



ISSUE RATING

Gas Deficit Entitlement Rights

Amount: EUR 684.4 MM

Coupon: 1.104%

Amortization frequency: monthly

First rating date: 26/03/2020

Review date: 05/10/2020

Analysts

Head of Structured Finance

Vicente Gregorio Iglesias
vgiglesias@axesor-rating.es

Chief Rating Officer

Guillermo Cruz Martínez
gcmartinez@axesor-rating.es

Executive Summary

Axesor, on the 5th of October 2020, has downgraded the rating assigned to the gas tariff deficit entitlement rights held by Banco Santander from AA_{sf} to AA_{-sf} (stable). This rating action is based on the downgrade on the 25th of September 2020 of the rating of the Kingdom of Spain to an A- (stable) and is the result of the country ceiling established for this asset class which is three notches above the sovereign rating

On the 1st of December 2017, Banco Santander acquired part of the 2014 deficit receivables that regulated gas players were entitled to vis a vis the Spanish Natural Gas System (the "System") for a nominal value of € 808,193,895 at a cost of € 812,621,990. These receivables correspond to the deficits related to regulated activities accumulated up to 31st of December of 2014 recognized by the Order of the Ministry of Energy, Tourism and Digital Agenda which was published in the Official Gazette on the 29th of December of 2016 for a total amount of € 1.025 Bn.

These rights are composed by payments that the market's regulator, Comisión Nacional de los Mercados y Competencia ("CNMC" or the "Regulator"), must make to the Gas operators that funded the accumulated deficits generated by the System up to 2014.

Banco Santander at close of 2019 held in its books entitlement rights recognized by Spanish Law, stemming from the 2014 natural gas deficit for a total consideration of € 684.43MM.

The receivables are paid monthly with a legal maturity date falling on the 24th of November of 2031 (fifteen years from the date of recognition of the entitlement rights). Subsequent deficits that may arise will be settled in a period of five years since their origination.

The 2014 Deficit rights were assigned to Banco Santander by part of their original owners who were: Enagás Transporte, S.A.U., Redexis, Madrileña Red de Gas, Naturgy and Nortegás through a true sale.

The annuities from these rights are charged as a regulated cost of the Spanish natural gas system to all final consumers. These charges are collected through the sector's billing system and final settlement and payment to the holders of the rights is made by market players following the instructions of the CNMC which, amongst other functions, is the Gas System's independent regulator.

Outlook

The outlook of the rating is stable mirroring the outlook on the rating of Kingdom of Spain.

Sensitivity Analysis

Factors that collectively or individually could impact the rating:

► Positive Factors (↑):

Factors that could lead to an upgrade would be an upgrade in the rating of the Kingdom of Spain

► Negative Factors (↓):

Factors that could lead to a further downgrade would be a downgrade in the rating of Spain, a worsening of the economic sustainability of the gas system such as an increase in the accumulated gas tariff deficit, or a change in the regulation of the system.

Main Figures:

Main figures	Issuance Data
Holder	Banco Santander, S.A.
Purpose	Natural gas system deficit 2014
Type of vehicle	N/A
Assets Class	Receivables purchase
Entitlement date	01/12/2017
Payment date	The last day of each month
Interest payment frequency	Monthly
Principal payment frequency	Monthly
First Payment Date	31/12/2017
Legal Maturity Date	24/11/2031

Participants

Participants	Role
Enagás Transporte, S.A.U., Redexis, Madrileña Red de Gas, Naturgy, Nortegás	Original owners of the Deficit
Comisión Nacional de los Mercados y la Competencia	Independent Regulator
Entitlement Rights Owner	Banco Santander, S.A.

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the holder of the rated entitlement rights, who has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Regulation applicable to the entitlement rights.
2. Reports from the Regulatory Bodies.
3. Information provided by the holder of the rights.
4. Public information from public access sources, mainly official statistics institutes, central banks, and other government sources, in addition to the OECD, Eurostat, World Bank, European Central Bank, among others.
5. Information published in the Official Bulletins.

In the case that the entitlement rights are securitized the rating will also be based on the information provided by the management company, the originator or any other participant in the transaction including but not limited to:

1. The quality of the Collateral.
2. The level of credit enhancement.
3. Counterparties.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Structured Finance Rating Methodology that can be consulted on www.axesor-rating.com/en/about-axesor/methodology and according to the Structured Finance Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has provided ancillary services to the rated entity and its related third parties. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

Conditions of Use for this document and its content:

For all types of Ratings that the AGENCY issues, the User may not, either by themselves or via third parties, transfer, sublease, sublicense, sell, extract, reuse, or dispose of in any other way the content of this Document to a third party, either for free or for consideration. Nor may they alter, transform or distort the information provided in any way. In addition, the User will also not be permitted to copy and/or duplicate the information, nor create files which contain the information of the Document, either in its entirety or partially. The Document and its source code, regardless of the type, will be considered as the elaboration, creation, or work of the AGENCY and subject to the protection of intellectual property right regulation.

For those uses of this Document which are permitted, the User is obliged to not allow the removal of the copyright of the AGENCY, the date of the Document's issuance, the business name as established by the AGENCY, as well as the logo, brands and any other distinctive symbol which is representative of the AGENCY and its rights over the Document.

The Document and its content may not be used for any illicit purpose or any purpose other than those authorised by the AGENCY. The User will inform the AGENCY about any unauthorised use of the Document and/or its content that may become apparent.

The User will be answerable to the AGENCY for itself and its employees and/or any other third party which has been given or has had access to the Document and/or its content in the case of damages which arise from the breach of obligations which the User declared to have read, accepted and understood upon receiving the Document, without prejudice to any other legal actions that the AGENCY may exercise in defence of its lawful rights and interests.

The Document is provided on the acceptance that the AGENCY is not responsible for the interpretation that the User may make of the information contained. Credit analyses included in the Document, as well as the ratings and statements, are to be deemed as opinions valid on the date of issuance of the reports and not as statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The credit ratings and credit rating prospects issued by the AGENCY are considered to be its own opinion, so it is recommended that the User take it as a limited basis for any purpose that it intends to use the information for. The analyses do not address the suitability of any value. The AGENCY does not act as a fiduciary or an investment advisor, so the content of the Document should not be used as a substitute for knowledge, criteria, judgement or experience of the User, its Management, employees, advisors and/or clients in order to make investment decisions.

The AGENCY will devote every effort to ensure that the information delivered is both accurate and reliable. Nonetheless, as the information is elaborated based on data supplied by sources which may be beyond the control of the AGENCY, and whose verification and comparison is not always possible, the AGENCY, its subsidiaries, and its directors, shareholders, employees, analysts and agents will not bear any responsibility whatsoever (including, without any limitations, loss of revenue or income and opportunity costs, loss of business or reputational damage or any other costs) for any inaccuracies, mistakes, noncorresponding information, incompleteness or omission of data and information used in the elaboration of the Document or in relation to any use of its content even should it have been warned of potential damages. The AGENCY does not make audits nor assume the obligation of verifying independent sources of information upon which the ratings are elaborated.

Therefore the User agrees that information provided by the AGENCY may be another element to consider when making business decisions, but decisions will not be made based solely on it; that being the case the AGENCY will not be held responsible for the lack of suitability. In addition, the use of the information before courts and/or tribunals, public administrations, or any other public body or private third party for any reason shall be solely the User's responsibility and the AGENCY shall not be held responsible for any liabilities on the grounds of inappropriateness of the information's contents.

Copyright © 2020 AXESOR RISK MANAGEMENT S.L.U. All Rights Reserved.

C/ Graham Bell. Edificio Axesor s/n de Armilla (Granada)

C/ Velázquez nº18, 3º derecha, 28001 - Madrid.