”, (2) appoint a back-up servicer or (3) establish a commingling reserve according to DBRS criteria.

In the event the servicing agreement is terminated with Santander, the Management Company is responsible for appointing a replacement servicer.

Set-Off Risk

All borrowers have bank accounts at Santander. Set-off in this transaction is limited as only unpaid instalments that are viewed as fully due and payable prior to the declaration of insolvency may be offset against the deposits held by the originators.

Basis Risk

The interest rate risk in the transaction arises from the floating interest rate due on the notes (3-month Euribor) and the mainly floating rate payable by the mortgage pool or 93.6% (12-month Euribor), with a remaining fixed rate pool of 6.4% (IRPH 6.1% and fixed 0.3%), which is unhedged.

DBRS accounted for the very limited fixed-floating and basis risk by testing the impact to potential mismatches in its cash flow model. The main mitigants, however, have been the available credit enhancement and the liquidity provided by the transactions Reserve Fund.

Cash Flow Analysis

Summary of Cash Flow Analysis

The DBRS cash flow model assumptions focus on the amount and timing of defaults and recoveries, prepayment speeds and interest rates. Based on a combination of these assumptions, a total of 16 cash flow scenarios were applied to test the performance of the Rated Notes (see table below).

Scenario	Prepayments	Default Timing	Interest Rate
1	0%	Front	Upwards
2	0%	Front	Flat/Down
3	0%	Back	Upwards
4	0%	Back	Flat/Down
5	5%	Front	Upwards
6	5%	Front	Flat/Down
7	5%	Back	Upwards
8	5%	Back	Flat/Down
9	10%	Front	Upwards
10	10%	Front	Flat/Down
11	10%	Back	Upwards
12	10%	Back	Flat/Down
13	20%	Front	Upwards
14	20%	Front	Flat/Down
15	20%	Back	Upwards
16	20%	Back	Flat/Down

Asset Analysis Results

As explained above, DBRS segregated the portfolio into a normal and a riskier portfolio (all modified loans plus certain exceptions, for more detail please refer to the section about the collateral characteristics). The split between the two portfolios is 80.4% for the normal and 19.6% for the riskier portfolio,

For the calculation of the weighted average two-year WA 2 YR PD of the normal portfolio, the cumulative 90+ delinquencies of the vintage data provided for each bank after two years was weighted by the current outstanding loan amount in the deal. For vintages without cumulative default data, DBRS applied the one-year PD assessment provided by Santander in the data tape, adjusting it to a comparable two-year PD.

DBRS further stressed the WA 2YPD to reflect the current risk of the sovereign of Spain (A (low)). The adjustment is based on the worst case WA 2Y PD experienced from all the issuers in Spain and the 10 years PD value from DBRS Idealized Default table. As a result of this, the adjusted WA 2Y PD is 4.14%.

WA 2PD	**3.33%**
WA 2PD Sov. Adj.	**4.14%**

For the riskier portfolio, DBRS has assumed a single B default rate at 33% for loans originated by Santander and 40% for loan originated by Banesto due to the recent deteriorating performance observed in the vintage data. This increased the weighted average single B default rate for the riskier loans to 37.3%. Translating this into a 2YR PD would lead to 10.9% for Santander and 10.4% for Banesto respectively or a weighted average 2YR PD of 10.6%. Both 2YR PD include the sovereign adjustment.

Combined PD assumptions

The assumed weighted average 2YR PD for the two sub-portfolios has been 5.4% which resulted in a single B default rate of 15.5%, a LGD of 37.5% and an expected loss of 5.8%.

	Rating	PD	LGD	Expected Loss
Series A	AA (sf)	37.64%	54.85%	20.64%
Series B	BB (sf)	21.94%	40.91%	8.97.%
Series C	C (sf)	NA	NA	NA

Prepayment Speeds
The four prepayments stresses applied are 0%, 5%, 10% and 20% CPR. The 0% CPR assumption was applied following the low prepayment rates observed in the Spanish market.

Timing of Defaults and Recoveries
DBRS applied a front- and back-loaded default timing curve.

DBRS assumed recovery proceeds will not be available for the deal until 48 months from the date a loan becomes 90 days past due.

The applied average MVD per rating stress has been 53.5% in the BB case and 64.1% in the AA case. The single B WA MVD equals 50.9%.

Interest Rate Stresses
DBRS applied its standard interest rate stresses as detailed in the *Unified Interest Rate Model for European Securitisations*.

Legal Structure

Law(s) Impacting Transaction

Transaction Basis:

True sale pursuant to Spanish securitisation laws

Laws impacting the transaction:

The mortgage loans comprising the Portfolio have been assigned to the Issuer pursuant to the Escritura de Constitución (Issuer Deed of Incorporation Formation) in a True Sale transaction in accordance with Spanish securitisation regulations, Law 19/1992 and Royal Decree 926/1998. In order to avoid re-registering the mortgage loans in the name of the Issuer and incurring a stamp tax, the loans are conveyed by way of Certificados de Transmisión de Hipoteca (CTH). The CTH represent an undivided interest in the underlying mortgage loans and convey to the Issuer all ownership rights as if the mortgage loans were re-registered in the Issuer's name, in accordance with Law 2/1981 and Royal Decree 716/2009. The Noteholders are unsecured creditors of the Issuer. In Spain there is no nationwide registry where creditors can record their security interest in assets other than in the Land Registry (Registro de la Propiedad) for real estate assets property and the Registry on Movable Property (Registro de Bienes Muebles) for among others, vehicles/equipment, certain credit rights and other type of assets. Thus, a security interest in favour of the Note holders is not possible. In any event, given the limitation on the Issuer's activities, the lack of a security interest in the Portfolio is not a concern.

The Originator's counsel rendered an opinion with respect to (1) corporate good standing of Originator, Issuer and Management Company, (2) enforceability of documents against Originator and Issuer, (3) "True Sale" of assets from Originator to Issuer and (4) tax regime of the Issuer and the Notes.

Transaction Counterparty Risk

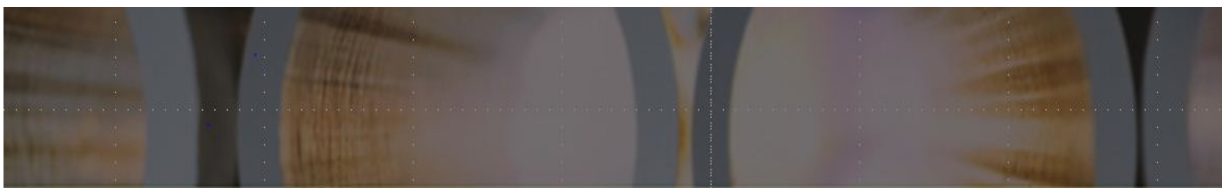
Santander is both the originator and servicer for the transaction. In addition, Santander also acts as treasury account bank and paying agent. Santander may be replaced in its roles at request by the Management Company, insolvency of servicer and/or Bank of Spain intervention.

Furthermore the transaction benefits from rating triggers which at loss of a rating of "A" would require the current account bank to (1) search an eligible replacement counterparty or (2) find an eligible guarantor issuing an absolute, direct, unconditional and irrevocable guarantee. Eligible counterparties are compliant with the rating triggers defined in the documents.

Methodologies Applied

The following are the primary methodologies 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 information is listed in this report:

- *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*
- *Legal Criteria for European Structured Finance Transactions*
- *Operational Risk Methodology for EU Structured Finance Servicers*
- *Unified Interest Rate Model Methodology for European Securitisations*



Monitoring and Surveillance

The transaction will be monitored in accordance with the Master European Structured Finance Surveillance Methodology, available at www.dbrs.com.

Note:
All figures are in euros unless otherwise noted.

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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