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**DBRS Finalises Provisional Ratings on FT Santander RMBS 5**

**Bloomberg: DBRS Finalises Provisional Ratings on FT Santander RMBS 5**
**Industry Group: Structured Finance**
**Sub-Industry: RMBS**

DBRS Ratings Limited (DBRS) has today finalised the provisional ratings on the following notes issued by FT Santander RMBS 5 (Santander 5):

- EUR 1,013,600,000 Series A at A (low) (sf)
- EUR 261,400,000 Series B at CCC (sf)
- EUR 63,700,000 Series C at C (sf)

Santander 5 is a securitisation of prime residential mortgage loans, including a portion of borrowers with higher risk characteristics, secured by first-ranking lien mortgages on residential properties in Spain. The mortgage loans are originated by Banco Santander SA (Santander), Banco Español de Credito (Banesto) and Banco Banif S.A.U. (Banif). At the closing of the transaction, Santander 5 will use the proceeds of the Series A and Series B notes to fund the purchase of the mortgage portfolio from the Seller, Santander, who will also service the portfolio. In addition, the Series C notes proceeds will fund the reserve fund. The securitisation will take place in the form of a fund, in accordance with Spanish Securitisation Law.

The ratings are based upon a review by DBRS of the following analytical considerations:

- The transaction's capital structure and the form and sufficiency of available credit enhancement. The Series A notes benefit from EUR 261.4 million (25.5%) of credit enhancement in the form of 20.5% subordination of the Series B notes and the EUR 63.7 million (5.0%) reserve fund, which is available to cover senior fees as well as interest and principal payments on the Series A and Series B notes. The Series A notes will benefit from full sequential amortisation, as principal on the Series B notes will not be paid until the Series A notes have redeemed in full. The Series C notes will be repaid according to the reserve fund amortisation.
- The main characteristics of the portfolio as of 16 December 2015 include: (i) 71.0% weighted average current loan to value (WA CLTV) and 84.3% Indexed WA CLTV (INE HPI Q3 2015); (ii) the top three geographical concentrations of Madrid (25.9%), Andalucía (17.7%) and Cataluña (13.4%); (iii) 12.7% self-employed borrowers; (iv) 4.2% foreign national borrowers; and, (v) weighted average seasoning of 6.2 years.
- Of the mortgage portfolio, 96.5% pay a variable interest rate indexed to 12-month Euribor and 3.5% pay a rate indexed to the Indice de Referencia de Préstamos Hipotecarios (IRPH). The notes are floating rate liabilities indexed to three-month Euribor. DBRS

considers there to be limited basis risk in the transaction, which is mitigated by (i) the historical spread between 12-month Euribor and three-month Euribor in favour of 12-month Euribor;(ii) the available credit enhancement to cover for potential shortfalls from the mismatch. DBRS stressed the interest rates as described in the DBRS methodology *Unified Interest Rate Model for European Securitisations.*

- 28.3% of the underlying borrowers were classified as higher-risk by DBRS. DBRS considers higher risk borrowers to be those with (i) a loan modification or (ii) no loan modification, but (a) the loan has a principal grace period or (b) had a missed payment date within the past two years and had an amendment in the loan agreement. In DBRS' view, these characteristics indicate a higher degree of potential future payment problems, as they do not occur frequently and in combination. According to Santander's annual financial statement, modified loans are part of Santander's forbearance portfolio, which contains borrowers likely to incur problems on paying their outstanding debts (including debt other than mortgage loans) with Santander, but have never been more than three months in arrears (which would classify them as non-performing). As a result, borrowers might apply for some form of debt consolidation or may be given a principal payment holiday or an extension of the maturity. Currently, 7.59% of the mortgage loans are in a grace period, with an average remaining term of 12.7 months. The furthest grace period ending date is in 2020. DBRS applied higher default probabilities to borrowers classified as higher-risk and adjusted its cash flow modelling for the loans with a current grace period.
- The credit quality of the mortgages backing the notes and the ability of the servicer to perform its servicing responsibilities. DBRS was provided with Santander's historical mortgage performance data, as well as loan-level data for the mortgage portfolio. The probability of default (PD), loss given default (LGD) and expected losses (EL) resulting from DBRS' credit analysis of the mortgage portfolio at A (low), CCC (sf) and C (sf) stress scenarios are detailed below. In accordance with the transaction documentation, the Servicer is able to grant loan modifications, within the range of permitted variations, without the consent of the management company. According to the documentation, permitted variations include the reduction of the loan margins to a weighted-average of 1.0% for the mortgage portfolio and maturity extension for 10% of the portfolio, up to the final payment date in August 2059. DBRS stressed the margin of loans with a margin above 1.0% and repayment of the portfolio for longer amortisation in its cash flow analysis.
- The transaction's account bank agreement and respective replacement trigger require Santander acting as the treasury account bank to find (i) a replacement account bank or (ii) an account bank guarantor upon loss of a BBB (high) rating. DBRS concluded that the assigned ratings are consistent with the account bank criteria.
- The legal structure and presence of legal opinions addressing the assignment of the assets to the issuer and the consistency with the DBRS *Legal Criteria for European Structured Finance Transactions.*

As a result of the analytical considerations, DBRS derived a base case PD of 25.7% and LGD of 42.2%, which results in an EL of 10.8% using the European RMBS Credit Model. DBRS cash flow model assumptions stress the 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 capital structure and ratings of the notes.

Notes:
All figures are in euros unless otherwise noted. The principal methodology applicable is Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addendum.

DBRS has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

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

This may be found on www.dbrs.com at:
http://www.dbrs.com/about/methodologies

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

The sources of information used for this rating include Banco Santander SA and Santander de Titulización, S.G.F.T., S.A.

DBRS does not rely upon third-party due diligence in order to conduct its analysis.

DBRS was not supplied with third party assessments. However, this did not impact the rating analysis.

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

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

This is the first rating action since the Initial Rating Date.

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

To assess the impact of the changing the transaction parameters on the rating of the Series A notes, DBRS considered the following stress scenarios, as compared to the parameters used to

determine the rating (the "Base Case"):
In respect of the Series A Notes, the PD of 45.96%, and LGD of 52.11%, corresponding to an A (low) (sf) stress scenario, were stressed assuming a 25% and 50% increase on the PD and LGD.

DBRS concludes the following impact on the Series A notes:

- A hypothetical increase of the PD by 25%, ceteris paribus, would lead to a downgrade to BBB (low) (sf).
- A hypothetical increase of the PD by 50%, ceteris paribus, would lead to a downgrade to BB (high) (sf).
- A hypothetical increase of the LGD by 25%, ceteris paribus, would lead to a downgrade to BBB (low) (sf).
- A hypothetical increase of the LGD by 50%, ceteris paribus, would lead to a downgrade to BB (sf).
- A hypothetical increase of the PD by 25% and LGD by 25%, ceteris paribus, would lead to a downgrade to BB (sf).
- A hypothetical increase of the PD by 50% and LGD by 25%, ceteris paribus, would lead to a downgrade to B (sf).
- A hypothetical increase of the PD by 25% and LGD by 50%, ceteris paribus, would lead to a downgrade to B (sf).
- A hypothetical increase of the PD by 50% and LGD by 50%, ceteris paribus, would lead to a downgrade to B (sf).

The Series B and Series C notes' ratings would not be impacted by a hypothetical change in either the PD or LGD.

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

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

Initial Lead Analyst: Keith Gorman, Senior Vice President
Rating Date: 18 December 2015
Rating Committee Chair: Diana Turner, Senior Vice President

Initial Rating Date: 3 December 2015 (Provisional Ratings)

Lead Surveillance Analyst: Antonio DiMarco, Senior Financial Analyst

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

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

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

| Issuer | Debt Rate | Rating Action | Rating | Trend |
|---|---|---|---|---|
| FT Santander RMBS 5 | Series A | Provis.-Final | A (low) (sf) | -- |
| FT Santander RMBS 5 | Series B | Provis.-Final | CCC (sf) | -- |
| FT Santander RMBS 5 | Series C | Provis.-Final | C (sf) | -- |

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