New Issue Rating Report

FT PYMES SANTANDER 12

SME CLOs/Structured Finance

SCOPE Scope Ratings

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RATINGS

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Serie A	AAA_{SF}	2,100.0	75.0	30.0	3m Euribor + 30bp	16 December 2058
Serie B	$B+_{SF}$	700.0	25.0	5.0	3m Euribor + 50bp	16 December 2058
Serie C	C_{SF}	140.0	5.0	0.0	3m Euribor + 65bp	16 December 2058
Total notes		**2,940.0**				

Scope's quantitative analysis is based on the preliminary portfolio dated 20 October 2015 and subsequent updates from 23 November 2015 and 11 December 2015, provided by the originator. Scope's structured finance ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Rated issuer

Purpose	Liquidity/Funding
Issuer	Fondo de Titulización PYMES SANTANDER 12
Originator	Banco Santander SA (A+/S-1/Stable Outlook)
Asset class	SME CLO
Assets	EUR 2,800.0m
Notes	EUR 2,940.0m
ISIN Series A	ES0305107007
ISIN Series B	ES0305107015
ISIN Series C	ES0305107023
Closing date	14 December 2015
Legal final maturity	16 December 2058
Payment frequency	Quarterly
Payment dates	16 Mar., 16 Jun., 16 Sep., 16 Dec.

Transaction profile

FT PYMES SANTANDER 12 (PYMES 12) is a true sale securitisation of a EUR 2,800m portfolio of mortgage-secured loans (15%), unsecured loans (67%) and credit lines (17%) (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.

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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 Banco Santander (A+/S-1/Stable Outlook) as the servicer; the counterparty risk exposure to Santander as the account bank, paying agent and liquidity provider; and the management ability of Santander de Titulización SGFT SA.

The 30% credit enhancement available in the structure to protect the class A notes provides significant support against losses. The rating of class A benefits from fast-amortising credit lines and the mainly French amortisation scheme of the portfolio assets. This results in a short weighted average life (WAL) of 1.2 years of the tranche. Class B's rating reflects the tranche's larger exposure to i) uncertainties of the Spanish economy beyond Scope's outlook and ii) lower-quality mortgages with long maturities in this portfolio – the mortgage segment contains 42% of refinanced assets, which have shown very weak performance historically. The three rated tranches benefit from periodic excess spread, which accumulates to 1.20% as of closing, and is paid to the class C unless it is required for shortfall-provisioning.

The short-term outlook on the Spanish economy reflects positively on the transaction. The portfolio's WAL is relatively short at 2.8 years under 0% prepayments, with 17.4% of fast-amortising credit lines, 67.6% amortising unsecured loans and 15.0% long-maturity mortgages.

Scope derived the portfolio-modelling assumptions from obligor-segment-specific vintage data provided by Santander, covering a period from 2007 to Q2 2015, which captures a period of significant economic stress in Spain. We assumed '90 days past due' lifetime default rates of 5.7% for credit lines, 6.9% for unsecured loans and 62.5% for mortgages, as well as cure rates of 14.7%, 25.8% and 15.6% for the respective portfolio segment. Credit risk from the portfolio is also driven by the relatively low volatility of historical default rates. This is reflected in the portfolio's low segment-weighted default-rate coefficient of variation of 40.8%, derived from vintage data, which combines 137% for credit lines, 55% for unsecured loans and 25% for mortgages.

The different asset segments in the portfolio exhibit heterogeneous recovery rate levels, and Scope assumed base case recovery rates of 51.6% for credit lines, 21.2% for unsecured loans and 36.0% for mortgages. The mortgages are secured by commercial and residential properties and have high loan-to-value ratios (current portfolio average 101% - not indexed). Scope derived recovery rate assumptions from the vintage data, which reflects Santander's recovery practices and foreclosure costs.

Rating and rating-change drivers are available in the section 'Rating drivers and mitigants' on page 2.

RATING DRIVERS AND MITIGANTS

Positive rating drivers

Spanish economy. The Spanish economy continues to improve. This recovery will benefit class A notes in the short term, while the impact on class B notes is less certain due to its longer weighted average life and the fragile recovery in Spain.

Stressed performance references. Scope calibrated the assumptions of its portfolio modelling with 2007-2015 vintage data, a period of high stress for Spanish SMEs. Scope also considered a long-term economic cycle adjustment to limit the procyclicality for the class A rating.

Higher quality obligors. The obligors in this portfolio are, on weighted average, stronger than those in the portfolio of the previous, similar transaction by Santander – FTA PYMES Santander 11 (PYMES 11). This is illustrated by the lower internal probabilities of default assigned by Santander (3.3% vs. 5.6% for PYMES 11) and relates to the composition of the portfolio (credit lines share of 17% vs. 40% in PYMES 11). The remainder of the PYMES 12 pool, after credit lines have amortised, is significantly better than that for PYMES 11, based on Santander's internal one-year probability of default.

Fast amortisation. Class A notes bear a very short risk exposure to counterparties, and possible macroeconomic deterioration, because its expected WAL is 1.2 years under a 0% constant prepayment rate (CPR), which is due to the fast amortisation of credit lines and the mainly French amortisation of unsecured loans and mortgages in the portfolio.

Moderate default volatility risk. Scope assumed a lower default rate volatility for this portfolio compared to PYMES 11 because the transaction has a higher share of unsecured loans and mortgages, which both have shown low default rate dispersion historically.

Negative rating drivers and mitigants

Substantial lifetime default rate. For the portfolio, Scope considered a '90 days past due' lifetime default rate of 16.1% with a cure rate of 22.2%, over a weighted average remaining term of 4.8 years. The long maturity profile of the portfolio reflects the long risk horizon of restructured mortgages, accounting for 6.3% of the final portfolio.

Low recovery rate. Scope estimated a segment-weighted recovery rate on the portfolio of 33%. This low recovery rate assumption is driven by the large share of unsecured loans, which historically have shown the weakest recovery performance.

Tight excess spread. Excess spread available from the asset portfolio is tighter for this transaction compared to the previous one from Santander PYMES analysed by Scope, reflecting the higher asset quality, but also the more aggressive competition in the Spanish SME credit market – 1.20% vs. 2.49% for PYMES 11. This is captured by our cash flow model.

Counterparty concentration. Counterparty risk to Santander is mitigated by the credit quality of the bank as well as an automatic replacement of the bank as account bank and paying agent upon losing a BBB rating.

Risk from credit lines. This product poses revolving and refinancing risks, which result in increased portfolio default rates under stress scenarios. These risks are mitigated by i) the credit strength of Santander; ii) the bank's strong track record in originating and managing credit lines; and iii) the very short life of credit lines in this portfolio. The weighted average usage of these credit lines is 76% and could only theoretically increase to 100% in the next six months.

Positive rating-change drivers

Fast recovery of employment in Spain would lower the base case default rate used in the analysis. We do not expect this fast recovery of employment to occur, and expect a very slow recovery instead. This recovery will be at permanent risk of a new recession until deeper fundamental reforms are tackled in Spain, addressing public spending and fiscal pressure, in general, and the labour market, in particular.

Negative rating-change drivers

The strengthening of the separatist movement in Catalonia would raise concerns about its hypothetical exit from the euro area. Such an exit would require profound legal changes in Spain and a restatement of international order. We believe this risk is remote given the outcome of the recent regional elections, and its crystallisation would occur beyond the expected life of the class A.

Related reports

SME CLO Rating Methodology, dated May 2015.

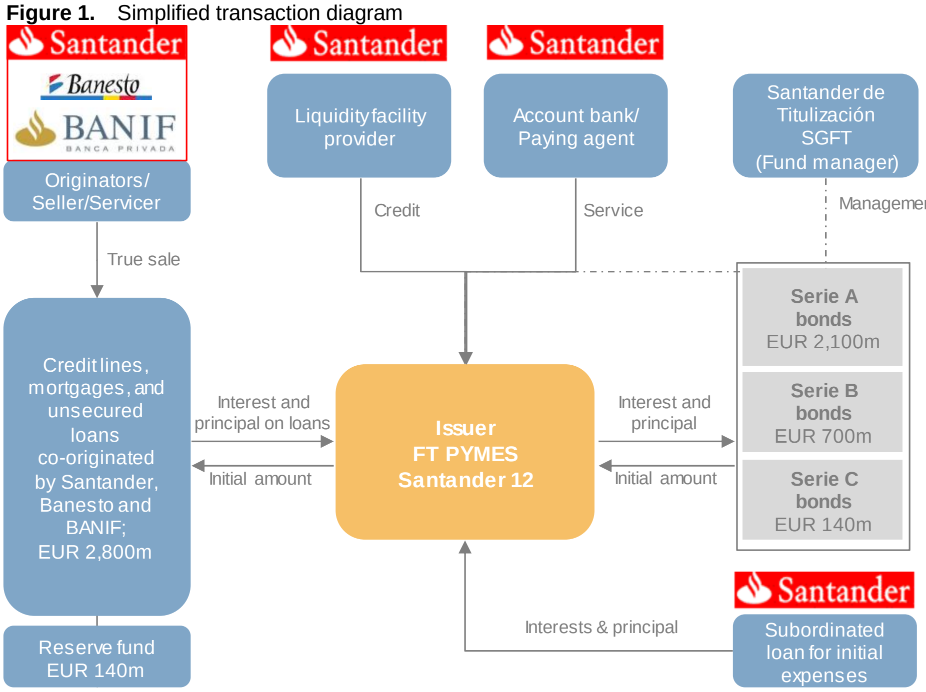
Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated August 2015.

General Structured Finance Rating Methodology, dated August 2015.

Contents

TRANSACTION SUMMARY

Figure 1. Simplified transaction diagram



FT PYMES SANTANDER 12 is the 12th transaction in Santander's PYMES loan securitisation programme and the third publicly rated by Scope. It consists of the securitisation of a EUR 2,800m portfolio, selected from a EUR 3,156m preliminary portfolio comprising 39,559 loans and credit lines, which were co-originated by Banco Santander, Banesto and BANIF, and granted to 36,551 Spanish SMEs and self-employed individuals.

ASSET ANALYSIS

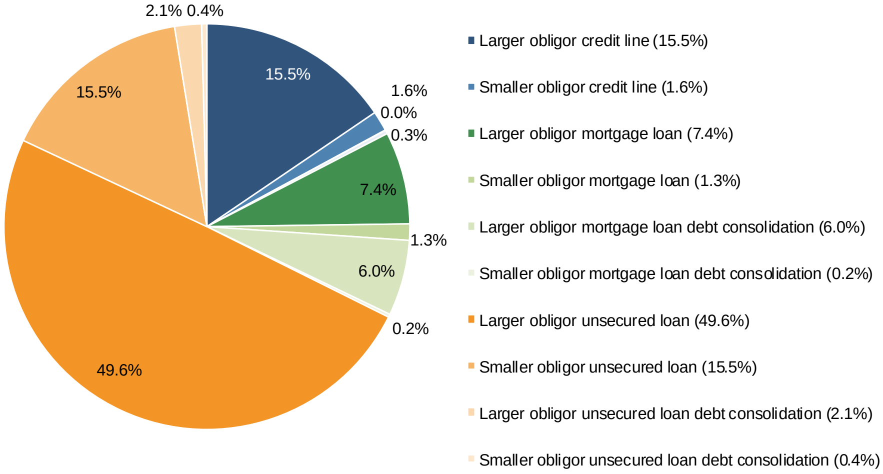
Securitised assets

The portfolio comprises 12 segments that result from classifying the assets by: i) obligor size; ii) product type; and iii) debt-consolidation status. These segments are also the same as in previous Santander PYMES transactions.

Figure 2. Portfolio-segmentation criteria used in the analysis

Obligor size	Product type	Debt-consolidation status
Larger obligor: managed by dedicated analyst	**Credit lines**	**Non-reconducted**: contract is not a debt-consolidation product
Smaller obligor: managed under standard processes	**Mortgage loans**	**Reconducted**: contract is a debt-consolidation product
	Unsecured loans	

Figure 3. Portfolio segmentation



Credit lines – refinancing and revolving risk

Credit lines add two risks not present in static portfolios of amortising loans: revolving risk and refinancing risk.

Scope sees credit lines as a form of SME exposure that adds two risks not present in static portfolios of amortising loans: revolving risk and refinancing risk. These added risks are due to the bullet nature of the products. Credit lines in Spain can be drawn, even when obligors are already in default ('concurso de acreedores') and cannot be cancelled prior to maturity. However, the short weighted average (WA) remaining term of the credit line segment limits its contribution to the portfolio default rate.

Scope considered the full commitment of the credit line to be at risk of default rather than the current balance, but only to the extent allowed by the amortisation of the assets (see Appendix II. Analytical Notes on Default Analysis).

The portfolio contains 17.4% credit lines in relation to the current balance, with negligible exposure to restructured contracts (1.8% of segment balance). The current balance of credit lines does not reflect the balance under a stress scenario in which weak obligors would use the credit line to remain current on other debts before defaulting.

Scope estimated a mean lifetime default rate of 5.7%, a default-rate coefficient of variation (CoV) of 137%, a cure rate of 15% and a recovery rate of 51.6% from segment specific vintage data. The credit line segment can be seen as a revolving part of the portfolio, which can use collected principal from other performing assets.

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

Scope does not subject the balance of credit lines to stress beyond the initial commitment. Under exceptional circumstances the balance of the contract can increase up to 105% of the initial commitment over a short period. The overdraft must in all cases be approved by the risk department of Santander, and the obligor must provide evidence of their ability to return the balance to normal within a short timeframe.

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

Scope is comfortable that the refinancing risk of credit lines is not material for the class A notes. Exceptional refinancing risk would only crystallise if Santander cannot provide a new credit line to the obligor at maturity (or refund the issuer at the renewal date).

Scope believes the transaction will not utilise the liquidity facility to service increases in credit line balances. Potential drawings amount to EUR 156.9m, but this amount would require an increase of the average usage level of credit lines beyond the already high level of currently at 76% in a context of macroeconomic recovery. The expected amortisation of the portfolio will 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 class A notes' current balance.

Unsecured loans: weak recovery under stress

The unsecured loan segment accounts for 67.6% of the portfolio, of which 3.8% are restructured loans (the share of restructured loans in this segment was 7.5% for PYMES

11). Scope estimated a mean lifetime default rate of 6.9%, a default rate CoV of 55%, a cure rate of 26% and a recovery rate of 21% in this segment.

The segment is very young – seasoning of one year, with originations predominantly from 2014 and 2015. Santander generally applies tighter underwriting standards to these loans given the lack of security over mortgages, which results in better performance than for its mortgage loans. In the context of 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. Yet these forms of alternative security are difficult to validate and their impact on performance is already captured in the performance references used for the analysis.

Unsecured loans comprise a significant amount of bullet loans

The average maturity of the segment is four years. The standard amortisation scheme is French. However, this segment shows a significant amount of bullet loans (18.6% of the segment balance), which poses a higher refinancing risk. Scope takes into account the high risk captured by the performance references of the vintage data, as these belong to a period of stress.

Mortgage loans – slow recovery and tail concentration risk

The mortgage loan segment accounts for 15.0% of the portfolio – significantly more than for PYMES 11 (9.3%). Scope estimated a mean lifetime default rate of 62.5%, default rate CoV of 25%, cure rate of 16% and recovery rate of 36% in this segment. These results show a medium volatility of default rates in this segment and a relatively low recovery rate given the secured nature of these contracts.

Mortgages on real estate assets have long maturities exceeding 15 years on average. The weighted average loan-to-value (LTV) for these secured loans is 101% based on current appraisals.

Mortgage loans are more exposed to debt-consolidation risk

Mortgage loans are more exposed to debt consolidation risk, relative to other segments of the portfolio – 42.0% of the segment are debt consolidation exposures with maturities up to January 2055 (also a much higher share than for PYMES 11, for which 17.8% of mortgages were restructured loans). The high share of debt consolidation exposures in the mortgage loan segment is expected, as Santander generally asks for mortgage guarantees when it originates debt-consolidation products.

This segment carries concentration risk for the class B notes, as the tail of the transaction's life will be exposed to mortgage loans. In addition, the long maturity of the segment exposes the class B to a potential deterioration of the Spanish economy, beyond Scope's current positive outlook. This risk is mitigated by credit enhancement build-up from the deleveraging of the transaction.

Risk from debt consolidation products – restructured

The portfolio contains assets originated to consolidate the obligor's other debts in a larger contract, with conditions better adapted to the SME's ability to pay. Santander names these debt-consolidation contracts 'reconducted' and does not grant them to obligors in arrears[1].

Debt-consolidation products pose higher risks

Scope believes debt-consolidation products pose higher risks, despite being granted to performing obligors. Scope has stressed the 9.2% exposure to debt-consolidation products in the portfolio by considering a higher mean lifetime default rate for those assets (WA mean of 83% vs. 6.8% for non-debt-consolidation).

This stress is justified because historical data provided by Santander for these segments shows very weak performance, with a lifetime default rate of up to 100%.

Portfolio characteristics

Final portfolio selection

Santander has provided the final pool selected from the preliminary portfolio which was audited, and we based our rating analysis on this. Due to the limited flexibility available in selecting the final assets, the final portfolio's characteristics are substantially the same as

[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 refinancing debts in arrears are riskier than the "reconducted" contracts included in this securitisation.

those of the preliminary portfolio. The preliminary portfolio balance of EUR 3.156m compares to the final portfolio balance of EUR 2,800m on 14 December 2015, i.e. 11.3% lower, reflecting three months of amortisation and the final application of eligibility criteria.

Fast amortisation and bar-belled amortisation profile

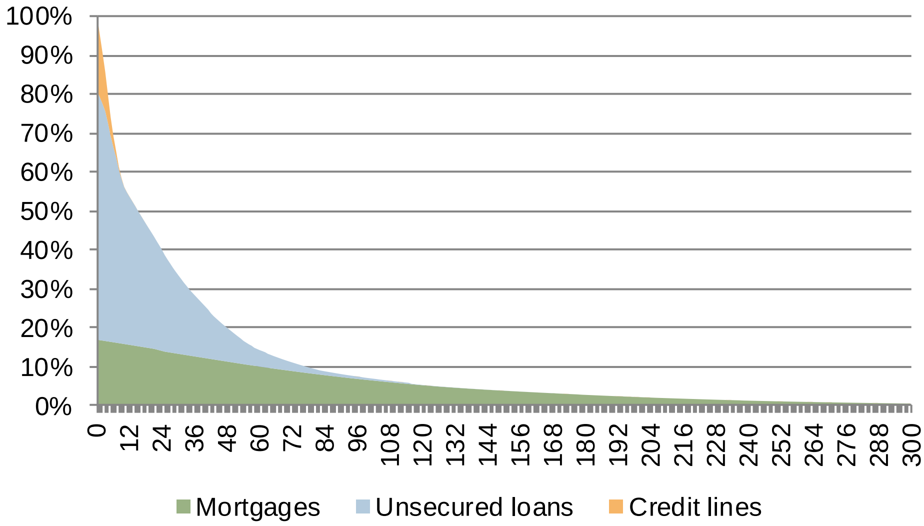
Class A has a short risk exposure to counterparties and possible macroeconomic deterioration

Class A has a short risk exposure to counterparties and possible macroeconomic deterioration because its expected WAL is 1.2 years under 0% CPR.

The portfolio would reduce by 40% of the original balance only seven months after closing – under a 0% CPR and 0% default assumption. This fast portfolio amortisation is driven by credit lines with a WAL of just five months (similar as for PYMES 11 at only 4.2 months), and the generally French amortisation schedule of the underlying exposures.

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

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



Granular portfolio – low obligor concentration

The portfolio is granular and well diversified according to the diversity indices (DI) calculated – 1,317 for obligors, 11 for industry, and 9 for region.

The exposure of this transaction to the Spanish real estate sector is low at 12.8% of the portfolio.

Figure 5. Portfolio industry distribution

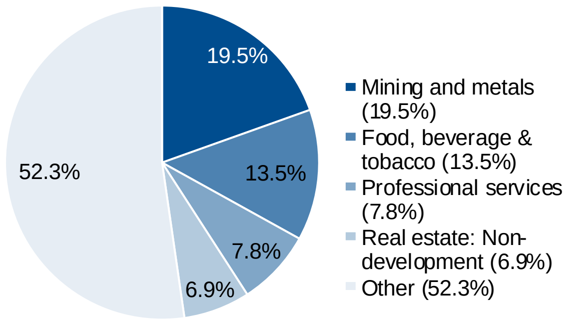
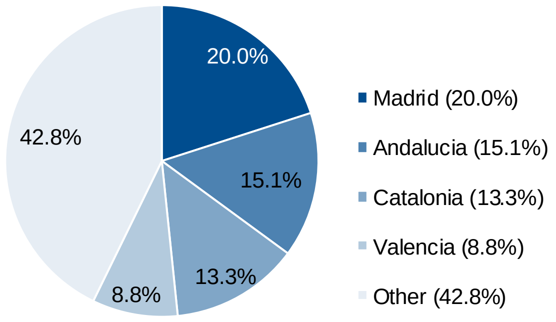


Figure 6. Portfolio regional distribution



The portfolio is exposed to five obligors, each representing more than 0.5% of the portfolio, with a total combined exposure of 3.04% – a lower concentration than for PYMES 11 in which the top obligors (eleven, each with more than 0.5%) represented 7.05%. Four of

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

these obligors are known to have better credit quality than the average in their respective segments, based on the bank's internal probability of default (PD). One obligor exhibits a 34.3% PD according to the originator. Scope has addressed obligor concentration by applying a 20% stress to the CoV of each segment's large obligor share, and also adjusted the lifetime default rate of the mortgage loan segment in order to reflect the weaker credit quality of the large obligor with the high probability of default.

Figure 7. Exposures of largest obligors (> 0.5% of the portfolio)

Top #	Balance (EURm)	Balance (%)	Portfolio segment (all are larger obligors)	Sector	Region	Amortisation schedule	Santander 1yr PD
1	21.2	0.76%	Mortgage loan	Transportation and logistics	Andalucia	French	3.6%
2	17.8	0.63%	Unsecured loan	Food, beverage and tobacco	Andalucia	French	0.3%
3	16.4	0.58%	Mortgage loan	Real estate: non-development	Madrid	French	34.3%
4	15.0	0.54%	Mortgage loan	Mining and metals	Pais Vasco	French	0.4%
5	14.9	0.53%	Credit line	Professional services	Madrid	French	0.4%

Lifetime default rate

Vintage data covers a period of high stress for Spanish SMEs

Scope derived the portfolio-modelling base case assumptions using vintage data from 2007 to 2015, a period of high stress for Spanish SMEs, which was characterised by high defaults and relatively low recoveries, particularly for mortgages as recovery from Spanish real estate collateral is slow due to the disrupted property market. Scope modelled the portfolio by segment. Portfolio-consolidated figures are a mean, 90 days past due (dpd) lifetime default rate of 16.1%, a cure rate of 22%, a CoV of 40.8% and a base case recovery rate of 33%. These modelling assumptions incorporate the base case adjustments for top obligors and credit lines, as well as the results from the obligor's analysis of internal PDs, as outlined in Appendix II. Analytical Notes on Default Analysis.

Figure 8 shows the portfolio's default rate modelling assumptions and summarised adjustments applied to address risk from credit lines and obligor concentrations. The figure also shows a comparison with the PYMES 11 transaction.[2]

Figure 8. Summary of mean default rate adjustments and comparison with PYMES 11

	PYMES 12		PYMES 11	
	Mean DR	DR CoV	Mean DR	DR CoV
Vintage result (unadjusted)	15.4%	35.3%	11.9%	59.1%
After adjustment for credit lines	15.9%	35.3%	12.7%	59.1%
Default modelling assumptions (After adjustment for top obligors)	**16.1%**	**40.8%**	13.9%	61.0%

Figure 9 shows the mean DR and the DR CoV modelling inputs for the segments.

Figure 9. Segment-specific default modelling inputs

Segment	Segment mean default rate	Segment default-rate coefficient of variation
Credit lines	5.7%	136.9%
Unsecured loans	6.9%	55%
Mortgages	62.5%	25%
Total	16.1%	40.8%

Recovery rate

Scope analysed the recovery vintage data provided by Santander for the 12 product segments in the portfolio. The segment-weighted recovery rate (RR) of 33% for the portfolio is in line with the 35% rate for the PYMES 11 portfolio. Scope only considered accumulated recoveries of up to three years after the moment of default when deriving the RR base case from vintage data.

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

Scope did not calculate RRs of the pool's mortgage segment considering the value of the real estate collateral available as security. The historical recovery rates of mortgages were lower than those under a market value decline (MVD) approach. This is because a weighted average recovery lag of 22 months is considered too short to allow the recovery of mortgages in a disrupted real estate market.

[2] The base case assumptions for PYMES 12 were derived from the preliminary portfolio from 20 October 2015, which is only marginally different from the final portfolio of 11 December 2015.

Scope estimated the recovery rates and lags on a segment-by-segment basis, as displayed in Figure 10.

Figure 10. Segment cure rates, conditional recovery rates and recovery lags

Segment	Cure rate	Recovery rate	Recovery lag (years)
Credit lines	14.7%	51.6%	1.6
Unsecured loans	25.8%	21.2%	2.0
Mortgages	15.6%	36.0%	1.5
Total	22.0%	33.0%	1.8

Scope modelled the portfolio by using fixed recovery rate assumptions for each segment. Scope applied haircuts of different magnitudes to the base case recovery rate derived from the vintage data analysis. These haircuts are a function of the target rating of the rated tranche. Figure 11 provides the indicative stress levels Scope considered per rating category to assess this transaction. The haircuts are equal to those for PYMES 11.

Figure 11. 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 segments: 14.7% for credit lines, 25.8% for unsecured loans and 15.6% for mortgage loans (see Figure 10).

Cure rates are derived from 90dpd recovery vintage data to estimate the share of 90dpd delinquent assets that do not migrate into default, in line with classifications 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 360dpd default rate vintage data to refer a true default rate to the 90dpd base case assumption for the portfolio.

The cure rate assumptions were considered constant for each segment, i.e. not rating-conditional as recovery rates are. Portfolio delinquencies are modelled as a function of the default rate scenario and the cure rate.

Constant prepayment rate (CPR)

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

Scope tested class A notes against the most conservative 0% CPR assumption as the notes benefit from prepayments. Scope used a 12% CPR assumption to analyse the class B and C notes. This approach is justified as Santander did not provide product-specific prepayment information, and Scope relied on references available from previous PYMES transactions, which showed very volatile historical CPR (3% to 11%).

FINANCIAL STRUCTURE

Capital structure

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

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

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.

Reserve fund (RF)

The structure features a fully funded cash reserve fund of EUR 140m, or 5% of the initial portfolio balance, which is the primary source of credit enhancement for the class B notes.

The RF, combined with the provisioning mechanism, traps excess spread and enables the structure to accelerate the amortisation of class A notes whenever assets are classified as defaulted, until the RF is fully depleted in high stress scenarios.

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 WA coupon of the notes is always higher than this index. Negative carry directly impacts class C notes.

We believe the amortisation of the RF will be unlikely under most portfolio default rate scenarios, despite being theoretically possible. The RF follows the standard mechanism of most Spanish securitisations: the required balance can reduce subject to i) non-defaulted assets more than 90dpd being less than 2.5% of non-defaulted assets; ii) more than two years having elapsed since closing; and iii) the RF being fully funded at its required level on the previous payment date.

Amortisation and provisioning

The amount to be allocated to notes' principal amortisation is the amount required to match the balance of the notes to the balance of non-defaulted assets on every payment date. However, this calculation accounts for adjustments on the balances of credit lines. Principal collected from a reduction in the credit lines' average usage level would not be used to amortise the balance of the notes, but is retained in the structure. This protects the structure by reducing the additional need for liquidity upon a subsequent and sudden increase of the credit lines' average usage.

This process constitutes both a principal retention and a provisioning mechanism. Principal retention is conditional on the usage level of credit lines, and disappears once credit lines no longer exist in the portfolio.

Provisioning mechanism allows for accelerated amortisation of most senior class

The provisioning mechanism allows the most senior class to accelerate amortisation, making use of reserve fund money and excess spread. As long as cash remains in the reserve fund, the mechanism ensures outstanding notes will be collateralised with non-defaulted assets.

Credit lines classify as defaulted when they are more than six months in arrears; loans when over 12 months. Credit lines and loans can classify as defaulted if the servicer subjectively considers them to be unrecoverable.

Priority of payments

Combined priority of payments is main protection against payment interruption

The structure features a combined priority of payments which provides material protection against payment interruption. 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 at allowing credit enhancement to cover losses from negative carry or interest rate mismatches (see Figure 12 Priority of payments and available funds).

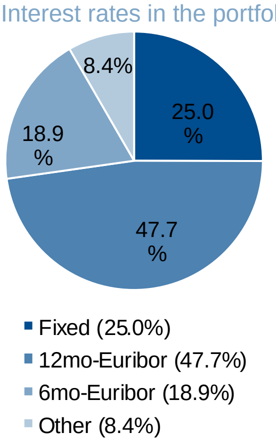
Scope's analysis takes into account the demotion trigger on class B interest. The rating of class B notes captures any loss from the time value of missed interest resulting from a postposition of class B interest payments. Missed interest payments do not accrue interest for any classes in this structure.

Figure 12. Priority of payments and available funds

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 amortise the liquidity facility; proceeds from interest and treasury accounts 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)	1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Santander were replaced)
2) **Class A interest** pari-passu with liquidity facility interest (pro-rata)	2) **Class A interest** pari-passu with liquidity facility interest (pro-rata)
3) Class B interest, if not demoted	3) **Principal for class A** pari-passu with liquidity facility balance
4) **Principal for class A**, and then class B	4) Class B interest
5) Class B interest, if demoted when a) Class A still outstanding after payment date b) Total defaulted assets > 5% of portfolio balance at closing	5) Principal for class B
6) RF to its required level	6) Class C scheduled interest
7) Class C interest	7) Principal for class C
8) Principal for class C (i.e. equivalent to reduction of required RF amount)	8) Subordinated items including servicer fee for Santander and excess spread for the originator
9) Subordinate loan interest	
10) Principal for subordinate loan	
11) Servicer fee for Santander	
12) Excess spread for originator as variable class C interest	

Unhedged interest rate risk

Interest rates in the portfolio



The materiality of unhedged interest rate risk is limited in view of: i) the current low interest rate environment; and ii) because floating-rate assets are referenced to indices highly correlated with the 3-month Euribor index of the notes. Potential losses for negative carry are factored into the ratings and are thus covered by available credit enhancement.

The transaction is exposed to interest-related risks because: i) no hedging agreement is in place; ii) 25.0% of the assets pay a fixed interest rate, whereas 100% of the issuer's liabilities are referenced to 3-month Euribor; and iii) reset frequencies and dates of the assets create a mismatch of rates between assets and liabilities.

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

Accounts

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

The first, the treasury account, is used to hold and retain principal collections from the assets until the balance of credit lines is lower than that as of closing. The account uses daily principal collections to service increases in average balances from credit lines. The treasury account is linked to a liquidity facility that can be drawn if principal collections are insufficient to cover the increased balance of credit lines.

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

Accounts represent commingling exposure to Santander, the account bank

The accounts represent commingling exposure to Santander, the account bank (see 'Counterparty Risk' on page 12). The accounts also represent a source of negative carry as their yield is lower than the WA coupon on the notes. Any loss from negative carry is covered by available excess spread and credit enhancement.

Liquidity facility

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 to fund any increase in the balance of the credit lines above the closing balance. The liquidity facility is set at 5% of class A notes, and the issuer is liquidated if this balance proves insufficient. The facility is 50% lower than in Santander's previous PYMES transactions: PYMES 10 and PYMES 11.

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

If drawn, the liquidity facility would become a 'super senior' liability for the issuer, as its balance would be offset against daily 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 interest on positive balances and charges a fee on negative balances, i.e. overdrafts. There is no interest or fee on the unused commitment.

Clean-up call

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

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

Santander is a sophisticated bank whose functions, systems, processes and staff meet the highest standards of European banking. The ability and stability of Santander as originator is illustrated by Santander's A+ rating from Scope. Scope analysts met Santander executives in Madrid on 29 October 2014 to assess the underwriting and servicing aspects relevant for analysing this securitisation, and Scope has confirmed with the originator that processes and strategies presented back then remain substantially in place.

Underwriting

Strong underwriting standards for the assets in this portfolio

The underwriting standards for the assets in this portfolio are strong. Santander has applied tight underwriting standards to contracts originated since the crisis. Since 2009, Santander has successfully applied a conservative, loss-control driven lending strategy to strengthen its balance sheet. This period coincides with the seasoning of the portfolio.

Servicing and recovery

Scope applied a relatively low cure rate assumption of 22%[3] (i.e. the segment-weighted average of 15% for credit lines, 16% for mortgage loans and 26% for unsecured loans) to the analysis of this transaction because Santander's pre-delinquency monitoring processes and early-delinquency management processes are highly efficient. Santander reported a 47% improvement in the volume of pre-90dpd arrears in under two years (a 28% improvement in 2013 and 26% for year-to-date September 2014).

Santander's interests are strongly aligned with those of the noteholders. As a provider of the 5% reserve fund and holder of the entire capital structure since 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.

[3] 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'.

MODELLING

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 portfolio with three distinct but perfectly correlated portfolio segments: i) credit lines; ii) unsecured loans; and iii) mortgage loans.

The CF tool was combined with the portfolio default distribution (Inverse Gaussian) to calculate the probability-weighted loss of each of the rated tranches under rating-conditional recovery rate assumptions. The CF tool also produces the expected WAL of each rated tranche.

Besides the base case, Scope also analysed the transaction under a long-term view, as described in its SME CLO Rating Methodology. 'Appendix III. Long-term Default Analysis' describes how we performed this adjustment in the context of the Spanish economic cycle, and the period in which performance data was available. Figure 13 shows the rating impact of this long-term adjustment. The base case assumptions for PYMES 12 were derived from the preliminary portfolio from 20 October 2015, which is only marginally different from the final portfolio of 11 December 2015.

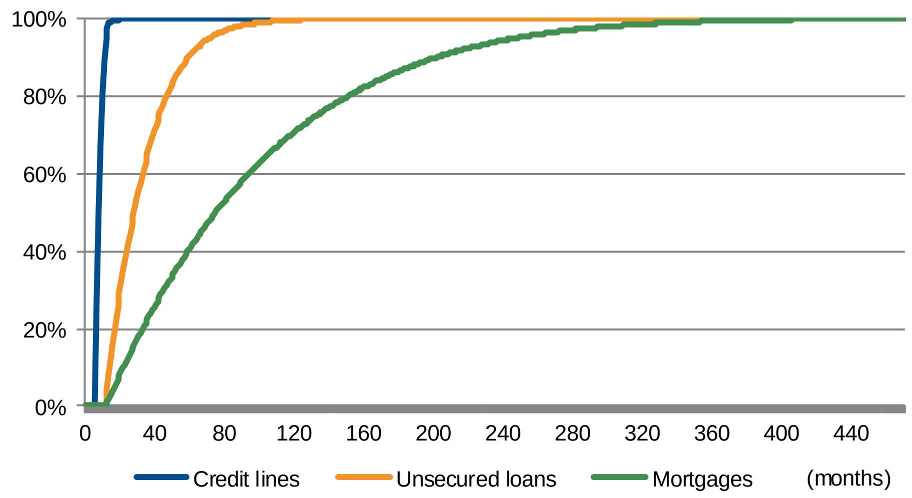
Figure 13. Impact on rating of the long-term adjustment of portfolio default rates

Segment name	LT DR	LT CoV	Class A	Class B
Credit lines	3.7%	83%		
Unsecured loans	4.2%	80%	0	+2
Mortgages	38.0%	54%		

The agency assigned an AAA_{SF} rating to the class A notes, based on the results of the cash flow analysis, which took into account the distribution of long-term-adjusted portfolio default rates. This analysis is supported by positive macroeconomic conditions, combined with the relatively tight underwriting standards of Santander during 2014 and 2015, when more than 77% of the assets were originated.

To eliminate doubt, no single output figure of the tool determines the final rating decision of the committee. Scope gave great consideration in its analysis to long-term sensitivity scenarios which indicated that the base case modelling was conservative, due to the stressed performance displayed in the vintage data.

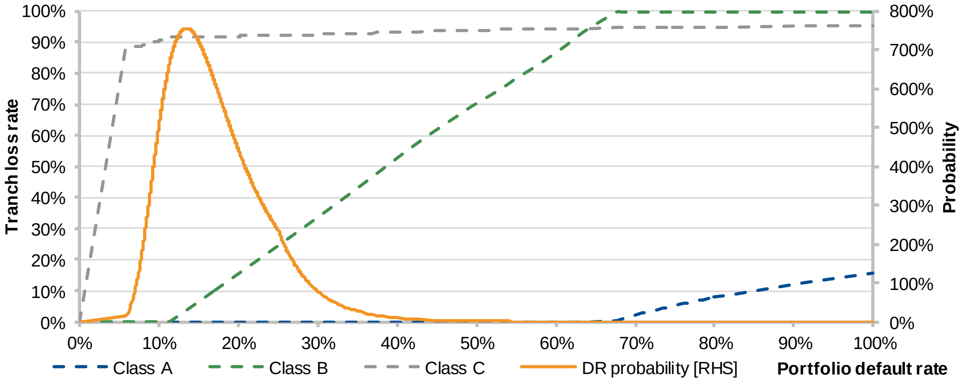
Figure 14. Cumulative default-timing assumptions for the three product types



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 14. 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 15 shows the losses of each tranche for 0% to 100% portfolio default rates. The chart shows the protective effect of credit enhancement in combination with excess spread captured and the recovery in case of defaults. The latter two elements explain why class A and B are actually able to withstand default rate scenarios beyond their respective credit enhancement levels of 30% and 5%.

Figure 15. CF model results for base case mean DR, CoV, RR and cure rate and 0% CPR



RATING STABILITY

Rating sensitivity

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

The strong protection mechanisms of the structure; the rating-level conditionality of recovery rates assumed by Scope; and the use of a long-term performance reference for Spain support the stability of the ratings.

Scope tested the ratings against reference shifts in modelling assumptions as per our SME CLO Rating Methodology. These shifts are only designed to illustrate the sensitivity of the ratings to changes in assumptions, and do not represent likely or even plausible deviations from the expected base case performance. This section shows the impact on the ratings of changes to the base case values of the portfolio's mean default rate, default-rate CoV and recovery rate (see Figure 16 and subsequent tables below).

The class A rating as of closing would be sensitive to the stresses. The highest sensitivity is attributed to shifts in the default-rate coefficient of variation, through which the class A would be downgraded by four notches. A combined shift in default and recovery rates as well as a 50% increase of the mean default rate both result in a three-notch downgrade (see Figure 16, Figure 18 and Figure 19).

The class B rating is less sensitive to shifts in modelling assumptions because of the initially lower rating. The rating deteriorates by up to three notches under high default rate shifts (+50%) and combined shifts in default and recovery rates (see Figure 18 and Figure 19).

Figure 16. Ratings' sensitivity to shifts in portfolio's default-rate coefficient of variation

DR CoV (sensitivity in notches)	Class A	Class B	Class C
Base case CoV + 50%	-4	0	—

Figure 17. Ratings' sensitivity to shifts in the portfolio recovery rate

RR (sensitivity in notches)	Class A	Class B	Class C
Base case RR - 25%	0	-2	—
Base case RR - 50%	-2	-2	—

Figure 18. Ratings' sensitivity to shifts in the portfolio mean DR

DR (sensitivity in notches)	Class A	Class B	Class C
Base case DR + 25%	-1	-2	—
Base case DR + 50%	-3	-3	—

Figure 19. Ratings' sensitivity to a combined shift in the portfolio mean DR and RR

Combined DR/RR (sensitivity in notches)	Class A	Class B	Class C
Base case DR + 25%, Base case RR - 25%	-3	-3	—

Break-even analysis

Under a zero RR assumption, the class A would not experience any loss under portfolio default rates of 42.6% or lower

The resilience of the class A rating is illustrated in the break-even default rate analysis. The class A would not experience any loss at portfolio default rates of 42.6% or lower, under a zero RR assumption. The class A would not experience any loss at portfolio default rates of 55.4% or lower, under the AAA_{SF} recovery rate assumption of 20% for this portfolio (compared to the base case RR assumption of 33%).

The class B would not experience any loss at portfolio default rates of 11.0% or lower, under the B recovery rate assumption of 33%. This class would not have losses at portfolio default rates of 7.2% or lower, under a zero RR assumption.

The class C sees losses under every default rate scenario, except for 0% defaults.

Figure 20. Break-even default rate analysis as a function of prepayments and recovery rates

Break-even DR (for a portfolio cure rate of 22%)						
Prepayments	0% CPR			12% CPR		
Portfolio RR	20% (AAA_{SF} RR)	33% (B_{SF} RR)	0% (zero RR)	20% (AAA_{SF} RR)	33% (B_{SF} RR)	0% (zero RR)
Class A	**55.4%**	63.8%	**42.6%**	59.3%	70.9%	44.7%
Class B	9.1%	**11.0%**	**7.2%**	10.1%	12.3%	7.8%
Class C	0.0%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**

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, due to a hypothetical exit of Spain from the eurozone, are not material for the rating of the class A notes, and less so given the very short expected WAL of this tranche.

Scope factors its positive economic outlook into the rating analysis, as Spain's GDP continues to grow. Spanish SMEs' financial performance is consequently likely to improve further in 2016, boosted by growing domestic demand and increased credit availability.

The challenges to this recovery trend are not material to the credit strength of the class A notes, again because of the short expected WAL. But macroeconomic imbalances and crystallisation of political risk could dissolve the positive impact of this economic trend for the class B and C notes. These imbalances are the high level of public and private debt, the still large budget deficit, the negative net investment position and the very high unemployment.

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. 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 available on www.scoperatings.com.

Operational risk from servicer

Scope considers the replacement of Santander as servicer of the portfolio as highly unlikely. We believe a servicer replacement would be more disruptive than the probable continuation of Santander operating 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.

Comingling risk from the 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.

Commingling risk from account bank and paying agent

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

The class A notes have a very short expected WAL of just 1.2 years under 0% CPR. Given Santander's current rating of A+/S-1/Stable Outlook, Scope considers the risk of commingling losses as sufficiently remote to be immaterial for the class A notes. In addition, the transaction features a substitution mechanism at the loss of BBB for both roles, which further supports the rating assigned to the class A.

Scope believes credit risk arising from exposure to the account bank is negligible and mitigated in the structure by other risk-substitution covenants. We judge a counterparty eligible for the role of account bank and paying agent if, upon the loss of a BBB Issuer Credit-Strength Rating (ICSR), the structure triggers substitution of the counterparty, in accordance with Scope's Rating Methodology for Counterparty Risk in Structured Finance Transactions.

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 obligor notification following a servicer event or upon the insolvency of either 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 is largely to the insurance business of Santander, and limited to premia paid up-front and capitalised in the mortgage balance. This represents a negligible amount that is covered by available credit enhancement in the transaction.

LEGAL STRUCTURE

Legal framework

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 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 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 11, and greater than the 15-day threshold defined for PYMES 10, 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 opinions

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

Scope reviewed the legal opinions produced by Cuatrecasas Gonçalves Pereira SLP for the issuer and trusts the oversight of Spanish regulator, CNMV, which provides comfort on the issuer's legal structure. The transaction conforms to securitisation standards in Spain, effective since 28 April 2015, and supports the general legal analytical assumptions of Scope.

MONITORING

Scope will monitor this transaction on the basis of the performance reports produced by the management company and any other information received from the originator. The ratings will be monitored 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 "SME CLO Rating Methodology", dated 6 May 2015, available on our website www.scoperatings.com. Appendix II. provides additional details on the analysis performed to produce portfolio-default modelling inputs.

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 2007 to Q2 2015 and is generally very granular with a minimum of 3,300 observations per segment. The recovery data also covers a period from 2007 to Q2 2015, but is less granular with a minimum of 900 observations per obligor segment. The received data represents the data available for the rating of FTA PYMES Santander 10 and FTA PYMES Santander 11, but with two additional quarters of data.

APPENDIX I. TRANSACTION COMPARISON

Figure 21. Comparison of recent Santander PYMES transactions

Key Features	PYMES 12	PYMES 11	PYMES 10	PYMES 9	PYMES 8
Originator	**Santander, Banesto and BANIF**	Santander and Banesto	Santander and Banesto	Santander	Santander
Closing date	**14 December 2015**	22 May 2015	4 Dec 2014	20 May 2014	20 May 2014
Portfolio balance (EURm)	**2,800**	3,681	4,215	558	1,591
Number of assets	**39,559**	59,592	50,411	3,333	23,404
[2]Diversity index	**1,450**	911			
Number of obligors	**36,551**	54,662	45,303	3,176	20,779
[2]Diversity index	**1,317**	702			
Average asset size (EUR)	**70,780**	61,764	89,188	167,426	67,961
Maximum asset size (EUR)	**21,203,648**	27,000,000	28,394,000	4,977,296	15,543,924
SME	**81.2%**	98.1%	86.6%	86.3%	95.0%
Self-employed	**18.8%**	1.9%	13.4%	13.7%	5.0%
Concentrations					
Largest obligor	**0.8%**	0.7%	0.7%	0.9%	1.0%
Top 10 obligors	**5.1%**	6.5%	5.6%	6.2%	6.7%
Top 20 obligors	**8.4%**	10.8%	9.0%	10.2%	10.6%
Largest region	**20.0%**	21.3%	23.6%	21.0%	30.7%
Top 3 regions	**48.4%**	51.5%	53.5%	51.2%	57.0%
Largest sector	**19.6% Mining and metals**	18.7% Wholesale and retail trade	15.7% Real estate and construction	23.9% Real estate and construction	12.03% Real estate and construction
Top 3 sectors	**40.9%**	43.9%	38.5%	60.5%	31.7%
WAL (0%DR and 0%CPR) (years)	**2.8**	1.9	2.8	5.3	1.8
WA Santander's internal 1yr PD	**3.3%**	5.6%	3.2%	na	na
Current WA coupon	**2.6%**	3.4%	3.8%	3.0%	4.4%
Fixed rate assets (% of balance)	**25.0%**	21.8%	19.4%	1.0%	25.8%
WA coupon of fixed-rate assets	**3.3%**	4.8%	5.2%	4.7%	5.1%
WA margin of floating-rate assets	**2.0%**	2.7%	2.8%	2.3%	4.2%
Amortising loans	**87.4%**	53.2%	71.8%	98.8%	89.0%
Bullet loans	**12.6%**	46.8%	28.2%	1.2%	11.0%
Credit lines	**17.4%**	39.5%	17.8%	0.0%	23.3%
of which reconducted	**1.8%**	0.0%	4.5%	na	na
WA Santander's internal 1yr PD	**2.1%**	2.2%	3.5%	na	na
Mortgages	**15.0%**	9.3%	22.3%	79.8%	5.2%
of which reconducted	**42.0%**	18.3%	19.7%	na	na
for which WA LTV	**101.3%**	72.9%	64.4%	84.1%	75.6%
WA Santander's internal 1yr PD	**9.5%**	18.5%	3.0%	na	na
Unsecured loans	**67.6%**	51.2%	59.8%	20.2%	71.4%
of which reconducted	**3.4%**	7.4%	5.6%	na	na
WA Santander's internal 1yr PD	**2.2%**	5.9%	3.2%	na	na
Debt consolidation (reconducted or refinancing)	**9.2%**	5.5%	8.7%	15.2%	5.5%

PYMES 12 vs. PYMES 11

FT PYMES Santander 12 securitises a portfolio of stronger obligors, when compared to that of its predecessor PYMES 11. In terms of Santander's internal probabilities of default, the average quality of obligors in PYMES 12 (WA PD of 3.3%) is 41% better than in PYMES 11 (WA PD of 5.6%). See Figure 21 for more details on the differences of the portfolio segments.

However, we have assigned a mean lifetime default rate to this transaction of 16.1%, which is higher than the one assigned to PYMES 11 (13.9%). This is because of the longer WAL of this portfolio (2.8 years versus 1.9 years for PYMES 11), which represents a longer risk horizon, i.e. a higher lifetime exposure to defaults.

This transaction has a lower probability of large portfolio default rates under stressed scenarios than for PYMES 11. The nature and higher average quality of the obligors makes the transaction less vulnerable to downturns. In addition, the reduced amount of credit lines limits the impact of refinancing risk attributable to this exposure type.

The capital structure of this transaction offers the same credit enhancement to the class A notes as in PYMES 11. Therefore the better rating for the class A of PYMES 12 reflects the better portfolio quality and reduced default rate volatility owing to the lower share of credit lines.

The rating assigned to the class A notes of PYMES 12 reflects the credit strength of Santander and the short life of credit lines in the portfolio. These factors strongly mitigate the short-term default rate volatility of the credit lines in the portfolio.

The rating to class B factors the exposure of the tranche to the long-term remainder of the portfolio after credit lines and unsecured loans have been paid – mortgages and refinanced mortgages in particular.

APPENDIX II. ANALYTICAL NOTES ON DEFAULT ANALYSIS

This section complements the analytical approach explained in Scope's SME CLO Rating Methodology. Scope has divided the portfolio into three different main segments for which Santander has provided 90dpd and 180dpd delinquency and recovery vintage data sets. The base case assumptions were derived based on the preliminary portfolio from 20 October 2015, which is only marginally different from the final portfolio of 11 December 2015.

Adjustments for credit lines

The credit lines in the portfolio can increase their balance using principal received from performing assets or the liquidity facility available to the transaction. Scope believes that the liquidity facility will not be used because of the speed of this transaction's amortisation and the short-lived exposure to credit lines. This represents a revolving-risk component, because principal that survived the probability of default of one obligor can still default under a credit line if the money is used to increase the balance of a credit line.

Scope has increased the lifetime default rate of the credit line segment by applying the multiple derived from total amount of granted credit lines over the total amount of drawn credit lines – 1.76x, i.e. 43% of all credit line exposures are undrawn. This reflects the increased risk stemming from fully drawn credit lines. The results of the vintage analysis have been stress-tested by considering the preliminary portfolio's segment weights that make up a total sum of segment weights that are greater than 100% overall. The rationale for this approach is justified because: i) the draw-down of undrawn commitment increases the implicit portfolio balance; ii) draw-downs will mostly be serviced from principal collections; and iii) liquidity-facility repayments are 'super senior' in the structure, and set-off in the treasury account occurs before and outside the priority of payments.

The adjusted mean default rate for the credit line segment is 5.7% as a result, up from 3.2% before adjusting for undrawn credit lines. The volatility represented by the CoV was kept constant at 136.9%. To reflect the higher refinancing risk, the 136.9% CoV applied to the credit line segment reflects a doubling of the CoV derived from vintage data for this segment. This CoV stress addresses the higher tail risk of credit lines from refinancing risk and the exposure to the originator to provide such refinancing.

Obligor-concentration adjustments

The obligor-concentration adjustment addresses the risk that top obligors, each representing over 50 bps of the preliminary portfolio balance, have i) below-average credit quality; and ii) a higher default correlation under tail-risk scenarios.

Scope applied adjustments to the combined exposure of obligors which each represent more than 50bp of the portfolio balance. The preliminary portfolio had four large obligors (five in the final portfolio) which have 2.5% of the preliminary portfolio balance. Three of these obligors are known to have better credit quality than the average in their respective segments, based on Santander's internal PD. The obligor with worst credit quality exhibits a 34.3% one-year PD, accumulating to 100% lifetime default rate. The final base case mean default rate assumption for the portfolio, after obligor-concentration adjustments, is 16.1%. Scope assumes a 100% lifetime default rate for the obligor with below-average credit quality, representing 27.5% of the segments top obligors combined; and the segment's average lifetime default rate for the remaining balance of top obligors.

Scope applies a 20% stress to the CoV of the large obligor exposure to address the risk of higher correlation from obligor concentration, which results in a marginal increase in the segments' CoV, as displayed in Figure 22. The impact of this adjustment is however limited because obligor concentration is low in the preliminary portfolio.

Figure 22. Adjustment to large obligors' coefficient of variation

	Segment CoVs before large obligor adjustment	Segment CoVs after large obligor adjustment
Credit lines	136.9%	136.9%
Unsecured loans	52.9%	55%
Mortgages	21.7%	25%

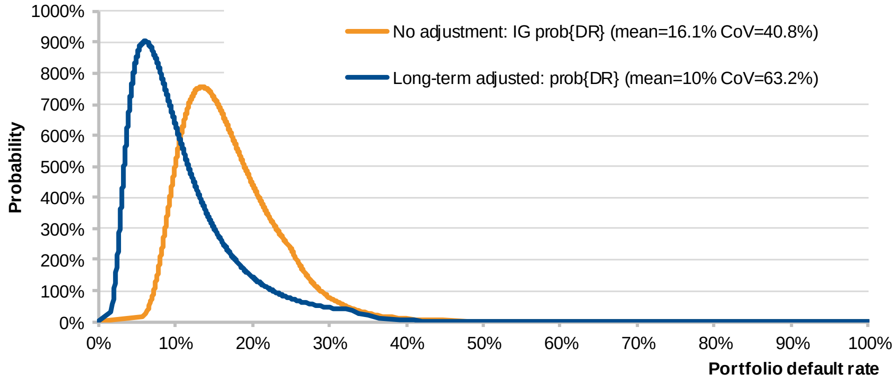
APPENDIX III. LONG-TERM DEFAULT ANALYSIS

This appendix shows the application of the long-term analysis of this transaction as described in the SME CLO Rating Methodology. This analysis is designed to improve the stability of AAA_{SF} credit enhancement levels and reduce the procyclicality of ratings.

The analysis takes into account modified default rate modelling assumptions on the portfolio, which consider our view on the long-term performance of the portfolio under average full-cycle stresses. The modified assumptions are used to assess the adequacy of protection levels for AAA rated tranches, whereas lower rating categories gradually take a more forward-looking view. The B_{SF} level is analysed exclusively under the forward-looking view.

Figure 23 shows the long-term adjusted portfolio default rate distribution compared to the unadjusted (base case) distribution. The following sections explain how the long-term adjustment was derived.

Figure 23. Long-term, adjusted, portfolio-default-rate distribution compared to base case



Source: Scope

Adjustment of the portfolio mean default rate

Scope has assigned a long-term adjusted mean default rate for this portfolio of 10.0% (after applying an average reduction factor of 0.6x to the unadjusted mean default rate, 16.1%), and a default-rate coefficient of variation of 63% (which results from the full-cycle volatility analysis; higher than the unadjusted 40.8%).

The reduction factor results from the relative stress of the period covered by vintage data and the full cycle. The adjustment is summarised in Figure 24.

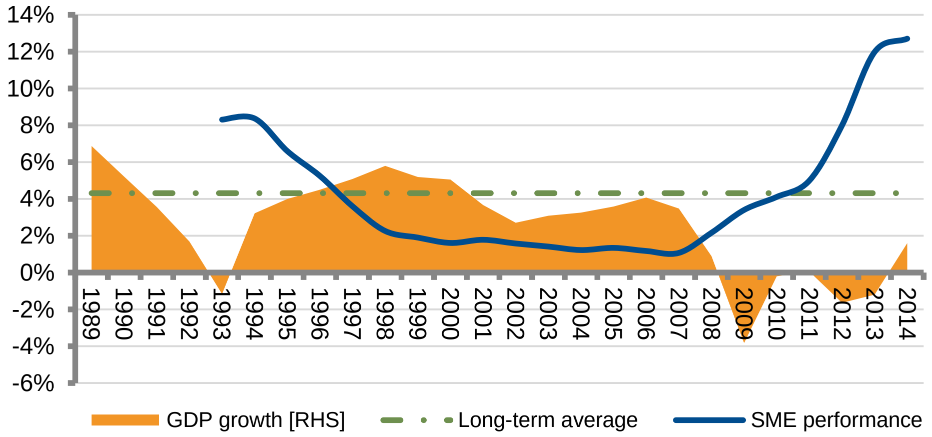
Figure 24. Long-term adjustment of the portfolio mean default rate

Vintage period	Full cycle
2007-2015 (8.5 years)	1993-2014 (full cycle)
Portfolio mean DR = 16.1%	
Average market cumulative performance during the vintage window (i.e. average of synthetic cohorts for the market corresponding to the vintage period, 2007-2015) Credit lines = 6.7% (one-year horizon) Unsecured loans 17.6% (four-year horizon) Mortgages = 45.3%%(nine-year horizon)	Average market cumulative performance during the full cycle (i.e. average of synthetic cohorts for the market corresponding to the full cycle, 1993-2014) Credit lines = 4.3% (one-year horizon) Unsecured loans = 10.6% (four-year horizon) Mortgages = 28% (nine-year horizon)
The multiplier is obtained by dividing the average for the cycle by the average for the vintage period: $\textbf{Adjustment factor} = \frac{\text{(Average market performance through-the-cycle)}}{\text{(Average market performance over vintage period)}}$	
Long-term-adjusted portfolio mean DR = 10.0% Credit lines = **0.65x** 5.7% = 3.7% Unsecured loans = **0.60x** 6.9% = 4.2% Mortgages = **0.62x** 62.5% = 38.0%	

We consider 1993-2014 to be representative of a complete economic cycle in Spain (see Figure 25). The average market would have a long-term cumulative default rate of 12.5% over a full cycle for portfolios with a WAL of four years; whereas the performance over the period analysed with 2007-2015 vintage data yields a higher cumulative default rate of 20.2%.

The following chart shows the Spanish cycle and the average credit performance of the market, as well as the long-term average.

Figure 25. The economic cycle and the long-term average 90dpd performance of SMEs



Source: Bank of Spain and Scope.

Adjustment of the portfolio default-rate coefficient of variation

The long-term adjustment overrides volatility derived from default vintage data with the volatility estimated for the entire market over a full economic cycle. Scope has derived an adjusted portfolio default-rate coefficient of variation of 63.2% for portfolios with a WAL of four years.

Figure 26. Long-term adjustment of the portfolio default-rate coefficient of variation (CoV)

Vintage period	Full cycle
2007-2015 (8.5 years)	1993-2014 (a full cycle)
Unadjusted coefficient of variation per segment Credit lines = **136.9%** Unsecured loans = **55%** Mortgages = **25%**	**CoV of average market default rates per segment** Credit lines = **83%** (risk horizon 1 year) Unsecured loans = **80%** (risk horizon 3 years) Mortgages = **54%** (risk horizon 9 years)

Adjusted coefficient of variation for portfolio = 63.2%

APPENDIX IV. REGULATORY AND LEGAL DISCLOSURES

Important information

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

Responsibility

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

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

Rating history

The rating concerns newly issued financial instruments, which were evaluated for the first time by Scope Ratings AG. Scope had already performed a preliminary rating for the same rated instrument 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
ES0305107007	11.11.2015	new	(P) AAA_{SF}
ES0305107015	11.11.2015	new	(P) $B+_{SF}$
ES0305107023	11.11.2015	new	(P) C_{SF}

Information on interests and conflicts of interest

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

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Key sources of Information for the rating

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

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 is the "SME CLO Rating Methodology", dated May 2015. Scope also applied the principles contained in the "Rating Methodology for Counterparty Risk in Structured Finance Transactions", dated August 2015. Both files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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