

FITCH: BANCO SANTANDER'S 'AA' IDR ON RATING WATCH NEGATIVE ON ACQUISITION OF SOVEREIGN BANCORP

Fitch Ratings-London/Barcelona-14 October 2008: Fitch Ratings has today placed Banco Santander's (Santander) Long-term Issuer Default rating (IDR) of 'AA' and Individual rating of 'A/B' on Rating Watch Negative (RWN). This follows Santander's announcement that it will acquire the remaining 75.65% of Sovereign Bancorp Inc (Sovereign) which it does not already own for around USD1.9bn (approximately EUR1.4bn).

Its Short-term IDR, Support rating and Support Rating Floor have been affirmed at 'F1+', '1' and 'A-' (A minus), respectively. Fitch has also placed on RWN Santander's outstanding senior unsecured notes (rated 'AA'), subordinated debt ('AA-' (AA minus)) and preferred stock ('A+'). It has also taken rating actions on Santander's subsidiaries, whose IDRs are linked to those of Santander, as listed at the end of this announcement. Today's rating actions have no impact on the 'AAA'-rated covered bonds issued by Santander, Banco Espanol de Credito, Banco Santander Totta SA and Alliance & Leicester.

Sovereign is a thrift-holding company whose primary subsidiary is Sovereign Bank, a federally chartered savings bank. Santander intends to increase capital by around EUR1.4bn to finance the deal.

While the transaction represents a good opportunity for Santander to further diversify its activities and develop its retail banking business in the US market, it is currently in the process of integrating franchises in the UK and in Brazil under complex operating conditions. Furthermore, Santander has tended to manage capital tightly and Fitch would like to evaluate whether capital levels will remain adequate following the integration of all these franchises, some of which have been underperforming and have encountered difficulties. Santander is in the process of selling some non-core assets which could generate capital gains and help support capital. The RWN will be resolved once Fitch has been able to assess the extent to which integration risk could affect Santander, whether capital levels are compatible with its risk profile and once regulatory and shareholder approval have been received.

Santander is the parent of one of the largest banking group's globally. Its activities are mainly focused on retail and corporate banking, insurance and asset management in its core markets of Spain, Portugal, UK, Brazil, Chile and Mexico. While it has significant presence in Latin America, it has a broad, diversified and well-structured business mix.

Santander currently holds a 24.35% stake in Sovereign. The transaction is still subject to regulatory approval in the US and Spain, as well as by both institutions' shareholders. The transaction will be an all-share deal whereby Sovereign shareholders will receive one Banco Santander American Depositary Share for 3.42 Sovereign shares.

The rating actions taken on Santander's other subsidiaries today are listed below:

Banco Espanol de Credito:

- Long-term foreign currency IDR: 'AA' placed on RWN
- Senior unsecured rating: 'AA' placed on RWN
- Subordinated debt: 'AA-' (AA minus) placed on RWN
- Preferred stock: 'A+' placed on RWN
- Short-term foreign currency IDR: affirmed at 'F1+'
- Individual rating: affirmed at 'B'
- Support rating: affirmed at '1'

Santander Consumer Finance:

- Long-term foreign currency IDR: 'AA' placed on RWN

- Subordinated debt: 'AA-' (AA minus) placed on RWN
- Short-term foreign currency IDR: affirmed at 'F1+'
- Support rating: affirmed at '1'

Banco Santander Totta SA:

- Long-term foreign currency IDR: 'AA' placed on RWN
- Senior unsecured rating: 'AA' placed on RWN
- Subordinated debt: 'AA-' (AA minus) placed on RWN
- Preferred stock: 'AA-' (AA minus) placed on RWN
- Short-term foreign currency IDR: affirmed at 'F1+'
- Individual rating: affirmed at 'B'
- Support rating: affirmed at '1'

Santander Totta SGPS:

- Long-term foreign currency IDR: 'AA' placed on RWN
- Short-term foreign currency IDR: affirmed at 'F1+'
- Individual rating: affirmed at 'B'
- Support rating: affirmed at '1'

Alliance & Leicester:

- Long-term foreign currency IDR: 'AA-' (AA minus) placed on RWN
- Senior unsecured rating: 'AA-' (AA minus) placed on RWN
- Subordinated debt: 'A+' placed on RWN
- Preferred stock: 'A+' placed on RWN
- Short-term foreign currency: 'F1+' placed on RWN
- Individual rating: affirmed at 'B/C'
- Support rating: affirmed at '1'

Santander Bancorp:

- Long-term foreign currency IDR: 'AA-' (AA minus) placed on RWN
- Subordinated debt: 'A+' placed on RWN
- Short-term foreign currency IDR: 'F1+' placed on RWN
- Individual rating: affirmed at 'C'
- Support rating: affirmed at '1'

Banco Santander Puerto Rico:

- Long-term foreign currency IDR: 'AA-' (AA minus) placed on RWN
- Certificate of deposit Long-term rating: 'AA' placed on RWN
- Certificate of deposit Short-term rating: affirmed at 'F1+'
- Senior unsecured debt: 'AA-' (AA minus) placed on RWN
- Short-term foreign currency IDR: 'F1+' placed on RWN
- Individual rating: affirmed at 'C'
- Support rating: affirmed at '1'

Banco Santander (Chile):

- Long-term foreign and local currency IDRs: 'A+' placed on RWN
- Short-term foreign and local currency IDRs: affirmed at 'F1'
- Individual rating: affirmed at 'B'
- Support rating: affirmed at '1'
- National Long-term rating: affirmed at 'AAA(chl)'; Stable Outlook
- National Short-term rating: affirmed at 'N1+(chl)' 'F1+(chl)'
- National senior unsecured debt: affirmed at 'AAA(chl)'
- National subordinated debt: affirmed at 'AA+(chl)'

Banco Santander (Mexico):

- Long-term foreign and local currency IDRs: affirmed at 'A'; Stable Outlook
- Short-term foreign and local currency IDRs: affirmed at 'F1'
- Individual rating: affirmed at 'C'
- Support rating: affirmed at '1'

- National Long-term rating: affirmed at 'AAA(mex)'; Stable Outlook
- National Short-term rating: affirmed at 'F1+(mex)'
- National senior unsecured debt: affirmed at 'AAA(mex)'

Banco Santander (Brazil):

- Long-term foreign currency IDR: affirmed at 'BBB'; Stable Outlook
- Long-term local currency IDR: affirmed at 'BBB+'; Stable Outlook
- Short-term foreign and local currency IDRs: affirmed at 'F2'
- Individual rating: affirmed at 'C'
- Support rating: affirmed at '2'
- National Long-term rating: affirmed at 'AAA(bra)'; Stable Outlook
- National Short-term rating: affirmed at 'F1+(bra)'

Contact: Carmen Munoz, Barcelona, Tel: +34 93 323 8400; Maria Jose Lockerbie, London, +44 (0)20 7417 4318.

Media Relations: Hannah Warrington, London, Tel: +44 (0) 207 417 6298.

Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(chl)' for National ratings in Chile. Specific letter grades are not therefore internationally comparable.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.