RMBS

FTA RMBS Santander 2

Closing Date
14 June 2014

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Ratings

Debt	Current Balance €	Size[1]	Credit Enhancement	Investor Coupon (p.a.)	DBRS Rating	DBRS Action
Series A	2,520,000,000	84.00%	31.00%[2]	3m Euribor + 0.3%	A (sf)	Provisional Rating - Finalised
Series B	480,000,000	16.00%	15.00%[3]	3m Euribor +0.4%	B (sf)	Provisional Rating - Finalised
Series C[4]	450,000,000			3m Euribor + 0.5% + extraordinary fee[5]	C (sf)	Provisional Rating - Finalised
Series A and B Total Initial Balance	3,100,000,000	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

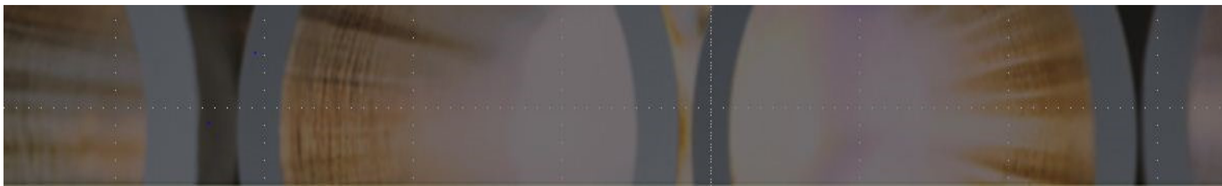
Transaction Summary

RMBS Santander 2, FTA ('Issuer') is a securitisation of residential mortgage loans originated by Banco Santander, S.A. ('Santander'). The Issuer has been established as a securitisation fund under Spanish securitisation law. At closing, the portfolio will be sold to the Issuer with the proceeds of the Series A and Series B notes issuance financing the purchase of the portfolio. The Series C notes issuance will fund the transaction's Reserve Fund. The transaction is managed Santander de Titulizaciones, SGFT ('the Management Company'). The portfolio will be serviced by Santander.

The Series A notes benefit from 31.00% credit enhancement that consists of the subordinated Series B notes and the Reserve Fund. The Series B notes benefit from 15.00% credit enhancement consisting solely of the Reserve Fund. The Reserve Fund will be fully funded at transaction closing via the subordinated Series C notes. The Series C notes will be paid down as the Reserve Fund amortises. 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.

Notable Features:

- 20.9% of the mortgage loans within the portfolio (as of the cut of date of 23/06/2014) have received some form of modification since loan origination. The main forms of modifications were payment grace periods and maturity extension. DBRS analysis has assessed the potential risk of these borrowers having a lower credit quality through the application of additional stresses.
- DBRS was provided with data regarding the last missed payment of borrowers within the securitised portfolio. DBRS calculates 22.0% of borrowers within the pool had a missed payment within the last year ago, however these borrowers have not missed three or more monthly consecutive payments.
- The Series A notes benefit from full sequential amortisation. The Series B notes will not begin to amortise until the Series A notes have been redeemed in full.



Strengths

- The mortgage portfolio is well seasoned at 6.92 years. The level of seasoning is considered positive as historical data indicates the probability of borrower default is higher during the first 5 years of the mortgage loan.

- Portfolio is diversified (20,881 loans) and geographically distributed among the largest autonomous communities in Spain. The top three regions measured in outstanding portfolio balance are Madrid (21.75%), Andalucía (17.06%) and Cataluña (16.87%). The diversification of geographic concentration is viewed as positive as the transaction has limited exposure to the house price fluctuations and overall economic performance of 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.

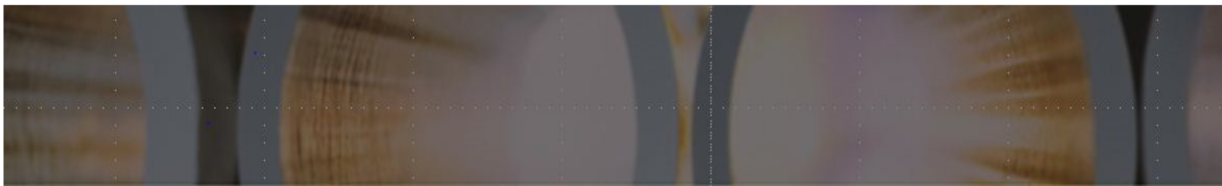
Challenges and Mitigating Factors

- DBRS considers 24.6% of the mortgage pool as higher risk borrowers, who had a loan modification or missed a payment in the past 24 months. The main forms of loan modifications applied are payment grace period and/or maturity extensions.
  Mitigant: DBRS views modified loans as representing a higher element of risk, as the loan modifications and missed payments could potentially be an indicator of declining borrower credit quality. With the current low interest rate environment in Europe, borrowers who have recently exhibited payment stress are more susceptible to payments shock. To factor this risk, DBRS applied additional stresses to its probability of default analysis.

- 3.32% of loans were granted to foreign borrowers. Foreign borrowers generally tend to have a limited credit history and have an increased risk they will return to their nation at times of economic stress.
  Mitigant: DBRS applied additional stresses to its probability of default analysis for loans granted to foreign borrower.

- 15.44% of loans have a grace period that ends between 2014 and 2019. Consequently there is the potential risk that (i) the current borrower's performance does not fully reflect the ability or willingness of the borrower to pay or (ii) the borrower is not de-levering at the same pace compared to a fully amortising loan without this features and hence, in both cases defaults or losses could be higher.
- **Mitigant:** (i) DBRS has treated loans which have grace periods as Short Term Interest Only ('IO') loans and (ii) loans with a grace period have been included within the portfolio of the higher risk borrowers and are further stressed.

- According to the Fund's permitted variations, Santander will be able to grant borrowers within the securitised portfolio certain loan modifications without the consent of the Management Company. The main forms of loan modifications take the form of interest rate renegotiations and maturity extensions. As a result, there is the potential that the interest and principal generated from the portfolio may not be enough to meet payments due on the rated notes.
  Mitigant: (i) Normally, in its cash flow analysis DBRS would stress the weighted average spread generated by the mortgage portfolio (here 0.6%) to factor in potential margin reductions.



However in the current portfolio the weighted average margin allowed under the permitted variations is 1% which is above the portfolio's weighted average. In addition DBRS extended the maturity extension for 10% of the mortgage loans.

- Macroeconomic conditions in Spain remain weak, with uncertainty in financial markets and unemployment 25.93% as of Q1 2014 (INE data). Austerity measures implemented by the government of Spain have negatively impacted borrowers and are consequently having an adverse effect on mortgage credit performance.
  Mitigant: (i) Series A and Series B notes are able to withstand stressed cash flow assumptions (defaults and recovery) for the respective rating scenarios; (ii) the Reserve Fund provides credit support to Series A and Series B; and, (iii) DBRS applied a sovereign stress in its portfolio default analysis.

- Property values continued to decrease entering 2014. This trend is not expected to reverse in the medium term and is expected to negatively impact recovery rates on foreclosed properties. DBRS calculated Spanish house prices have declined by 37.05% from the peak to date (INE data as of Q4 2013). Utilising TINSA data, DBRS calculates a peak to date Spanish house prince decline of 40.05% (as of February 2014).
  Mitigant: DBRS stresses Spanish market value decline to reflect its outlook of the Spanish house market.

- The mortgage loans are linked to 12m Euribor while the Rated Notes are linked to 3m Euribor. As such, basis risk exists within the transaction. The Issuer has not entered into hedge agreements to mitigate this risk.
  Mitigant: (i) Basis risk within the transaction is limited. A majority of the portfolio pays 12m Euribor, pays on a monthly basis and resets annually[1]. Historically, the 12m Euribor rate has been significantly higher than the 3m Euribor rate. (ii) The transaction cash flows have been stressed using standard DBRS interest rate assumptions. (iii) The Reserve Fund is also available to help mitigate the potential basis 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.

[1] 0.33% of the pool has a fixed index rate and two mortgage loans have a three and a six month Euribor reference rate. DBRS took this into consideration into its cash flow assessment. Due to the size of the exposure the impact was deemed insignificant.

Sovereign Assessment

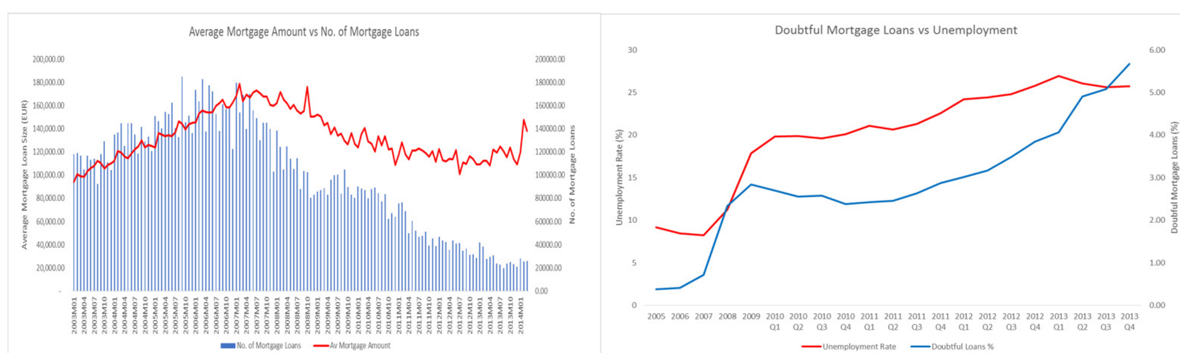
As of 11th of April 2014, DBRS rates the Kingdom of Spain A (low) with a Negative Trend. For more information, please refer to the most recent published press release by DBRS on www.dbrs.com.

Sector Analysis

The macroeconomic situation in Spain remains weak with unemployment at high levels and borrowers' delinquency rates steadily rising. The austerity measures implemented by the government of Spain also contributed to negatively affect borrowers' ability to service mortgage payments which has led to an increase in delinquencies and defaults.

Mortgage Market

The Bank of Spain doubtful mortgages rate for financial institutions reached its initial peak in 2009 at 2.84%, thereafter doubtful mortgages declined to 2.38% in Q4 2010. Since then doubtful mortgages have steadily increased to reach a new peak of 5.67% as of Q4 2013 (Bank of Spain, Statistical Bulletin - Credit Institution Lending). This upward trend is not expected to change in the medium term as the unemployment rate is expected to remain at high levels in the short to medium term. Although the unemployment rate has fallen by 1.01% on an annual basis (26.94%, Q1 2013, INE), it has risen consecutively for two quarters from Q3 2013. The unemployment rate as of Q1 2014 stands at 25.93% (INE, Q1 2014). The overall level of doubtful mortgage loans appears to be correlated to unemployment albeit the gap between arrears and the level of unemployment is larger than might be expected.



Source: Instituto Nacional de Estadistica (INE) and Bank of Spain

Housing demand and housing credit supply remains constrained. The number of mortgages originated increased from the figure of 19,646 for mortgages originated in August 2013 (average amount = EUR 120,900.95), to 25,938 mortgage loans as of March 2014 (average amount = EUR 137,844.48). This amount is significantly lower when compared to the same month in 2007 where 168,947 mortgages were originated with an average loan amount of EUR 163,576.78. Although, average mortgage amount has decreased since the peak of the market in 2007, the graph above indicates a spike in the value over the course of the end of 2013 and early 2014.

The current performance trends and future expectations are also linked to the low interest rate environment. This has allowed mortgage borrowers in Spain to remain current. The low interest rate environment is particularly relevant in Spain as mortgages are generally variable rate. Spanish mortgage loans are typically referenced to 3m, 6m or 12m Euribor/Mibor. Spanish borrowers have benefited from approximately 44.7% decrease on their monthly instalments since Q3 2008 (assuming: Mortgage loan= EUR 125,000, Term=25 years, 12m Euribor = 5.37% in Q3 2008 versus 0.57% in Q2 2014).

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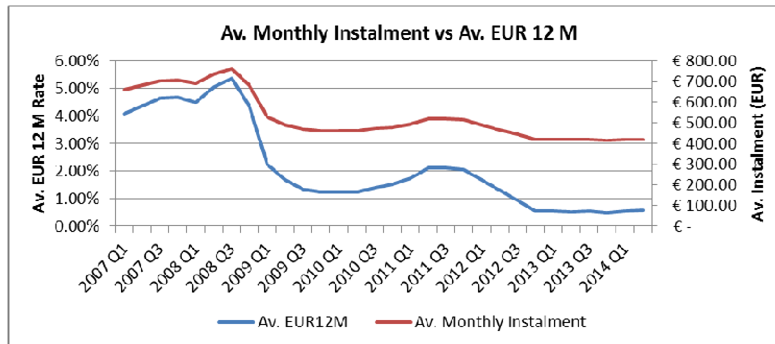
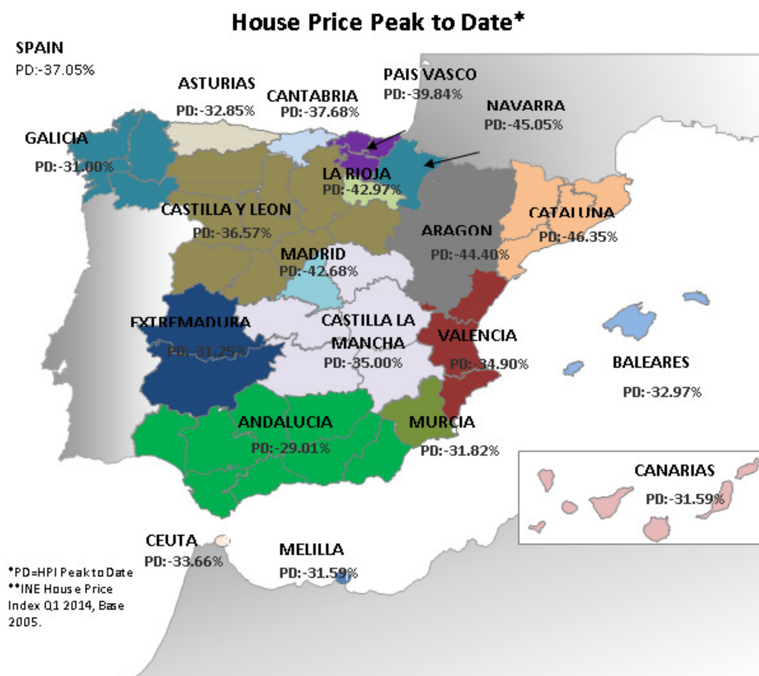


Housing Market

Following the burst of the housing bubble in Spain, house prices have declined by 37.05% from the peak value, Q4 2013. Although the rate at which house prices are declining has slowed, the Spanish housing market has not bottomed out as the house price decline of 37.05% is the highest observed over the course of 2013. It should be noted that house price declines are not homogeneous across Spain. Madrid and the north east autonomous communities are regions where house price declines, from peak values, are above the national level.



The total number of properties in Spain is 25.21[2] 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.

[2] 2011 Census of population and properties published by INE on April 2013

DBRS

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Transaction Parties and Relevant Dates

Transaction Parties

Type	Name	Rating
Issuer	FTA RMBS Santander 2	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	14 July 2014
First Interest Payment Date	18 November 2014
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 2057

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.

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 100m customers worldwide.

As of end-June 2013, Santander's mortgage loan portfolio totalled €81.4bn 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.

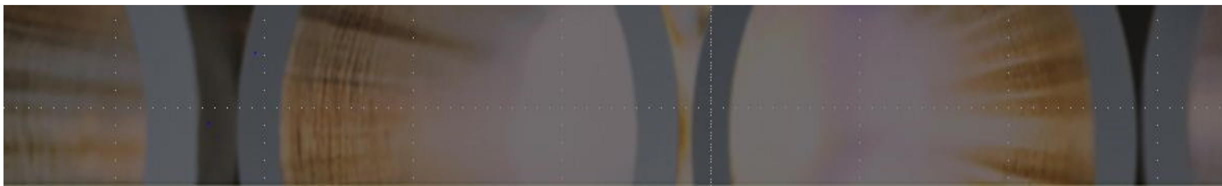
Santander's senior unsecured long-term debt rating as at August 2013 is 'A' with a negative trend. More information on Santander's ratings can be found at www.dbrs.com.

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 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.

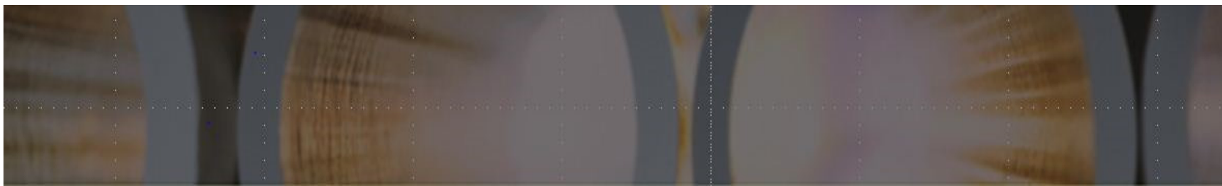
Valuations

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.

Summary strengths

- All loan activity and applications are sourced internally with the use of brokers only as marketing channel.



- 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: 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 setting 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 Santander.

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 to 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;

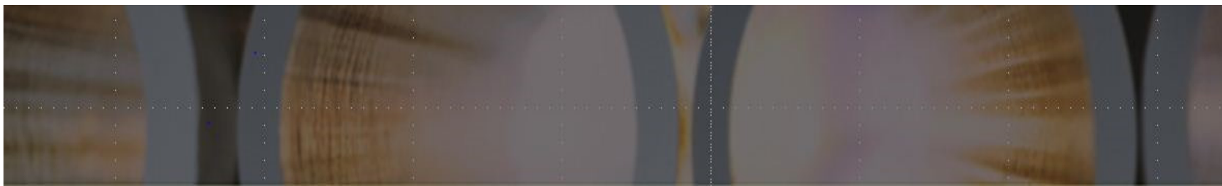
- Variations in the rating levels;

- 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.



DBRS

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. Once legal proceedings are initiated generally 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 collections, Santander may restructure loans by way of a payment holiday. Currently the bank has €3 billion 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. Furthermore, in a potential scenario in which Santander's long term rating should fall below BBB (high), Santander would need to i) find a replacement servicer with a DBRS long term rating at or above BBB (high), (ii) appoint a back-up servicer or (iii) establish a commingling reserve according to DBRS criteria.

Collateral Analysis Details

Data Quality

DBRS was provided with historical static vintage delinquency and recovery data. The data represents the performance of the Santander mortgage book originated with an original LTV of 80% and below. The historical data ranges from Q1 2005 to Q4 2013 and is segregated by branch and broker originated 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

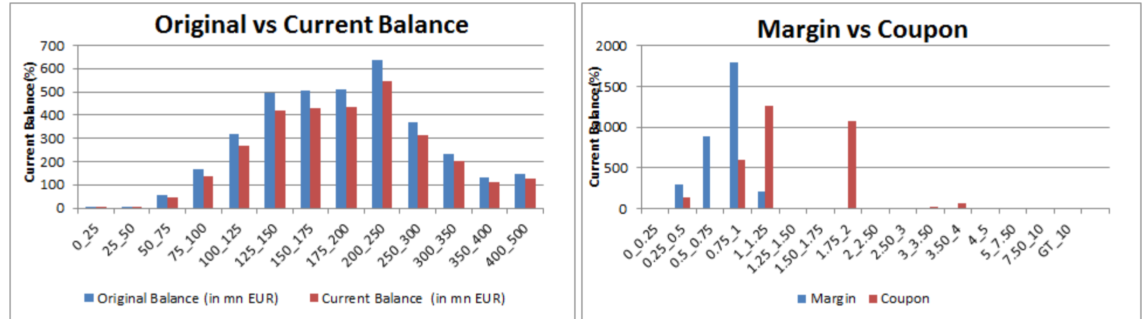
Summary characteristics and stratifications for the preliminary portfolio as of 12 May 2014 are listed below. At closing the collateral balance equates to the Rated Series of notes balance:

Summary*	
Number of Loans	20,881
Number of Borrowers	20,550
Original Balance (million)	3,752
Current Balance (million)	3,188
Average Loan Size	152,695
Largest Loan	1,732,305
Smallest Loan	5,061
Largest Property	1,905,988
Smallest Property	5,000
WA Original Term (years)	31.18
WA Remaining Term (years)	24.35
WA Seasoning (years)	6.85
WAC	1.20%
WAS	0.58%
WA Current LTV	67.90%
WA Original LTV	79.37%
WA Indexed LTV (INE Q4 2013)	103.13%

***DBRS calculated figures. All values listed are in Euros unless otherwise noted.**

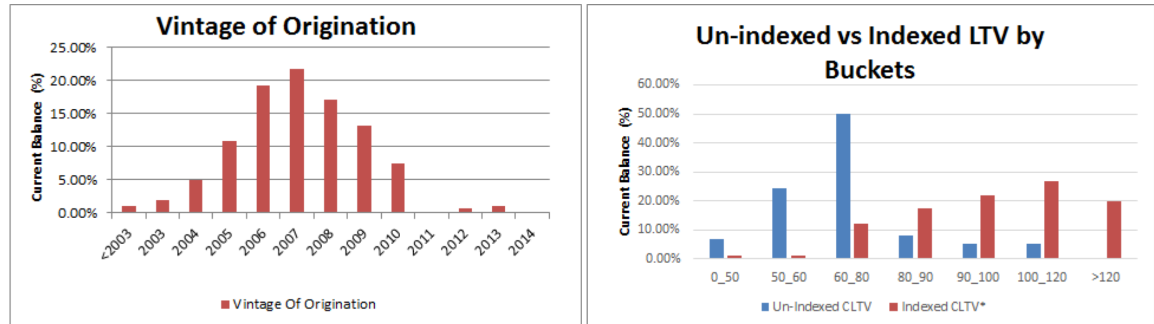
Distribution by balance, margin and coupon

The weighted average spread (WAS) of the portfolio stands at 0.58% over 12m Euribor and 1.20% the weighted average coupon (WAC). The pool is very granular with 20,881 loans and an average loan size of € 152,695.



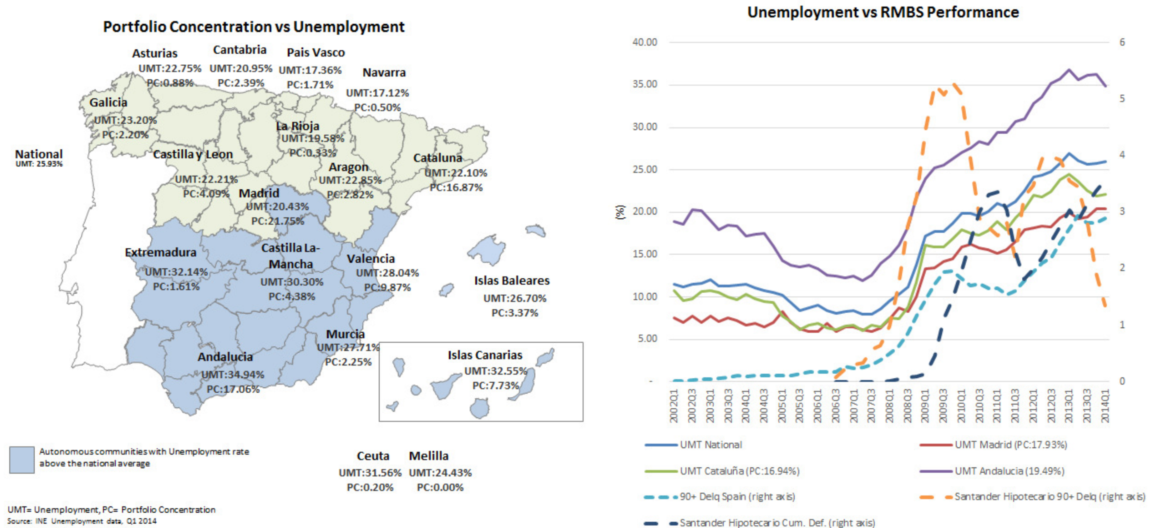
Distribution by vintage of origination and current/indexed LTV

The portfolio is well seasoned at 6.92 years. 39.82% of loans were originated post crisis between 2008 and 2014. The weighted average un-indexed CLTV stands at 67.90% while the indexed CLTV at 103.13% (INE Q4 2013). Loans with an indexed CLTV higher than 100% are 46.72% of the portfolio. DBRS stressed house price market value declines to reflect its outlook on the Spanish housing market.



Geographical Distribution and Unemployment

The portfolio is geographically distributed throughout the main autonomous communities of Spain. The main geographical distributions include Madrid (21.75%), Andalucía (17.06%) and Cataluña (16.87%).

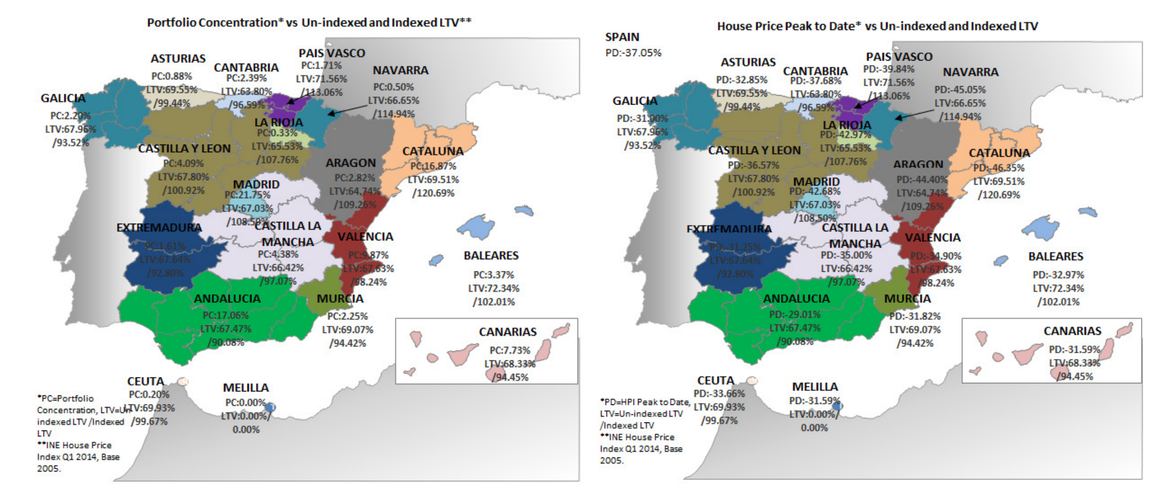


Source: INE, Intex. The exposure to Ceuta y Melilla has been aggregated into the number represented by Ceuta.

Although the unemployment rate in Spain has slightly decreased from its peak in Q1 2013 (26.69%) to 25.93% as of Q1 2014 (INE Index), on a quarterly basis the unemployment rate has increased. Autonomous communities such as Cataluña and Madrid - representing a total of 34.87% of the loan portfolio - have an unemployment rate below the national average at 22.10% and 17.93% respectively (Q1 2014, INE). The autonomous community of Andalucía has experienced the highest unemployment rate in Spain at 34.94% (Q1 2014, INE). The graph below highlights the positive correlation between residential mortgage performance and unemployment rates.

LTV analysis by autonomous communities

DBRS calculates the weighted average un-indexed CLTV of the portfolio as 67.90%. Considering the most concentrated autonomous regions in the mortgage portfolio, Madrid (21.75%), Andalucía (17.06%) and Cataluña (16.87%), only Andalucía has experienced peak to date decline (-29.01%) lower than the national average observed for Spain (-37.05%).



The magnitude of the peak to date house price declines for the northern regions has generally been higher due to housing supply outstripping demand. Examples of such autonomous regions are Aragon, Navarra and La Rioja. The portfolio concentration for the regions is 2.42%, 0.71% and 0.45% respectively. Coastal regions and densely populated regions experienced a smaller peak to date decline.

Regions	Current Balance(mn)	% Current Balance	Un-Indexed CLTV	Indexed CLTV
Madrid	693.38	21.75%	67.03%	108.50%
Andalucía	544.02	17.06%	67.47%	90.08%
Cataluña	537.83	16.87%	69.51%	120.69%
Valencia	314.77	9.87%	67.63%	98.24%
Islas Canarias	246.31	7.73%	68.33%	94.45%
Castilla-La Mancha	139.80	4.38%	66.42%	97.07%
Castilla y León	130.33	4.09%	67.80%	100.92%
Islas Baleares	107.50	3.37%	72.34%	102.01%
Aragón	90.06	2.82%	64.74%	109.26%
Cantabria	76.14	2.39%	63.80%	96.59%
Murcia	71.78	2.25%	69.07%	94.42%
Galicia	70.11	2.20%	67.96%	93.52%
País Vasco	54.56	1.71%	71.56%	113.06%
Extremadura	51.20	1.61%	67.64%	92.80%
Asturias	28.04	0.88%	69.55%	99.44%
Navarra	15.80	0.50%	66.65%	114.94%
La Rioja	10.49	0.33%	65.53%	107.76%
Ceuta	6.32	0.20%	69.93%	99.67%
Total	**3,188.43**	**100.00%**	**67.90%**	**103.13%**

Source: INE Q4 2013

Origination Channel

The portfolio consists primarily of loans originated via Santander branches or brokers. Santander branch originated loans represent 97.66% of the mortgage portfolio. The remaining 2.34% 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.

Foreign Nationals

3.32% 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 have an increased risk they will return to their nation at times of economic stress.

Loan Modifications and Payment History

DBRS was provided with loan level information on loans that have undergone some form of modification since origination, approximately 24.63% of the portfolio at closing. The loan modifications have had a positive effect on borrowers' ability to regularly service mortgage payments, those borrowers who have been granted grace periods or maturity extensions have not entered into three months arrears. It is not always the case that a modification has been applied to a borrower with a poor payment history. In some cases the loan modification is a pre-emptive measure, for example a borrower's economic situation may

change and loan modification will assist the borrower to continue to service the regular payments and remain performing. Taking into consideration the low interest rate environment, DBRS considers these loans to be of a higher risk due to the uncertainty of borrowers being able to continue paying their instalments particularly in an environment where interest rate begin to rise.

DBRS was provided with information regarding the last missed payment for borrowers within the mortgage portfolio. DBRS understands a borrower who missed a payment has never entered into three months of arrears. The data provided does not include information about the type of missed payment or definitive history of missed payments. DBRS identified 52.85% of the total portfolio flagged with a missed payment. Borrowers with modified loans contributed 15.48% to this number with the rest stemming from borrowers without a loan modification (37.37%).

DBRS would consider borrowers who have not had a modification to their loan, but missed a mortgage payment within the last year also as riskier borrowers. Such borrowers represent 13.39% of the portfolio.

Without double counting, DBRS has stressed the probability of default of approximately 24.63% of the loans in the portfolio that had a modification or missed payment. This proportion is comprised of:

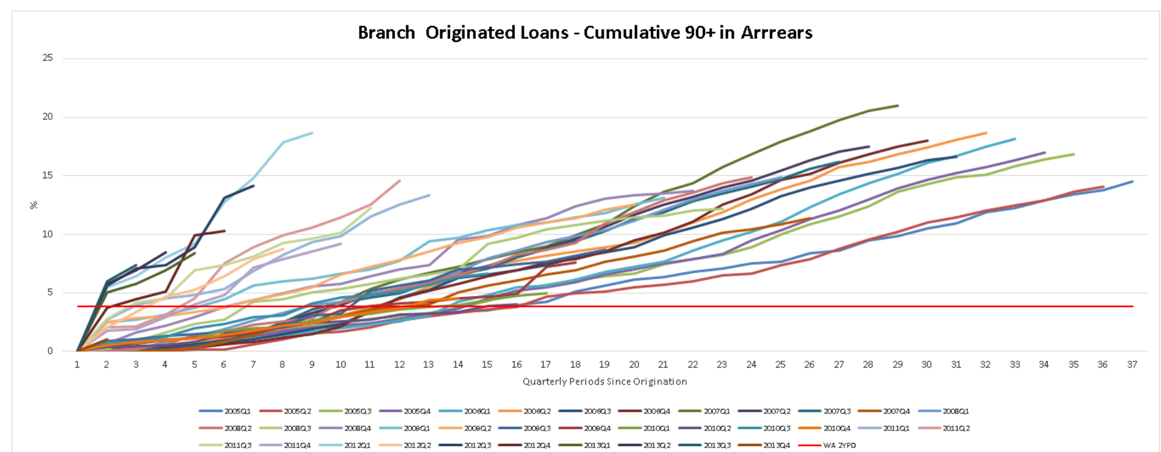
- Loans which have undergone modification within the last 24 months and had a missed payment.
- Loans which have not been modified and had a missed payment within the last 12 months.

Historical Performance

DBRS received historical static delinquency and recovery data. The data represents performance on the mortgage book of Santander originated with an original LTV of 80% and below. The historical data ranges from Q1 2005 and Q4 2013 and is distinguished between branch and broker originations.

Cumulative 90+ Delinquencies

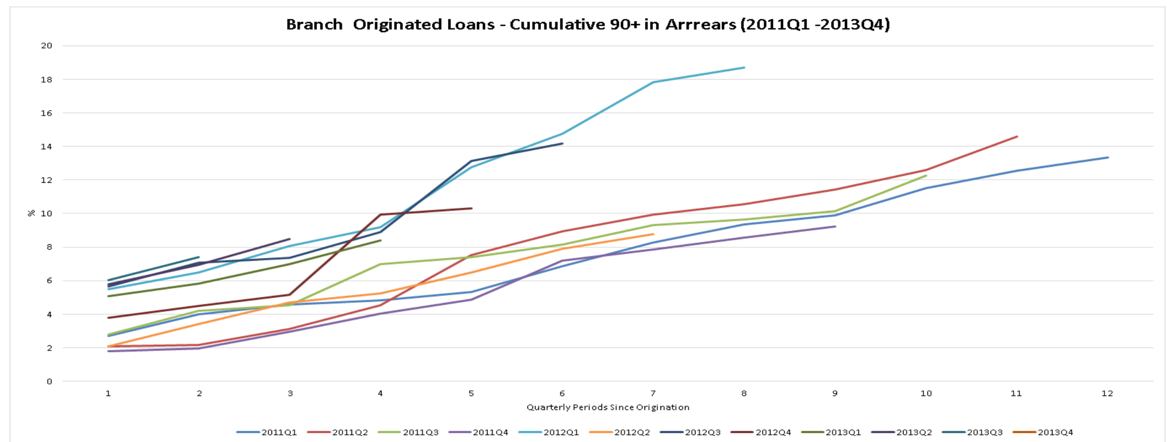
Branch Originated Loans



Recently originated vintages experienced spikes in arrears up to 18.69% (as of Q1 2012). It is DBRS understanding that this is due to the accounting practices adopted; a loan that is restructured is classified as re-

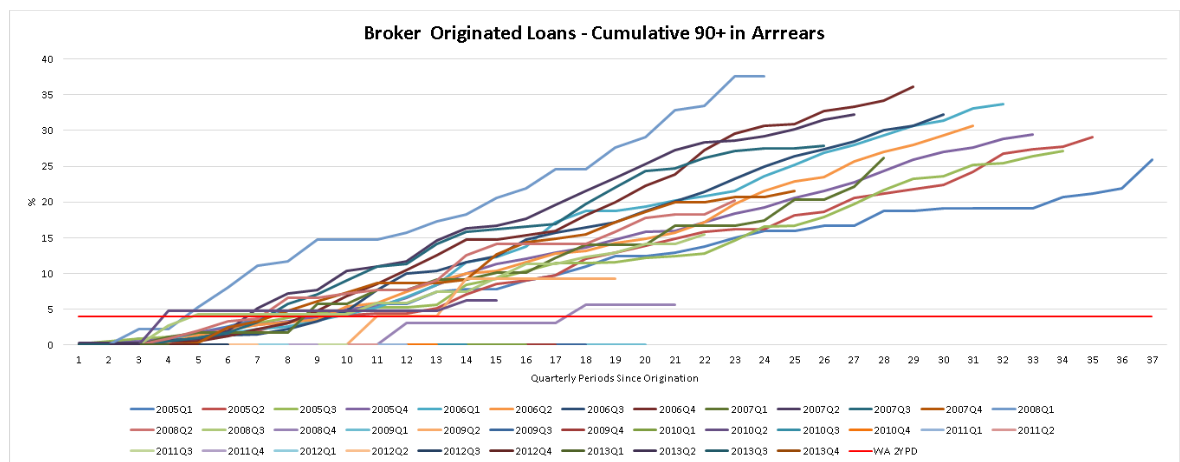
paid in full (100% recovery) as of the vintage of origination. Thereafter the loan is considered re-issued as of the date of restructuring and 100% defaulted as of day one.

Branch Originated Loans 2011Q1 to 2013Q4



Loans originated by mortgage brokers represent 2.34% of the mortgage portfolio. The historical data indicates the loans originated via a broker have demonstrated worse credit performance compared to loans originated at the branch level.

Broker Originated Loans



DBRS estimated a total 2 YR PD assumption of 3.00% for the total portfolio, which consists of the weighted average 2 YR PD of 2.95% for the branch originated loans and a 2 YR PD of 3.88% for the broker originated loans.

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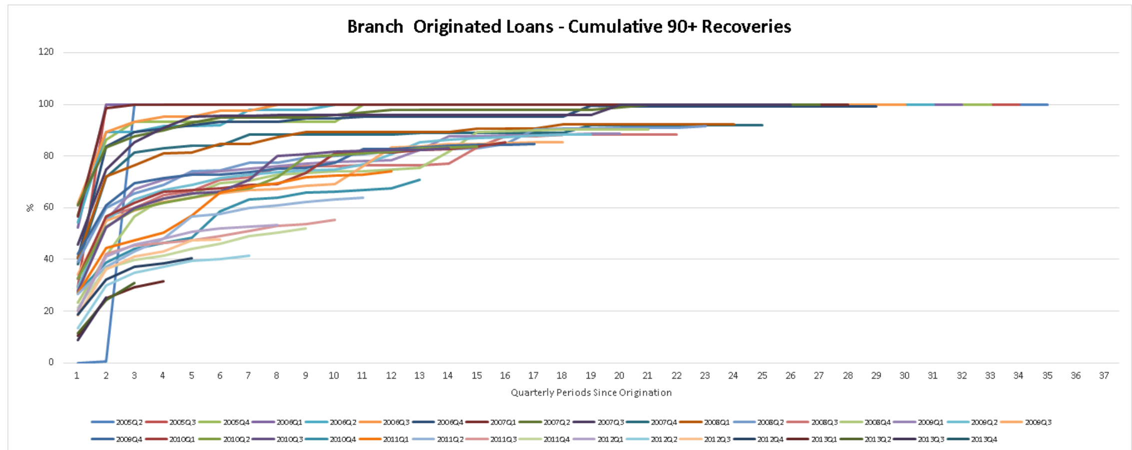
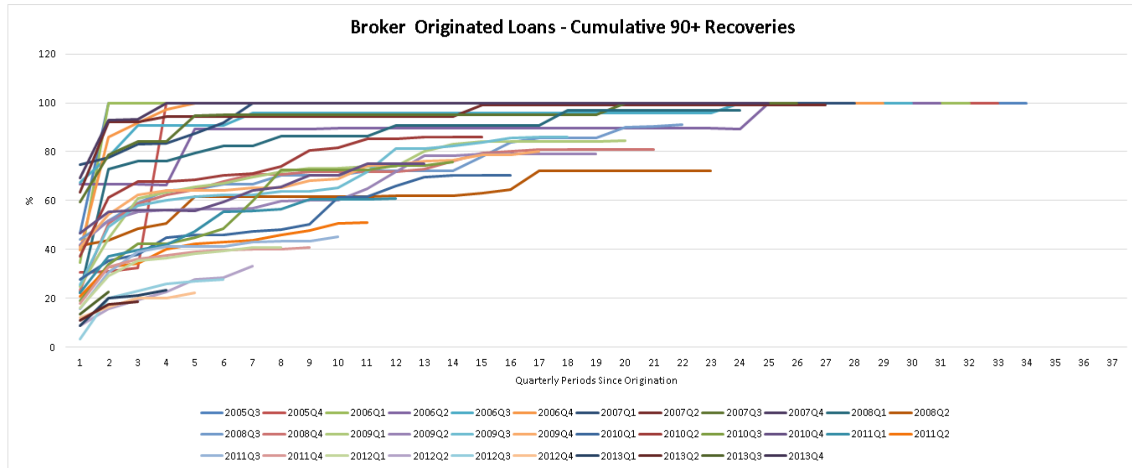
Cumulative 90+ Recoveries

Branch Originated Loans

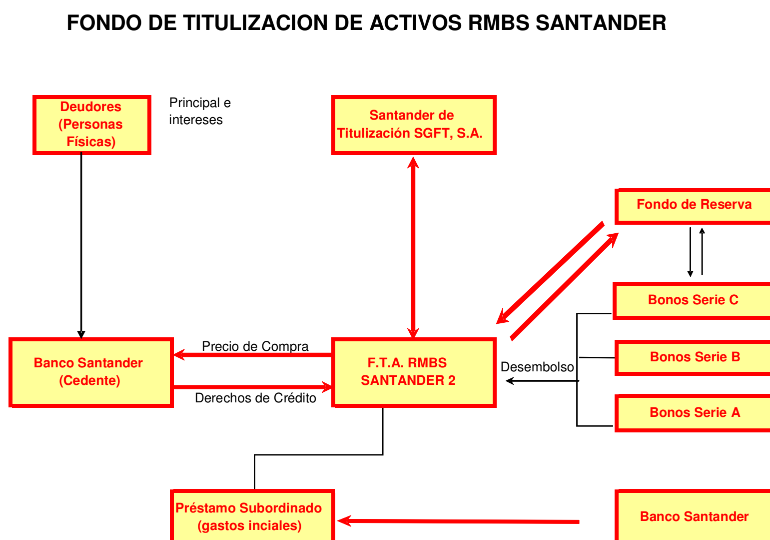


Broker Originated Loans



Transaction Structure

Transaction Diagram



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 31.00% credit enhancement consisting of the subordinated Series B notes and the Reserve Fund equal to €450 million. The Series B notes benefit from 15.00% 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 the 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.

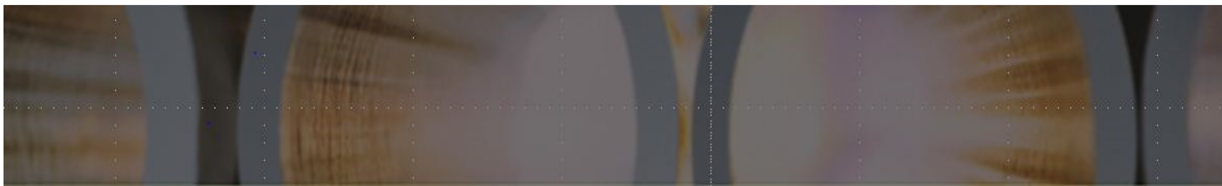
Post-Enforcement Waterfall

1. Ordinary and extraordinary expenses and the administration fee. If Santander ceases to be the servicer and/or the paying, the replacement entities will charge an additional fees;
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 (i) amortisation amounts for the Series A and Series B notes and (ii) 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 (i) the amount outstanding of Series A and Series B notes on each interest payment date and (ii) 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

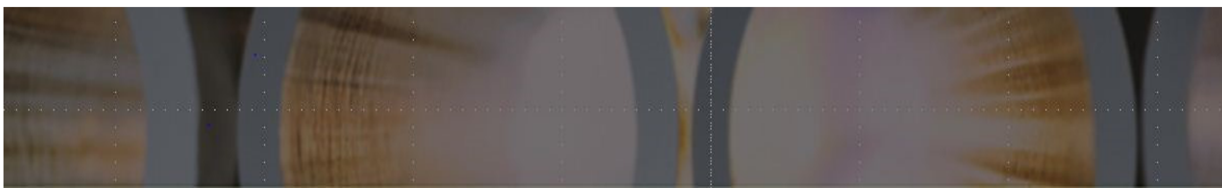
The transaction benefits from a €450 million Reserve Fund which will be funded at closing through proceeds of the Series C notes issuance. The Reserve Fund is available to cover shortfalls on the payment of senior fees, Interest and principal shortfalls on Series A and Series B notes.

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 €225,000,000. 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 /Neg. / R-1(low)/Stable) 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 3m 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 BBB (high), Santander would need to i) find a replacement servicer with a DBRS long term rating at or above BBB (high), (ii) appoint a back-up servicer or (iii) 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 basis risk that arises from the floating interest rate due on the notes (3m Euribor) and the floating interest rate payable by the mortgage pool (12m Euribor) is unhedged. The basis risk is limited as the collateral pays 12m Euribor with every month and has an interest rate reset period of 12 months. In addition, historically the 12m Euribor interest rate curve has been above the 3m Euribor interest rate curve. The Reserve Fund is also available to cover potential shortfalls in interest.

DBRS did not additionally stress the exposure of 0.33% of the original balance to the fixed rate loans and two loans with a floating interest rate index of 3m (1x) and 6m (1x) Euribor, as it thinks that the risk of this exposure is mitigated by the available credit enhancement.

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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

DBRS assumed approximately 24.6% of the mortgage portfolio to represent higher risk borrowers. This figure is comprised of loans which had a modification within the last 12 months, loans which had a modification and missed a payment within the last 24 months and loans which missed a payment within the last 12 months but have had no loan modification.

DBRS calculated a benchmark 2YR PD of 5.4%. This figure represents the weighted average between the PD results observed for branch and broker originated mortgage loans and stressed assumptions applied to the risky portfolio. It should also be noted this figure is based on loans originated at an original LTV of 80% and below. The 2YR PD also reflects the sovereign risk associated with the Kingdom of Spain.

Using this benchmark 2 year PD, DBRS calculated the lifetime PD and loss given default by assessing the individual risk characteristics associated with each loan as discussed in the DBRS Master European Residential Mortgage-Backed Securities Rating Methodology. The table below details the lifetime PD, Loss Given Default (LGD) and Expected Loss (EL) for Series A notes at A (sf) and Series B notes at B (sf).

	Rating	PD	LGD	Expected Loss
Series A	A (sf)	31.59%	52.59%	16.61%
Series B	B (sf)	13.13%	40.53%	5.32%
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.

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

Legal Structure

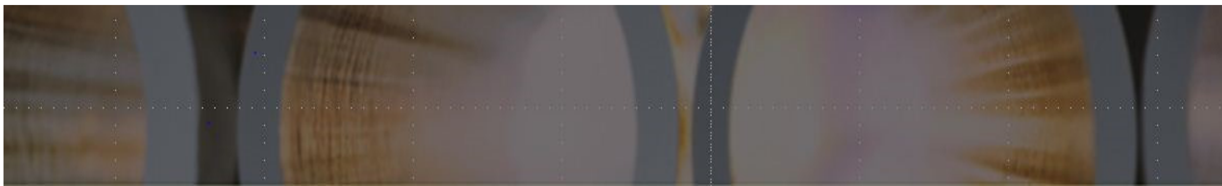
Law(s) Impacting Transaction

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) or “Mortgage Transfer Certificates” and Participaciones Hipotecarioas (PH) “Participation Certificates”. The CTH and PH 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 (a) corporate good standing of Originator, Issuer and Management Company, (b) enforceability of documents against Originator and Issuer, (c) "True Sale" of assets from Originator to Issuer and (d) 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 could lead to the replacement of Santander in its roles as servicer, Issuer account bank or paying agent.

All replacement triggers are set at loss of BBB (high), with different consequences, between the servicer and the treasury account/paying agent trigger breach. In case Santander's long term credit rating should fall below BBB (high), Santander acting as treasury account bank or paying agent according to the transactions documents would need to i) search an eligible replacement counterparty or ii) find an eligible guarantor issuing an absolute, direct, unconditional and irrevocable guarantee. Eligible counterparties are compliant with the rating triggers defined in the documents.
In case of Santander's long term credit rating should fall below BBB (high), Santander acting as the ser-vicer, according to the transaction documents needs to i) find a replacement servicer with a DBRS long term rating at or above BBB (high), (ii) appoint a back-up servicer or (iii) establish a commingling reserve according to DBRS criteria.

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.

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Note:
All figures are in EUR unless otherwise noted.

This report is based on information as of May 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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