FT PYMES SANTANDER 13
SME ABS / New Issue Rating Report

Scope Ratings

Ratings

Series	Rating	Notional (EURm)	Notional (% assets)	CE (%)	Coupon	ISIN
Serie A	AAA_{SF}	2,254.5	83.5	21.5	Euribor 3M + 0.30%	ES0305289003
Serie B	$BB+_{SF}$	445.5	16.5	5.0	Euribor 3M + 0.50%	ES0305289011
Serie C	CCC_{SF}	135.0	5.0	0.0	Euribor 3M + 0.65%	ES0305289029
Rated notes		2,700.0				

Scope's quantitative analysis is based on the preliminary portfolio dated 2 October 2017 and subsequent updates up to 27 December 2017, provided by the originator. Scope's Structured Finance ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website (www.scoperatings.com) for the SF Rating Definitions.

Transaction details

Purpose	Liquidity/Funding
Issuer	FT PYMES Santander 13
Originator/Servicer	Banco Santander S.A. (AA-/S-1/Stable)
Closing date	25 January 2018
Legal final maturity date	15 May 2043
Payment frequency	Quarterly on the 15th of February, May, August and November
Payment date convention	Following business day
Interest calculation	Actual/365

The transaction is a true-sale securitisation of a EUR 2.7bn portfolio of unsecured loans (57.3%), mortgages (23.2%) and credit lines (19.4%) (jointly, the assets) granted to small- and medium-sized enterprises (SMEs) by Banco Santander to finance diverse business-related needs. The assets are originated by Santander, as well as Banesto and BANIF, two banking franchises fully integrated in Santander.

Rating rationale (summary)

The ratings reflect: i) the quality of the underlying collateral in the context of the Spanish macroeconomic environment; ii) the legal and financial structure of the transaction; iii) the transaction-specific protection features; iv) the ability of the originator and servicer, Banco Santander S.A. (Santander); and v) the management ability of Santander de Titulización SGFT S.A.

The ratings also reflect the bonds' protection against portfolio losses, provided by 21.5% and 5% from subordination available for the respective Serie A and Serie B structures, and the benefit of excess interest from the assets. The Serie A and B will also benefit from the strictly sequential amortisation schedule and the amortising nature of the assets in the portfolio. Scope's stable outlook for the Spanish economy reflects positively on the transaction's expected asset performance. Scope has determined that sovereign risk does not constrain the ratings of the Serie A over its short-expected life.

The ratings also factor in the transaction's counterparty risk, mostly regarding Santander as servicer, account bank, liquidity facility provider, paying agent and subordinated fund provider. The counterparty risk is mitigated by the bank's credit quality (AA-/S-1/Stable), mechanisms in the structure such as role transfer arrangements at loss of BBB, as well as the limited time exposure.

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Related Research

SME ABS Rating Methodology, 30 June 2017

Methodology for Counterparty Risk in Structured Finance, August 2017

General Structured Finance Rating Methodology, August 2017

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Rating drivers

Positive rating drivers

Obligor credit quality. The portfolio's obligors are on average stronger than those in previous PYMES Santander transactions. This is illustrated by the weighted average one-year probability of default of 2.1% assigned by Santander to the portfolio, significantly lower than the 3.3% for PYMES 12. The outstanding portfolio, alongside the early expected amortisation of the credit lines, is also expected to perform better than PYMES 12, based on Santander's internal one-year probability of default data.

Fast amortisation. Serie A's short expected life substantially limits the risk exposure to counterparties and to possible macroeconomic deterioration. Its weighted average life is 1.3 years under a 0% constant prepayment rate assumption, mainly driven by the fast amortisation of the credit line segment.

Transparent structure. The deal features a swapless, strictly-sequential, three-tranche structure with a combined priority of payments, a cash reserve for default provisioning, and a liquidity facility to fund further drawings under credit lines which cannot be serviced from the portfolio.

Spanish economy. Scope's Stable Outlook on the Kingdom of Spain, driven by the country's ongoing structural reforms and banking sector improvements, will benefit the Serie A and may also benefit the Serie B, unless persistent challenges (e.g. from unemployment or political uncertainties) lead to a slower economic development during the life of the mezzanine class.

Negative rating drivers and mitigants

Low credit enhancement. The credit enhancement available for the Series A and B is lower for this transaction compared to previous PYMES transactions analysed by Scope, but reflects the portfolio's higher credit quality.

High risk of default rate volatility. Under a stress scenario, the performance of the mortgage segment could deviate significantly from Scope's mean default rate assumptions. This is reflected mainly by the mortgage segment's high point-in-time coefficient of variation and point-in-time historical mean default rate.

Undrawn credit line exposure. This segment exposes the transaction to revolving and refinancing risks which may increase portfolio default rates under stress scenarios. These risks are mitigated by i) Santander's solid track record in originating and managing credit lines, ii) the portfolio's repayment profile, and iii) the very short life of the credit lines. The weighted average use of these credit lines is 79% and could only theoretically increase up to 105% within the next six months post-closing.

Unhedged fixed-floating mismatch. The transaction is exposed to interest rate risk because 21% of the collateral balance pays a fixed coupon. Scope considers this risk to be immaterial given the currently low current interest rates, the monetary policy implemented by the central bank, the very short life of the Serie A, and the excess spread available

Counterparty concentration. Counterparty risk to Santander is mitigated by the expected short life of the Serie A; the credit quality of the bank as reflected in Scope's rating; and adequate structural protection features, which include the bank's automatic replacement (as account bank, liquidity facility provider and paying agent) upon loss of a BBB rating.

Positive rating-change drivers

Stronger-than-expected performance of the Spanish economy would positively impact the rating of the Serie B.

Negative rating-change drivers

The crystallisation of the political tensions in Catalonia during the life of the Serie B, and their negative impacts on the economy, may adversely impact this class. However, such scenario is unlikely and, by this point, additional credit enhancement would be available for the Serie B.

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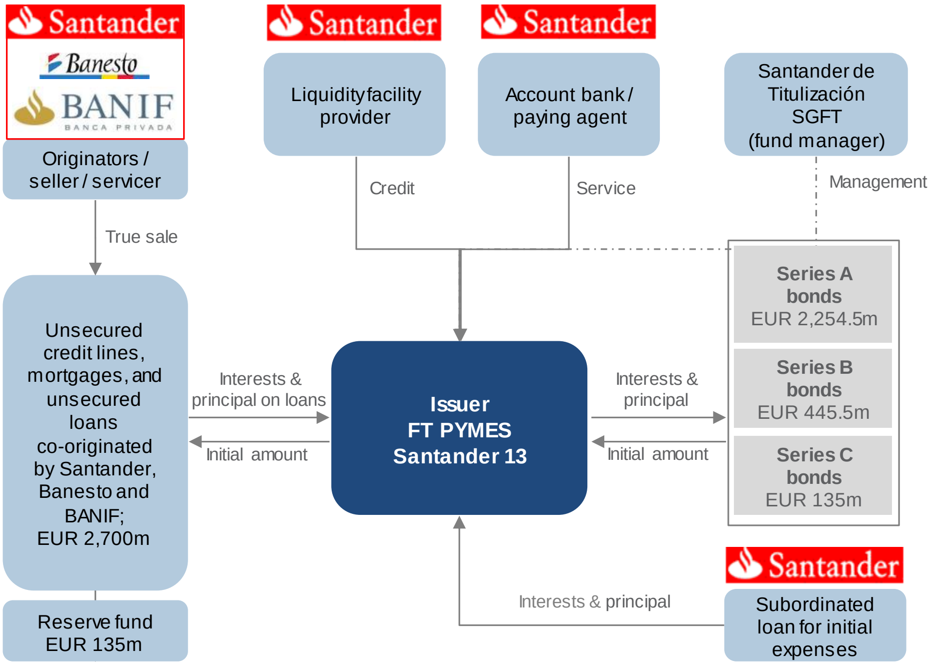
Transaction summary

Figure 1: Simplified transaction diagram:



Source: Transaction documents and Scope.

The transaction is a strictly sequential three-tranche cash-flow securitisation with a combined priority of payments, a cash reserve for default provisioning, and a liquidity facility that fund further credit line drawings after the transaction closes.

The Serie A rating reflects the tranche's risk exposure to fast-amortising assets, weighted average life of 1.3 years (calculated by Scope using a 0% constant prepayment rate assumption), and 21.5% credit enhancement protection against losses. This level of credit enhancement, while lower than that of previous PYMES Santander transactions, is associated with better-quality securitised assets.

The Serie B rating reflects the tranche's weighted average life of 4.5 years, which Scope derived using a 15% constant prepayment rate assumption, reflecting the exposure to long-maturity mortgage loans. The tranche benefits from 5% credit enhancement but remains exposed to the medium-term economic uncertainties in Spain beyond Scope's outlook.

Serie C provides funds for the cash reserve, and its rating reflects the expected provisioning of portfolio losses from this reserve (weighted average life of 16.3 years, calculated under a 15% constant prepayment rate assumption).

All rated classes also benefit from the expected periodic excess spread, accumulating to 1.2% as of the pool cut date, and which the Serie C is entitled to receive unless required for shortfall provisioning. The excess spread calculation accounts for a stressed 1% of senior costs and taxes.

Securitised asset analysis

Portfolio overview

The portfolio comprises credit lines, mortgages and unsecured loans originated by Banco Santander (96.91%), Banesto (1.59%) and BANIF (1.5%). The credits were granted to Spanish SMEs (89.3%) and self-employed Spanish individuals (10.7%) to finance core business needs, equipment purchase, real estate acquisition and renovation.

The securitised portfolio is split between six sub-segments that result from classifying the assets by i) obligor size according to their turnover and risk exposure and ii) product type (see Figure 2).

Unlike previous Santander PYMES transactions, the transaction does not contain reconducted products (debt consolidation), which tend to have high default rates.

Figure 2: Asset segmentation as per the portfolio segmentation criteria

Product type	Large obligors* (% of portfolio)	Small obligors* (% of portfolio)
Unsecured loans	24.5	32.9
Mortgages	19.9	3.4
Credit lines	11.3	8.2

* Large obligors are managed by dedicated analyst when small obligors are managed under standard processes

Figure 3: Asset segmentation qs per portfolio weight, number of loans and obligors

	Credit lines	Mortgages	Unsecured loans
Portfolio weight (%)	19.4	23.2	57.3
Loans (#)	9,818	1,992	50,083
Obligors (#)	9,702	1,804	35,046

Figure 4: Portfolio industry distribution

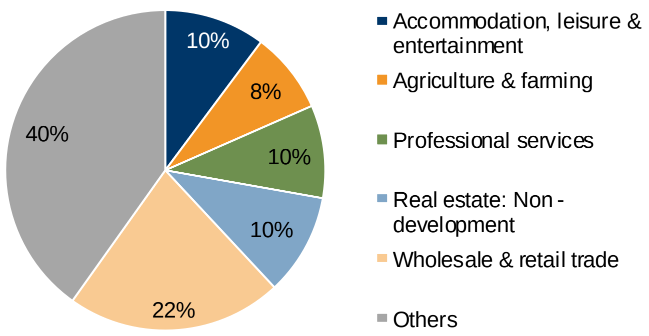
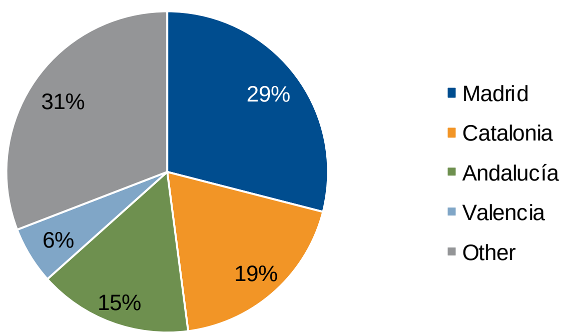


Figure 5: Portfolio regional distribution



The portfolio will benefit from positive selection as eligibility criteria exclude exposures that are more than 30 days delinquent as of closing.

The portfolio as of 27 December 2017 has a weighted average seasoning of 2.8 years, a remaining term to maturity of 4.0 years, and a weighted average life of 1.6 years. The assets were mainly originated after 2010 (92%), with a significant share from 2015 (73%).

Most assets in the portfolio are floating-rate referenced to Euribor (79%); 36% of the portfolio consists of loans with a third-party guarantee, 30.5% with a personal guarantee, and 33.5% without a guarantee.

Final portfolio selection

Scope based its rating analysis on the final audited pool provided by Santander. The pool consists of assets selected from the preliminary portfolio. The transaction had limited flexibility to select final assets, resulting in characteristics being substantially the same between the final and preliminary portfolios. The final portfolio at a balance of EUR 2,700m is lower than the preliminary portfolio at EUR 3.929m (2 October 2017), which reflects three months of amortisation and the final application of eligibility criteria.

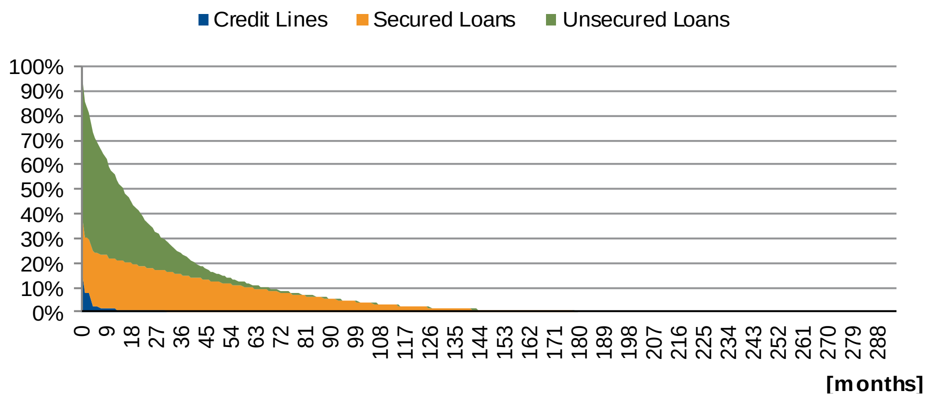
Fast amortisation and bar-belled amortisation profile

Serie A has a short risk exposure to counterparties and to possible macroeconomic deterioration

Serie A has a short risk exposure to counterparties and to macroeconomic deterioration, thanks to an expected weighted average life of 1.3 years under 0% constant prepayment rate. This is because the portfolio will reduce by 40% of the original balance only seven months after closing – assuming a 0% constant prepayment rate and no defaults. This fast amortisation is driven by credit lines with a weighted average life of just four months (similar to PYMES 12 at only five months) and by the generally French amortisation schedule.

The portfolio features three distinct periods for the transaction: i) an early stage in which the Serie A amortises quickly due to fast-amortising credit lines; ii) a middle stage in which mortgages and unsecured loans are the main exposures; and iii) a late stage with a potentially lumpy outstanding portfolio composed of mortgages. Credit enhancement build-up over the life of the transaction may mitigate concentration risk towards the end of the transaction because the amortisation of the notes is strictly sequential (see Figure 6).

Figure 6: Portfolio amortisation under 0% constant prepayment rate and 0% default rate



Exposures to Catalonia

The highest share of exposures from Catalonia are 18.7%, 18.9% and 16.9% respectively for credit lines, mortgages and unsecured loans, for a weighted average exposure of 17.7%. The weighted average loan-to-value ratio of Catalonia mortgages is 45.3%; 4.4% of these mortgages have a loan-to-value higher than 80% (see Figure 8). Scope does not expect current political developments to significantly affect the Serie A given the tranche's short life and its available credit protection. By contrast, the Serie B with its longer life is more exposed a crystallisation of political tensions over the next five years.

Portfolio assumptions

Figure 7: Summary of portfolio assumptions per asset sub-segment

		Portfolio	Unsecured loans – Small obligors	Unsecured loans – Large obligors	Secured loans – Small obligors	Secured loans – Large obligors	Credit lines – Small obligors	Credit lines – Large obligors
Portfolio inputs	Share (%)	100%	32.9%	24.5%	3.4%	19.9%	8.2%	11.3%
	Cure rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
	Recovery rate, B	55.1%	35.3%	41.0%	60.9%	60.9%	29.4%	64.7%
	Recovery rate, AAA	25.9%	13.9%	3.9%	36.4%	36.4%	1.1%	21.2%
	Recovery rate lag (months)	28	19	19	60	60	19	14
	Low constant prepayment rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	High constant prepayment rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
	Weighted average life (months)	25	21	21	63	50	3	4
	Fixed-rate assets	21%	32%	19%	17%	7%	29%	11%
	Floating-rate assets	79%	68%	81%	83%	93%	71%	89%
	Fixed – weighted average all-in	3.2%	4.4%	2.7%	2.6%	2.2%	4.5%	1.8%
	Floating – Weighted average margin	2.2%	2.5%	1.9%	1.8%	1.7%	3.5%	1.9%
Point-in-time	Default rate	5.8%	4.0%	2.0%	21.0%	12.5%	3.2%	8.5%
	Coefficient on variation	97.7%	60.8%	49.5%	98.8%	123.7%	133.2%	154.3%
Long-term	Default rate	2.9%	1.9%	0.9%	10.8%	6.2%	1.5%	3.9%
	Coefficient of variation	95.1%	85%	85%	73%	77%	174.2%	174.2%

Unsecured loan segment

This segment has a seasoning of 2.1 years and a remaining term of 3.3 years. These loans are also well diversified: 48,713 obligors for 50,083 loans (top 10 obligors: 2.8%) whose weighted average size is EUR 35,000.

Unsecured loans account for 57.3% of the portfolio and, unlike previous PYMES transactions, do not contain restructured loans (see Figure 7 for further details on portfolio assumption).

Santander's underwriting standards for these loans are generally stricter, given the lack of security over mortgages. This results in better performance than for its mortgages. For this transaction, 'unsecured' means 'not secured by a mortgage', although most of these loans benefit from personal guarantees or other types of security that are generally effective at reducing delinquencies or increasing recovery. Even so, these forms of alternative security are difficult to validate, and we capture their impact on performance in our performance references.

The segment's average maturity is 1.5 years. The standard amortisation scheme is French with a significant amount of linear amortisation loans (22% of the segment).

Mortgages

The mortgage segment averages five years of seasoning, 8.5 years of remaining terms to maturity, and 3.1 years of remaining lives.

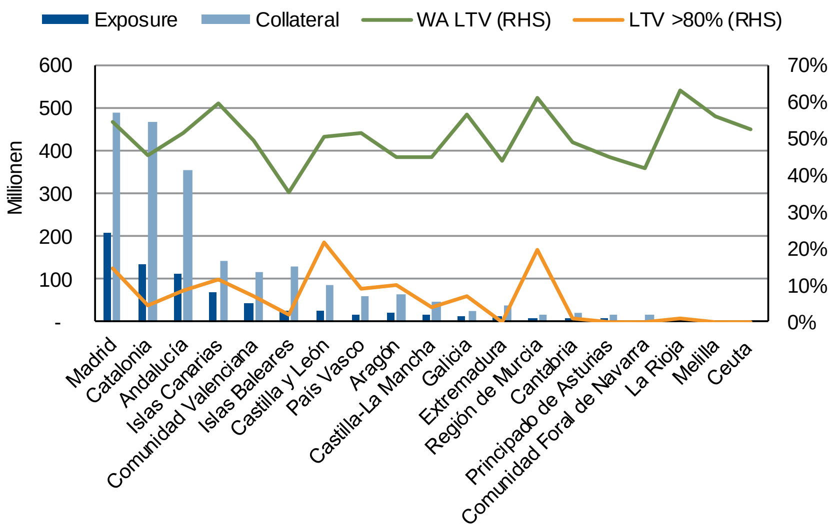
The segment accounts for 23.2% of the portfolio (much more than for PYMES 12, at 15%) – (see Figure 7 for further portfolio assumptions).

The real estate mortgages have long maturities, averaging over 15 years. The weighted average loan-to-value for these mortgages is 50.8% based on current appraisals.

Unlike for previous Santander PYMES transactions, the secured loan segment is not exposed to debt consolidation products, which tend to have very high default rates.

This segment carries concentration risk for the Serie B as the tail of the transaction's life will be exposed to mortgages. In addition, the segment's long maturity exposes the Serie B to potential economic deterioration in Spain beyond Scope's current positive outlook. This risk is expected to be mitigated by credit enhancement build-up from the deleveraging of the transaction.

Figure 8: Mortgage exposures and collateral geographic distribution (chart)



Credit line segment

This segment represents 19.4% of the asset pool and is characterised by a short-expected life of four months, a legal remaining term of six months, and a usage rate of 79% (see Figure 7 for further details on portfolio assumptions).

Scope considers credit lines a form of SME exposure with two risks that are otherwise not present in static portfolios of amortising loans:

1) Revolving risk: Under the legal documentation, committed and partially undrawn credit lines can be further drawn upon after the transaction closes. The credit line's full commitment is at risk of default, not the current balance, but only to the extent of the assets' amortisation.

2) Refinancing risk: The credit lines' current balance does not reflect their balance under a stress scenario, in which weak obligors, before defaulting on their credit lines, use

them to remain current on other debts. In Spain, defaulted obligors can even draw on credit lines (concurso de acreedores), which cannot be cancelled before maturity. However, the short weighted average remaining term of the credit line segment limits the impact on portfolio default.

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

Scope does not stress to the credit line balances beyond their initial commitment. Under exceptional circumstances the contract's balance can increase quickly to a maximum of 105% of the initial commitment. Overdrafts must be approved by Santander's risk department, and the obligor must prove it can quickly return the balance to normal.

The effective maturity of these contracts is usually less than a year. The credit lines will be removed from the portfolio at the earliest renewal date or on maturity, significantly mitigating revolving and refinancing risks.

Scope considers the refinancing risk of credit lines to be immaterial for the Serie A. Exceptional refinancing risk is only possible if Santander cannot grant a new credit line to the obligor at maturity or refund the issuer at renewal.

The liquidity facility will unlikely be servicing increases in credit line balances. Potential drawings amount up to EUR 155m would involve a credit lines' usage beyond the already high 79% level in the current context of macroeconomic recovery. If usage increased, the expected amortisation of the portfolio will generally provide sufficient principal repayments to service any credit line drawings should the usage level increase. The liquidity facility is set to represent 5% of the Serie A current balance (i.e.: EUR 112m).

Top obligors

The two largest obligor exposures represent 1.34% of the portfolio, or 0.5% each – a lower concentration than for PYMES 12, in which the top five obligors, each with more than 0.5%, represented 3.04% of the related portfolio. Both obligors have below-average credit quality in their respective segments, based on Santander's internal probability of default, with one obligor having a 16.65% one-year probability of default.

Scope's incorporates in its assumptions on default rates and coefficients of variation the higher default risk of these top obligors.

Figure 9: Exposures to top obligors (> 0.5% of the portfolio)

Top#	Balance (EUR m)	Balance (%)	Portfolio segment (large obligor)	Sector	Region	Amortisation schedule	Santander 1yr PD
1	24,974,702	0.82%	Credit lines	Professional services	Madrid	Bullet	16.65%
2	15,777,118	0.52%	Secured loans	R/E: Non-development	Madrid	French	4.26%

Originator and seller

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

Banco Santander is an experienced originator of SME ABSs, with PYMES 13 being the sixth Spanish SME ABS analysed and rated by Scope. Santander generally securitises all eligible assets in its loan book, except for mortgages eligible to back Spanish mortgage-covered bonds (cedulas hipotecarias) and assets excluded under Spanish securitisation law (i.e. real estate development loans or syndicated loans).

Santander is a sophisticated bank whose functions, systems, processes and staff meet the highest standards of European banking.

Sanctioning and underwriting

Strong underwriting standards for the assets in this portfolio

From 2009 to 2015, Santander applied relatively conservative underwriting standards. Such approach strengthened its balance sheet and allowed it to recently increase the size of its balance sheet to address stronger demand and sharper competition. Such strategy shift is reflected in the portfolio which has mainly been originated since 2015.

Servicing and recovery

Scope applied a relatively low cure rate assumption of 15%[1] (i.e. for each of the three segments) because Santander's pre-delinquency monitoring and early-delinquency management are highly efficient.

Santander's interests are strongly aligned with those of noteholders. As a provider of the 5% reserve fund and holder of the entire capital structure at closing, Santander has a significant subordinate interest in the transaction. In addition, the Spanish securitisation framework does not allow securitised and non-securitised assets to be treated differently on the bank's balance sheet. Santander's servicing and recovery processes aim to maximise prospects of recovery in the shortest possible time.

Portfolio assumptions

Scope undertook a bottom-up analysis and analysed the portfolio by sub-segment to capture all underlying features of the asset pool. Such an approach has enabled the agency to adjust some sub-segment assumptions further to the vintage analysis.

Cash-flow assumptions

Mean default rate

Vintage data covers a period of significant stress for Spanish SMEs

Scope derived the portfolio base case assumptions using vintage data from Q1 2010 to Q2 2017, a period of significant stress for Spanish SMEs which was characterised by high defaults and relatively low recoveries. This was particularly true for mortgages – recovery from Spanish real estate collateral was slow due to the disrupted property market. Scope analysed the portfolio by sub-segment. Portfolio-consolidated figures are a point-in-time 90 'days past due' (dpd) mean default rate of 5.8% and a lifetime default rate of 2.9% (see Figure 7).

These assumptions incorporate adjustments for the credit lines, respectively 1.6x for the small obligors and 1.5x for the large obligors, to account for the undrawn amounts and the associated refinancing and revolving risks of this product.

Coefficient of variation

The portfolio's consolidated coefficients of variation are respectively 97.7% and 95.1% for the point-in-time and long-term cases. These high levels of volatility are mainly driven by i) the high volatility observed in the mortgage vintage data, and ii) the additional stress applied by Scope to the credit line's coefficient of variation to capture the potential volatility associated with this segment.

Recovery rate and recovery lags

The historical recovery rate of mortgages was lower than under a market-value-decline approach

Scope analysed the recovery vintage data provided by Santander for the six sub-asset segments in the portfolio. The sub-segment-weighted base recovery rate of 55.13% for the portfolio is significantly better than that for PYMES 12 (33%) due to the absence of reconducted loans.

Scope calculated recovery rates of the pool's mortgages, considering the value of the real estate collateral available as security. The historical recovery rates of the mortgages were lower than those under a market-value-decline approach. This is because a weighted average recovery lag of 22 months is too short for mortgages to recover in a disrupted real estate market.

[1] Scope considers a cure rate to address the difference in default definitions between the vintage data provided by Santander of '90 days past due' and the transaction of '360 days past due'.

Scope's cashflow analysis relies on fixed recovery rates for each segment. Different haircuts were applied to the rating conditional recovery rate derived by Scope from the vintage data analysis.

Figure 10: Rating-conditional recovery rate stresses

Rating stress	Haircut to base case
AAA	40%
AA	32%
A	24%
BBB	16%
BB	8%
B (base case)	0%

Cure rate

Scope derived cure rates for the individual sub-segments as per Figure 7).
Cure rates are derived from 90dpd recovery vintage data to estimate the share of 90dpd delinquent assets that do not migrate into default (as defined in the transaction documents). The low cure rates are due to Santander's highly proactive monitoring processes, resulting in most 'curable' delinquencies being fixed before they breach the 90dpd threshold. Santander did not provide vintage data with 360dpd default rate as per the transaction's default definition for unsecured loans and mortgages.

Scope applied the same cure rate assumption for all segments, and analysed delinquencies as a function of the default rate scenario and the cure rate.

Constant prepayment rate

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

Scope analysed the Serie A under a 0% CPR assumption as the notes benefit from prepayments. Scope used a 15% constant prepayment rate assumption to analyse the Serie B and C notes. These assumptions consider the very volatile historical constant prepayment rates (8% to 20%) observed in previous PYMES Santander transactions.

Financial structure

Capital structure

The transaction is a strictly sequential three-tranche cash-flow securitisation. The issuance proceeds from the Serie A and B notes were used to purchase the initial portfolio of assets. Serie C proceeds were used to fully fund a cash reserve fund on the closing date (see below for further details).

The notes pay quarterly interest referenced to 3-month Euribor plus a margin equal to 30bps, 50bps and 65bps for the Serie A, Serie B and Serie C respectively. The amortisation is strictly sequential. Under very benign scenarios, the Serie C could receive principal payments before the Serie B. These payments would correspond to released reserve fund moneys due to reductions in the required reserve fund level.

Priority of payments

A combined priority of payments protects against payment interruption. Principal collections from assets can be used to pay timely interest on the Serie A and Serie B notes in sequential order. Furthermore, only a few days' worth of collections suffices to pay senior class interest and other more senior items, even in the unlikely event of servicer disruption. The priority of payments also allows credit enhancement to cover losses from negative carry or interest rate mismatches (see Figure 11).

Scope's analysis takes account of the demotion trigger on Serie B interest. The rating of the Serie B captures losses 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 the classes.

Figure 11: Available funds and priority of payments

Pre-enforcement priority of payments	Post-enforcement priority of payments
Available funds Collections from assets, excluding retained principal to cover decreases of credit line usage and amortisation of the liquidity facility; proceeds from interest and treasury accounts and reserve fund.	**Available funds** All SPV moneys, including funds from asset liquidation.
1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced) 2) **Serie A interest** pari-passu with liquidity facility interest (pro-rata) 3) Serie B interest, if not demoted 4) **Principal for Serie A**, and then Serie B a) Serie B interest, if demoted when b) Serie A still outstanding after payment date 5) Total defaulted assets > 5% of portfolio balance at closing 6) Reserve fund to its required level 7) Serie C interest 8) Principal for Serie C (i.e. equivalent to reduction of required reserve fund 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 interest (pro-rata) 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

Portfolio covenants and priority of payments ensure notes' collateralisation

Reserve fund

The structure features a fully funded cash reserve fund of EUR 135m, or 5% of the initial portfolio balance, which is the primary source of credit enhancement for the Serie A and B notes. If the reserve falls below its target, excess spread would be captured for refinancing.

The reserve fund, combined with the provisioning mechanism, traps excess spread and enables the structure to accelerate Serie A amortisation, and subsequently for the Serie B, whenever assets are classified as defaulted, until the moment the reserve fund is fully depleted in high-stress scenarios.

The reserve fund is a source of negative carry because its cash account yields 3-month Euribor, whereas the notes' weighted average coupon is always higher than this index (except when the 3-month Euribor has a high negative rate, resulting in both yields being floored at 0%). Negative carry directly impacts the Serie C notes.

The reserve fund follows the standard mechanism of most Spanish securitisations and the required balance can reduce until it equals the lower of i) 10% of the cumulative outstanding amount of the Serie A and B, and ii) 2.5% of the cumulative initial amount of the Serie A and B (EUR 67.5m).

Such amortisation is subject to:

i) non-defaulted assets more than 90dpd being less than 2.5% of total non-defaulted assets;

ii) more than two years having elapsed since closing; and

iii) the reserve fund being fully funded at its required level on the previous payment date.

Liquidity facility

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

The structure features a liquidity facility which funds an increase in the credit line balance above its outstanding balance at closing. The liquidity facility is set at 5% of the Serie A balance, and the issuer is liquidated if the facility falls below this. This level is the same as for PYMES 12. The liquidity facility is cancelled once all credit lines have amortised.

Scope's cash flow analysis incorporates the use of the liquidity facility. This is based on our view that any increase in credit line balances under stress would likely be serviced using principal collections from performing assets. This assumption is based on the already high usage of credit lines (79%) and on the portfolio's fast expected amortisation, especially for credit lines.

If drawn, the liquidity facility would become a 'super senior' liability for the issuer, as its balance would be offset against principal collections in the issuer's treasury account. The liquidity facility is linked to the treasury account, which is effectively a credit account that yields 3-month Euribor on positive balances and charges a fee on negative balances (i.e. overdrafts) of 3-month Euribor plus 25bps. There is no interest or fee on the committed and undrawn amount.

Subordinated loan to fund initial expenses

The issuer's initial expenses are covered by proceeds from a dedicated subordinated loan, which will be amortised using excess spread in the early stages of the transaction. The subordinated loan, granted by Santander to the issuer, carries an interest rate of 3-month Euribor + 65bps (with a 0% floor).

Interest and reset date mismatches

The transaction is exposed to interest risk because: i) no hedging agreement is in place; and ii) 21.0% of the assets pay a fixed interest rate, whereas 100% of the issuer's liabilities are referenced to 3-month Euribor.

The transaction is also exposed to mismatches of reset dates and reset frequencies, resulting in rate risk for the noteholders.

Interest type and payment frequency accommodate well with the liabilities

The risk of unhedged interest rates is limited as: i) 79% of the portfolio comprises floating-rate loans, ii) interest rates are extremely low; and iii) the indices of floating-rate assets correlate strongly with that of the notes' (3-month Euribor). Potential losses from negative carry are factored into the ratings and are thus covered by available credit enhancement. The latter makes it possible to use principal collections for paying interest on the most senior classes.

Clean-up call

Scope's analysis did not incorporate the option to terminate the transaction before final legal maturity if the asset balance falls below 10% of the original portfolio's balance as allowed by the transaction conditions. This is because this option is discretionary and would require the notes' full repayment. The originator and the seller have the right to exercise this option.

Accounts

Accounts represent commingling exposure to Santander, the account bank

The issuer has two accounts for as long as credit lines exist in the portfolio.

The first, the treasury account, holds and retains principal collections from the assets for as long as the credit line balance exceeds the closing balance. The account uses daily principal collections to service increases in average credit line balances. This account is linked to the liquidity facility, which can be used if principal collections are insufficient to cover the increased credit line balances.

Once the credit lines fully amortise and the liquidity facility is repaid, the treasury account will be closed. At this point, its balance, and respective assets and liabilities will be transferred to the interest account, the issuer's second account. This account holds the reserve fund and interest collections from the assets.

Both accounts represent commingling exposure to Santander as account bank, as well as a source of negative carry as their yield is lower than the notes' weighted average coupon. Negative carry losses are covered by available excess spread and credit enhancement.

Quantitative analysis

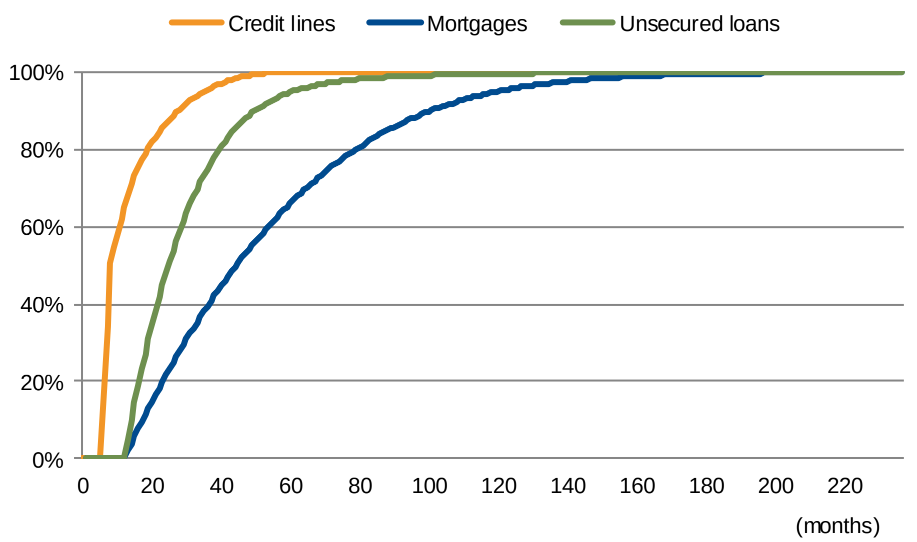
Scope used a bespoke cash flow to analyse this transaction

Scope analysed the transaction's cash flow, incorporating key mechanisms in the structure. The agency applied a large homogenous portfolio approximation approach to analyse the highly granular collateral pool and to forecast cash flows over the amortisation period. The cash flow analysis considers the probability distribution of portfolio default rates, following an inverse Gaussian distribution, to calculate the expected loss of each rated tranche. The analysis also provides the expected weighted average life of each tranche. Scope has considered asset and liability amortisation and the evolution in the pool composition.

The assumptions for PYMES 13 were derived from the preliminary portfolio from 2 October 2017, which is only marginally different from the final portfolio as of 27 December 2017.

Scope has assigned an AAA_{SF} rating to the Serie A. This was based on its cash flow analysis, which accounted for the distribution of long-term-adjusted portfolio default rates as well as considering qualitative factors. This analysis is supported by positive macroeconomic conditions, the credit enhancement available to the Serie A, and Santander's strict underwriting process.

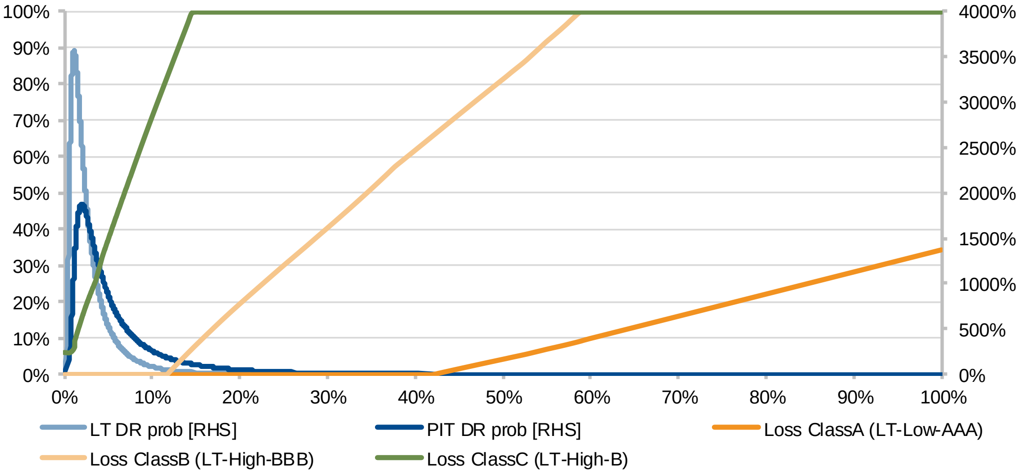
Figure 12: Cumulative default-timing assumptions for the three portfolio segments



Scope considered a front-loaded default-timing term structure. Back-loaded default scenarios are less severe because of credit enhancement build-up and the effect of seasoning on the portfolio. The cumulative default-timing assumptions are shown in Figure 12. These assumptions imply the front-loading of delinquencies, starting on the first month of the life of the transaction. The chart shows defaults classified in line with definitions in the documentation (i.e. six months past due for credit lines, 12 months past due for loans).

Figure 13 shows the losses of each tranche for portfolio default rates from 0% to 100%. The chart shows the protective effect of credit enhancement, excess spread, and recovery after default. The latter two elements explain why Serie A and B can withstand default rate scenarios beyond their initial respective credit enhancement levels of 21.5% and 5%.

Figure 13: Quantitative analysis results



*Based on base point-in-time mean default rate; point-in-time coefficient of variation; 15% cure rate; and rating-conditional recovery rate and constant prepayment rate

Rating stability

The stability of the ratings is supported by the structure's strong protection mechanism, and by Scope's rating-conditional recovery rate assumptions and use of a long-term performance reference for Spain.

The strong protection mechanisms of the structure support rating stability

Scope tested the ratings against reference shifts in analytical assumptions. These shifts are only designed to illustrate the sensitivity of the ratings to changes in assumptions, and do not represent likely deviations. The portfolio's mean default rate and recovery rate have been stress by respectively +50% and -50%. The results show that the Serie A is insensitive under both scenarios; the Serie B is marginally sensitive and the Serie C is more sensitive, due to the absence of credit enhancement.

Figure 14: Ratings' sensitivity to shifts in the portfolio recovery rate

Recovery rate (sensitivity in notches from the assigned ratings)	Serie A	Serie B	Serie C
Base case recovery rate - 50%	**0**	**- 1**	**- 2**

Figure 15: Ratings' sensitivity to shifts in the portfolio recovery rate

Default rate (sensitivity in notches from the assigned ratings)	Serie A	Serie B	Serie C
Base case default rate + 50%	**0**	**- 1**	**- 2**

Serie A would not experience any loss under portfolio default rates of 31.2% or lower

Break-even analysis

The resilience of the Serie A rating is illustrated in the break-even default rate analysis. The Serie A would not experience any loss at portfolio default rates of 31.2% or lower under a 0% recovery rate assumption; nor at portfolio default rates of 45.2% or lower under a AAA_{SF} recovery rate assumption (26%), considering Scope's default timing assumptions.

The Serie B would not experience any loss at portfolio default rates of 6.6% or lower under a 0% recovery rate assumption; nor at portfolio default rates of 11.6% or lower under a BB recovery rate assumption of (44%).

The Serie C experiences losses under every default rate scenario.

Sovereign risk

Sovereign risk does not limit the transaction's ratings

Scope's analysis also considers the recent political developments in Catalonia, as well as the agency's long-term view on the Spanish economy. This view takes into account Spain's euro-area membership; the size, diversity and resilient recovery of its economy; commitment to structural reforms; and ongoing improvements in its banking sector; though constrained by the country's political risks (see Scope Kingdom of Spain Rating Report for further details). Scope does not consider sovereign risk to limit the ratings. The transaction's three asset segments are exposed to Catalonia, with the mortgage segment being the most exposed at 18.9%.

Additionally, Scope believes that any crystallisation of Spain's medium-term economic uncertainties would occur beyond the expected maturity of the Serie A (weighted average life of 1.3 years), a credit-positive aspect.

Counterparty risk

The transaction is exposed to counterparty risk with Santander given its wide-ranging roles as servicer, account bank, paying agent, liquidity facility provider and subordinated loan provider. This risk is mitigated by Scope's stable forward-looking credit view on Santander (AA-/S-1/Stable), the Serie A's short expected life, and counterparty protection features including the bank's automatic replacement (as servicer, account bank and paying agent) upon a rating downgrade below a BBB.

Operational risk from servicer

Scope considers the Santander's replacement as portfolio servicer to be highly unlikely. We believe a servicer replacement would be more disruptive than Santander continuing as a going concern through 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.

Commingling risk from account bank

Commingling risk is sufficiently remote as not to represent material risk for Serie A

In addition to the protection mechanism and mitigants highlighted above, comingling risk from the exposure to the servicer is not material because collections from assets are transferred to the issuer's account generally intraday, but no later than 48 hours.

Set-off risk from originator

Scope believes set-off risk from the originator is immaterial

Set-off risk from the originator is limited in the context of Spanish law and under the terms of the documentation. The structure incorporates an undertaking by the seller to compensate the issuer for any set-off loss resulting from rights existing prior to the asset transfer. Furthermore, set-off rights would cease to exist after obligor notification following a servicer event, or upon the insolvency of either the obligor or seller.

For mortgages, exposure to set-off risk from linked contracts is negligible and restricted to insurance contracts. This exposure is largely to the insurance business of Santander, limited to premia paid up-front and capitalised in the mortgage balance. This is a negligible amount, which is covered by credit enhancement.

Legal structure

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 S.G.F.T. SA, the management company. The special-purpose vehicle is essentially governed by the terms in the documentation, as no government body was 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 the 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 (Ley 5/2015), effective since published 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 any asset transferred to the portfolio that does not comply with 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. This is similar to PYMES 12 which resulted in only technical delinquencies being transferred to the final pool. We believe the risk or 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 contracts in the portfolio, notably for interest rate and maturity. In all cases, negotiations with obligors would follow the originator's standard procedures and approval processes.

The documentation includes covenants to prevent the economic imbalance of the transaction as a result of permitted variations. These covenants limit any material migration of the portfolio beyond that related to asset performance.

Use of legal and tax opinions

Scope reviewed the legal and tax opinions produced for the benefit of the issuer and they support the general legal analytical assumptions of Scope.

Agreed-upon procedure (AUP) report

A reputable audit company undertook an independent due diligence analysis on the portfolio based on the same data points as for the previous PYMES Santander transaction. Such a process is generally undertaken at borrower and loan levels, as well as i) at collateral level for the mortgages, and ii) on the undrawn balance for the credit lines. The collateral valuation date was not assessed. The verification has been undertaken on a sample that represents the population and based on a certain level of confidence (i.e.: 95% or 99% according to the data points tested). No material errors were reported within such confidence levels.

Monitoring

Scope will monitor this transaction based on performance reports from the management company as well as other available information. 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, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

Applied methodology and data adequacy

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

For the analysis of this transaction Scope has applied its General Structured Finance Rating Methodology, dated August 2017, SME ABS Rating Methodology, dated 30 June 2017, and the Methodology for Counterparty Risk in Structured Finance, dated August 2017, all available on our website www.scoperatings.com.

Santander provided Scope with obligor-segment-specific default and recovery data segmented by quarterly vintage of origination, referring to a ‘90 days past due’ default definition. The default rate data covers a period from Q1 2010 to Q2 2017 and is generally granular, except for the standardised mortgage segment. The recovery data also covers a period from Q1 2010 to Q2 2017, but is less granular with a minimum of 900 observations per obligor segment.

I. Appendix: Summary of portfolio characteristics

Key features	PYMES 13	PYMES 12	PYMES 11	PYMES 10
Originator	**Santander, Banesto and BANIF**	Santander, Banesto and BANIF	Santander and Banesto	Santander and Banesto
Closing date	**25. Jan 18**	14. Dec 15	22. Mai 15	04. Dec 14
Portfolio balance (EURm)	**3,062**	2,800	3,681	4,215
Number of assets	**61,893**	39,559	59,592	50,411
[2]Diversity index		1,450	911	
Number of obligors	**60,219**	36,551	54,662	45,303
[2]Diversity index		1,317	702	
Average asset size (EURm)	**49,476**	70,780	61,764	89,188
Maximum asset size (EURm)	**25,000**	21,204	27,000	28,394
Small and medium-sized enterprises	**89.26%**	81.20%	98.10%	86.60%
Self-employed	**10.74%**	18.80%	1.90%	13.40%
Largest obligor	**0.82%**	0.80%	0.70%	0.70%
Top 10 obligors	**7.31%**	5.10%	6.50%	5.60%
Top 20 obligors	**10.01%**	8.40%	10.80%	9.00%
Largest region	**20.96%**	20.00%	21.30%	23.60%
*Top 3 regions**	43.37%	48.40%	51.50%	53.50%
Largest sector	**21.80%**	19.60%	18.70%	15.70%
	Wholesale and retail trade	Mining and metals	Wholesale and retail trade	Real estate and construction
Top 3 sectors	**42.27%**	40.90%	43.90%	38.50%
Weighted average life (0% default rate and 0% constant prepayment rate) (years)	**1.5**	2.8	1.9	2.8
Weighted average Santander's internal one-year probability of default	**2.06%**	3.30%	5.60%	3.20%
Current weighted average coupon	**2.45%**	2.60%	3.40%	3.80%
Fixed-rate assets (% of balance)	**20.76%**	25.00%	21.80%	19.40%
Weighted average coupon of fixed-rate assets	**2.97%**	3.30%	4.80%	5.20%
Weighted average margin of floating-rate assets	**2.10%**	2.00%	2.70%	2.80%
Amortising loans	**80.54%**	87.40%	53.20%	71.80%
Bullet loans	**19.44%**	12.60%	46.80%	28.20%
Credit lines	**19.44%**	17.40%	39.50%	17.80%
of which, reconducted	**0.00%**	1.80%	0.00%	4.50%
WA Santander's internal one-year probability of default	**3.13%**	2.10%	2.20%	3.50%
Secured loans	**23.25%**	15.00%	9.30%	22.30%
of which, reconducted	**0.00%**	42.00%	18.30%	19.70%
for which, weighted average loan-to-value	**50.80%**	101.30%	72.90%	64.40%
WA Santander's internal one-year probability of default	**1.98%**	9.50%	18.50%	3.00%
Unsecured loans	**57.32%**	67.60%	51.20%	59.80%
of which, reconducted	**0.00%**	3.40%	7.40%	5.60%
WA Santander's internal one-year probability of default	**1.73%**	2.20%	5.90%	3.20%
Debt consolidation (reconducted or refinancing)	**0.00%**	9.20%	5.50%	8.70%

* expected

** Catalonia: 0.18%

II. Appendix: Mortgage exposures and collateral geographic distribution (table)

Region	Exposure	Collateral	Weighted average life (Years)	Weighted average LTV	LTV >80%
Madrid	206,275,265	488,981,395	8.1	54.4%	14.7%
Catalonia	134,566,604	466,422,348	8.4	45.3%	4.4%
Andalucía	109,962,237	353,837,193	8.7	51.3%	8.4%
Islas Canarias	65,543,362	140,100,513	9.8	59.4%	11.4%
Valencia	41,028,863	116,544,318	8.0	49.5%	7.0%
Islas Baleares	25,055,097	129,667,090	7.4	35.0%	2.0%
Castilla y León	22,479,181	84,548,912	7.9	50.3%	21.6%
País Vasco	17,703,202	56,813,383	8.8	51.4%	9.0%
Aragón	18,168,811	64,317,000	8.9	44.7%	9.9%
Castilla-La Mancha	14,428,409	47,714,746	9.5	44.8%	3.8%
Galicia	13,045,957	26,369,414	7.9	56.4%	7.1%
Extremadura	10,872,007	37,716,659	7.9	43.9%	0.0%
Murcia	8,408,437	17,243,569	8.4	60.8%	19.3%
Cantabria	7,846,646	19,213,526	9.0	48.9%	0.9%
Asturias	6,094,090	15,894,676	10.3	44.7%	0.0%
Navarra	4,199,936	16,871,012	8.8	41.7%	0.0%
La Rioja	3,787,474	7,109,892	8.8	62.9%	1.0%
Melilla	1,546,036	3,152,135	9.5	55.9%	0.0%
Ceuta	282,563	552,739	8.5	52.3%	0.0%

III. Appendix: Comparison of portfolio assumptions for PYMES 13 and PYMES 12

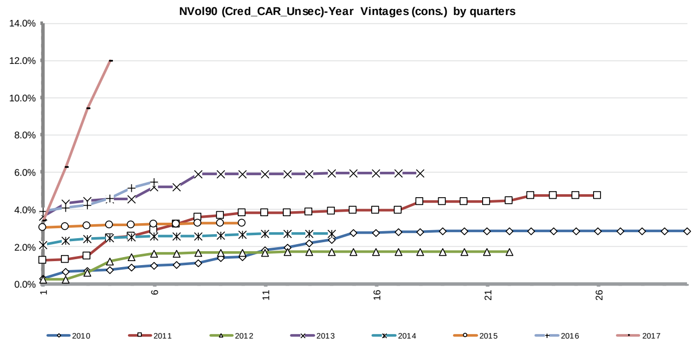
		PYMES 13				PYMES 12			
		Portfolio	Unsecured loans	Secured loans	Credit lines	Portfolio	Unsecured loans	Secured loans	Credit lines
Portfolio assumptions	Share (%)	100%	57.3%	23.2%	19.4%	100.0%	67.7%	15.0%	17.4%
	Cure rate	15.0%	15.0%	15.0%	15.0%	22.0%	25.8%	15.6%	14.7%
	Recovery rate, B	55.1%	37.7%	60.9%	49.9%	33.0%	21.2%	36.0%	51.6%
	Recovery rate, AAA	25.9%	9.6%	36.4%	12.8%	11.5%	8.5%	14.4%	20.6%
	Recovery rate lag (months)	28	19	60	16	22	24	18	19
	Low constant prepayment rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	High constant prepayment rate	15.0%	15.0%	15.0%	15.0%	12.0%	12.0%	12.0%	12.0%
Point-in-time	Default rate	5.8%	3.1%	13.7%	6.3%	16.1%	6.9%	62.5%	5.7%
	Coefficient of variation	97.7%	56.0%	120.1%	145.4%	40.8%	55.0%	25.0%	136.9%
Long-term	Default rate	2.9%	1.5%	6.9%	2.9%	9.2%	4.2%	38.0%	3.7%
	Coefficient of variation	95.1%	85.0%	76.4%	174.2%	76.6%	80.0%	54.0%	83.0%

IV. Appendix: Vintage data provided by Santander Bank

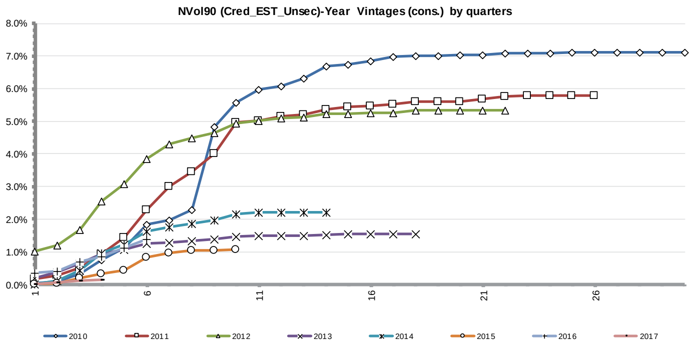
Santander provided 90dpd delinquency and recovery performance data for the six sub-segments in the portfolio. Scope considered the information in its analysis as a foundation for the calibration of point-in-time default rates, coefficients of variation and base case recovery rates.

90dpd delinquency data

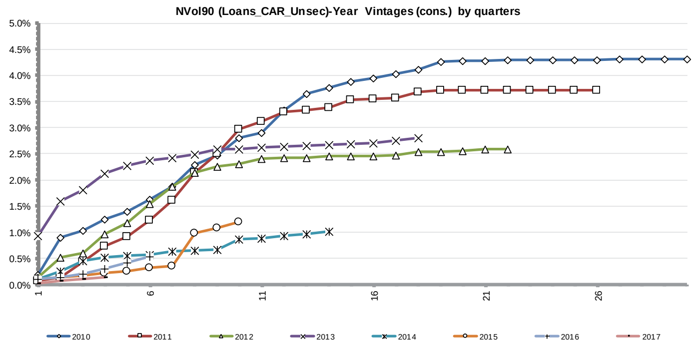
Credit lines to large obligors – 90dpd delinquency vintage data presented by Santander



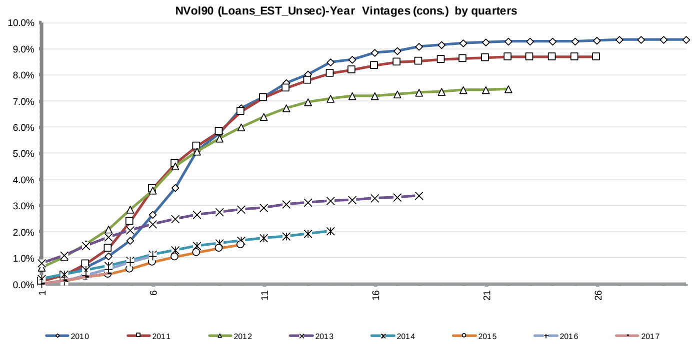
Credit lines to small obligors – 90dpd delinquency vintage data presented by Santander



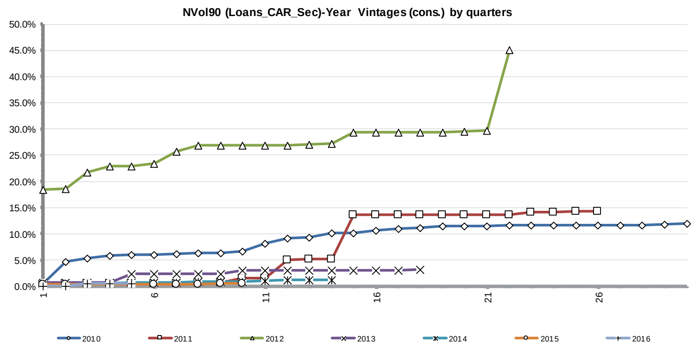
Unsecured loans to large obligors – 90dpd delinquency vintage data presented by Santander



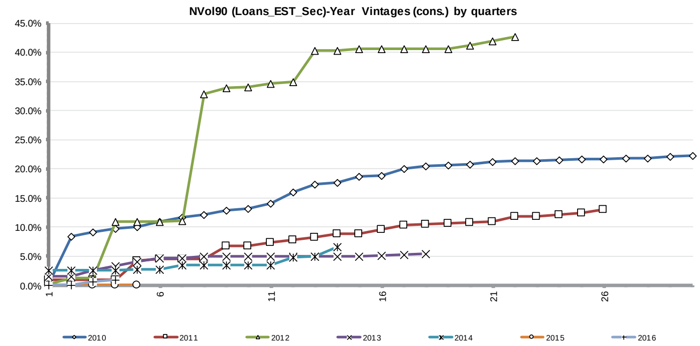
Unsecured loans to small obligors – 90dpd delinquency vintage data presented by Santander



Secured loans to large obligors – 90dpd delinquency vintage data presented by Santander

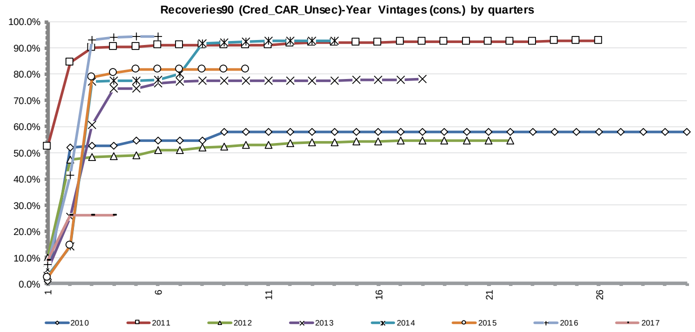


Secured loans to small obligors – 90dpd delinquency vintage data presented by Santander

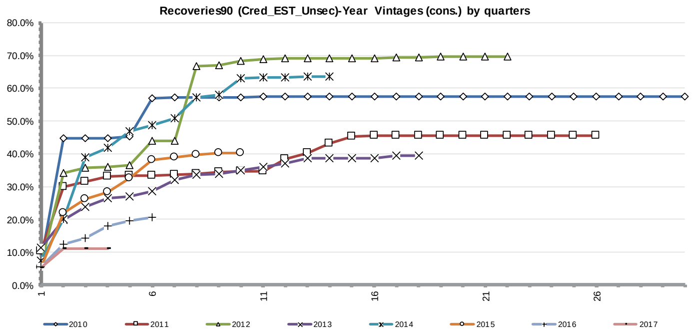


90dpd recovery data

Credit lines to large obligors – 90dpd recovery vintage data presented by Santander



Credit lines to small obligors – 90dpd recovery vintage data presented by Santander



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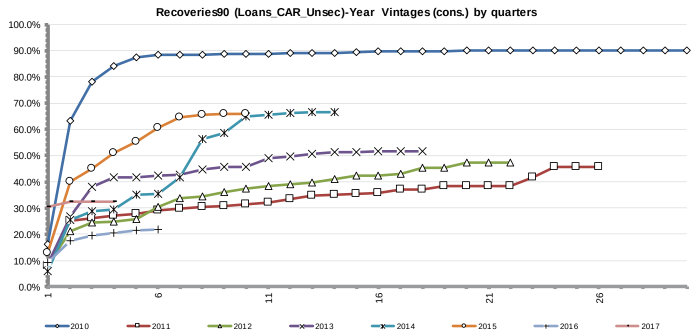

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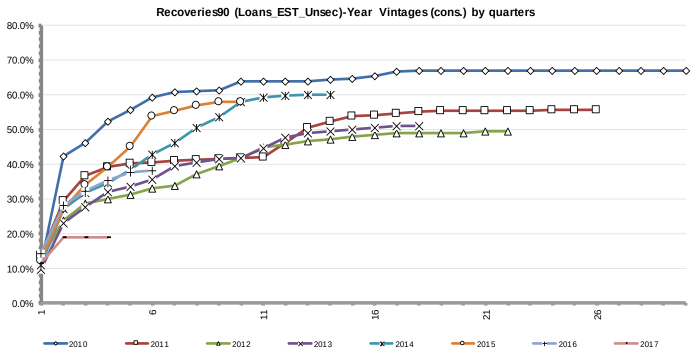
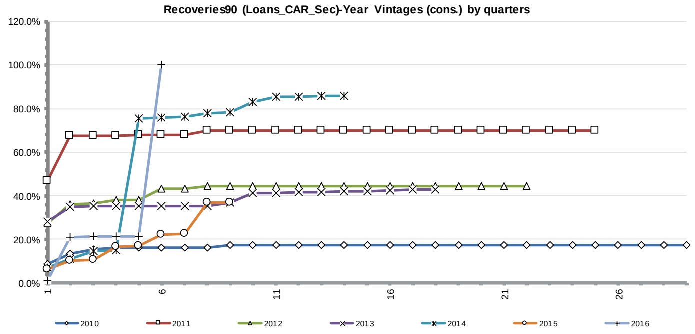
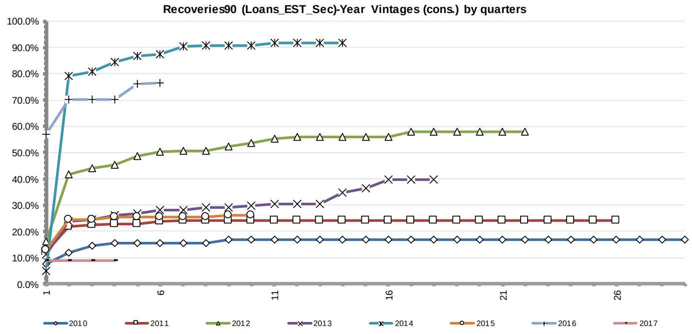


Secured loans to large obligors – 90dpd recovery vintage data presented by Santander



Secured loans to small obligors – 90dpd recovery vintage data presented by Santander



V. Regulatory disclosures - Important information

Methodology

The methodologies used for this rating(s) and/or rating outlook(s) SME ABS Rating Methodology, 30 June 2017; General Structured Finance Rating Methodology, August 2017; Methodology for Counterparty Risk in Structured Finance, August 2017 are available on www.scoperatings.com.
Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default as well as definitions of rating notations can be found in Scope's public credit rating methodologies on www.scoperatings.com.
The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: issuer, public domain, third parties and scope internal sources.
Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Scope Ratings GmbH has relied on a third-party asset due diligence/assed audit. The audit review has no negative impact on the credit rating.

Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.
Lead analyst Sebastian Dietzsch, Associate Director.
Person responsible for approval of the rating: Guillaume Jolivet, Managing Director.
The ratings/outlooks were first released as preliminary rating by Scope on 18.01.2018.

Potential conflicts

Please see www.scoperatings.com. for a list of potential conflicts of interest related to the issuance of credit ratings.

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