

RATINGS

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Series A	AA+ _{SF}	2,907	76.5	43.5	3moEuribor + 35bp	August 20, 2057
Series B	BBB+ _{SF}	893	23.5	20.0	3moEuribor + 60bp	August 20, 2057
Series C	CC _{SF}	760	20.0	0.0	3moEuribor + 65bp	August 20, 2057
Total notes (excluding Series C)		3,800				

The transaction closed on December 4, 2014. The ratings are based on the final portfolio dated November 28, 2014, and the preliminary portfolio dated October 15, 2014, provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity.

See Scope's website for the *SF Rating Definitions*.

Rated issuer		Transaction profile
Purpose	Liquidity/funding	FTA PYMES SANTANDER 10 is a true sale securitisation of a EUR 3,800m portfolio of mortgage-secured loans, unsecured loans and credit lines (jointly, the assets) granted to small- and medium- size enterprises (SMEs) by Banco Santander SA (A/S-1/Stable Outlook) to finance diverse business-related needs. The assets have been originated by Santander and Banesto, a banking franchise now fully integrated in Santander.
Issuer	Fondo de Titulización de Activos PYMES SANTANDER 10	
Originator	Banco Santander S.A. (A/S-1/Stable Outlook)	
Asset class	SME CLO	
Assets	EUR 3,800m	
Notes	EUR 4,560m	
ISIN Series A	ES0305054001	
ISIN Series B	ES0305054019	
ISIN Series C	ES0305054027	
Closing date	Dec 4, 2014	
Legal final maturity	Aug 20, 2057	
Payment frequency	Quarterly	
Payment dates	Feb 20, May 20, Aug 20, Nov 20	
		Analysts
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Rating Rationale (Summary)

The ratings reflect the legal and financial structure of the transaction, the quality of the underlying collateral in the context of the Spanish macroeconomic environment, the capability of the servicer, the counterparty risk arising from the exposures to the transaction's counterparties—mostly the account bank, the paying agent and the managing capability of Santander de Titulización SGFT SA.

Spanish economy. Scope believes that the Spanish economy is slowly improving. This recovery will benefit the class A notes in the short term, while the impact of this economic trend for the class B notes is less certain due to the fragility of the recovery.

Stressed performance references. Scope calibrated the assumptions of its portfolio modelling base case with vintage data from 2007 to 2013, a period that captures high stress for Spanish SMEs. This period exhibits high defaults and relatively low recoveries, particularly for mortgages, because the recovery from Spanish real estate collateral is slow given the disrupted real estate market. Scope has modelled a mean lifetime 90dpd default rate of 17.8%, a coefficient of variation (CoV) of 40.8%, a cure rate of 15% and a base case recovery rate (RR) of 44%.

Low obligor concentration. The final portfolio is exposed to eight obligors each representing more than 0.5% for a total combined exposure of 4.95%. Seven of these obligors are of better credit quality than the portfolio average based on the bank's internal probability of default (PD). The eighth exhibits a 100% PD according to the originator despite being currently performing. Scope has addressed obligor concentration by applying a 20% stress to the CoV of these segments and also considered obligors with a PD of 100% to be effectively defaulted.

Fast amortisation. Class A bears a short risk exposure to counterparties and to possible macro-economic deterioration because its expected weighted average life (WAL) is 1.14 years under 0% CPR.

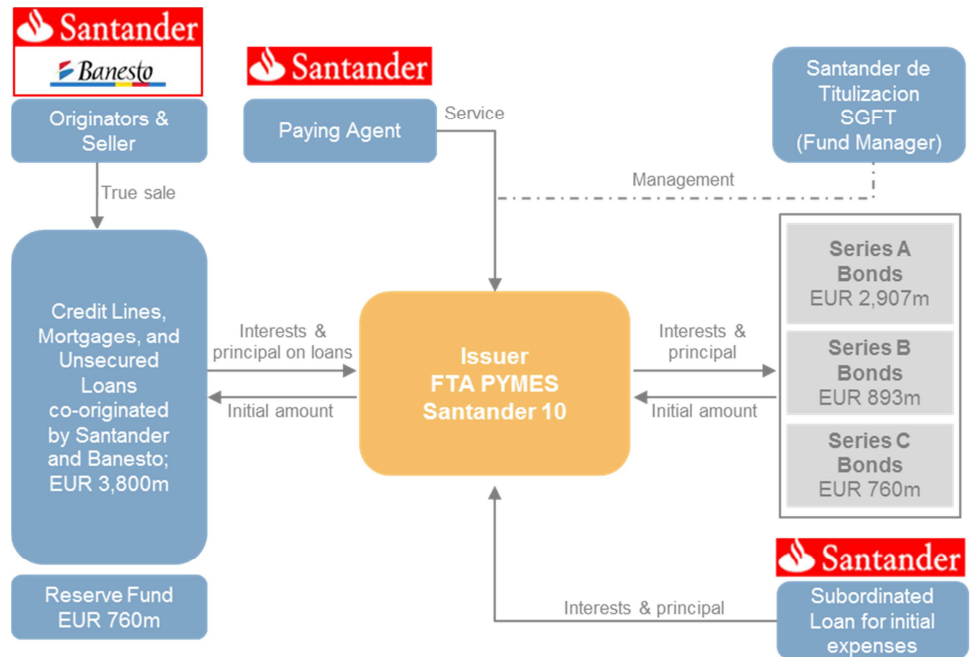
Counterparty risk. The notes bear significant counterparty risk exposure to Santander. This risk is mitigated by the credit quality of the bank rated A with a Stable Outlook by Scope, a replacement trigger of BBB-, and a short expected WAL with respect to the Class A notes.

Risk from credit lines (CLs). The final portfolio is exposed to 18% of CLs. Scope has overweighted the exposure to CLs and doubled the CoV of this exposure to capture the revolving and refinancing risks inherent in this product type. The WA usage level of these CLs is 84% and could increase to 100% (even to 105% under exceptional circumstances) by reinvesting principal collected from other performing assets and CLs and drawing from a liquidity facility granted by Santander.

Related Reports

Structured Finance
Instruments Methodology
Guidelines, dated July 2014.

Transaction Summary



FTA PYMES Santander 10 is the tenth transaction in Santander's SME loan securitization programme and the third transaction of its kind closing in 2014. It consists of the securitization of 44,130 loans and credit lines co-ordinated by Banco Santander and Banesto and granted to 40,088 Spanish SMEs and self-employed individuals.

FINANCIAL STRUCTURE

Capital Structure

Three classes of sequentially subordinated notes were issued. The proceeds from class A and class B notes were used to purchase the initial portfolio of assets. The proceeds from class C notes were used to fully fund a cash reserve fund (RF) on the closing date.

The notes pay quarterly interest referenced to 3-months Euribor plus a margin. The amortisation is strictly sequential, but under very benign scenarios the class C could receive principal payments before the class B. These payments would correspond to reductions in the required RF level.

The issuer's initial expenses have been covered by the proceeds from a dedicated subordinated loan. This loan will be amortised out of excess spread in the early stages of the transaction.

Reserve Fund (RF)

The structure features a very large, fully-funded cash reserve fund of EUR 760m or 20% of the initial portfolio balance. The RF is the primary source of credit enhancement for the class B notes.

The large size of the RF enables the structure to accelerate the amortisation of the class A notes whenever assets are classified as defaulted, in combination with the provisioning mechanism.

The RF is a source of negative carry as the cash is held in an account of the issuer that yields 3-months Euribor flat, while the WA coupon of the notes is always higher than this index. Negative carry directly impacts the class C notes.

The RF follows the standard mechanism of most Spanish securitisations where the required balance can be reduced subject to: i) non-defaulted assets more than 90dpd

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represent less than 1% of the non-defaulted assets; ii) more than two years have elapsed since closing; and iii) the RF was fully funded at its required level on the previous payment date.

Amortisation and Provisioning

The amount accrued for principal amortisation is determined to be the amount required to match the balance of the notes to the balance of non-defaulted assets on every payment date. However, this calculation accounts for adjustments on the balances of credit lines which could trigger a principal retention, if the usage level of credit lines drops from the usage level at closing.

This mechanism constitutes a principal retention mechanism and a provisioning mechanism. Principal retention will disappear when no more credit lines are in the portfolio, and in any event is conditional on the usage level of credit lines.

The provisioning mechanism allows for the accelerated amortisation of the most senior class, making use of RF money and excess spread. The mechanism means that outstanding notes will always be collateralised by non-defaulted assets as long as cash remains in the RF.

The transaction classifies credit lines as defaulted when they are more than six months in arrears and loans when they are more than 12 months in arrears. Additionally, both credit lines and loans can be classified as defaulted if the servicer subjectively considers them to be unrecoverable.

The provisioning mechanism allows for the accelerated amortisation of the most senior class

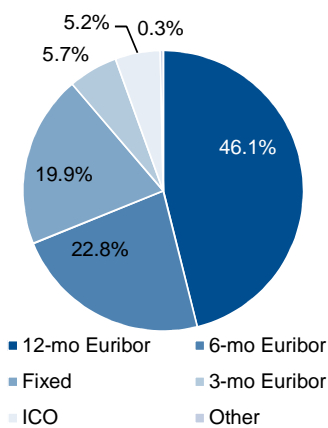
Figure 1. Priority of payments and available funds

Pre-enforcement priority of payments	Post-enforcement priority of payments
<p>Available funds Any collections from the assets, except retained principal to account for decreases of credit line usage and principal to amortise the liquidity facility; proceeds from interest and treasury accounts; and RF.</p>	<p>Available funds All moneys of the SPV, including funds from the liquidation of assets.</p>
<ol style="list-style-type: none"> 1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) Class A interest (including arrears interest on interest) pari-passu with liquidity facility interest (pro-rata) 3) Class B interest, if not demoted 4) Principal for class A, and then class B 5) Class B interest, if demoted when <ol style="list-style-type: none"> a) Class A still outstanding after the payment date b) Total defaulted assets > 5% of portfolio balance at closing 6) RF to its required level 7) Class C interest 8) Principal for class C (i.e. equivalent to reduction of required RF amount) 9) Subordinate loan interest 10) Principal for Subordinate loan 11) Servicer fee for Santander 12) Excess spread for the originator as variable class C interest 	<ol style="list-style-type: none"> 1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) Class A interest (including arrears interest on interest) pari-passu with liquidity facility interest (pro-rata) 3) Principal for class A pari-passu with liquidity facility balance 4) Class B interest 5) Principal for class B 6) Class C scheduled interest 7) Principal for class C 8) Subordinated items including servicer fee for Santander and excess spread for the originator

The combined priority of payments provides material protection against payment interruption risk

The materiality of unhedged interest-rate risk is limited

Figure 1. Interest rates in the portfolio



The accounts represent a commingling exposure to Santander as the account bank

Any increase in the balance of the credit lines in the portfolio under stress can be serviced from principal collections from performing assets

Priority of Payments

The structure features a combined priority of payments which provides material protection against payment interruption risk. Principal collections from the assets can be used to pay timely interest on the senior class notes. Furthermore, only a few days' worth of collections suffices to pay senior class interest and other more senior items, even if a servicer disruption event occurs. The combined priority of payments is also effective in allowing losses from negative carry or interest rate mismatches to be covered by credit enhancement.

Scope's analysis takes into account the demotion trigger on class B interest. The rating of the class B notes captures any loss from the time value of missed interest resulting from a postponement of class B interest payments. Missed class B interest payments do not accrue interest. Missed class A interest accrues 3-months Euribor + 2%.

Unhedged Interest Rate Risk

Scope believes the materiality of unhedged interest-rate risk is limited in view of: i) the current low interest rate environment; and ii) the fact that all floating rate assets are referenced to indices highly correlated with the 3-months Euribor index of the notes. Potential losses for negative carry can be absorbed by available credit enhancement.

The transaction is exposed to interest-related risks because: i) there is no hedging agreement in place, ii) 19.9% of the assets pay a fixed interest rate whereas 100% of the issuer's liabilities are referenced to 3-months Euribor, and iii) the reset frequencies and reset dates of the assets create a rate mismatch between assets and liabilities.

Interest-related risks are covered by credit enhancement and the combined priority of payments. This makes it possible to use principal collections from the assets to pay interest on the most senior class of notes. The mechanism effectively translates any losses from interest-rate mismatches to the equity piece in the structure.

Accounts

The issuer will have two accounts for as long as there are credit lines in the portfolio.

The first, the treasury account, is used to hold and retain principal collections from the assets to the extent that the balance of credit lines is lower than the balance of credit lines at closing. The account is used to service any average balance increase from the credit lines using principal collections on a daily basis. The treasury account is linked to a liquidity facility that could be drawn should principal collections not be enough to cover the increased balance of credit lines.

The second, the interest account, holds the RF and interest collections from the assets.

The accounts represent a commingling exposure to Santander as the account bank. The accounts also represent a source of negative carry as their yield is lower than the WA coupon on the notes. Any loss from negative carry is covered by available excess spread and credit enhancement.

Liquidity Facility

The structure features a liquidity facility to fund any increase in the balance of the credit lines above the balance at closing. The liquidity facility is sized to be 10% of the class A notes and the issuer would be liquidated if this balance proved to be insufficient.

Scope has not modelled the use of the liquidity facility because we believe that any increase in the balance of the credit lines in the portfolio under stress can be serviced from principal collections from performing assets.

If drawn, the liquidity facility would become a super senior liability of the issuer, as its balance would be set off against principal collections in the issuer's treasury account on a daily basis. The liquidity facility is linked to the treasury account, which effectively behaves as a credit account that yields interest on positive balances and costs a fee on negative balances, i.e. drawn amounts.



New Issue Rating Report

FTA PYMES SANTANDER 10

Clean-Up Call

Scope's analysis has not incorporated the option allowing the originator and seller to terminate the transaction before the legal final maturity when the balance of the assets is less than 10% of the original portfolio balance. This is because the exercise of the option is discretionary and would in any case require that the notes can be fully repaid.

LEGAL STRUCTURE

Legal Framework

This securitisation is subject to Spanish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Santander de Titulización S.G.F.T. S.A., the management company.

The Spanish securitisation framework is defined in Royal Decree 926/1998, which regulates Spanish Fondos de Titulización de Activos (FTA, securitisation funds).

Asset Replacement

Santander undertakes to replace or repurchase any asset transferred to the portfolio that does not comply with the eligibility criteria in the documentation. No asset more than 15 days in arrears at the time of transaction closing can be transferred to the portfolio.

Permitted Variations

The documentation allows for obligor-initiated modifications to the terms of the contracts in the portfolio, notably interest rate and maturity. The negotiations with the obligors would in all cases follow the originator's standard procedures and approval processes.

The documentation includes covenants to prevent the economic imbalance of the transaction as a result of permitted variations. Scope believes that these covenants limit any material migration of the portfolio.

Use of Legal Opinions

Scope has reviewed the legal opinions produced for the Issuer by Cuatrecasas Gonçalves Pereira, S.L.P. and the regulatory oversight of CNMV to gain comfort on the legal structure of the issuer. The transaction conforms to the standards of securitisation in Spain and supports the general legal analytical assumptions of Scope.

ORIGINATOR AND SELLER

Banco Santander is an experienced originator of SME CLOs. Santander generally securitises all eligible assets in its loan book, with the exception of mortgage loans eligible to back cedulas hipotecarias (i.e. Spanish mortgage-covered bonds) and assets excluded by the Spanish securitisation law (i.e. real estate development loans or syndicated loans).

Santander is a sophisticated bank and all its functions, systems, processes and staff meet the highest standards of European banks. The ability and stability of Santander as originator is embedded Scope's A rating on Santander. Scope analysts met Santander executives in Madrid on October 29, 2014 to deepen their understanding of the underwriting and servicing aspects that are relevant to the analysis of this securitisation.

Underwriting

Scope believes that the underwriting standards for the assets in this portfolio are strong. This is because Santander has applied tight underwriting standards to the contracts originated after the crisis. In particular, since 2009, Santander has successfully applied a conservative, loss-control driven lending strategy in order to strengthen its balance sheet. This period coincides with the seasoning of the final portfolio.

Scope has reviewed the legal opinions produced for the Issuer by Cuatrecasas Gonçalves Pereira, S.L.P.

Banco Santander is an experienced originator of SME CLOs

Strong underwriting standards for the assets in this portfolio



New Issue Rating Report

FTA PYMES SANTANDER 10

Servicing and Recovery

Scope applied a relatively low cure rate assumption to the analysis of this transaction because Santander's pre-delinquency monitoring processes and early-delinquency management processes are highly efficient.

Santander has reported a 47% improvement in the volume of pre-90dpd arrears in less than two years (a 28% improvement in 2013 and 26% for year-to-date September 2014).

Scope believes that Santander's interests are strongly aligned with those of the noteholders of this securitisation. As a provider of the 20% RF, Santander has a significant subordinated interest in the transaction. In addition, the Spanish securitisation framework does not allow securitised assets to be treated differently from non-securitised assets on the bank's balance sheet. Santander's servicing and recovery processes aim to maximise the prospects of recovery in the shortest time possible.

COUNTERPARTY RISK

The transaction's counterparty exposure to Santander is significant

The transaction's counterparty exposure to Santander is significant and this is captured in the ratings. Santander performs all counterparty roles.

Operational Risk from Servicer

Scope believes Santander has adequate servicing experience, systems, processes and staff. The fact that Santander holds a stake in the capital of the issuer also serves to align the interests of the servicer with those of the investors.

Scope does not consider it likely that Santander could be replaced as servicer of the portfolio. We believe a servicer replacement would be more disrupting than the more probable continuation of Santander operating as a going concern after a financial impairment. This view is supported by Santander's relevance to the Spanish economy and the framework for orderly bank restructuring in Europe.

Commingling risk from the exposure to the servicer is not material because of the short-term exposure. Collections from the assets are transferred to the issuer's account generally intraday, but in any case no later than after 48 hours.

Commingling Risk from Account Bank and Paying Agent

The risk of commingling losses sufficiently remote to support the assigned rating

Scope believes that the risk arising from the exposure to the account bank is commensurate with the AA+_{SF} rating on the class A notes. This is because the class A notes have a short expected WAL of just 1.14 years under 0% CPR. Given Santander's current rating of A/S-1/Stable Outlook, Scope considers the risk of commingling losses sufficiently remote to support the assigned rating.

Scope gave limited credit to the replacement/guarantee trigger of the account bank at BBB- defined in the structure for the rating of the class A.

Set-Off Risk from Originator

Scope does not believe that set-off risk from the originator is material

Scope does not believe that set-off risk from the originator is material in the context of Spanish law and under the terms of the documentation. The structure incorporates an undertaking by the seller to compensate the issuer for any set-off loss resulting from rights existing prior to the asset transfer. Furthermore, set-off rights would cease to exist after obligor notification following a servicer event or upon the insolvency of either obligor or seller.

Exposure to set-off from linked contracts is negligible and is restricted to insurance contracts in the context of mortgage loans. The exposure is largely to the insurance business of Santander and is limited to premia paid up front and capitalised in the mortgage balance. This represents a negligible amount that is covered by available credit enhancement in the transaction.

ASSET ANALYSIS

Securitised Assets

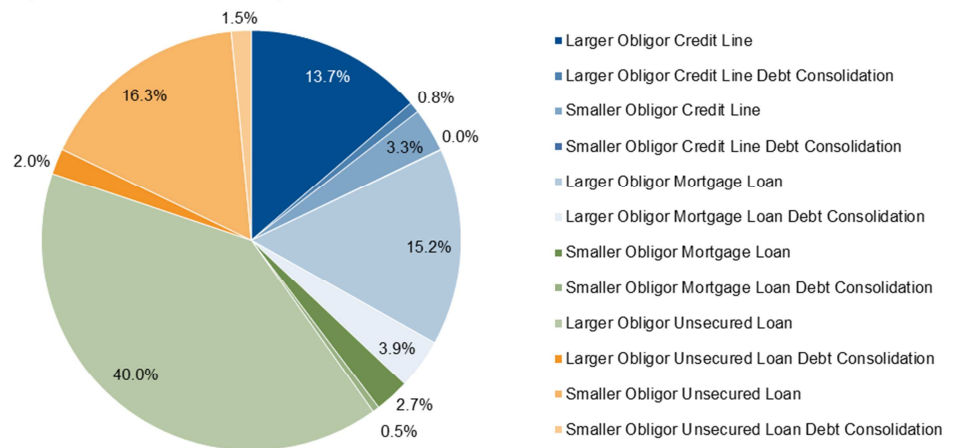
The final portfolio comprises 12 segments that result from the classification of the assets in i) two obligor sizes; ii) three product types; and iii) two debt-consolidation status.

Figure 2. Portfolio segmentation criteria used in the analysis

Obligor size	Product type	Debt-consolidation status
Larger obligor (LO): managed by inclusion in the portfolio of an agent	Credit lines (CL)	Non-reconducted (NR): the contract is not a debt-consolidation product
Smaller obligor (SO): managed under standard processes	Mortgage loans (ML)	Reconducted (R): the contract is a debt-consolidation product
	Unsecured loans (UL)	

Note: Scope uses the abbreviations shown on this table to simplify the reference to the 12 portfolio segment names.

Figure 3. Final portfolio segmentation



Credit Lines—Refinancing and Revolving Risk

Scope sees credit lines as a type of SME exposure that adds two risks not present in static portfolios of amortising loans: i) revolving risk; and ii) refinancing risk, because of the bullet nature of credit line products. Credit lines in Spain can be drawn even if obligors are already in default (“concurso de acreedores”) and cannot be cancelled prior to maturity. However, the short WA remaining term of the credit line portfolio segment limits its contribution to the portfolio default rate.

Scope considered the full commitment of the credit line to be at risk of default rather than the current balance, but only to the extent allowed by the amortisation of the assets. See Appendix III. Analytical Approach.

The portfolio contains 17.9% of credit lines. The current balance of credit lines does not reflect the balance under a stress scenario where bad obligors would use the credit line to be current on other debts before defaulting.

Scope estimated for this segment a low mean lifetime default rate of 2.1%, a default rate CoV of 130.4% and a RR of 38.3%. The credit line segment can be seen as a revolving portfolio segment making use of collected principal from other performing assets. Debt consolidation represents 4.8% of the credit line portfolio segment.

Scope does not stress the balance of credit lines above and beyond the initial commitment. The balance of the contract can be increased to up to 105% of the initial commitment over a short period of time and under exceptional circumstances. The overdraft must in all cases be approved by the risk department of Santander, and the obligor must provide evidence that he will be able to return the balance to normal within a short time frame.

Credit lines add two risks not present in static portfolios of amortising loans: i) revolving risk; and ii) refinancing risk

Scope does not stress the credit line balance above and beyond the initial commitment

The effective maturity for these contracts in the asset portfolio is less than one year because the credit lines will be removed from the portfolio at the earliest renewal date or on the maturity date.

Scope is comfortable that the refinancing risk of credit lines is not material for the class A notes. Refinancing risk would crystallise in scenarios where Santander is not able to provide a new credit line to the obligor at maturity (or to refund the issuer at the renewal date).

Scope does not believe that the transaction will utilise the liquidity facility to service credit line balance increases. Potential drawings amount to EUR 134m whereas the expected amortization of the portfolio will provide sufficient principal repayments to service the credit line drawings. The liquidity facility is sized to represent 10% of the class A notes' current balance.

Unsecured Loans—Weak Recovery under Stress

The unsecured loans segment accounts for 59.9% of the final portfolio, of which 94.1% are non-reconducted loans, while 5.9% are reconducted loans. Scope estimated for this segment a mean lifetime default rate of 18.3%, a default rate CoV of 37.8% and a RR of 42.5%.

In the context of this transaction, “unsecured” means “not secured by mortgage”, although most of these loans benefit from personal guarantees or other types of security. Santander generally applies tighter underwriting standards to these loans given the lack of security. This results in better performance than mortgage loans.

The average maturity of the segment is 3.6 years. The standard amortization scheme is French. However, this segment shows a significant amount of bullet loans, which pose higher refinancing risk. Scope takes into account the high risk captured by the performance references of the vintage data, as it belongs to a period of stress.

Mortgage Loans—Slow Recovery and Tail Concentration Risk

The mortgage loans segment accounts for 22.2% of the final portfolio, of which 80.3% are non-reconducted loans, while 19.7% are reconducted. Scope estimated for the segment a mean lifetime default rate of 21.7%, a default rate CoV of 28.7% and a RR of 51.2%.

Mortgages on real estate assets have long maturities exceeding 10 years on average. The weighted average LTV for these secured loans is 63.8%.

Mortgage loans are more exposed to debt consolidation risk, relative to the other segments of the portfolio. This was to be expected, as Santander generally asks for mortgage guarantees when it originates debt consolidation products.

This segment carries concentration risk for the class B notes, as the tail of the life of the transaction will be exposed to mortgage loans. This risk is mitigated by credit enhancement build-up from the deleveraging of the transaction.

Risk from Debt Consolidation Products

The portfolio contains assets, which were originated to consolidate other debts of the obligor in a larger contract with conditions better adapted to the payment capacity of the SME. Santander names these debt-consolidation contracts “reconducted” and does not grant them to obligors in arrears. Santander classifies contracts to obligors in arrears as “restructured”, as required by the Bank of Spain.

Scope believes debt-consolidation products pose higher risks, despite corresponding to performing obligors. Scope has stressed the 8.8% exposure to debt consolidation products in the final portfolio by considering a higher mean lifetime default rate for those assets (WA mean of 43.4% vs 13.5% for non debt consolidation).

Historical data provided by Santander for these segments lacks granularity and exhibits significant volatility around mean default rate values that are already very high.

Unsecured loans comprise a significant amount of bullet loans

Mortgage loans are more exposed to debt consolidation risk

Debt-consolidation products pose higher risks

Portfolio Characteristics

Final Portfolio Selection

The lower credit quality of the credit lines segment included in the final portfolio (WA PD of 3.26%) compared to the preliminary portfolio (WA PD of 2.26%) does not materially affect the credit risk of the rated notes. The agency had already considered the risk of weaker obligors that make a higher use of credit lines in the portfolio modelling base case. Furthermore, the segment is now of the same average credit quality as the rest of the final portfolio.

The bank has selected the credit lines with generally higher usage levels (final WA usage of 84% up from a preliminary WA usage of 42%) from the preliminary portfolio. This is offset by marginally positive selection on the other segments, as the final portfolio is otherwise very similar to the preliminary portfolio. The average credit quality, segmentation, obligor concentration and regional and industry distributions are substantially the same as those in the preliminary portfolio.

The average borrower credit quality has improved according to Santander's internal probabilities of default (PD). The weighted average PD of the final portfolio is 3.21%, down from 3.75% for the preliminary portfolio. The final top obligor exposure is also of a better credit quality as the weighted average PD of the top obligors in the final portfolio is 14.2% (with one obligor with a PD of 100%), down from 20.6% for top obligors in the preliminary portfolio (with two obligors with a PD of 100%).

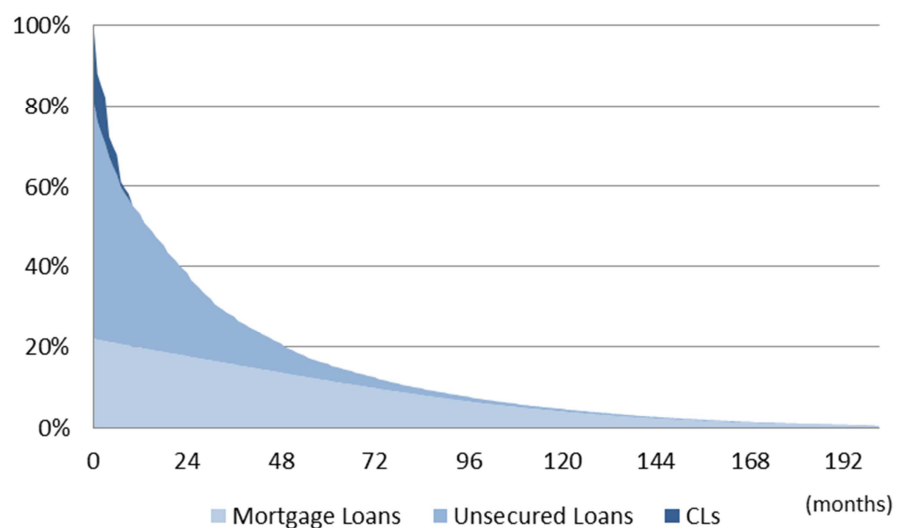
Fast Amortisation and Barbelled Amortisation Profile

Class A has a short risk exposure to counterparties and possible macro-economic deterioration because its expected weighted average life is 1.14 years under 0% CPR.

The final portfolio would be reduced by 50% of the original balance only 13 months after closing under a 0% CPR and 0% defaults assumption. This fast portfolio amortisation is driven by credit lines with a WAL of just 5.3 months.

The portfolio creates three distinct periods in the life of the transaction: i) an early stage with a fast amortisation segment of credit lines that enables the class A to amortise rapidly; ii) a mid stage when the portfolio is exposed to unsecured loans and mortgages; and iii) a late stage when the portfolio will comprise mostly mortgages with a potentially lumpy tail. Credit enhancement build-up over the life of the transaction will be adequate to cover for tail risk from concentration, as the amortisation of the notes is strictly sequential.

Figure 4. Portfolio amortisation under 0% CPR and 0% default rate



Granular Portfolio—Low Obligor Concentration

The final portfolio is exposed to eight obligors each representing more than 0.5% for a total combined exposure of 4.95% of the final portfolio. Seven of these obligors are of better

The final portfolio largely preserves the characteristics of the preliminary portfolio

Class A has a short risk exposure to counterparties and possible macro-economic deterioration

Scope has addressed obligor concentration by applying a 20% stress to the CoV of this segment

credit quality than the portfolio average based on the bank's internal probability of default (PD). The eighth exhibits a 100% PD according to the originator, although it is currently performing. Scope has addressed obligor concentration by applying a 20% stress to the coefficient of variation of this segment and also considered obligors with a PD of 100% to be effectively defaulted.

The portfolio is granular and well diversified according to the calculated diversity indices (DI): obligor DI 1,238, industry DI 14; and region DI 8. See Granularity Tests under "Appendix III. Analytical Approach" for a description of this metric.

Figure 5. Final portfolio industry distribution

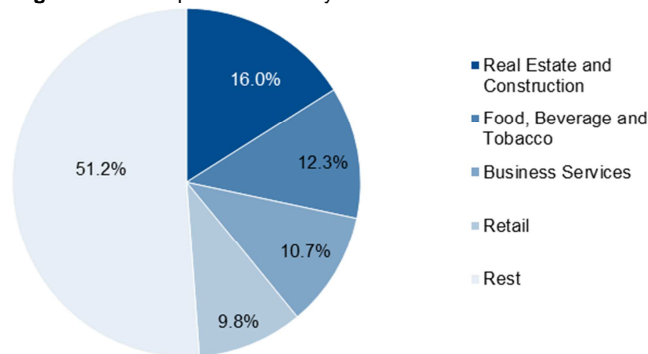


Figure 6. Final portfolio regional distribution

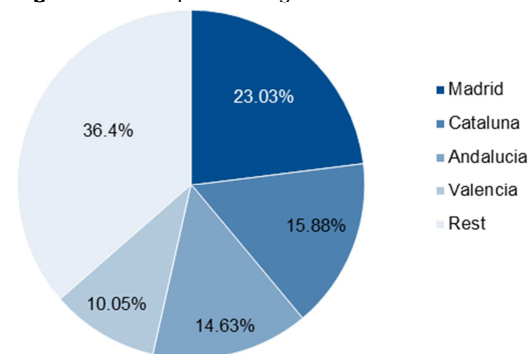


Figure 7. Largest obligors in the final portfolio

Top #	Balance (EURm)	Balance (%)	Portfolio segment (all are Larger Obligors)	Sector	Region	Amortization schedule	Santander PD
1	28.4	0.75%	Mortgage	Hotels and Restaurants	Andalusia	French	4.1%
2	17.6	0.46%	Credit line	Business Services	Castilla Leon	Bullet	0.2%
	8.0	0.21%	Unsecured loan	Business Services	Castilla Leon	French	0.2%
3	24.2	0.64%	Mortgage	Hotels and Restaurants	Baleares	French	1.4%
4	23.3	0.61%	Unsecured loan	Business Services	Madrid	French	2.0%
5	22.5	0.59%	Unsecured loan	Energy	Madrid	French	100.0%
6	8.0	0.21%	Mortgage	Construction and Materials	Andalusia	French	6.5%
	13.9	0.36%	Debt Consolidation Mortgage	Construction and Materials	Andalusia	French	6.5%
7	21.5	0.57%	Debt Consolidation Mortgage	Business Services	Madrid	French	3.2%
8	20.6	0.54%	Mortgage	Real Estate	Cataluna	French	0.2%
9	17.9	0.47%	Mortgage	Real Estate	Cataluna	French	0.3%
10	15.8	0.42%	Mortgage	Real Estate	Madrid	French	1.4%

Lifetime Default Rate

Vintage data covers a period of high stress for Spanish SMEs

Scope calibrated the assumptions of its portfolio modelling base case with vintage data from 2007 to 2014, a period that captures high stress for Spanish SMEs. This period exhibits high defaults and relatively low recoveries, particularly for mortgages, because the recovery from Spanish real estate collateral is slow, due to a disrupted real estate market. Scope has modelled a mean lifetime 90dpd default rate of 17.8%, a coefficient of variation of 40.8% and a base case recovery rate of 44%. These modelling assumptions incorporate the methodological adjustments described in "Appendix III. Analytical Approach".

The most relevant data used for the analysis is included in “Appendix II. Vintage Data”.

Recovery Rate

The agency analysed the recovery vintage data provided by Santander for the 12 segments of products present in the final portfolio. The WA RR for the portfolio is 44%. Scope only considered accumulated recoveries up to three years after the moment of default when deriving the RR base case from vintage data.

Scope did not calculate the RRs of the mortgage segment of the pool, considering the value of the real estate collateral available as security. The historical recovery rate of mortgages showed lower values than those calculated under a market value decline (MVD) approach. This is because Scope considers a weighted average recovery lag of 31 months, which is generally too short to allow for mortgage recovery in the context of a disrupted real estate market.

The historical recovery rate of mortgages showed lower values than those calculated under a market value decline (MVD) approach

Cure Rate (CR)

Scope derived a 15% cure rate from 90dpd recovery vintage data to estimate the share of 90dpd delinquent assets that do not migrate into the defaulted classification as per the transaction documents. This is because Santander did not provide 360dpd default rate vintage data to refer a true default rate to the 90dpd base case assumption for the portfolio.

This 15% cure rate assumption was considered constant (i.e. not rating conditional as recovery rates are), since a share of the portfolio is assumed to be delinquent as a function of the default rate scenario in Scope's cash flow modelling.

Scope tested the class A notes against a most conservative 0% CPR assumption

Constant Prepayment Rate—extreme assumption taken

Scope tested the class A notes against a most conservative 0% CPR assumption as the class A benefits from prepayments. Scope used a CPR assumption of 12% to analyse the class B and class C notes.

This is justified as Santander did not provide product-specific prepayment information and Scope relied on the references available from prior PYMES transactions. These showed very volatile historical CPR values from 3% to 11%.

Scope used a bespoke cash flow model to analyse this transaction

MODELLING

Scope used a bespoke cash flow (CF) tool to analyse this transaction. Scope idealised the final portfolio by modelling three distinct but perfectly correlated portfolio segments: i) credit lines; ii) unsecured loans; and iii) mortgages loans.

The CF tool was combined with the normal inverse Gaussian probability distribution to calculate the probability-weighted (i.e. *expected*) loss of each of the rated tranches under rating-level conditional recovery rate assumptions. The CF tool also produces the expected WAL of each of the rated tranches.

To eliminate doubt, the output of the tool does not determine the rating decision of the committee.

Figure 8. Modelling assumptions

	Ratings	Expected WAL	Mean DR	CoV	Cure Rate	Applicable RR	Recovery Lag	CPR	Default timing
Series A	AA+ _{SF}	1.1 years				26.4%		0.0%	
Series B	BBB+ _{SF}	4.7 years	17.8%	40.8%	15.0%	33.4%	31 months	12.0%	Front loaded
Series C	CC _{SF}	26.9 years				44.0%		12.0%	

Scope considered a default timing term structure that is naturally front-loaded as resulting from the amortisation of the assets in the portfolio. Back-loaded default scenarios would not be as severe because of credit enhancement build-up and the effect of seasoning on the portfolio.

The cumulative default timing assumptions are shown on Figure 9. These assumptions imply the front-loading of delinquencies, starting on the first month of the life of the transaction. The chart shows defaults as classified according to the definitions in the documentation (i.e. six months past due for credit lines, 12 months past due for loans).

Figure 9. Default timing assumptions for the three product types

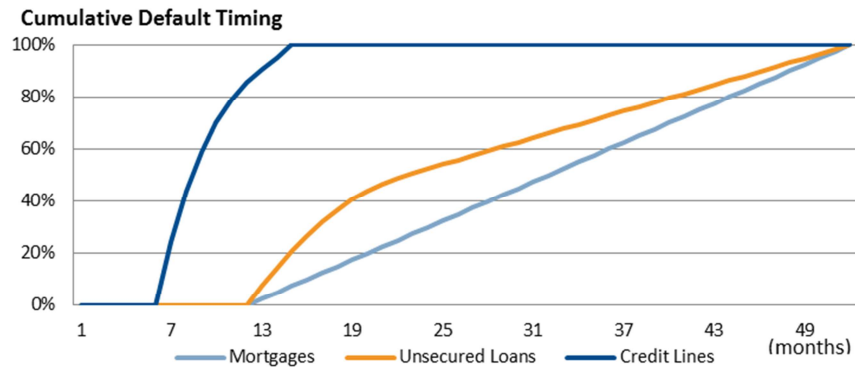
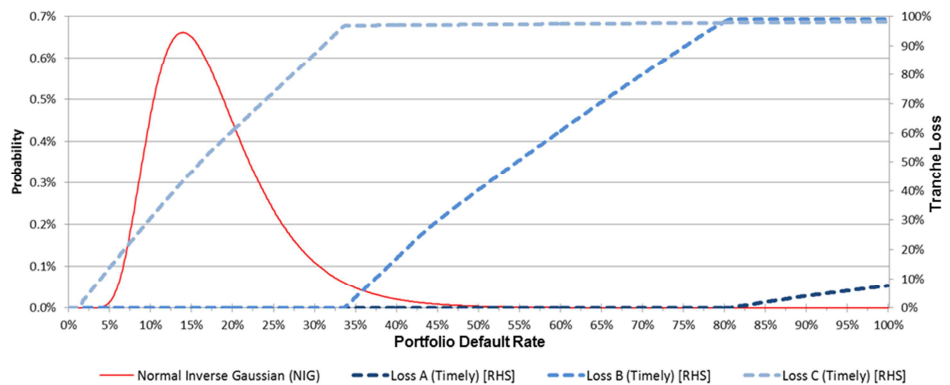


Figure 10 shows the losses of each of the tranches for all portfolio default rates. It is notable how the class C benefits from excess spread that is not trapped by the transaction until the first assets are classified as defaulted. This allows the class C to have maximum losses that are lower than the maximum losses possible for the class B. The probability-weighted loss for the class B is, of course, far smaller than for the class C.

Figure 10. CF model results for base case mean DR, CoV, RR and cure rate and 0% CPR

Timely Payment Loss Distribution (mean=17.8% CoV=40.8% RR=44.0% CR=15.0%)



RATING STABILITY

Rating Sensitivity

The strong protection mechanisms of the structure and the rating level conditionality of recovery rates assumed by Scope support the stability of the ratings.

Scope tested the model results against shifts in the modelling assumptions. The impact of these shifts is designed to illustrate the sensitivity of the modelling approach to changes in modelling assumptions. This section shows the impact on the model results of changes to the base case values of the portfolio mean default rate, the default rate CoV and the portfolio RR.

Only the largest shifts in analytical assumptions would result in one-notch migrations of model results for the class A in view of the high credit enhancement available to the class and the fast portfolio amortization.

The class B rating is more sensitive to shifts in modelling assumptions. Model results deteriorate by one rating category under high default rate shifts and combined shifts of other assumptions.

The rating of the class C is fairly insensitive towards changes in the modelling assumptions because of the already low rating level assigned and the low granularity of rating levels in the non-investment grade area.

The strong protection mechanisms of the structure support the stability of the ratings

Figure 11. Rating sensitivity to shifts in the portfolio default rate coefficient of variation

DR CoV (Sensitivity in Notches)	Class A	Class B	Class C
Base case + 25%	–	-1	–
Base case + 50%	-1	-3	–

Figure 12. Rating sensitivity to shifts in the portfolio recovery rate

RR (Sensitivity in Notches)	Class A	Class B	Class C
Base case - 25%	–	-1	-1
Base case - 50%	–	-2	-2

Figure 13. Rating sensitivity to shifts in the portfolio mean DR

DR (Sensitivity in Notches)	Class A	Class B	Class C
Base case + 25%	–	-2	-2
Base case + 50%	-1	-4	-2

Figure 14. Rating sensitivity to combined shift in the portfolio mean DR and recovery rate

Combined DR/RR (Sensitivity in Notches)	Class A	Class B	Class C
Base case + 25%, each	-1	-4	-2

Break-Even Analysis

The resilience of the class A rating is evident in the break-even default rate analysis. The class A would not experience any loss at portfolio default rates of 53% or lower, under a zero RR assumption. The class A would not experience any loss at portfolio default rates of 78% or lower under the AAA recovery rate assumption for this portfolio of 26.4% (compared to the base case RR assumption of 44%).

The class B would not experience any loss for portfolio default rates of 36.8% or lower under the A recovery rate assumption of 33.4%. This class would not have losses at portfolio default rates of 25.2% or lower, under a zero RR assumption.

The class C has its break-even point at a portfolio default rate of 1.4% under the base case recovery assumption. This break-even default rate can be seen as a measure of excess spread given the first-loss nature of this tranche.

Figure 15. Rating sensitivity to combined shift in the portfolio mean default rate and recovery rate

Break-even DR (for a cure rate of 15%)					
Portfolio CPR	0%		12%		
Portfolio RR	26.4%	0.0%	33.4%	44.0%	0.0%
Class A	77.8%	53.3%	94.6%	99.9%	55.4%
Class B	33.7%	25.7%	36.8%	41.1%	25.2%
Class C	2.1%	1.6%	1.2%	1.4%	0.8%

SOVEREIGN RISK

Sovereign risk on this transaction is not a limiting factor for the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems, due to a hypothetical exit of Spain from the Eurozone, are not material for the rating of the class A notes because of its short expected WAL.

Scope believes that the Spanish economy is improving slowly. The Bank of Spain expects GDP growth to average 2% throughout 2015. This level has traditionally been the threshold for employment creation in Spain.

This recovery will benefit the class A in the short term. The positive impact of this economic trend for the class B is less certain because the recovery is fragile and the class B expected WAL under 0% CPR is 6.8 years. The Spanish economy still faces severe structural problems that have not been addressed: i) a still dysfunctional labour market; and ii) severe public budget imbalances resulting from an inflated administration at all levels of the state (central, regional and municipal).

Under a zero RR assumption, the class A would not experience any loss under portfolio default rates of 53% or lower

Sovereign risk on this transaction is not a limiting factor for the ratings



New Issue Rating Report

FTA PYMES SANTANDER 10

Scope analysts are available to discuss all the details surrounding the rating analysis

MONITORING

Scope will monitor this transaction on the basis of the performance reports produced by the management company and any other information received from the originator. The ratings will be monitored and reviewed at least once every year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks which this transaction is exposed to and the ongoing monitoring of the transaction.

APPLIED METHODOLOGY AND DATA ADEQUACY

Scope has applied the approach described in Appendix III. Analytical Approach when assigning the ratings of this transaction. The analytical approach conforms to the general rating methodology guidelines published by Scope in *Structured Finance Instruments Methodology Guidelines*, dated July 2014, which are available on the agency's website www.scooperatings.com.

APPENDIX I. TRANSACTION COMPARISON

Figure 16. Comparison of 2014 Santander PYMES transactions

Key Features	FTA PYMES SANTANDER 8	FTA PYMES SANTANDER 9	FTA PYMES SANTANDER 10	FTA PYMES SANTANDER 10
	Preliminary	Preliminary	Preliminary	Final portfolio
Closing date	20.05.2014	20.05.2014	–	04.12.2014
Number of Loans:	23,404	3,333	50,411	44,130
Number of Borrowers:	20,779	3,176	45,303	40,088
Originator	Santander	Santander	Santander; and Banesto	Santander; and Banesto
Principal outstanding [EURm]	1,591	558	4,215	3,800
Borrower - SME	95.0%	86.3%	86.6%	86.1%
Borrower - self-employed	5.0%	13.7%	13.4%	13.9%
Average loan size	67,961	167,426	89,188	86,109
Maximum loan size	15,543,924	4,977,296	28,394,000	24,206,250
Top 1 borrower	1.0%	0.9%	0.7%	0.75%
Top 10 borrowers	6.7%	6.2%	5.6%	5.8%
Top 20 borrowers	10.6%	10.2%	9.0%	9.1%
Top region	30.7%	21.0%	23.6%	23.0%
Top 3 regions	57.0%	51.2%	53.5%	53.5%
Real Estate and Construction	12.0%	23.9%	15.7%	16.0%
Top 3 sectors	31.7%	60.5%	38.5%	39.0%
Amortizing loans	89.0%	98.8%	71.8%	71.8%
Bullet loans	11.0%	1.2%	28.2%	28.2%
Credit lines	23.3%	–	18.7%	17.9%
Mortgages	5.2%	79.8%	22.1%	22.2%
Unsecured Loans	71.4%	20.2%	59.2%	59.9%
WA asset seasoning (months)	30.2	49.7	27.3	28.7
WA asset remaining term (months)	37.8	118.1	61.0	59.6
Portfolio WAL (months)	21.8	63.4	33.6	32.8
Number of fixed rate loans	11,051	39	26,999	24,403
Number of variable rate loans	12,353	3,294	23,412	19,727
WA LTV (of mortgages)	75.6%	84.1%	64.4%	63.8%
WA interest – fix-rate loans	5.1%	4.7%	5.2%	5.1%
WA margin – variable-rate loans	4.2%	2.3%	2.8%	2.8%
Current Portfolio WA interest	4.4%	3.0%	3.8%	3.8%

APPENDIX II. VINTAGE DATA

The following figures show the granularity of the vintage data used to derive modelling assumptions and the historical performance of the most relevant segments present in the portfolio.

Coverage and Granularity

90dpd delinquency data

Figure 17. Coverage and granularity of vintage data for 90dpd delinquencies (non debt consolidation)

Non-Reconducted	UL SO NR	ML SO NR	CL SO NR	UL LO NR	ML LO NR	CL LO NR
Total volume (EURm)	6,685	3,027	7,113	42,415	15,932	37,403
Total count	127,514	10,148	182,608	55,163	8,300	201,715
Series	29	27	29	30	30	30
Series period (mo)	3	3	3	3	3	3
Period covered	2007 to 2014	2007 to 2013	2007 to 2014	2007 to 2014	2007 to 2014	2007 to 2014

Figure 18. Coverage and granularity of vintage data for 90dpd delinquencies (debt consolidation)

Reconducted	UL SO R	ML SO R	CL SO R	UL LO R	ML LO R	CL LO R
Total volume (EURm)	1,047	1,752	221	4,693	12,174	3,973
Total count	18,789	6,256	804	8,547	6,118	2,017
Series	30	30	29	28	29	29
Series period (mo)	3	3	3	3	3	3
Period covered	2007 to 2014	2007 to 2014	2007 to 2014	2007 to 2013	2007 to 2014	2007 to 2014

180dpd recovery data

Figure 19. Coverage and granularity of vintage data for 180dpd delinquency recoveries (non debt consolidation)

Non-Reconducted	UL SO NR	ML SO NR	CL SO NR	UL LO NR	ML LO NR	CL LO NR
Total volume (EURm)	438	503	321	634	2,064	617
Total count	9,406	1,426	4,084	2,571	1,765	1,649
Series	29	29	28	28	28	28
Series period (mo)	3	3	3	3	3	3
Period covered	2007 to 2014	2007 to 2013	2007 to 2014	2007 to 2014	2007 to 2014	2007 to 2014

Figure 20. Coverage and granularity of vintage data for 180dpd delinquency recoveries (debt consolidation)

Reconducted	UL SO R	ML SO R	CL SO R	UL LO R	ML LO R	CL LO R
Total volume (EURm)	369	982	30	1,692	5,266	1,291
Total count	6,917	3,385	138	3,119	3,759	834
Series	25	26	22	25	28	24
Series period (mo)	3	3	3	3	3	3
Period covered	2008 to 2014	2007 to 2014	2008 to 2014	2008 to 2013	2007 to 2014	2008 to 2014

Relevant Vintage Data

90dpd delinquency data

Figure 21. 90dpd delinquency data consolidated by year non-debt consolidation (NR) unsecured loans (UL) to larger obligors (LO)

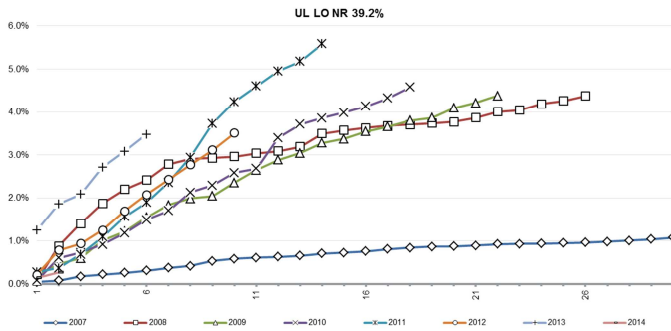


Figure 22. 90dpd delinquency data consolidated by year non-debt consolidation (NR) unsecured loans (UL) to smaller obligors (SO)

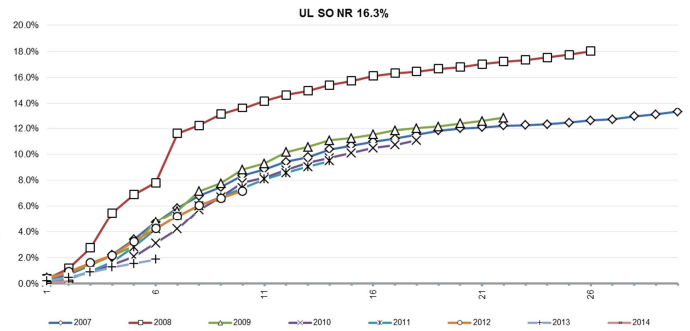


Figure 23. 90dpd delinquency data consolidated by year non-debt consolidation (NR) mortgage loans (UL) to larger obligors (SO)

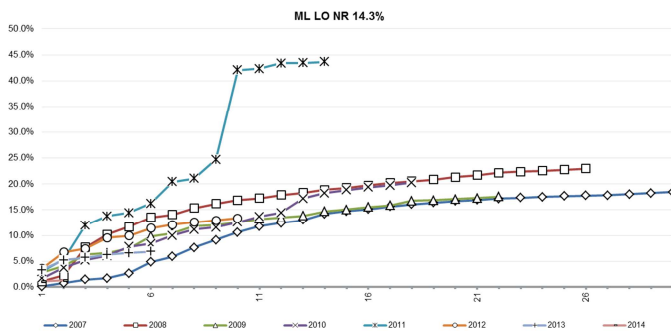
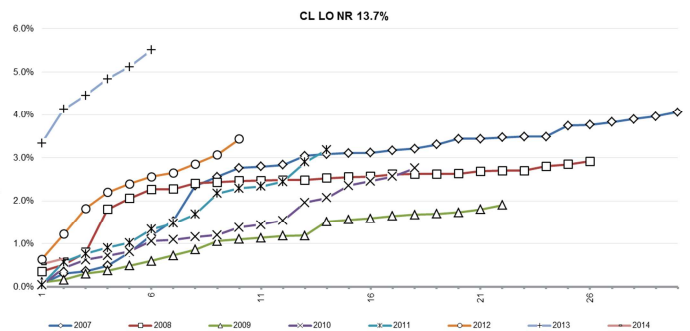
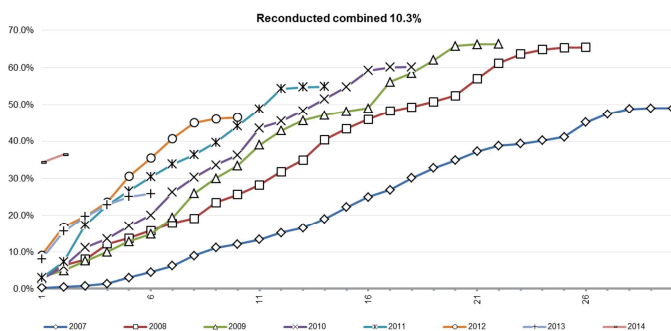


Figure 24. 90dpd delinquency data consolidated by year non-debt consolidation (NR) credit lines (CL) to larger obligors (LO)



Note: The strong 90dpd delinquency rate increases in Figure 23 are caused by low granularity of the data starting in 2011. 2011 data shows high levels of stress not present in the other series.

Figure 25. 90dpd delinquency data consolidated by year debt consolidation loans combined



180dpd recovery data

Figure 26. 180dpd delinquency recovery data consolidated by year non-debt consolidation (NR) unsecured loans (UL) to larger obligors (LO)

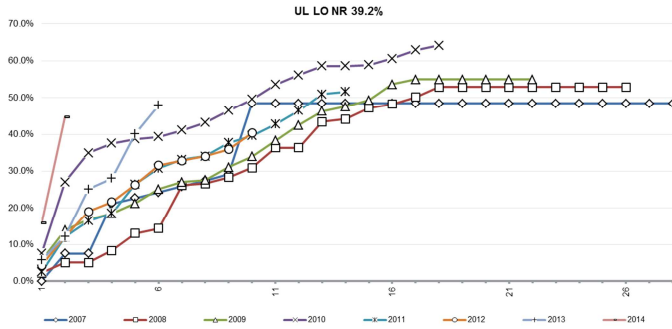


Figure 27. 180dpd delinquency recovery data consolidated by year non-debt consolidation (NR) unsecured loans (UL) to smaller obligors (SO)

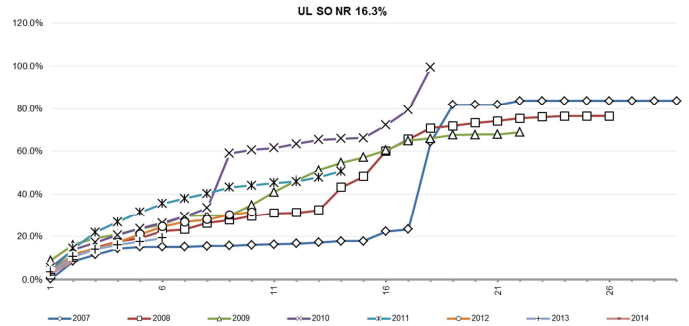


Figure 28. 180dpd delinquency recovery data consolidated by year non-debt consolidation (NR) mortgage loans (ML) to larger obligors (LO)

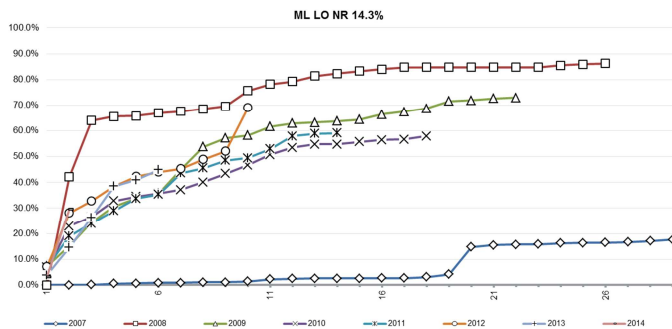


Figure 29. 180dpd delinquency recovery data consolidated by year non-debt consolidation (NR) credit lines (CL) to larger obligors (LO)

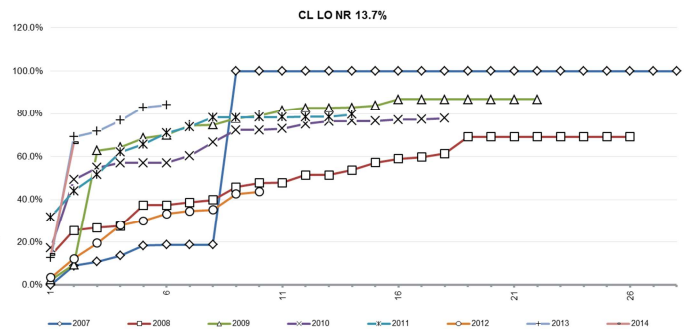
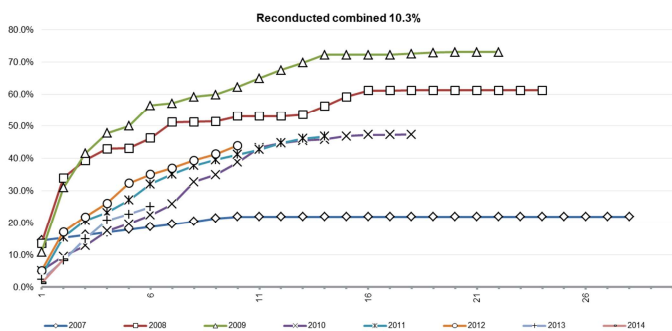


Figure 30. 180dpd delinquency recovery data consolidated by year debt consolidation loans combined



Note: the large jumps in Figure 26 through Figure 30 are explained by low granularity of 180dpd delinquency recovery data.

APPENDIX III. ANALYTICAL APPROACH

This appendix provides details that complement the methodology guidelines followed for the rating analysis. All figures contained in this appendix refer to the preliminary portfolio.

Analytical Framework

The analytical framework covers five areas of analysis: i) originator analysis; ii) asset analysis; iii) portfolio analysis; iv) structure analysis; and v) counterparty and legal analysis. All areas of the analysis are of equal importance. Scope builds an opinion based on the impact that each of the areas has in supporting the rating.

The quantitative analytical framework first analyses the portfolio of assets. The analysis considers line-by-line portfolio information and vintage data representative of the different assets present in the portfolio.

Granularity Tests

Scope has applied a granularity test to the portfolio before applying a homogeneous portfolio modelling approach. The granularity metric used is the diversity index with an order of diversity of 2. This metric is applied to obligors, industries and regions. The diversity metric chosen by Scope is the inverse of the Herfindahl Index and represents the effective number of obligors, industries or regions, respectively.

For example, the diversity index for obligors is calculated as in the following expression:

$$(1) \quad {}^2D_{obligors} = \frac{1}{\sum_{i=1}^{obligors} p_i^2}; \text{ where } p_i = \frac{Balance_{obligor\ i}}{Total\ Balance}$$

The final portfolio has obligor, industry and region diversity indices of 1,238, 14 and 8, respectively. The preliminary portfolio has obligor, industry and region diversity indices of 1,314, 14 and 8, respectively.

Asset, Portfolio and Structure Analysis

The following sections describe relevant methodological clarifications about the analytical steps performed by Scope for the quantitative credit analysis of the assets and the portfolio.

The granularity of the portfolio enabled Scope to rely on vintage analysis for deriving the base case lifetime default rate applicable to the portfolio of assets. Scope can also apply a portfolio simulation approach for the analysis of more concentrated portfolios.

Figure 31 shows a diagram view of the sources of information and analytical blocks aimed at producing the portfolio performance modelling assumptions. The processes ultimately produce: i) a portfolio base case mean default rate; ii) a portfolio base case default rate coefficient of variation¹; iii) a portfolio base case RR; iv) a portfolio amortisation profile; and v) other quantitative portfolio information like portfolio segment weights, WA rates or diversity indices.

Scope applied two adjustments to the results derived from vintage analysis. Scope adjusted the result to capture the risk of credit lines and the risk of obligor concentration. These adjustments are explained in the section Vintage Analysis below.

¹ The coefficient of variance is defined as the standard deviation divided by the mean. It is a normalized measure of standard deviation.

Figure 31. Diagram of asset analysis

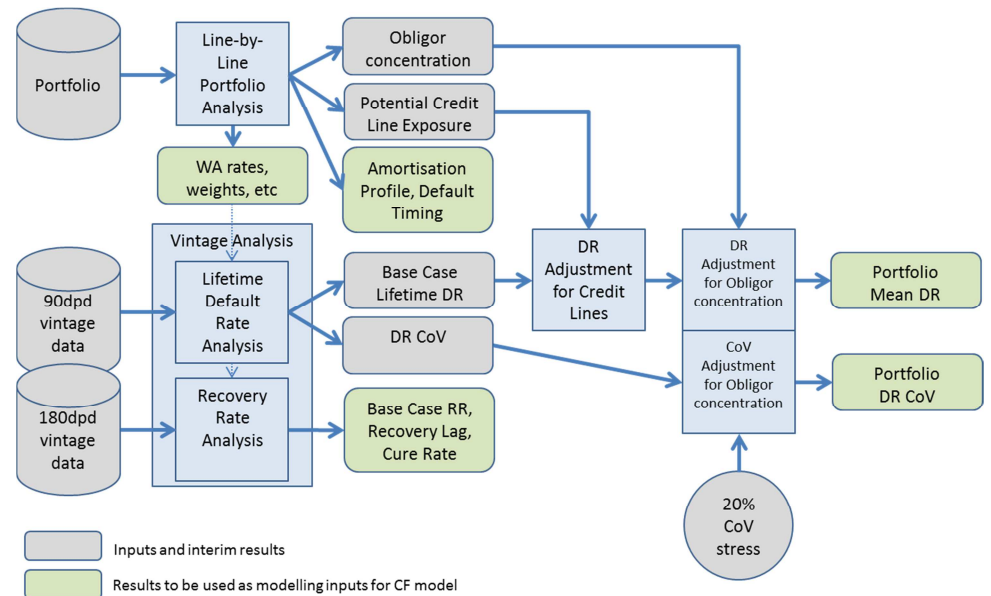
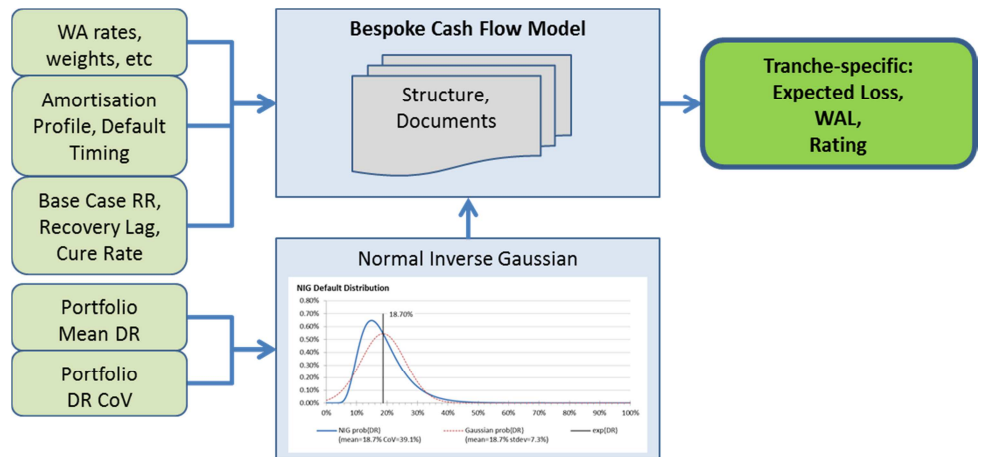


Figure 32 shows in diagram view the quantitative analysis of the structure. The analysis includes a bespoke cash flow (CF) model of the structure. The CF model implements the transaction's priority of payments, asset-specific provisioning mechanisms, amortisation rules, RF amortisation mechanism and demotion mechanism for class B interest.

The CF model does not consider the clean-up call option as it is discretionary and could only occur if all notes can be repaid in full.

Figure 32. Diagram of cash flow modelling and probability-weighted analysis

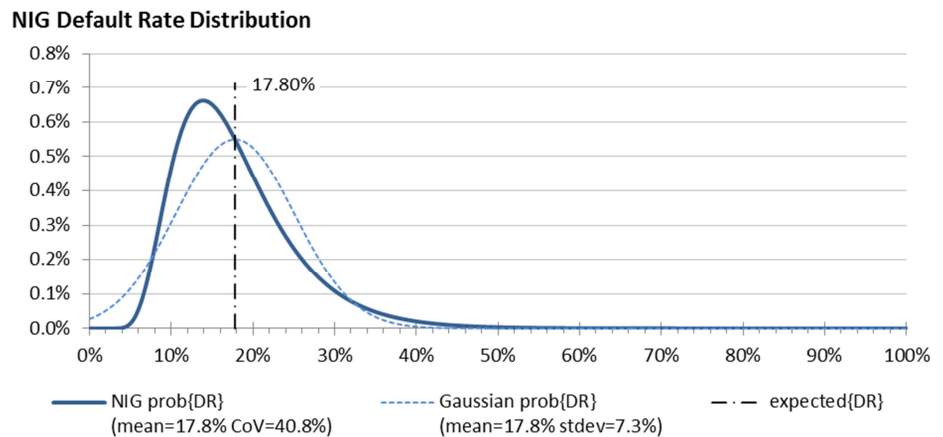


Normal Inverse Gaussian Distribution

Scope has relied on the normal inverse Gaussian (NIG) probability distribution to analyse the default rate performance of the portfolio of assets under stress since this portfolio is granular.

The NIG distribution approximates the default rate probability distribution of granular portfolios and it is convenient because it relies on just two inputs to fully determine the shape of the distribution: i) the mean; and ii) the coefficient of variation.

Figure 33. Normal inverse Gaussian default rate distribution for this transaction



Scope used this distribution to assign a probability to each portfolio default rate scenario from 0% to 100%. The cash flow model uses these probabilities to calculate the expected loss and expected WAL for each of the rated tranches.

Vintage Analysis

This section focuses on the analytical steps applied by Scope that could deviate from conventional vintage analysis. These notes do not describe vintage analysis in full detail as it is a standard tool for the securitisation industry.

The analysis is based on default rate vintage data referring to originated notional (as opposed to default frequency vintage data referring to originated number of contracts).

Scope has divided the portfolio into 12 different segments for which Santander has provided 90dpd and 180dpd delinquency and recovery vintage data sets.

Inter-Segment Correlation

Scope considered the portfolio segments of the preliminary portfolio to be perfectly correlated. This is to avoid any diversification benefit in the calculation of the coefficient of variation from the coefficients of variation of the different portfolio segments.

This assumption is supported by the granularity of the portfolio. Scope has assumed that the underlying obligors are represented in all underlying segments of the portfolio and their correlation has already been captured at the vintage data level.

Scope has derived the information about the correlation of the assets from the intra-segment default volatility. The vintage data for each particular segment of the portfolio reflects the correlation of the assets to the extent the period covered by vintage data contains sufficiently diverse scenarios.

Scope believes that the vintage data provided by Santander provides good information about asset correlation. This is because it reflects the deterioration of asset performance through the last credit crisis from the starting point of a benign period.

Adjustments for Seasoning

Scope has applied a rebasing to capture the effect of seasoning on the assets that are transferred to the portfolio. This rebasing takes the marginal contribution to the lifetime default rate of the assets in a given segment and refers it to the surviving balance of the vintage at the seasoning point. The seasoning point is the WA seasoning of the segment. The balance at the seasoning point depends on amortisations and defaults since origination to the time of the seasoning point.

Scope believes that the shape of vintage curves is not explained by an improvement of the credit quality of the underlying obligors. Instead, the shape is the result of the factors involved in its composition.

Vintage data shows the performance of representative assets since the moment of origination and reveals the average effect of seasoning. The typical curves reflect: i) the

compounding of survival rates; ii) the amortisation of the balance; iii) the expiration of contracts at maturity; and—but not for SMEs—the potential higher propensity to pay of an obligor. Additionally, the term structure of each series also captures the point in the economic cycle, which can result in more or less pronounced front-loading of default rates.

The rebasing is described by the following expression:

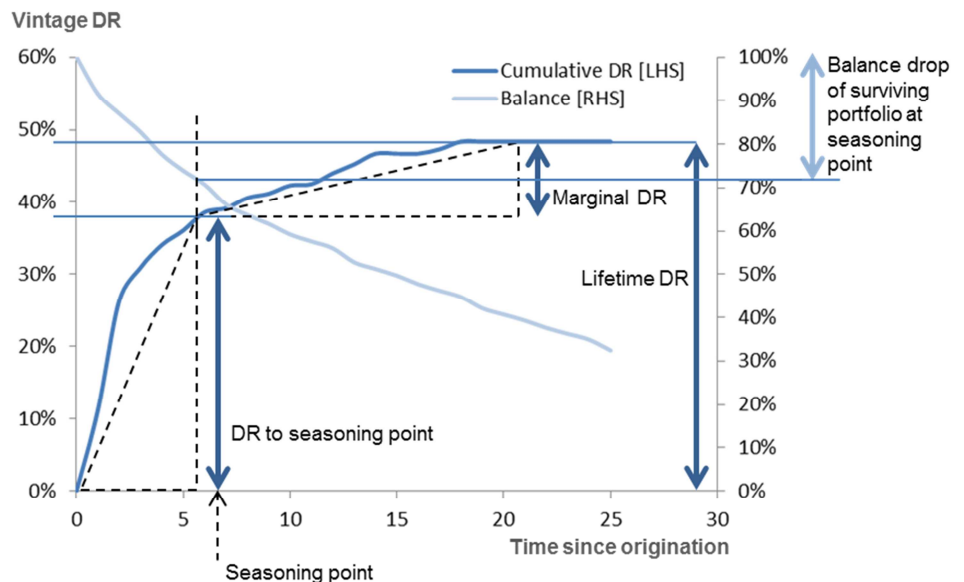
$$(2) \text{ Rebased Marginal DR} = \frac{\text{Marginal DR}}{1 - \text{DR to Seasoning Point} - \text{Performing Balance Drop}}$$

This is illustrated in Figure 34. The marginal default rate of 10% as applicable to the original balance at origination is effectively 29.4% when considered applicable to the balance of surviving assets at the seasoning point (see calculation (3)). This marginal default rate is the lifetime default rate applicable to the securitised portfolio and compares to the original lifetime default rate of 48% as of the time of origination of the assets.

$$(3) \text{ Rebased Marginal DR} = \frac{10\%}{1 - 38\% - 28\%} = 29.4\%$$

Consequently, the rebased marginal default rate can represent a percentage of the outstanding balance at the seasoning point that is larger than the original lifetime default rate as applicable to the original balance at origination.

Figure 34. Rebasing of marginal default rate from vintage analysis



Adjustments for Credit Lines

The credit lines in the portfolio can increase their balance using principal received from performing assets or the liquidity facility available to the transaction. Scope believes that the liquidity facility will not be used because of the amortisation speed of this transaction and the short lived exposure to credit lines.

This represents a revolving risk component, because principal that survived the probability of default of one obligor can still default under a credit line if the money is used to increase the balance of a credit line.

Scope has overweighed credit line segments in the portfolio to reflect the increased risk stemming from fully drawn credit lines. The results of vintage analysis have been stressed by considering final portfolio segment weights that, overall, make up a total sum of segment weights that is greater than 100%.

This over-weighting results in an increase of the mean default rate for the portfolio.

The rationale for this approach is justified because: i) draw-down of undrawn commitment increases the implicit portfolio balance; ii) draw-downs will mostly be serviced from principal collections; iii) the liquidity facility repayments are super-senior in the structure and set-off in the treasury account occurs before and outside the priority of payments.

Adjustment for credit lines

	Before	After
Mean DR	16.3%	16.8%
DR CoV	39.9%	39.9%

The evolution of the segments weights within the portfolio is determined by the amortisation profile of the different product segments. Figure 35 shows the stressed weights of the different credit line segments present in the portfolio, as allowed by the worst possible evolution making use of collected principal from performing assets. The sum of stressed weights adds up to 125.4% of the portfolio balance at closing.

The final portfolio segment weights are very similar to those of the preliminary portfolio. However, the sum of the stressed weights only adds up to 103.5%, because Santander did not include as many undrawn credit lines as in the preliminary portfolio.

Figure 35. Portfolio segment weights relative to the preliminary portfolio balance

Segment Name	Product Type	Enterprise Size	Note	Weight	Stressed Weight
PresEstSinGar	Unsecured loan	Smaller		16.3%	16.3%
PresEstGar	Mortgage loan	Smaller		2.7%	2.7%
CredEst	Credit Line	Smaller		3.4%	6.5%
PresCarSinGar	Unsecured loan	Larger		39.2%	39.2%
PresCarGar	Mortgage loan	Larger		14.3%	14.3%
CredCar	Credit Line	Larger		13.7%	35.7%
R_PresEstSinGar	Unsecured loan	Smaller	Debt consolidation	1.6%	1.6%
R_PresEstGar	Mortgage loan	Smaller	Debt consolidation	0.6%	0.6%
R_CredEst	Credit Line	Smaller	Debt consolidation	0.0%	0.1%
R_PresCarSinGar	Unsecured loan	Larger	Debt consolidation	2.0%	2.0%
R_PresCarGar	Mortgage loan	Larger	Debt consolidation	4.5%	4.5%
R_CredCar	Credit Line	Larger	Debt consolidation	1.5%	1.9%
Portfolio total				100.0%	125.4%

The adjusted portfolio mean default rate that results is 16.8%, up from 16.3% before the adjustment for credit lines.

Additionally, the agency doubled the intra-segment CoV of credit lines when deriving the portfolio CoV before obligor concentration adjustments. This CoV stress addresses the higher tail risk of credit lines from refinancing risk and the exposure to the originator to provide such refinancing.

Obligor Concentration Adjustments

The adjustment for obligor concentration has addressed: i) the risk that top obligors are of below-average credit quality; and ii) the risk that top obligors might default with a higher correlation under tail-risk scenarios.

Scope applied adjustments to the combined exposure of obligors, which each represent more than 50bp of the initial portfolio balance. The preliminary portfolio has ten concentrated obligors, which amount to 5.6% of the preliminary portfolio balance.

Eight of these obligors are of better credit quality than the portfolio average, based on Santander's internal probability of default (PD). The other two exhibit a 100% PD according to the originator despite being currently performing.

The final base case mean default rate assumption for the portfolio after obligor concentration adjustments is 17.8%. Scope assumes a lifetime default rate of 100% for the two obligors with a PD of 100% and a portfolio average lifetime default rate for the other concentrated obligors.

Scope has addressed the risk of higher correlation from obligor concentration by applying a 20% stress to the CoV of this exposure. The resulting CoV is 40.8% (compared to 39.9% before this obligor concentration adjustment).

The impact of this adjustment for the portfolio is limited because obligor concentration is low in the preliminary portfolio. Scope assessed the concentrated obligor exposure in the final portfolio accordingly and replicated the analytical steps described.

Cash Flow Model

Scope has modelled the performance of each of the rated tranches under all possible portfolio default rate scenarios using a bespoke CF tool. Each scenario is assigned the probability that corresponds to the default rate as per the NIG probability distribution built with the base case mean default rate and base case CoV.

Adjustment for Obligor Concentration

	Before	After
Mean DR	16.8%	17.8%
DR CoV	39.9%	40.8%

Expected Loss and Expected WAL

Scope has used the CF tool to produce a probability weighted average loss, the *expected* loss (EL), and a probability weighted WAL, the *expected* WAL, for each of the rated tranches. Notice that the losses result from the application of rating-scenario conditional recovery assumptions. See Rating-Conditional Recovery Assumptions.

Scope then matches the EL and the expected WAL pair on the idealised EL table to determine the rating that the model would produce for a given instrument.

The default rate probability distribution is first sliced in N default rate scenarios. Then the probabilities are used to weight the losses obtained in the CF tool for each rated tranche under each and every default rate scenario from 0% (i.e. no portfolio defaults) to 100% (i.e. the entire portfolio defaults). This is shown in expression (1).

The loss of a tranche under a given default rate scenario i is the difference between the par value of the tranche and the present value of all principal and interest cash flows for the investor discounted at the rate of the tranche being considered—as seen in expressions (3) and (5).

Similarly, the probabilities are used to weight the WAL resulting in the CF tool for each rated tranche under each and every default rate scenario from 0% to 100%. This is shown in expression (2). For consistency, the WAL of a given default rate scenario i is derived considering all principal and interest cash flows for the investor.

$$(1) EL = \sum_{i=1}^N \text{prob}\{\text{scenario}_i\} \times L_i$$

$$(2) WAL = \sum_{i=1}^N \text{prob}\{\text{scenario}_i\} \times WAL_i$$

$$(3) L_i = \frac{\text{par} - \sum_{t=1}^T PV(CF_t^i)}{\text{par}}$$

$$(4) WAL_i = \frac{\sum_{t=1}^T t \times CF_t^i}{\sum_{t=1}^T CF_t^i}$$

$$(5) CF_t^i = (\text{Principal } CF_t^i + \text{Interest } CF_t^i)$$

Rating-Conditional Recovery Assumptions

Scope modelled the portfolio with fixed recovery rate assumptions subject to conditional stress. Scope derived an average historical recovery rate from vintage data analysis and applied haircuts of different magnitudes to this rate as a function of the target rating of the tranche.

The rating-conditional of recovery rates is a mechanism designed to produce rating stability. It ensures that higher ratings are subject to higher recovery rate stresses.

The table below provides the indicative stress levels Scope has taken into account per rating category for rating this transaction.

Rating Stress	Tiering Factor	Haircut to Base Case	Rating-Level Conditional Recovery Rate
AAA	60%	40%	26.4%
AA	68%	32%	29.9%
A	76%	24%	33.4%
BBB	84%	16%	37.0%
BB	92%	8%	40.5%
B (base case)	100%	0%	44.0%

APPENDIX IV. REGULATORY AND LEGAL DISCLOSURES

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Chief Executive Officer: Torsten Hinrichs.

The rating analysis has been prepared by Carlos Terré, Lead Analyst. Guillaume Jolivet, Committee Chair, is the analyst responsible for approving the rating.

Rating history

The rating concerns newly-issued financial instruments, which were evaluated for the first time by Scope Ratings AG. Scope had already performed preliminary ratings for the same rated instruments in accordance with Regulation (EC) No 1060/2009 on rating agencies, as amended by Regulations (EU) No 513/2011 and (EU) No 462/2013.

Instrument ISIN	Date	Rating action	Rating
ES0305054001	26.11.2014	new	(P) AA ⁺ _{SF}
ES0305054019	26.11.2014	new	(P) BBB ⁺ _{SF}
ES0305054027	26.11.2014	new	(P) CC _{SF}

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment, represented by the management company.

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of Information for the rating

Offering circular and contracts; operational review visit with the originator; delinquency and recovery vintage data; loan-by-loan final portfolio information; legal opinion; and portfolio audit report.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating

outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, use of confidential information, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for this rating is "Rating Methodology Guidelines - Structured Finance Instruments", dated July 2014, available on www.scooperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerrep.esma.europa.eu/cerrep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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