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Research Update:

Spanish Bank Santander And Subsidiaries Outlooks Revised To Negative; 'AA/A-1+' Ratings Affirmed

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Table Of Contents

Rationale

Outlook

Related Research

Ratings List

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Rationale

On March 4, 2009, Standard & Poor's Ratings Services revised its outlook on Spain-based Banco Santander, S.A. (Santander) to negative from stable. Standard & Poor's also revised the outlooks to negative from stable on certain rated subsidiaries (see Ratings List below). At the same time, we affirmed the 'AA/A-1+' long- and short-term counterparty credit ratings on Santander and all rated subsidiaries.

The outlook revision is based on our lowered expectations for economic growth in the countries in which Santander operates and the potential impact on its financial performance.

The ratings on Santander reflect our view of its clear strategic focus and strong management capabilities, well-diversified geographic and business profile, solid position in core markets and sound operating profitability. We also factor into the ratings our view on the bank's deteriorating asset quality, its higher credit risk arising from Latin America operations, and its acquisition-driven stance that carries inherent execution risk.

We see that Santander enjoys a leading position in Spain, strong market shares in the main Latin American markets, an important position in the U.K., and a presence in commercial banking in Portugal and in consumer finance in various European countries. Amid the current global economic downturn, we consider that the bank faces the challenge to integrate and improve the profitability of its recently acquired subsidiaries in Brazil, the U.K., Germany, and the U.S., where it bought Sovereign Bancorp.

We observe that Santander's operating profitability is strong in all business units. Even if some of the major economies in which the bank operates will be less supportive in the next two years than in the past, we expect Santander to post robust profitability from recurrent retail banking profits, with a special emphasis on widening asset spreads; tightly manage costs; and unlock synergies from recent acquisitions.

We expect Santander's provisions to increase materially in the next couple of years as a result of deteriorating asset quality across all regions where the bank is active. We believe the bank's nonperforming loans will increase significantly in Spain and more moderately in the U.K. Higher provisions in Spain should be partly compensated by releasing generic loan loss reserves according to Spanish regulation. Also, risk premiums are expected to increase substantially in the consumer finance business and across all Latin America, particularly in Mexico and Brazil.

Santander has demonstrated significant financial flexibility in our view, raising €7 billion in December 2008 to increase its core capital target to 7%, excluding hybrid instruments. We expect Santander to maintain at least its

current capitalization, from which we deduct, in our adjusted common equity calculation, the bank's €7 billion in mandatory convertible bonds.

We view Santander as having high systemic importance within the Spanish banking sector. Under Standard & Poor's criteria, we consider the Spanish authorities to be supportive. Our ratings on Santander consequently include the soft benefits derived from being a bank in a regulated and supervised environment with access to extraordinary liquidity, such as that provided under the Spanish government's support package. The ratings on Santander reflect our opinion of its stand-alone credit profile and do not include any explicit uplift for extraordinary government support.

Outlook

The negative outlook reflects the possibility that we could downgrade Santander if we perceive that deteriorating credit conditions in its main markets will result in a significant impact on the bank's financial performance. We believe that Santander has weathered the crisis relatively well so far. However, Standard & Poor's has recently revised down our forecasts for most of the economies in which Santander is present. For instance, we have lowered our forecasts for Spain's economic growth to negative 2.9% in 2009 and negative 0.3% in 2010 and for the U.K. to negative 3.1% in 2009 and positive 0.9% in 2010. We also expect depressed growth across Latin America, with a mild recession in Mexico.

We could lower the ratings on Santander, in particular, if we anticipate a significant reduction in operating profitability in the next couple of years. Profitability pressures will come, we believe, from increasing provisioning charges, negative repercussions from exchange rate fluctuations, lower business volumes, and higher funding costs. Any meaningful acquisition could also carry negative implications for the ratings.

We could revise the outlook to stable, all other things being equal, if we see that Santander is able to maintain its resilient asset quality and strong earnings throughout the economic slowdown.

Related Research

This article is based in part on the following criteria articles:
"How Systemic Importance Plays A Significant Role In Bank Ratings," published July 3, 2007.

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Banco Santander, S.A.		
Banco Español de Crédito, S.A.		
Santander Consumer Finance, S.A.		

Abbey National PLC

Alliance & Leicester PLC

Counterparty Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+
Certificate Of Deposit	AA/A-1+	AA/A-1+
Commercial Paper	A-1+	A-1+

NB: This list does not include all ratings affected.

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