New Issue Rating Report

FT RMBS SANTANDER 5

RMBS/Structured Finance

SCOPE Scope Ratings

www.scoperatings.com

Ratings

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Serie A	$A+_{SF}$	1,013.6	79.5	25.5	3mo Euribor + 60bp	17 October 2065
Serie B	CC_{SF}	261.4	20.5	5.0	3mo Euribor + 63bp	17 October 2065
Serie C	C_{SF}	63.7	5.0	0.0	3mo Euribor + 65bp + ExS	17 October 2065
Total notes (excluding Series C)		**1,275.0**				

The transaction closed on 14 December 2015. The ratings are based on the final portfolio and preliminary pool cuts provided by the originator. All figures in the report refer to the pool cut as of 27 October 2015, unless stated otherwise. 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

Purpose	Liquidity/Funding
Issuer	Fondo de Titulización RMBS SANTANDER 5
Originator	Banco Santander S.A. (A+/S-1/Stable Outlook)
Asset class	RMBS
Assets	EUR 1,275.0m
Notes	EUR 1,338.7m
ISIN Serie A	ES0305108005
ISIN Serie B	ES0305108013
ISIN Serie C	ES0305108021
Closing date	14 December 2015
Legal final maturity	17 October 2065
Payment frequency	Quarterly
Payment dates	17 Jan, 17 Apr, 17 Jul, 17 Oct

Transaction profile

FT RMBS SANTANDER 5 is a granular true-sale securitisation of a EUR 1,275m portfolio of non-conforming first-lien mortgage-secured loans granted by Banco Santander SA ('Santander') to Spanish individuals and resident foreigners. The securitisation is used to finance the purchase, construction or refurbishing of residential properties in Spain. The assets have been originated by Santander, as well as group subsidiaries and their respective brokers.

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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 Santander as the servicer; counterparty risk arising from exposure to Santander as the account bank and paying agent; and the management capability of Santander de Titulización SGFT SA.

Credit enhancement provided by the structure is sufficient to protect the Serie A notes against losses from a portfolio of mortgages we consider high-risk assets. The securitised mortgages are considered 'non-conforming' because of the very high original loan-to-value (LTV) ratios, expected high probability of default, and/or aggressive terms and conditions such as very long maturities. Nevertheless, we consider Santander's management of performance problems historically has been very proactive and prompt. In addition, the short-term outlook on the Spanish economy reflects positively on the transaction. This will limit the volatility of credit losses around our high default expectation as the transaction slowly deleverages.

The ratings also reflect the low available excess spread and the possible impact of negative carry due to interest reset risk and stressed servicing costs. The Serie B and C notes are not protected adequately against these risks and we expect them to default.

Scope has accounted for the high default risk which results from the credit weakness of the obligors. The portfolio has a high expected lifetime default rate because the final pool has: i) 26.8% of 'reconducted' mortgages, originated to restructure other stressed, albeit performing, debts, ii) an additional 18.0% of weak, currently performing mortgages that have been in arrears in the last 12 months; however; iii) only 1.1% of mortgages are originated via brokers, which are known to underperform mortgages originated directly by the branches.

Scope has also accounted for the recovery risk resulting from the high, current weighted average loan-to-value (LTV) ratios of 102%, which reflect the market price correction of Spanish residential properties as a result of Santander's collateral revaluation. The original weighted average LTVs were already at 94%.

Santander has limited servicer flexibility because of the already aggressive terms and conditions of the mortgages (i.e. high LTVs, low interest rate margins, constant annuity amortisations, long times to maturity). Santander has adhered to Spain's code of good banking practice (contained in law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral; and we thus expect long recovery lags after default. Our analysis models a recovery lag of five years.

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers
Significant credit enhancement. The loss-absorbing protection provided by the structure is high. The credit enhancement for the senior notes in this transaction similar to that of FTA SANTANDER RMBS 4, originated in 2015.	**Low asset quality.** Santander, Banesto and Banif originated 40% of the loans in the portfolio before 2008, during the housing boom in Spain when underwriting practices were more aggressive. The portfolio contains 27% of restructured mortgages, which, despite the benign interest rate environment, exhibit significantly higher default likelihoods than the standard mortgages. Scope reclassified 18% of the standard mortgages as ‘reconducted’, reflecting observed payment disruptions during the last 12 months.
Simple structure protects liquidity. The deal features a plain-vanilla, swapless, strictly-sequential, three-tranche structure with a combined priority of payments. The combined priority of payments supports the timely payment of Serie A interest despite a thin cash reserve.	**Low excess spread.** The portfolio has a low weighted average asset margin that, combined with the average liability costs, only provides a gross margin of 41 bps. Our analysis reflects significant negative carry that increases the loss severity for the Serie B and C notes.
Stressed performance references. Scope calibrated the portfolio default rate assumptions with vintage data from 2007 to 2014, a period of high stress for the Spanish economy with particularly high unemployment rates. Scope modelled a blended, mean lifetime 90 ‘days past due’ (dpd) default rate of 42%, a coefficient of variation of 28%, a blended cure rate of 24% and a base case recovery rate of 60.2%.	**Limited servicer flexibility.** The terms of the mortgages have already been modified or restructured. Furthermore, Santander has adhered to the code of good banking practice (law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral. We have modelled a long recovery lag of five years in addition to the aforementioned high mean expected default rate.
Improving Spanish economy. Scope believes the Spanish economy is improving slowly, though threatened by political uncertainty. The positive impact of this trend for Serie B notes is less certain due to the fragility of the recovery as well as still-significant fundamental imbalances.	**Long time to maturity.** The portfolio will amortise slowly, making the transaction more vulnerable to future economic downturns. The weighted average remaining time to maturity is 25 years.
Updated appraisals of collateral. Scope has calculated fundamental recovery rates, incorporating significantly corrected market values of the underlying properties. The updated appraisal values of the finished properties that back the loans in this portfolio are now 1.2 years on weighted average.	
Naturally hedged interest risk. Most loans are referenced to 12-month Euribor (93.3%) or similar floating-rate indices, and only 0.3% of assets have a fixed rate. All notes reference the 3-month Euribor rate, and margin reset dates are uniformly distributed in the year.	

Positive rating-change drivers	Negative rating-change drivers
A fast recovery of employment in Spain would lower the base case default rate used for the analysis. We do not expect this fast recovery of employment to occur, rather, a slow recovery.	**Home-price corrections** bringing Spanish property markets below their long-term sustainable trend will lead Scope to revise its base case recovery rate. We do not expect large corrections beyond the current levels as the current recovery prospects have stopped the price-correction trend.

Related reports

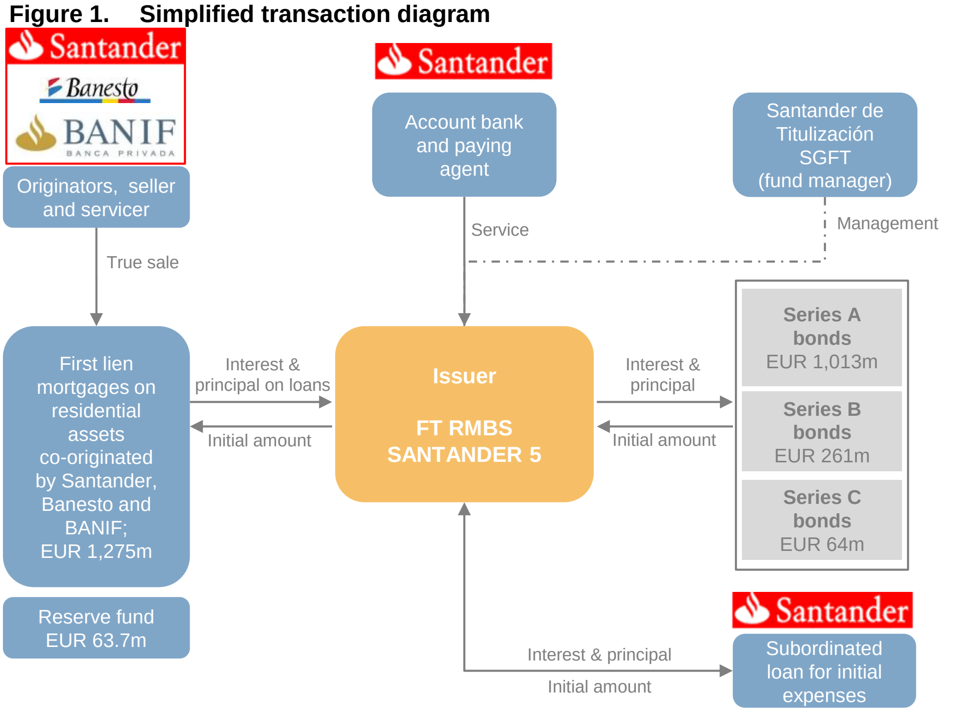
General Structured Finance Rating Methodology, dated 28 August 2015.

Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated 10 August 2015.

Contents

Transaction summary

Figure 1. Simplified transaction diagram



FT RMBS Santander 5 is the fifth transaction in a series of non-conforming RMBS securitisations originated by Santander since June 2014. It consists of the securitisation of a EUR 1.275bn mortgage portfolio selected from a preliminary portfolio of 9,572 mortgages co-originated by Banco Santander, Banesto and Banif, and granted to 9,554 Spanish citizens and resident foreigners. The final pool comprises 8,856 mortgages granted to 8,842 borrowers.

Financial structure

The strong financial structure represents the most important credit-positive for the transaction. The loss-absorbing protection available to the Serie A notes is enough to make the expected loss of the senior investor very remote. Credit enhancement for the senior notes in this transaction (25.5%) is similar to the preceding RMBS 4 (25.0%) but significantly higher than previous non-conforming RMBSs originated by Santander.

Capital structure

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

The notes pay quarterly interest referenced to 3-month Euribor plus a margin. The amortisation is strictly sequential. Under very benign scenarios, Serie C could receive principal payments before Serie B and such payments would correspond to reductions in the required RF level.

The issuer's initial expenses are 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 fully funded cash reserve fund of EUR 63.7m or 5% of the initial portfolio balance. The RF is the primary source of credit enhancement for the Serie B notes.

The RF, combined with the provisioning mechanism, traps excess spread and enables the structure to accelerate amortisation of Serie A notes whenever assets are classified as defaulted. We expect the RF will be fully depleted under our expected portfolio default-rate scenario.

The RF is a source of negative carry for the transaction as the cash is held in an account of the issuer that yields 3-month Euribor flat, while the weighted average (WA) coupon of the notes is always higher than this index. Negative carry further impacts Serie B and C notes, even when credit losses from the assets are the main driver for the expected losses for these tranches.

We believe that scenarios in which the RF amortises are very unlikely, despite being theoretically possible

Scenarios in which the RF amortises are very unlikely, although theoretically possible. The RF follows the standard mechanism of most Spanish securitisations for which the required balance can be reduced to the maximum of 10% of the current portfolio balance or 2.5% of the initial portfolio balance, subject to: i) non-defaulted assets more than 90 days past due (dpd) are less than 1% of the non-defaulted assets; ii) more than three 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 the principal amortisation is the amount required to match the balance of the Serie A and B notes to the balance of non-defaulted mortgages on every payment date.

Provisioning mechanism allows for accelerated amortisation of the most senior class

This mechanism constitutes a default-provisioning mechanism. It allows for the accelerated amortisation of the most senior class, making use of RF money and excess spread. As long as cash remains in the RF, the mechanism ensures outstanding notes will be collateralised by non-defaulted assets.

Mortgages are classified as defaulted in the structure when they are more than 18 months in arrears or when the servicer subjectively considers them to be unrecoverable. We believe that the long default definition used in this structure may suit well the current uncertain recovery context which results from limited servicer flexibility during foreclosure processes in Spain.

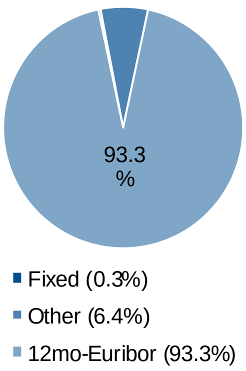
Priority of payments

Combined priority of payments is the main protection against payment interruption

The structure features a combined priority of payments, which provides material protection against payment interruption even if the cash reserve is depleted. Principal collections from assets can be used to pay timely interest on the senior-class notes. Furthermore, only a few days' worth of collections suffice to pay senior-class interest and other more senior items, even if an unlikely 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. See Figure 2.

Scope's analysis takes into account the demotion trigger on Serie B interest. The rating of Serie B notes captures any loss from the time value of missed interest resulting from a postposition of Serie B interest payments. Missed interest payments do not accrue interest for any classes in this structure.

Interest rates in the final portfolio



Unhedged interest rate risk – immaterial

Scope believes the materiality of unhedged interest-rate risk is negligible in view of the: i) insignificant share of pool that pays fixed-rate interest (0.3%); ii) current low interest rate environment; and iii) because all floating-rate assets are referenced to indices highly correlated with the 3-month Euribor index of the notes. These indices embed material excess spread compared to the notes' index.

The transaction is exposed to interest-related risks because there is no hedging agreement in place, and the reset frequencies and dates of the assets can create a rate mismatch between assets and liabilities in rising interest-rate scenarios. Potential losses for the reset risk are factored into the ratings and covered by available credit enhancement.

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 transfers any losses from interest-rate mismatches to the equity and mezzanine part of the structure.

Figure 2. Priority of payments and available funds

Pre-enforcement priority of payments	Post-enforcement priority of payments
Available funds Collections from assets; proceeds from treasury account, and RF.	**Available funds** All SPV moneys, including funds from liquidation of assets.
1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) **Serie A interest** 3) Serie B interest, if not demoted 4) **Principal for Serie A**, and then Serie B 5) Serie B interest, if demoted when a) Serie A still outstanding after payment date b) Total defaulted assets > 10% of portfolio balance at closing 6) RF to its required level 7) Serie C interest 8) Principal for Serie 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 originator as variable Serie C interest	1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) **Serie A interest** pari-passu with liquidity facility balance 3) **Principal for Serie A** pari-passu with liquidity facility balance 4) Serie B interest 5) Principal for Serie B 6) Serie C scheduled interest 7) Principal for Serie C 8) Subordinated items including servicer fee for Santander and excess spread for the originator

Bank account – commingling exposure to Santander

The account of the issuer represents a commingling exposure to Santander, the account bank

The issuer has a treasury account used to hold the RF, and principal and interest collections from the assets. The account represents a commingling exposure to Santander as the account bank – see Counterparty risk on page 7. The account also represents a source of negative carry as its yield is lower than the WA coupon on the notes. Any loss from negative carry is covered by available excess spread and credit enhancement.

Clean-up call

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

Legal structure

Legal framework

The transaction conforms to Spanish securitisation standards effective since 28 April 2015

This securitisation is governed by Spanish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Santander de Titulización SGFT SA, the management company. The SPV is essentially governed by the terms in the documentation, as no government body has been defined at closing. Changes to the documentation require the unanimous agreement of all stakeholders to the transaction (i.e. noteholders and creditors).

This securitisation has been incorporated under a new, more flexible legal form called 'Fondo de Titulización' ('FT', securitisation fund). This choice of legal form is credit-neutral. The FT legal form was introduced by the new Spanish law to promote corporate financing (law 5/2015), effective since publication on 28 April 2015. Law 5/2015 reformed the Spanish securitisation framework and replaced 'Fondo de Titulización de Activos' ('FTA', asset securitisation funds) and 'Fondos de Titulización Hipotecaria' ('FTH', mortgage securitisation funds).

Asset replacement

Santander undertakes to replace or repurchase within 15 days any asset transferred to the portfolio found not to comply with the eligibility criteria in the documentation. No asset more than 30 days in arrears at the time of transaction closing can be transferred to the portfolio. The risk of weaker assets transferred to the final portfolio is covered by our mean default-rate assumption for 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. In all cases, negotiations with obligors would follow the originator's standard procedures and approval processes.

Documentation includes covenants to prevent the economic imbalance of the transaction as a result of permitted variations

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 beyond that related to asset performance. The outstanding amount of mortgages cannot be increased and interest margins cannot be reduced below 1%.

Use of legal opinions

Scope has reviewed the legal opinions produced for the issuer by Cuatrecasas Gonçalves Pereira, SLP and trusts the regulatory oversight of the Spanish securities market regulator (CNMV) to gain comfort on the legal structure of the issuer. The transaction conforms to securitisation standards in Spain, effective since 28 April 2015, and supports the general, legal analytical assumptions of Scope. See 'Legal Risks in Structured Finance, Analytical Considerations', dated January 2015 and available at www.scoperatings.com.

Originator and Seller

Santander's functions, systems, processes and staff meet the highest standards of European banking

Banco Santander is an experienced originator of residential mortgages, but the mortgage production securitised in this transaction is biased: 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). The majority of mortgage loans originated by Santander in recent years conform to 'cedulas-eligible' standards, with the notable exception of some mortgages granted to finance the sale of real estate assets in the balance sheet of the consolidated Santander group.

Santander is a sophisticated bank whose functions, systems, processes and staff meet the highest standards of European banking. The ability and stability of Santander as the originator is illustrated by Santander's A+ rating from Scope.

Underwriting

Underwriting standards for the assets in this portfolio were sensible, but at origination were not 'prime assets'

Scope believes the underwriting standards for most of the assets in this portfolio were sensible. Asset quality was not prime from origination as the weighted average original LTV of the mortgages in the preliminary portfolio was already at 94%, well above the 80% eligibility threshold for 'cedulas' cover pools. Adjustments to the Spanish property markets have resulted in the weighted average current LTV increasing further. Taking into account updated property values as well as amortisations since origination, the LTV has increased to 105%.

Santander has applied tighter underwriting standards to contracts that were originated since the crisis, except for the aforementioned mortgages to finance sales of properties owned by the Santander group. About one-fifth of 'conforming' mortgages in the portfolio were originated in the last 24 months.

Servicing and recovery

We believe Santander's pre-delinquency monitoring processes and early-delinquency management processes are highly efficient in dealing with weak obligors and/or obligors who have already benefitted from originator support.

Santander has adhered to the Spanish code of good banking practice (contained in law 1/2013) which limits the ability of the servicer to enforce security rights over mortgaged collateral. We have modelled a long recovery lag of five years in addition to a high mean expected default rate because we believe the terms of these mortgages have already, by and large, been modified or restructured.

Scope believes that Santander's interests are strongly aligned with the noteholders

Santander's incentives are strongly aligned with the noteholders. Santander has a significant subordinate interest in the transaction as a provider of the 5% RF, and holder of all the Serie B and C notes since closing. 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 prospects of recovery in the shortest possible time.

Counterparty risk

Santander performs all counterparty roles, and the transaction's exposure to Santander is captured in the ratings. Scope considers the exposure is not excessive (i.e. the crystallisation of counterparty risk would not prompt a downgrade of more than six notches, as defined in Scope's 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated 10 August 2015 and available on www.scoperatings.com).

Operational risk from servicer

Scope does not consider the replacement of Santander as servicer of the portfolio as a realistic scenario. A servicer replacement would be more disruptive than the probable continuation of Santander operating as a going concern during a hypothetical resolution process. This view is supported by Santander's relevance to the Spanish economy and the framework for orderly bank restructuring in Europe. Scope, however, incorporated stressed servicing costs in the cash flow analysis.

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

Scope believes credit risk arising from exposure to the account bank is adequately covered in the structure by risk-substitution covenants

Commingling risk from account bank and paying agent

Scope believes credit risk arising from exposure to the account bank is adequately covered in the structure by risk-substitution covenants. Santander would be replaced in the structure upon loss of a minimum Issuer Credit-Strength Rating (ICSR) of BBB, which is in line with Scope's rating methodology for counterparty risk.

Set-off risk from originator

Scope believes set-off risk from the originator is immaterial

Scope does not believe set-off risk from the originator is material in the context of Spanish law and under 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 the obligor's notification following a servicer event or upon the insolvency of either the obligor or seller.

Exposure to set-off risk from linked contracts is negligible and restricted to insurance contracts in the context of mortgage loans. This exposure exists largely in the insurance business of Santander, and is limited to premia paid upfront 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 portfolio comprises three types of mortgages loans: standard, restructured, and broker-originated mortgage loans

The portfolio comprises three types of mortgages: i) standard mortgages originated at the branches of Santander, Banesto or Banif; ii) restructured mortgages originated to consolidate other debts; and iii) broker-originated mortgages.

Figure 3. Product types in the final portfolio

	Mortgages	Restructured mortgages	Broker mortgages
Description	Mortgages originated by Santander/Banesto/BANIF	Mortgages with term adjustments (interest rate and/or maturity) to avoid a default of the borrower	Mortgages originated through brokers but underwritten using the same criteria as for standard mortgages
Weight in portfolio	72.1%	26.8%	1.1%
Main risk	High LTV mortgages with a significant share of pre-crisis mortgages. Portfolio sample is not representative of the entire book.	Weaker obligors and high LTVs, vulnerable to shocks because of very reduced servicer flexibility.	Looser underwriting standards. Lower recovery, high and volatile defaults.
Notes	These are mortgages not eligible to serve as collateral for cedulas hipotecarias (Spanish covered bonds) under Spanish law. They can be considered 'non-conforming' mortgages because of their LTV or long maturity. Pre-crisis origination standards were looser than those applied today by Santander. Available now for a securitisation because of collateral revaluation and/or term modifications.	These are mortgages which have been granted to restructure and consolidate existing other debts not in arrears at the time of refinancing. These mortgages should be considered 'sub-prime' given the weakness of the underlying obligors, even when they were not delinquent on any obligation when the restructured mortgages were granted.	These mortgages used to be granted by the bank, but to customers with whom it has only little or no previous relationship. Customers were referred via brokers and were often linked to real-estate developments. The quality of such mortgages is often weaker than for standard mortgages. Santander has shut down this origination channel because of bad performance.
Risk of foreign exposures	Diluted among national obligors and captured by vintage data.		

Standard mortgages – pre-crisis exposures

'Standard mortgages' represent a sample of lower quality when compared to mortgages originated by Santander before 2008

The final portfolio contains 72% of 'standard' mortgages when the current balance is considered. The mortgages in this segment were originated under the originator's standard underwriting procedures, mostly during the pre-crisis period. This alone could signal looser underwriting practices, which are also evident in the higher original LTVs and tighter margins. Yet, this segment of the portfolio also represents a biased sample of lower quality when compared to the average mortgage of this type originated by Santander before 2008.

These mortgages are available for securitisation now after two prudent actions of Santander as originator and servicer. Firstly, Santander has updated the appraisal values of the underlying residential properties of its mortgage book. Secondly, Santander has actively serviced its lending portfolio to minimise losses from credit. Consequently, a share of the 'standard' mortgages in this portfolio has suffered from modifications to the original terms and conditions, resulting in the exclusion from other existing securitisations.

The better-quality mortgages – lower LTV, shorter maturities – are kept by Santander to back Spanish covered bonds or remain as a part of asset portfolios of other RMBS securitisation funds.

The default data provided by Santander is not fully representative of the negatively selected mortgages in the transaction. Vintage data covers the 2007-2015 period, whereas 30% of this segment was originated before 2007 – origination periods which performed as badly as the 2007 vintage. Scope estimated a mean lifetime-default rate of 12.4% and a relatively high default-rate coefficient of variation of 61%.

The history of delinquencies of mortgages in this portfolio segment is another reason why we believe vintage data performance cannot be applied directly to this segment. See 'Previous delinquencies – indicator of credit weakness' on page 9.

We believe the exposure to foreign customers (4.5% of the balance of this portfolio segment) that are resident in Spain represents a risk which is covered sufficiently by the performance references provided by Santander.

Restructured mortgages – debt consolidation risk

Debt-consolidation products pose higher risks

The portfolio contains mortgages originated to consolidate other debts of the obligor. The new, larger mortgage contract has terms and conditions better adapted to the payment capacity of the obligor. Santander calls these debt-consolidation contracts 'reconducted' and does not grant them to obligors in arrears[1]. Restructured mortgages account for 29.9% of the preliminary portfolio.

Scope believes debt-consolidation products pose higher risks, even when obligors are currently 'performing'. These restructured contracts have exhausted the flexibility of both the originator and obligor, and are consequently more vulnerable to external shocks – either systemic or idiosyncratic.

From vintage-data analysis, Scope estimated a mean lifetime-default rate of 74%, compared to internal probabilities of default based a lifetime-default rate of 63%. The possible volatility around an already high expected default rate is low. Scope derived a default-rate coefficient of variation of 22.4% from vintage analysis. See Appendix II. Vintage data on page 18.

Broker mortgages – marginal exposure

Broker mortgages are weaker from a credit perspective

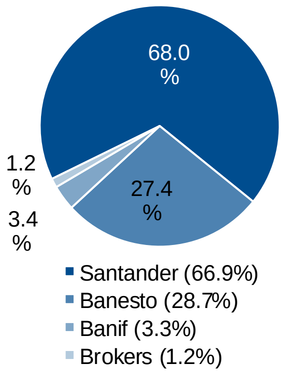
A mere 1.2% of the portfolio balance is comprised of mortgages originated by brokers. These mortgages are weaker because they were granted without the obligor's history with the bank. The historical performance has been very poor and Santander decided to shut down the broker-origination channel.

Portfolio characteristics

Final portfolio selection

Santander has provided the final portfolio, which was selected from the preliminary portfolio last updated on 24 November 2015. We based our rating analysis on the preliminary portfolio, which was audited. Appendix I shows portfolio characteristics between the preliminary and final portfolio were substantially the same and have not materially changed. The preliminary-portfolio balances were EUR 1,516m on 18 September 2015 and EUR 1,373m on 24 November 2015, compared to the final portfolio balance of EUR 1,275 on 4 December 2015, without accounting for amortisation.

Origination channels



Previous delinquencies – indicator of credit weakness

The credit weakness of this portfolio is evident in the analysis of the previous delinquencies of mortgages in the portfolio. This analysis also supports the assumption of a significant negative-selection bias of this portfolio compared to the entire book of mortgages originated by Santander.

About one-fifth of the 'standard mortgage' portfolio segment was delinquent at some point in the last 12 months. In our view, such borrowers show a higher propensity to default than regular performing mortgages, which prompted us to reclassify them in our analysis to the reconducted segment. These borrowers therefore have been assigned the same lifetime-default rate we derived from the vintage analysis of restructured mortgages.

We do not apply additional stresses on the restructured-loan segment because of its poor delinquency history, as we understand this is already covered by the very high lifetime-default rate derived from vintage data.

[1] Santander calls contracts granted to refinance obligors in arrears 'restructured', with a different meaning to the one used by Scope in this report. Contracts that refinance debts in arrears are riskier than the 'reconducted' mortgages included in this securitisation.

Slow portfolio amortisation of a granular portfolio

The long maturity of the mortgages in this portfolio explains the very long life of the class A notes

The long maturity of the mortgages in this portfolio explains the very long life of the Serie A notes. This extends the risk exposure to counterparties and possible macroeconomic deterioration. The Serie A notes have an expected weighted average life (WAL) of 10 years under a 0% constant repayment rate, and will take 20 years to fully amortise under a 0% default assumption. The long maturities and standard, French amortisation schedules result in a portfolio WAL of 11.9 years and a weighted average remaining term of 25.4 years, despite the existing seasoning of the portfolio (6.25 years).

The tail of the life of the portfolio will be exposed primarily to 'standard' mortgages, since restructured and broker mortgages are expected to default prior to their maturity. Additionally, the Serie A will not be exposed to tail concentrations because all assets in the portfolio are amortising, and the strictly sequential amortisation of the notes will build additional protection from subordination.

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

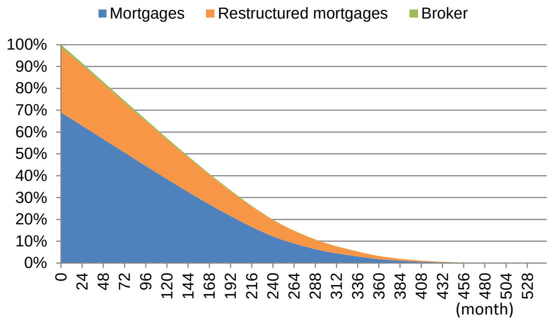


Figure 5. Portfolio seasoning profile and unemployment

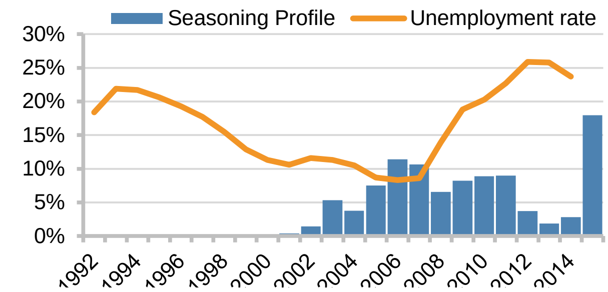


Figure 6. Portfolio maturity profile

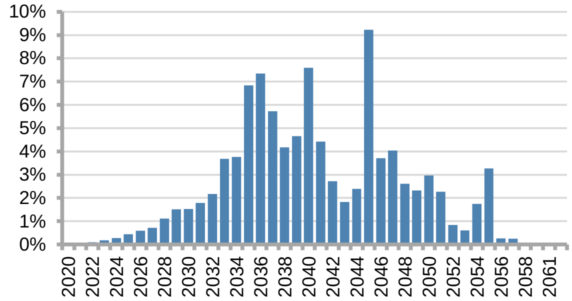


Figure 7. Original LTV distribution (original appraisals and initial loan balance)

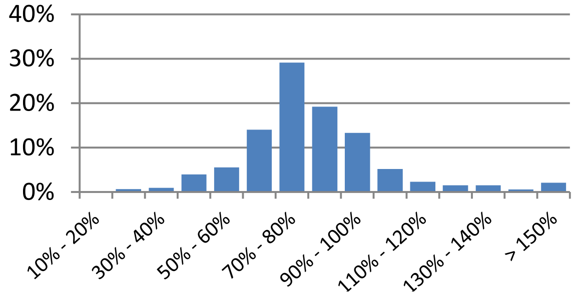
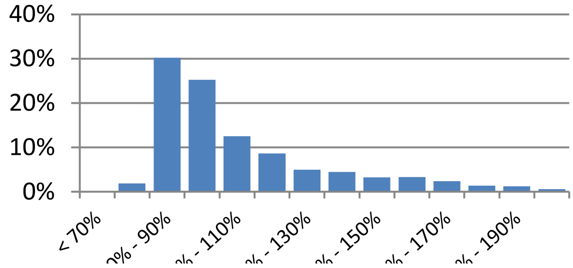


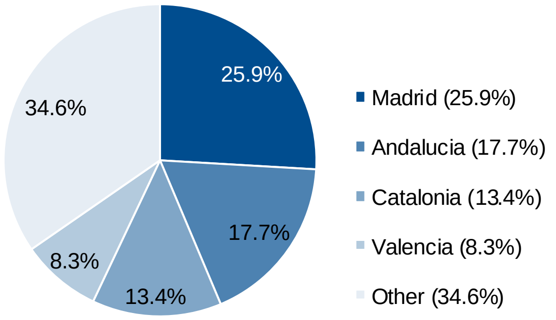
Figure 8. Current LTV distribution (updated appraisals and current loan balance)



The portfolio is granular and well diversified across Spanish regions

The final portfolio is granular and well diversified across Spanish regions. The highest regional exposures is in the economically strong region of Madrid (25.7%). We also observe a relatively high exposure to the economically weak Andalucia (17.9%, see Figure 9) suggesting a negative-selection bias of the portfolio. We believe the default-rate data provided by Santander, and the adjustments we have applied based on the delinquency history of each loan in the portfolio, cover this exposure. Furthermore, we incorporate regional differences in the recovery rate analysis by applying loan-level-specific market-value decline assumptions.

Figure 9. Final portfolio - regional distribution



Lifetime-default rate

The agency has modelled a mean portfolio lifetime-90dpd-default rate of 42% and a base-case default-rate coefficient of variation of 28%. These assumptions incorporate the 18% adjustment for the 'standard' mortgages that had been in arrears in the last year and were recorded initially in the 'standard' mortgage segment. The adjustment captures the higher risk of such mortgages.

Figure 10. Final Portfolio segments

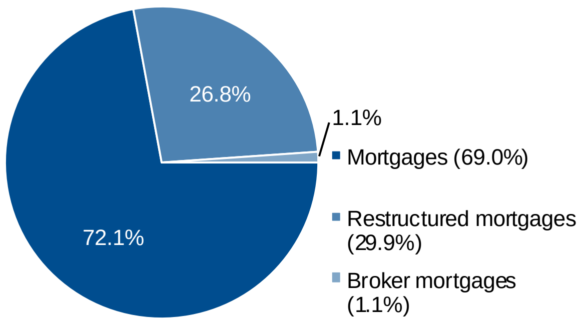
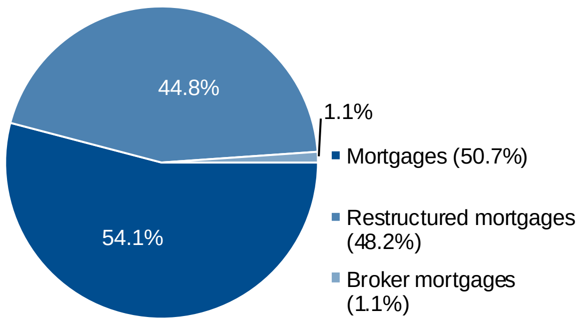


Figure 11. Portfolio segments as modelled by Scope



To derive portfolio-default assumptions, Scope used 90dpd, static delinquency data provided by Santander and arranged in vintages for the 2007-2015 period, which is characterised by high stress for Spanish obligors (see 'Portfolio seasoning profile and unemployment' in Figure 5). The most relevant data used for the analysis is included in 'Appendix II. Vintage data'.

Scope believes that the vintage data provided by Santander offers good information about asset correlation in a granular portfolio

Scope believes that the vintage data provided by Santander offers good information about asset correlation in a granular portfolio. The information reflects the deterioration of asset performance during the last credit crisis from the starting point of a benign period.

Figure 12. Default modelling assumptions for portfolio segments

	Standard mortgages*	Restructured mortgages*	Broker mortgages
Segment weight	50.7%	48.2%	1.1%
Scope's 90dpd mean DR	**12.4%**	**74.3%**	**32.0%**
Implicit DR in Santander PDs	12.4%	63.0%	15.3%
Scope's 90dpd CoV	**61.0%**	**22.4%**	**58.3%**

*after adjustment

We did not perform a long-term adjustment of portfolio default-rate assumptions to analyse higher rating scenarios. We believe the performance of this non-conforming mortgage portfolio over its long life will depend on its internal credit strength, rather than on its exposure to economic-cycle stresses.

Recovery rate (RR)

The calculation of loan-specific recovery rates from the updated appraisal values of the properties underlying the mortgages provides a strong anchor to our credit-loss estimates for this portfolio. The Spanish real estate sector has suffered a significant correction since the collapse of the real estate bubble after the financial crisis in 2007. Market prices have reduced significantly, but some regions still show a significant gap between our estimation of a long-term sustainable-value trend.

Scope has calculated loan-specific, fundamental recovery rates by applying haircuts to the updated appraisal value of each property after indexation

Scope has calculated loan-specific, fundamental recovery rates by applying haircuts to the updated appraisal value of each property after indexation. The haircuts reflect the market-value losses under stress scenarios, followed by a constant fire-sale discount of 30%. To these haircuts, we have also added foreclosure costs.

We believe that, at current appraisal values, a property can be sold under current market conditions if discounted by 30%. Consequently, our recovery analysis takes current real estate conditions as the base case for B_{SF} ratings, but we apply the full fire-sale discount.

We also believe that under the highest rating stress – AAA_{SF} – a property could be sold in the market at a price, which: i) totally eliminates any value difference compared to a long-term sustainable reference; ii) reflects an additional value loss of 10%; and iii) also reflects a fire-sale discount of 30%. The weighted average effective LTV implicit in our analysis for the AAA conditional recovery rate is 297%. This implies a total value haircut average of 63.4% after adjusting for indexation, market-value, fire-sale and foreclosure costs.

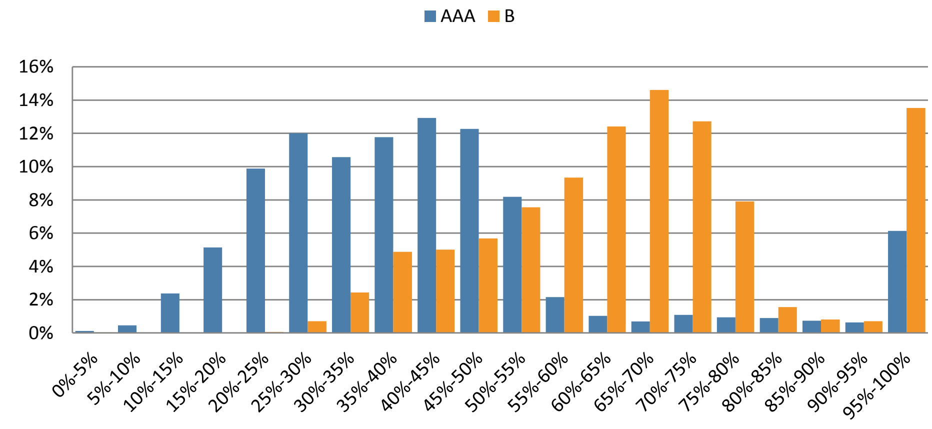
The agency calculated a blended base-case portfolio recovery rate of 60.2%. Figure 13 provides the indicative stress levels Scope has considered per rating category for assessing this transaction. The use of rating-conditional recovery rates produces increased rating stability.

Figure 13. Rating-conditional recovery rates

Rating conditional stress	Implicit total value haircut	Rating conditional recovery rate
AAA	63.4%	**36.6%**
AA	57.8%	**42.2%**
A	53.4%	**46.6%**
BBB	48.6%	**51.4%**
BB	44.5%	**55.5%**
B (base case)	39.8%	**60.2%**

Figure 14 shows the distribution of the loan-specific recovery rates calculated by Scope under 'AAA and B conditional' stresses. We calculated the portfolio recovery rate as the default-weighted average of the loan-specific recovery rates considering the risk differentiation provided by the internal probabilities of default reported by Santander.

Figure 14. Frequency distributions of calculated recovery rates



We believe recovery processes will be slow

We believe recovery processes will be slow, mostly because of the difficulty in completing fast evictions. We considered a recovery lag of five years in our analysis, which we consider necessary to realise the value of the underlying real estate collateral under stress scenarios, particularly under the current conditions of the Spanish property market. The long recovery lag creates additional liquidity stress for the transaction in our analysis. The recovery lag we derived from vintage data was just two years, over which the full realisation of recovery proceeds is not possible.

Cure rate (CR)

Scope assumed a low blended cure rate of 24% from 90dpd recovery vintage data to estimate the share of 90dpd delinquent assets that do not migrate into default as classified by the transaction documents. This compares to the cure rate of 46.3% for ‘conforming’ mortgages in the book of Santander, and incorporates the assumption that reconducted mortgages do not cure given their high vulnerability and limited servicer flexibility.

The low cure rate also results from: i) Santander’s highly proactive monitoring processes, resulting in most ‘curable’ delinquencies being fixed before they breach the 90dpd threshold; and ii) the weak credit quality of the obligors, who are unlikely to recover once impaired. Santander did not provide 540dpd-default-rate vintage data to refer a true default rate to the 90dpd-base-case assumption for the portfolio.

This blended 24% cure rate assumption was considered constant in our analysis (i.e. not rating conditional like recovery rates), as a share of the portfolio is assumed to be delinquent as a function of the default rate scenario in Scope’s cash-flow modelling.

Constant prepayment rate (CPR) assumptions

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

Scope tested Serie A notes against the most conservative 0% CPR assumption as Serie A benefits from prepayments. Scope used a CPR assumption of 5% to analyse the Serie B and C notes.

This is justified as Santander did not provide product-specific prepayment information and Scope relied on references available from previous, similar RMBS transactions by Santander. These showed historical CPR values between 1% and 3% under the current environment.

Quantitative analysis

Scope used a bespoke cash flow model to analyse this transaction

Scope used a bespoke cash flow (CF) tool to analyse the transaction. Scope modelled the preliminary portfolio with three distinct, but perfectly correlated, portfolio segments: i) ‘conforming’ mortgages; ii) ‘non-conforming’ mortgages; and iii) broker-originated mortgages.

Scope analysed the default pattern of the asset portfolio using an inverse Gaussian probability distribution and the CF tool to calculate the probability-weighted (i.e. expected) loss of each of the rated tranches, using rating-level-conditional recovery-rate assumptions. The CF tool also produces the expected WAL for each of the rated tranches.

Scope has not adjusted the performance references for this transaction, considering a long-term or economic-cycle view[2]. The default-rate references we have used for this portfolio are explained mostly by the weak credit strength of the obligors, and not just by the point in time in the economic cycle. Consequently, we do not believe that the performance of the underlying portfolio will follow the average of the market.

The A+$_{SF}$ rating assigned to the Serie A notes is consistent with the strong results of the cash flow analysis despite the severity of the base case assumptions. The amortising nature of the transaction and the positive macroeconomic outlook provide further comfort as potential improvements in unemployment levels assist the deal’s performance.

[2] For more details on our long-term adjustments see Scope’s SME CLO Rating Methodology, dated May 2015 and available at www.scoperatings.com.

Figure 15. Modelling results and assumptions

	Ratings	Mean DR 90dpd	Cure Rate	DR CoV (90dpd)	Applicable RR	Recovery lag	CPR	Default timing
Series A	A+SF	42%	24.0%	28.4%	44.0%	5 years	0.0%	Front loaded
Series B	CCSF				58.0%		0.0%	
Series C	CSF				58.0%		5.0%	

[a] The Serie C notes have an expected WAL which is shorter than that of the Serie B because these notes will immediately be wiped out.

Scope considered a front-loaded asset-default timing. Back-loaded default scenarios would not be as severe because of the credit-enhancement build-up from the effect of portfolio amortisation and limited excess spread.

The cumulative default timing assumptions are shown on Figure 16. These assumptions imply the front-loading of delinquencies, which start 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. 18 months past due for loans).

Figure 16. Default timing assumptions for the three portfolio segments

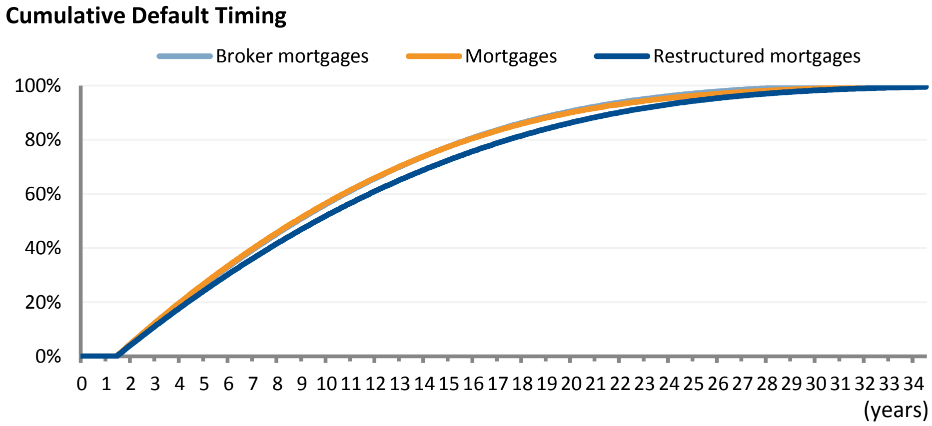
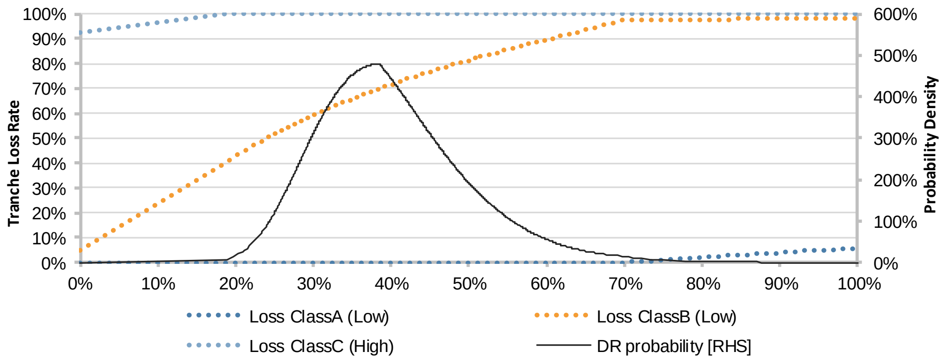


Figure 17 shows the losses of each of the tranches for all portfolio default rates under the base-case recovery-rate assumption of 74%. The Serie B and C notes experience losses under portfolio default rates in our modelling because of the margin stress we have applied to cover interest-rate risk in the absence of a swap agreement.

Figure 17. CF analysis under base-case mean DR, CoV, RR and cure rate for 0% CPR



Rating stability

Rating sensitivity

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

Scope has tested the resilience of the rating against deviations of the main input parameters: the mean default rate, the default rate coefficient of variation and the recovery rate. These tests have the sole purpose of illustrating the sensitivity of the rating to input assumptions and should not be considered indicative of expected or likely scenarios.

Sensitivity analysis indicates that the class A will generally continue to be investment grade, even under harsh sensitivity stresses

The sensitivity analysis indicates that the Serie A rating is relatively robust and generally remains investment grade. Only a 50% reduction of the recovery rate would result in a downgrade of Serie A by six notches; down to BB+ also results in a loss of investment grade.

Generally, the Serie A rating remains resilient to shifts of the mean default rate by 25% and 50%, prompting a negative three-notch impact. The Serie A is most sensitive to shifts of the recovery rate. A 25% decrease lowers the results by three notches and a 50% decreases, by six notches.

The series A rating remain resilient to stresses of the default-rate coefficient of variation. The coefficient of variation increasing by 50% only results in a one-notch impact.

Ratings of class B and C are so low that they are not sensitive to stresses

The Serie B and C ratings are insensitive to stresses. The severity of the losses for the Serie B notes does not materially increase if either the mean default rate or the base case recovery assumptions are stressed. The class B and C ratings are insensitive to stresses of the coefficient of variation.

Figure 18. Rating sensitivity to shifts in the portfolio mean lifetime-default rate

DR (sensitivity in notches)	Class A	Class B	Class C
Base case DR + 25%	-3	—	—
Base case DR + 50%	-3	—	—

Figure 19. Rating sensitivity to shifts in the portfolio recovery rate

RR (sensitivity in notches)	Class A	Class B	Class C
Base case RR - 25%	-3	—	—
Base case RR - 50%	-6	—	—

Figure 20. 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 CoV + 50%	-1	—	—

Figure 21. 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 DR + 25%, Base case RR - 25%	-5	—	—

Break-even analysis

Under a 44% recovery rate assumption, the class A would not experience any loss under portfolio default rates of 46% or less

The break-even analysis also shows the robustness of the Serie A rating. The break-even portfolio default rate for the Serie A notes is 23.3% under a zero-recovery rate assumption – a very harsh assumption for a mortgage portfolio. The break-even portfolio default rate for the Serie A notes is 46% under a 44% recovery assumption.

We expect the investor in Serie B and C notes will lose money in all default rate scenarios under our base-case recovery-rate assumption.

Sovereign risk

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit the ratings on this transaction. The risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems, which are due to a hypothetical exit of Spain from the eurozone, are not material for the rating of Serie A.

Scope gives limited credit to the positive economic outlook for the credit analysis of this transaction. We believe the obligors in this portfolio are weak and very vulnerable to downturns.

Despite Spain's current GDP-growth trend, the credit performance of this transaction depends more on the effective solution of fundamental imbalances in a longer term. These imbalances are the high level of public and private debt, the still-large budget deficit, the negative net-investment position and, above all, the very high unemployment.

Crystallisation of political risk would have material consequences for the default and recovery performance of this portfolio. Hypothetical populist policies seeking to protect distressed borrowers would increase the default rates and reduce the recovery rates of this portfolio. Scope has already factored this risk into the base case for the analysis, which explains why we do not believe that higher loss scenarios are very likely.

Monitoring

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

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

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

Applied methodology and data adequacy

For the analysis of this transaction Scope applied its 'General Structured Finance Rating Methodology', dated 28 August 2015. Scope also applied the 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated 10 August 2015. Both methodologies are available on www.scoperatings.com. 'Appendix III. Recovery analysis' and 'Appendix IV. Spanish market-value-decline analysis' provide additional methodological details on the analysis performed to calculate loan-level fundamental-recovery assumptions.

Appendix I. Transaction comparison

Figure 22. Comparison of recent Santander FT/FTA RMBS SANTANDER transactions

Key Features	RMBS 5^A	RMBS 5^B	RMBS 4	RMBS 3	RMBS 2	RMBS 1
Originator	Santander, Banesto, Banif	Santander, Banesto, Banif	Santander and Banesto	Santander and Banesto	Santander and Banesto	Santander and Banesto
Closing date	Dec 2015	Dec 2015	Jul 2015	Nov 2014	Jul 2014	Jun 2014
Senior tranche (EURm)	1,014	1,014	2,360	5,395	2,520	962
CE (% of portfolio)	25.5%	25.5%	25%	32.0%	31.0%	41.0%
Mezzanine tranche (EURm)	261	261	590	1,105	480	338
CE (% of portfolio)	5%	5%	5%	15.0%	15.0%	15.0%
Junior tranche (EURm)	63.7	63.7	147.5	975	450	195
CE (% of portfolio)	0	0	0%	0%	0%	0%
Reserve fund (EURm)	63.7	63.7	147.5	975	450	195
Portfolio size (EURm)	1,275	1,275	2,950	6,500	3,000	1,300
Current LTV under updated appraisals	102%	105%	102.9%	104%	n/a	n/a
Current LTV under original appraisals	80%	82%	69.5%	70%	68%	73%
Original LTV under original appraisals	94%	94%	79.2%	80%	79%	80%
Top 1 region	Madrid (25,7%)	Madrid (25,3%)	Andalucia (20%)	Andalucia (24.4%)	Madrid (21.72%)	Andalucia (21.8%)
Top 2 region	Andalucia (17.9%)	Andalucia (18.3%)	Madrid (18.9%)	Madrid (19.8%)	Andalucia (17.28%)	Madrid (17.93%)
Top 3 region	Catalonia (13.5%	Catalonia (13.3%	Catalonia (15.1%)	Catalonia (11.8%)	Catalonia (16.82%)	Catalonia (16.94%)
Restructured loans (% of portfolio)	26.8%	29.9%	20.7%	19.5%	21.1%	7.2%
Broker-originated loans (% of portfolio)	1.1%	1.1%	0.9%	4.5%	2.3%	4.5%
Second homes (% of portfolio)	3.8%	3.6%	2.0%	1.6%	2.1%	7.2%
Non-Spanish borrowers (% of portfolio)	4.5%	4.5%	4.9%	5.1%	3.5%	6.0%
Number of loans*	8,856	9,572	20,255	45,318	20,881	n/a
Number of obligors*	8,842	9,554	20,398	45,166	20,550	9,367
Original amount (EURm)*	1,470	1,598	3,465	7,869	3,752	n/a
Outstanding amount (EURm)*	1,275	1,399	3,011	6,787	3,188	1,353
Average outstanding amount (EUR)	143,970	146,105	148,658	173,651	152,695	144,424
WA coupon	1,40%	1,40%	1.6%	1.7%	1.2%	2.0%
WA spread	1.00%	1.02%	0.9%	0.8%	0.6%	1.4%
Fixed rate (% of portfolio)	0.3%	0.3%	0.2%	0.3%	0.3%	0.0%
WA seasoning (years)	6.29	6.25	7	6.5	6.8	5.5
WA current remaining term (years)	25.1	25.4	25.5	25.2	24.3	25.5
WAL with no prepayments (years)	12.6	11.9	13.7	n/a	n/a	n/a
Oldest loan	May 91	May 91	Jan 2004	n/a	n/a	n/a
Youngest loan	Sept 2015	Sept 2015	Jan 2015	n/a	n/a	n/a
Earliest maturity	Feb 2020	Jan 2020	Oct 2017	n/a	n/a	n/a
Longest maturity	Aug 2061	Aug 2061	Aug 2059	n/a	n/a	n/a
Bullet (% of portfolio)	0.0%	0.0%	0.0%	n/a	n/a	n/a
First-ranking mortgage (% of portfolio)	100%	100%	100.0%	100.0%	100.0%	100.0%
Secured loans (% of portfolio)	100%	100%	100.0%	100.0%	100.0%	100.0%
Residential (% of portfolio)	100%	100%	100.0%	100.0%	100.0%	100.0%

RMBS 5^A refers to the final portfolio as of 14 Dec 2015, RMBS5^B shows the updated preliminary portfolio.

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 23. Coverage and granularity of vintage data for 90dpd arrears

Portfolio segment	Mortgages (69.0% of preliminary pool)	Restructured Mortgages (29.8% of preliminary pool)	Broker Mortgages (1.1% of preliminary pool)
Total volume (EURm)	7,176	2,152	160
Total count	46,956	11,348	1,123
Series	31	34	10
Series period (mo)	3	3	3
Period covered	2007 to 2014	2007 to 2015	2007 to 2010

90dpd recovery data

Figure 24. Coverage and granularity of vintage data for 90dpd arrears recoveries

Portfolio segment	Mortgages (69.0% of preliminary pool)	Restructured Mortgages (29.8% of preliminary pool)	Broker Mortgages (1.1% of preliminary pool)
Total volume (EURm)	564	1,829	43
Total count	3180	9439	259
Series	34	34	33
Series period (mo)	3	3	3
Period covered	2007 to 2015	2007 to 2015	2008 to 2015

Relevant vintage data

90dpd delinquency data	180dpd recovery data

Figure 25. 90dpd delinquency data consolidated by year Mortgages

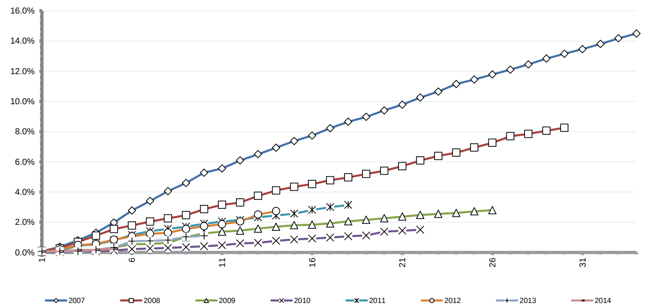


Figure 26. 90dpd recovery data consolidated by year Mortgages

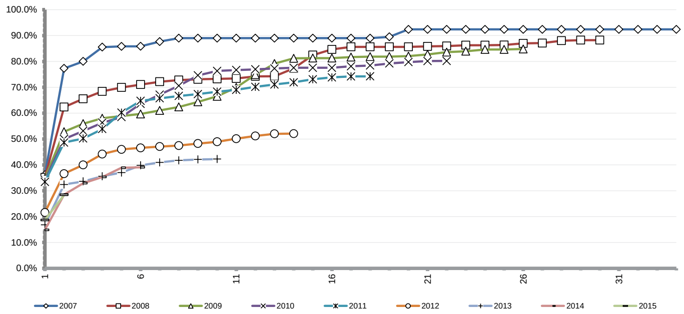


Figure 27. 90dpd delinquency data consolidated by year Restructured mortgages

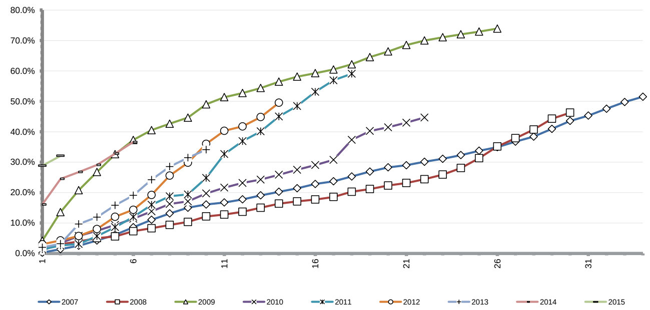


Figure 28. 90dpd recovery data consolidated by year Restructured mortgages

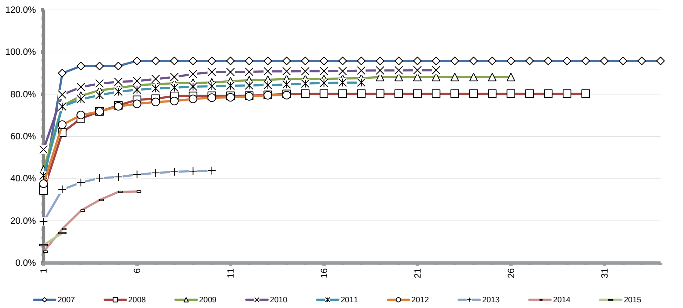


Figure 29. 90dpd delinquency data consolidated by year Broker mortgages

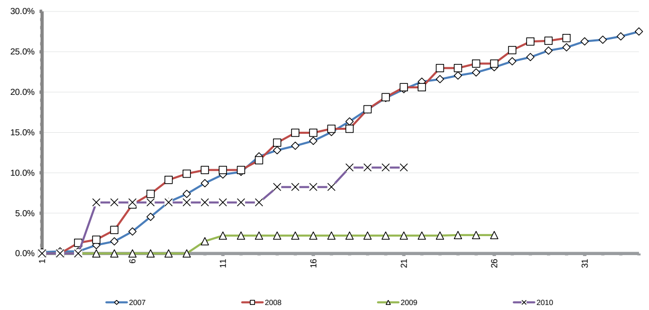
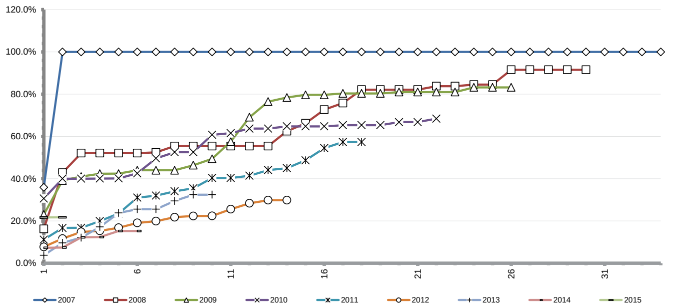


Figure 30. 90dpd recovery data consolidated by year Broker mortgages



Appendix III. Recovery analysis

The agency calculates the recovery rates on secured exposures, such as mortgages, by analysing the value of the dedicated security

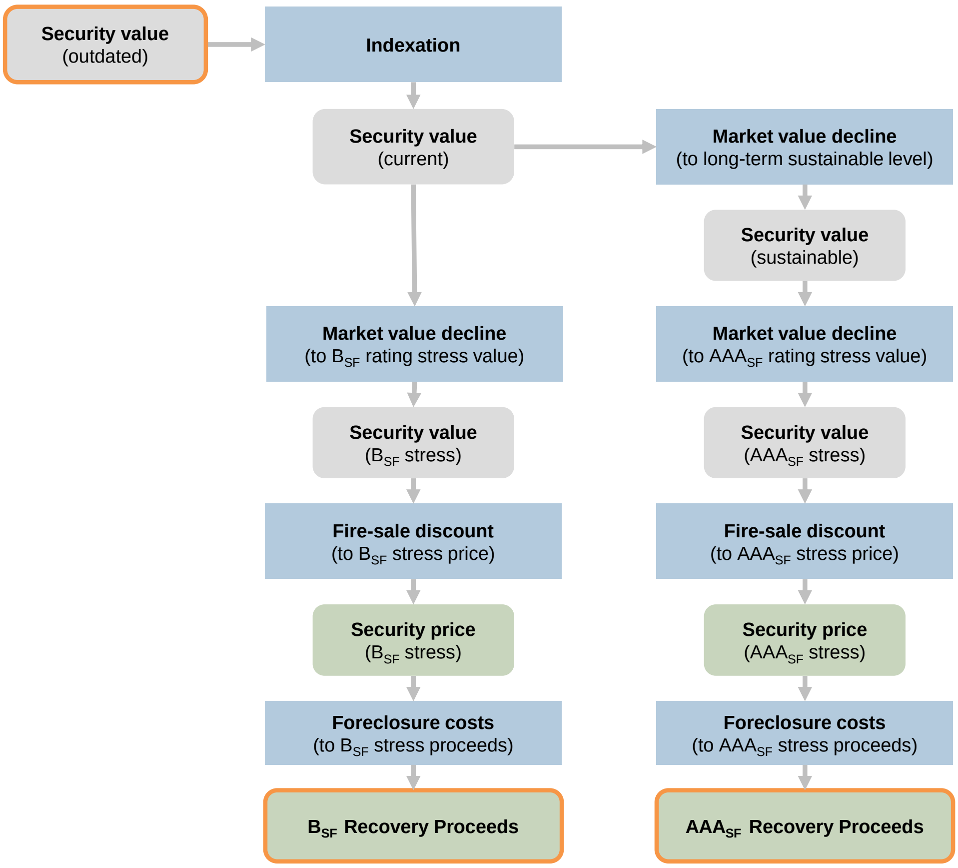
The agency calculates the recovery rates on secured exposures, such as mortgages, by analysing the value of the dedicated security. In this analysis, the security value is the stressed value of the underlying residential real estate properties. The recovery analysis considers the distance to a long-run or sustainable price level of the underlying properties, as well as fire-sale discounts during a foreclosure process. Consequently, the market-value-decline assumptions we consider depend on the region where the collateral is located, as well as on market conditions.

Scope's framework for fundamental recovery analysis involves: i) estimating the current value of the property (typically by indexation); ii) estimating the distance from estimated price to long-term sustainable values; iii) haircutting the current value of the property by applying a rating-conditional market-value decline and a constant fire-sale discount; and iv) deducting foreclosure costs from the estimated, gross recovery proceeds. Steps 'ii)' and 'iii)' are embedded in the total market-value-decline assumptions as calculated in 'Appendix IV. Spanish market-value-decline analysis'.

The recovery rates considered in the analysis reflect the outstanding notional of the loan as of closing. These recovery rates are thus conservative because deleveraging reduces the loan-to-value ratio and increases the expected recovery rates as time passes.

Figure 31 shows the analytical framework applied to estimate the proceeds recovered from the enforcement of the security. The framework includes the adjustment of the security value to a long-term, sustainable value to estimate the recovery proceeds under the highest rating stress.

Figure 31. Fundamental recovery analysis for B_{SF} and AAA_{SF} conditional stress levels



AAA_{SF} market-value declines capture the distance to sustainable values and an additional stress of 10%. Whereas B_{SF} market-value declines take our forward-looking view on the current market conditions and values, and they still include the effect of a fire-sale discount. Scope creates rating-conditional recovery differentiation by tiering the market-value declines implicit for these two analyses: stressed long-term value analysis for AAA_{SF} and forward-looking/current-value analysis for B_{SF}.

Scope relied on fundamental recovery analysis because the security represents first-lien claims on the underlying real estate properties. We believe that the security cannot be challenged from a legal standpoint, as follows from our analysis of the legal opinion.

Appendix IV. Spanish market-value-decline analysis

Scope analysed the current situation of the Spanish property market to derive market-value decline (MVD) assumptions specific to the different regions. This analysis is possible because the portfolio provides a good representation of the properties in a region: a distribution over cities and towns, which is similar to that over the entire regional market represented by the ministry data.

We have analysed home prices for the different Spanish regions for the period Jan 1987 to Dec 2014, as provided by the Spanish ministry of development; and a set of 1,965 valid observations of repossessions of residential properties provided by Santander covering the period from Feb 2005 to today.

Scope's AAA MVDs seek to eliminate overpricing over a 'sustainable' long-term value of a property with an additional fire-sale discount

The MVDs calculated by Scope for AAA conditional rating scenarios seek to eliminate any overpricing realised over our estimation of the 'sustainable' long-term value of a property[3] (including an extra 10% stress) with the additional application of a fire-sale discount of 30%. The MVD also considers the inflation rates when calculating the 'sustainable' values. The B conditional MVDs reflect only the fire-sale discount of 30%.

Figure 32 shows the total MVD assumptions calculated by Scope for the different regions as a function of the rating-conditional stress. The MVDs reflect regional differences in relation to property-price growth rates and the regional market's ability to correct inflated prices. These total MVD values apply to indexed property values according to the indexation curves from the ministry of development. Hence our analysis also considers any price corrections to date.

We have also applied a floor of 50% to ensure a minimum level of stress, irrespective of the price correction in the region. This adds additional protection against market-value volatility in some regions for which prices are currently close to our estimated sustainable price level. For example, Figure 33 shows that the haircut from sustainable prices for Madrid is larger than for Andalucia because we believe the more dynamic market and stronger economy in Madrid supports sustainable prices, which also grow faster than in Andalucia. But the higher level of sustainable prices in Madrid comes with the risk of unforeseen corrections, which is covered by the floor assumption.

Figure 32. Total MVD assumptions and haircuts observed in Santander repossession data

	AAA	AA	A	BBB	BB	B	Observed[a]
Andalucia	70.0%	**60.0%**	52.5%	45.0%	37.5%	30.0%	54.7% ± 1.8%
Aragon	55.0%	**50.0%**	45.0%	40.0%	35.0%	30.0%	42.6% ± 4.7%
Asturias	52.5%	**50.0%**	45.0%	40.0%	35.0%	30.0%	50.3% ± 10.1%
Baleares	62.5%	**57.5%**	50.0%	42.5%	37.5%	30.0%	53.3% ± 3.7%
Canarias	57.5%	**52.5%**	47.5%	40.0%	35.0%	30.0%	54.4% ± 1.3%
Cantabria	62.5%	**57.5%**	50.0%	42.5%	37.5%	30.0%	41.6% ± 7.9%
Castilla La Mancha	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	48.2% ± 3.9%
Castilla Leon	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	44.1% ± 3.1%
Catalonia	52.5%	**47.5%**	42.5%	40.0%	35.0%	30.0%	57.4% ± 1.9%
Valencia	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	58.1% ± 1.7%
Extremadura	67.5%	**60.0%**	52.5%	45.0%	37.5%	30.0%	48.6% ± 9.3%
Galicia	57.5%	**52.5%**	47.5%	42.5%	35.0%	30.0%	45.9% ± 5.1%
La Rioja	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	47.3% ± 6.8%
Madrid	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	48.3% ± 2.2%
Murcia	65.0%	**57.5%**	50.0%	45.0%	37.5%	30.0%	55.6% ± 3.3%
Navarra	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	54.0% ± 8.3%
Pais Vasco	55.0%	**50.0%**	45.0%	40.0%	35.0%	30.0%	51.9% ± 3.2%
Ceuta	52.5%	**47.5%**	42.5%	40.0%	35.0%	30.0%	54.7% ± 1.8%
Melilla	50.0%	**45.0%**	42.5%	37.5%	35.0%	30.0%	42.6% ± 4.7%

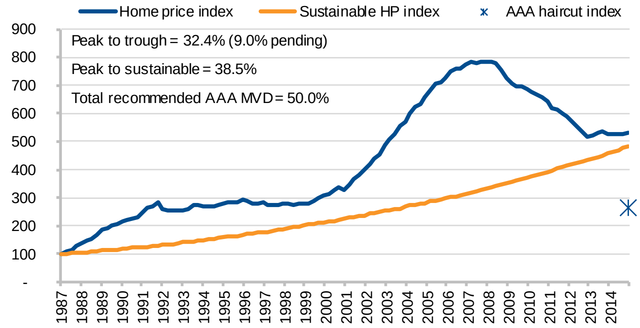
[a] The observed total MVD interval has a 90% confidence level, and we derived it from Santander's repossession data for the period February 2005 to today. Consequently, they reflect different degrees of price corrections in the market. The ranges displayed cannot be directly compared to the total MVD assumptions used by Scope for the analysis.

[3] We have derived the sustainable price levels by analysing market prices over a healthy period between 1987 and 1999.

Figure 33 shows the recommended total MVDs in the context of market prices for the four most relevant regions in the portfolio. The figures illustrate that the dynamism of Madrid has allowed it to almost close the value gap with respect to the sustainable price level (only 9% of the peak-to-sustainable correction is pending), as opposed to Andalucia which is far from converging to the sustainable levels (47% of the peak-to-sustainable correction is pending).

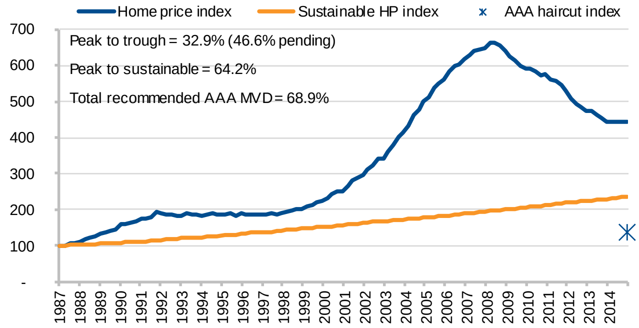
Figure 33. Total market-value-decline assumptions for the four most relevant regions in the portfolio.

House prices 'Madrid' (25.9% of total balance)



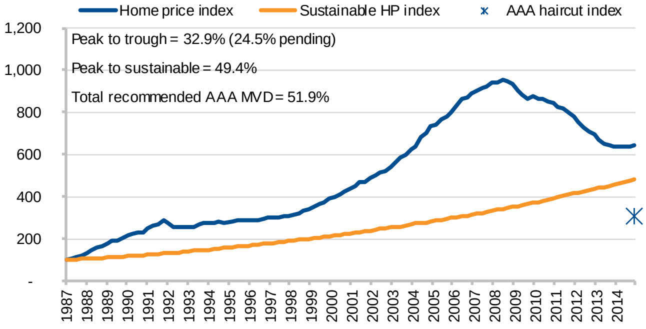
Source: Spanish Ministery of Development and Scope.

House prices 'Andalucia' (17.7% of total balance)



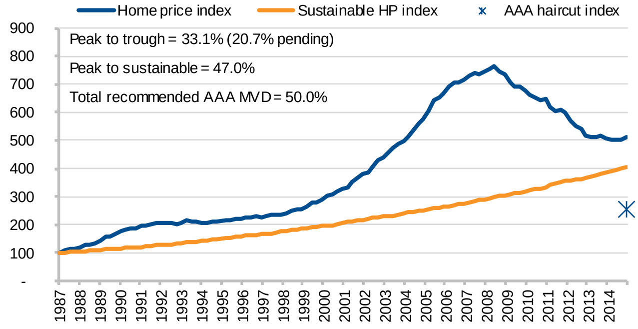
Source: Spanish Ministery of Development and Scope.

House prices 'Catalonia' (13.4% of total balance)



Source: Spanish Ministery of Development and Scope.

House prices 'Valencia' (8.3% of total balance)



Source: Spanish Ministery of Development and Scope.

Appendix V. 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, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Karlo Fuchs, Executive Director. Responsible for approving the rating: Guillaume Jolivet, Managing Director.

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
ES0305108005	9 December 2015	new	(P) A+$_{SF}$
ES0305108013	9 December 2015	new	(P) CC$_{SF}$
ES0305108021	9 December 2015	new	(P) (C$_{SF}$

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a mandate of the issuer of the investment as represented by Santander de Titulización SGFT SA.

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Offering circular and preliminary contracts; operational review presentations; delinquency and recovery vintage data; loan-by-loan preliminary portfolio information; draft legal opinion; and final 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, 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 General Structured Finance Rating Methodology, dated 28 August 2015. Scope also applied Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated 10 August 2015. Both files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed online on the central platform (CEREP) of the European Securities and Markets Authority (ESMA). 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.

Conditions of use / exclusion of liability

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