

Spain  
Credit Analysis

**Banco Santander**

**Ratings**

	Current Ratings
<b>Foreign Currency</b>	
Long-Term IDR	AA
Short-Term IDR	F1+
<b>Individual Rating</b>	
Support Rating	A/B
Support Rating Floor	1
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

**Outlooks**

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

**Financial Data**

<b>Banco Santander (C.)</b>	31 Mar 09	31 Dec 08
Total assets (USDm)	1,484,383	1,460,764
Total assets (EURm)	1,115,365	1,049,631
Total equity (EURm)	54,864	53,002
Op. profit (EURm)	2,948	11,387
Published net inc. (EURm)	2,210	9,332
Comprehensive income (EURm)	n.a.	298
Operating ROAA (%)	1.10	1.28
Operating ROAE (%)	22.17	24.20
Eligible capital/weighted risks (%)	8.36	8.89
Tier 1 ratio (%)	8.90	8.78

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**Rating Rationale**

- Banco Santander's (Santander) ratings reflect the group's strong retail banking franchises in its core markets of Spain, Portugal, the UK, Brazil, Chile and Mexico; its sound management approach and a coherent and focused strategy, with acquisitions centred in retail banking; its robust profitability; a diversified and well-structured business mix; good risk-management systems; and adequate capital. They also factor in Latin American exposure and declining asset quality.
- Despite a complex environment, the group's robust pre-impairment operating ROAA of 2% in Q109 was backed by a wide net interest margin (NIM) of 2.5% and good commission income, reflecting diversified and recurrent retail banking revenues. Its 44% cost-to-income ratio in Q109 is a product of good revenue generation and strict cost control, giving Santander the financial flexibility to absorb the much higher credit costs expected in 2009/2010 as well as margin pressure from lower interest rates and higher funding costs. EUR6.3bn in Bank of Spain generic reserves at end-Q109 provides an additional cushion.
- Bank acquisitions appear to have been well-managed and have given the group greater critical mass and financial muscle in the UK and Brazil. Santander has a proven ability to integrate banks. Despite the financial turmoil and the global recession, given its small exposure to complex structured products, it has not had to make large impairments such as those made by other international players and it has carried on with its strategy. Volumes will be under pressure and there is currency risk on earnings and on the book value of investments. Spread management, good funding policies and critical mass will temper these.
- Lending accounted for 63% of end-Q109 group assets, 56% of which was secured, mostly mortgages. Asset quality has deteriorated at all units due to the global recession. Spain, Mexico and Brazil have been particularly vulnerable and were impacted by consumer and SME defaults. Asset quality in the UK held up well. Its impaired to total loans ratio rose to 2.7% at end-Q109 (79% cover).
- Strong franchises in core markets support rising customer deposits (70% of loans excluding securitisation). Wholesale funding is diversified by type of security, maturity, investors and geography. It has raised its core capital objective to 7%, with a robust Tier 1 capital, entirely sourced through private investors. It raised EUR7.2bn in fresh capital in 2008 and has strong internal capital generation.

**Support**

- Santander is of such importance to the Spanish banking system that, in Fitch Ratings' view, there is an extremely high probability that support from the Spanish financial authorities would be forthcoming, if required.

**Key Rating Drivers**

- There is limited upward potential on Santander's ratings given that they are already at a very high level and the bank has exposure in emerging markets. Downside risk to ratings would arise should asset quality deteriorate more sharply and should profitability be affected by this and lower volumes.

**Profile**

Santander is the parent of Spain's largest banking group and one of the largest globally with EUR1.1trn in assets at end-Q109. Its activities internationally are focused on retail and corporate banking, insurance and asset management.

- Focused on retail banking, with strong franchises in Spain, the UK, Portugal, Brazil, Chile and Mexico
- Diversified business and geographical mix

## Profile

The Santander group's activities are focused on retail banking for individuals and SMEs as well as for corporates. The parent bank, together with its Spanish subsidiaries, commands around 13% of the domestic market share for customer deposits in Spain. With the objective of gaining greater international scope, Santander has built up an extensive franchise over the years through acquisitions (see Table 1), propelled by the acquisition of Abbey in late 2004. In Latin America, it holds significant market shares in Brazil, Mexico and Chile. As in Spain and the UK, these franchises offer an array of banking services, but are mainly centred on retail banking for individuals and SMEs, although Santander has also been developing global banking services for corporates. A common IT system has progressively been deployed (Partenon in Europe and Altair in Latin America) with the objective of extracting commercial, revenue and cost synergies globally. Santander has a hands-on approach towards managing its different units internationally as well as deploying uniform risk management systems.

Following the takeover of Abbey in 2004, Santander has continued to make further acquisitions. In 2006, it bought a 24.9% stake in Sovereign Bancorp (SOV) and 90% of Drive Consumer USA, Inc (Drive), a Texas-based vehicle finance company. In January 2009, Santander completed the acquisition of the remaining stake that it did not yet own in SOV to achieve full ownership. Santander participated in The Royal Bank of Scotland plc (RBS) -led consortium bid for ABN Amro in October 2007. Santander's objective was to acquire Banco ABN Real (ABNR) in Brazil and Banca Antonveneta in Italy. The latter was sold to Banca Monte dei Paschi di Siena in May 2008 for EUR9bn, helping reduce the total cost of the transaction for Santander to EUR10.8bn from the initial EUR20.6bn. In 2008, Santander strengthened its presence in the UK by acquiring Alliance & Leicester (A&L) in October 2008 and the branches and retail deposits of Bradford & Bingley (B&B) in September 2008. In 2008, it also acquired the European consumer finance activities of GE Money Bank and RBS, with a particular focus on their German operations, which have been integrated into Santander Consumer Finance (SCF). While goodwill from the acquisition of Abbey and ABNR totalled EUR6.5bn and EUR6.4bn respectively, there was no goodwill from the UK and US acquisitions in 2008 and 2009.

**Table 1: Santander Group and Main Banking Subsidiaries (End-March 09)**

(EURm)	Country	Assets	Operat. revenue	Pre-tax profit	Stake (%)	Branches	Staff	Deposit mkt. (%)
Banco Santander (Spain network)	Spain	123,721	1,385	748	-	2,933	19,035	9 <sup>a</sup>
Banesto	Spain	118,239	635	289	88.7	1,888	10,283	4 <sup>a</sup>
Banco Santander Totta	Portugal	44,755	328	179	100.0	770	6,567	8
Santander Consumer Finance	Europe	69,885	1,035	242	100.0	379	9,929	-
Abbey National Plc	UK	320,190	1,306	548	100.0	1,328	23,495	10
Banco Santander Brazil	Brazil	97,905	2,544	701	98.4	3,601	52,088	11
Banco Santander Chile	Chile	28,244	446	176	83.9	501	12,059	21
Banco Santander Mexico	Mexico	41,398	603	180	74.9	1,106	13,635	15

<sup>a</sup> Based on deposit figures of the annual accounts of the parent and Banesto  
Source: Banco Santander management accounts distributed by primary business units and as adapted by Fitch

Santander has a diversified shareholder base (3.2 million at end-Q109). Institutional investors held 56% of Santander's share capital at this date and individuals 40%. No individual shareholder group held more than 3% of the parent bank's share capital. The Botin family is also known to have a significant stake (around 2.5%).

Santander's primary business units are Continental Europe, the UK, Latin America, and financial management and equity stakes (FMES). FMES incorporates centralised activities such as equity stakes, asset and liability management from structural positions of the parent bank, and liquidity and capital management policies. At a

secondary level, business segments are split into retail banking, asset management and insurance and global wholesale banking.

### Continental Europe

This is the group's main earnings-generating unit (see Table 2), primarily including retail banking in Spain through the parent bank and Banco Español de Crédito (Banesto), the wholesale banking unit, SCF, private banking through Banco Banif, and retail banking in Portugal through Banco Santander Totta. It also includes asset management and insurance companies in Europe. Banesto continues to operate under its own brand name and is independently managed, although there is integration in areas such as IT and insurance, and its franchise is complementary to Santander's.

**Table 2: Attributable Profit by Business Unit**

(EURm)	Attributable profit							
	Q109 <sup>a</sup>	(%)	2008 <sup>a</sup>	(%)	2007	(%)	2006	(%)
Santander (parent)	546	26	1,907	21	1,806	20	1,505	20
Banesto	190	9	694	8	668	7	1,259	17
Santander consumer finance	156	7	696	8	719	8	565	7
Portugal (Santander Totta)	144	7	531	6	527	6	423	6
Continental Europe (other)	253	12	840	10	719	8	292	5
<b>Total Continental Europe</b>	<b>1,289</b>	<b>61</b>	<b>4,668</b>	<b>53</b>	<b>4,439</b>	<b>49</b>	<b>4,144</b>	<b>55</b>
<b>UK (Abbey)</b>	<b>409</b>	<b>20</b>	<b>1,247</b>	<b>14</b>	<b>1,201</b>	<b>13</b>	<b>1,003</b>	<b>13</b>
Brazil	436	21	1,769	20	905	10	751	10
Mexico	111	5	600	7	654	7	528	7
Chile	117	6	545	6	543	6	489	6
Latin America (other)	226	10	695	8	564	6	519	7
<b>Total Latin America</b>	<b>890</b>	<b>42</b>	<b>3,609</b>	<b>41</b>	<b>2,666</b>	<b>29</b>	<b>2,287</b>	<b>30</b>
Sovereign	-20	-	-	-	-	-	-	-
Financial management and equity stakes (FMES)	-473	-23	-648	-8	754	8	162	2
<b>Group total</b>	<b>2,096</b>	<b>100</b>	<b>8,876</b>	<b>100</b>	<b>9,060</b>	<b>100</b>	<b>7,496</b>	<b>100</b>

<sup>a</sup> Unaudited; 2008 proforma incorporating ABNR by full integration  
Source: Santander

Consumer finance is a key business, particularly vehicle finance and credit cards, through SCF. Organic growth and acquisitions have created a geographically diversified franchise (17 different countries). The main operations are situated in Spain, Germany, Italy and Scandinavia. Germany is the key contributor to earnings for SCF. The stake in Drive, acquired in 2006, is owned by Santander (parent bank) but managed by SCF. The 2008 acquisitions raised its presence in Germany, Netherlands, Belgium, Finland, Austria and the UK.

### UK

The second key market for the Santander group is the UK. A&L and the branches and deposits of B&B have been integrated into Abbey. When Abbey was acquired in November 2004, it contributed to achieving a better balance sheet structure and risk profile for the Santander group by incorporating a large proportion of low-risk residential mortgages (mostly prime). With the incorporation of A&L and B&B, the balance sheet structure has been further enhanced, except for the incorporation of certain complex securities held by A&L which Santander is winding down. Santander now has critical mass in the UK with an 11% market share for deposits and will be rebranding all of its UK operations under the Santander name to reap further cost synergies. The acquisition of A&L allowed Abbey to achieve its growth plans more rapidly and to penetrate the SME segment in the UK. B&B, on the other hand, helped to achieve a more balanced funding mix. Following significant restructuring of the group, including considerable cost-cutting, Abbey had started to see improvements in its revenue trends since 2008. All units will be moved onto Partenon, Santander's IT banking platform, which should further help to improve customer service, boost sales and achieve further cost and revenue synergies.

### Latin America

Santander's expansion into Latin America in the mid-1990s was driven by opportunities to gain from an underbanked region with growth potential and wider interest spreads. As elsewhere in the group, operations in the region are focused on retail commercial banking and investment fund management, particularly in Brazil, Mexico and Chile. There has been a strong contribution to earnings from Latin American operations given improving economic conditions and fundamentals in different countries until H108. The region reported strong economic growth since H203, and with Santander having deployed risk management systems and enhanced IT systems, commercial efforts were made to grow lending significantly in key markets, particularly loans to individuals (mainly consumer loans) and to SMEs. Santander consciously entered into higher-risk, higher-margin lending, particularly in Brazil and Mexico, which has also led to a sharp decline in asset quality since 2008 and large loan impairment charges.

The acquisition of ABNR, concluded in July 2008, made Santander the third-largest bank in Brazil. It strengthened the group's loan operations, especially in retail, where ABNR has a solid base. Minimal overlapping of branches and personnel helps to accelerate the integration process, which will allow operational growth to continue and reap the benefits of a diversified customer base. ABNR's broad retail deposit base compensates for the dependence on international funding from Santander's existing operation. This acquisition has provided Santander with a unique opportunity to significantly expand its business in Brazil, integrating a complementary and well-managed franchise in geographical and product terms, boosting its presence in vehicle financing and in the middle markets.

### Presentation of Accounts

As a result of the sale of different businesses (in 2007, Santander sold its pension fund business in Latin America to ING and, in 2006, Banesto sold its 50.37% stake in Inmobiliaria Urbis to Reyal and Abbey sold its insurance business to Resolution), there have been restatements in its consolidated P&L for previous years so that results from these operations, including capital gains of EUR700m from the sale of pension fund business in 2007 and EUR1bn from the sale of Inmobiliaria Urbis in 2006, were accounted for under "profit from discontinued operations" (Line 16 in the attached *Income Statement Analysis*). On the other hand, Santander's 2008 and 2009 acquisitions make period over period comparisons difficult. For example, in the 2008 audited accounts ABNR was accounted for by the equity method in the first nine months of the year while Q408 was accounted for by full integration. In Q109, Santander restated the 2008 accounts (including each quarter) and provided proforma statements incorporating ABNR by full integration for each quarter and the year. In our analysis of the group's performance we will mention the impact of acquisitions, where possible. A&L was consolidated into the accounts in Q308.

In addition, the 2008 financial statements have been reported according to new Bank of Spain guidelines (Circular 6/2008), the main effect being the accounting of the insurance business line by line. Fitch has not reclassified previous years' statements, as shown in the attached spreadsheets and, therefore, these are not fully comparable. Nevertheless, the agency considers that classification issues are not significant and do not alter analysis. The previous year's figures are included for information purposes.

### Performance

Santander's performance indicators for 2008 and Q109 were robust, backed by the high revenue generation from its international retail franchises and proactive management of non-interest expenses which provides the group with a significant degree of financial flexibility. These results were achieved despite the intensity of the global financial and economic crisis as Santander focused on its niche retail banking business in its core markets with negligible exposure to complex assets

- Increasingly diversified earnings stream
- In spite of the complex environment, Santander's performance remains robust, supported by recurrent earnings from retail banking and strict cost control
- Loan impairment charge will remain high but strong revenues provide capacity to absorb these

which led to large-scale impairments at many banks internationally. The sharp deterioration in asset quality in 2008 and Q109 has led to a significant rise in its loan impairment charge and a decline in its operating ROAA to 1.28% in 2008 and 1.10% in Q109. Nevertheless, as shown in Table 3, Santander's performance indicators compare favourably with those of its European peers. Given that economic conditions may take time to recover and growth rates are expected to be more muted, Santander's loan impairment charge will continue to rise for the remainder of 2009 and in 2010. These should be absorbed by recurrent retail banking revenues, albeit affected in 2010 by higher funding costs and lower volume growth and, hence its strong capacity to control costs will be key to defending profitability and internal capital generation

**Table 3: Performance**

(%)	Santander			BBVA			European peers <sup>a</sup>	
	2008	2007	2006	2008	2007	2006	2008	2007
Net interest margin	2.23	1.91	1.63	2.53	2.35	2.27	1.62	1.42
Cost/income ratio	44.28	47.28	52.41	45.38	47.93	47.14	64.15	60.13
Pre-impairment op. ROAA	1.95	1.70	1.34	2.04	1.98	2.10	0.94	1.12
Operating ROAA	1.28	1.30	1.04	1.50	1.57	1.73	0.50	0.84
Operating ROAE	24.20	23.55	18.96	28.37	28.78	34.53	10.54	18.96
Equity/total assets	5.05	5.54	5.65	4.91	3.08	3.53	4.13	4.72

<sup>a</sup> BNP-Paribas and Société Générale (France); Unicredito Italiano and Intesa San Paolo (Italy); ING Bank and Rabobank (Benelux); Santander and BBVA (Spain); and HSBC and Barclays (UK)  
Source: Bank financial statements as adapted by Fitch

Table 2 shows the contribution of each business unit to the group's net attributable income and highlights the significant diversification achieved through acquisitions. Eliminating the effect of the loss registered by the FMES unit in Q109, contributions to net attributable income by geography was as follows: 28% Spain, 22% Continental Europe (SCF included here as Germany is a key market), 16% the UK, 17% Brazil and 17% other Latin American units. Retail banking generated 71% of the group's Q109 attributable profit. The negative contribution from FMES in Q109 is attributable to the lower contribution from equity-accounted subsidiaries (the sale of its stake in Cepsa (petroleum) and SOV has been fully integrated), higher funding costs, the impairments relating to client compensation linked to Madoff and Lehman exposures (see below) and higher rental expenses (resulting from the sale leaseback of its headquarters). The fact that certain revenues and costs are booked in the FME unit makes it difficult to reconcile the figures reported in the management account with the audited accounts.

### Operating Revenues

Net interest income (NII), which grew by 22% in 2008 and in Q109, remains the most important source of operating revenues and accounted for around 60% of the total. This is backed by lending accounting for 63% of total assets and a wider NIM. Commissions, mainly from retail banking, accounted for a further 27% of operating revenues in 2008 which, together with NII, highlights a retail focus.

In all core business units, the NIM benefited from active management of customer spreads, as volume growth has decelerated. Higher funding costs are generally passed on to customer loans with a greater focus on risk pricing. Excluding the impact of acquisitions, group lending grew by 10% in 2008 (12% in 2007), while customer deposits grew by 14%. Growth rates were higher in Latin America than in Spain and the UK. The group's NIM widened to 2.23% in 2008 and to 2.51% in Q109.

**Table 4: Interim Results Q109**

	Q109	Q108
Net interest income	6,321	5,163
Net fees and commissions	2,210	2,334
Other operating income	1,095	942
Non-interest expenses	4,252	3,781
<b>Pre-impairment operating profit</b>	<b>5,374</b>	<b>4,658</b>
Loan impairment & other charge	2,259	1,303
<b>Operating profit</b>	<b>3,115</b>	<b>3,355</b>
Other inc & exp	-283	-301
<b>Pre-tax profit</b>	<b>2,832</b>	<b>3,054</b>
Taxes & disc ops	637	712
<b>Net income</b>	<b>2,195</b>	<b>2,342</b>

Source: Santander's quarterly report Q109

**Table 5: Non-Interest Income**

(EURm)	2008	2007
Banking services	4,416	3,736
Investment and pension funds	1,542	1,891
Securities and custody	712	980
Insurance	1,780	1,432
<b>Net commission income</b>	<b>8,451</b>	<b>8,040</b>
Net insurance income	252	319
Equity-accounted earnings	915	413
Other	467	440
Financial market income	2,530	2,471
<b>Total non-interest income</b>	<b>12,615</b>	<b>11,683</b>

Source: Santander financial statements

As can be seen in Table 5, non-interest income is mainly from commissions. While commissions from banking services and the distribution of insurance products have held up well, there were lower contributions from investment and pension funds, as well as from securities services as a consequence of the financial crisis. Part of the rise in customer deposits came from a shift away from investment funds.

While equity-accounted earnings in 2008 were supported by income from RFS Holdings set up for the acquisition on ABN Amro (mainly first nine months of ABNR; EUR711m) and Cepsa (EUR131m), lower equity-accounted earnings will be recorded in future due the sale of equity stakes and the integration of ABNR into the group. Income from financial market operations is chiefly derived from value-added treasury services provided to clients, such as derivatives for hedging, although in 2008 Santander did register EUR466m in capital gains from the sale of fixed-income securities from its asset and liability management book as well as EUR383m in capital gains from several equity stakes. The group expects certain recurrence in these earnings. Also, there were strong EUR/USD and EUR/GBP foreign-exchange earnings in 2008 (EUR580m) as a result of Santander's P&L and net book value hedging policies in foreign subsidiaries, which offset the negative effect of the devaluation of Latin American currencies, the USD and GBP against the EUR. The impact of currency devaluation on Q109 NII was around 5%.

### Non-Interest Expenses

The Santander group is among the most cost-efficient banks internationally. Extracting cost synergies and cost control is the other key driver (in addition to a high level of NII) behind its performance. It continues to see scope for further efficiency gains, particularly based on its highly cost-efficient IT platform, which is being deployed in all units and the acquired banks. While non-interest costs rose by 7.9% in Q109, excluding the exchange rate effect, this rise would have been only 1.8%. With volumes growth expected to be more muted in a recessionary environment, cost control will be key to maintaining high profitability levels.

### Loan Impairment Charge

The sharp increase in the loan impairment charge in 2008 and Q109, reflects the asset quality deterioration stemming from the recessionary environment globally, Santander's strategy in recent years of focussing on high risk-high return consumer products in Brazil and Mexico, the sharp adjustment in the Spanish economy and property sector and, to a lesser extent, the 2008 bank acquisitions. The cost of risk will remain high in 2009 and 2010 given the depth of the recessionary environment.

### Other Income and Expenses (Non-Operating)

In 2008, Santander recorded the following gross capital gains: EUR741m from the sale of its share of ABN Amro's liabilities (linked to the consortium bid), EUR3,046m from the sale of Banca Antonveneta, EUR837m from the sale and leaseback of its headquarters and EUR118m in gains from real estate assets. These were mostly used for the following impairments: intangibles of Abbey (EUR983m), its stakes in

ABN Amro and Fortis (EUR2,043m), a special reserve relating to pensions and early retirement (EUR601m), an acquisition restructuring fund (EUR598m), other restructuring charges (EUR499m), mainly in Brazil, and client compensation linked to Madoff (EUR500m) and Lehman (EUR100m) exposures.

Line 35 (“Currency Translation Differences”) in the attached *Income Statement Analysis* totalling a negative EUR7.3bn in changes included the negative change relating to the decline in value in goodwill from Abbey and ABNR which are not hedged (as the effect on regulatory capital calculations is neutral) as well as the decline in net book value in the UK units and ABNR (See “Funding and Capital, below).

### Prospects

Santander has withstood well the stresses produced by the financial crisis given its strong focus in retail banking and very limited exposure to structured products and complex instruments. Many of Santander’s international peers have had to dedicate a significant part of earnings towards credit impairments and/or have needed capital injections. Hence, these institutions are engaged on re-focusing their balance sheets and strategies, while Santander has been able to carry out its business plan and its acquisition policy has given it greater critical mass, particularly in Brazil and the UK. The operating environment will remain complex as the global economic downturn has proven to be much deeper than anticipated and, given its association with a financial crisis, subsequent recovery is expected to be more muted. Lower volume growth and higher funding costs will affect net interest income and commissions and credit costs will remain high, particularly from its consumer finance book in Europe, Brazil and Mexico and its exposure to the real estate sector in Spain.

Nevertheless, in Fitch’s view, Santander is well positioned to meet challenging times. Bank acquisitions by Santander over the last decade have resulted in a well-diversified franchise and business mix, and recurrent earnings from retail banking, together with its strict cost control policy should enable it to absorb much higher loan impairment charges. Furthermore, the EUR6.3bn in Bank of Spain generic reserves will help to offset specific loan impairment charges over the next two years. Fitch takes comfort from the depth and experience of Santander’s management team and a proven track record of integrating banks. The group has a strong capacity for product innovation and its businesses are structured to maximise revenue and cost synergies, helped by a highly efficient IT platform.

### Risk Management

Santander’s risk exposure is diverse, although it is mainly exposed to credit risk given its focus on retail banking. Group risk management systems are sound and sophisticated, and have been deployed throughout the group. The bank’s highest level of authority in relation to risk management policies and appetite is the board of directors through the “comision delegada de riesgos”, a risk committee consisting of five board members. This committee strategically analyses and evaluates the group’s risk profile, ensuring adequate risk management systems. The risk management function is completely independent from the commercial/business function. Santander seeks to achieve a consistent treatment and control of risk across all businesses, products, clients and geographic areas. Given the recessionary environment and its impact on asset quality, Santander has given its recovery unit a more important role.

The group fully applies a risk-adjusted return on capital methodology. It aims to embrace the advanced methods for measuring credit, market and operational risk through internal models, both for internal risk management and regulatory purposes. Santander has received approval from the Bank of Spain to adopt the advanced internal ratings-based (AIRB) approach to calculate capital needs for credit risk in 2008. Around 70% of its portfolio was AIRB-compliant. To measure operational risk,

- Well-developed risk management systems deployed throughout the group
- Asset quality deterioration in Spain, Mexico and Brazil, particularly relating to real estate exposure in Spain, and consumer finance in all these units
- Asset quality holding up well in the UK
- Low risk concentration
- Significant exposure to foreign exchange risk from Brazil and Mexico
- Reduction in equity stakes has reduced market risk exposure

it uses the standardised approach and move towards the advanced measurement approach.

By type of risk, consumption of economic capital at end-2008 was distributed as follows: credit 66%, market risk from exchange rate risk 10%, market risk from structural interest rate risk 5%, equity investments 5%, structural interest rate 6%, other market risks 2%, business 5% and operational 7% and other 5%. By business unit, economic capital was distributed as follows: Continental Europe 36%, Latin America 33%, FMES 20% and the UK 11%.

### Credit Risk

Santander's credit risk exposure primarily arises from the customer loan portfolio on the group's balance sheet, accounting for 63% of group assets at end-2008, mainly from Spain (predominantly, Santander parent bank and Banesto; 41% of loans), the UK (combined Abbey and A&L networks; 31%) and Brazil (including ABNR, 8%). Another source of credit risk is from debt securities (10% of total assets, including trading and AFS securities, a large proportion of which is sovereign debt which is locally funded). In addition, the group has off-balance-sheet contingent liabilities (EUR197bn), mainly undrawn credit lines and guarantees. In Latin America, Santander has implemented a policy of selective growth and rigorous treatment of impaired and provisioning, based on using the stricter between domestic regulatory or Bank of Spain criteria.

At end-2008, the group's credit risk (lending and guarantees) was roughly divided as follows: 55% to individuals, 25% to SMEs, 17% large corporates and 3% to the public sector. In terms of portfolio segmentation, measured by exposure at default (EAD), risk was distributed as follows: mortgages to individuals (30%), SMEs (17%), large corporates (21%), consumer loans (14%), counterparty bank risk (8%), sovereign risk (7%) and other (2%).

Santander's risk concentration by geography and by individual name is very low. Total credit risk at end-2008 (loans, undrawn lines, fixed-income exposure, bank exposure, derivatives and repos) was roughly distributed geographically as follows: Spain (46%), UK (26%), Latin America (18%), Portugal (4%), Germany (2%) and other 4%. At end-2008, its 20 largest corporate exposures (loans, private fixed-income securities and equity investments) accounted for only around 8% of total risk exposures or 106% of Fitch eligible capital. No risk exceeded 15% of Fitch eligible capital and only two names were about 10% of eligible capital. Of large corporate clients, only these 20 names exceeded an exposure of EUR1bn at end-2008.

**Table 6: Main Mortgage Portfolios; End-2008**

(EURbn)	Spain <sup>a</sup>	UK <sup>a</sup>
Mortgages to individuals	79.1	162.4
Pure Residential Real estate development	13.5	6.8 <sup>b</sup>
Total mortgages	92.6	169.2
Total credit risk	284.7	194.1
Individual mortgages/total credit risk (%)	28	84
Residential dev./total credit risk (%)	5	3.5
Average LTV individuals (%)	54	51

<sup>a</sup> Spain includes Santander parent and Banesto and relates to pure real estate development.

<sup>b</sup> Includes Abbey and A&L; Real estate developers in UK relates to social housing

Source: Santander as adapted by Fitch

At end-2008, secured lending totalled EUR351bn (55% of loans), of which around EUR260bn related to mortgages in Spain and the UK (see Table 6). The group's mortgage lending is of good quality, with the proportion of pure real estate developer loans in Spain (5% of total loans) being much lower than that normally seen at other Spanish banks. Including exposure to the construction sector and

other real estate-related exposures, Fitch estimates this number to be closer to between 10%-15%, which is still lower than the sector in Spain. Santander's construction exposure is Spain related to large companies with diversified businesses and there is no large individual name concentration. Abbey's and A&L's mortgage portfolios consist mostly prime residential lending.

There has been a significant rise in impaired loans and in the cost of credit, particularly since 2008, largely a result of the global economic recession. In terms of specific portfolios, those which most affected asset quality deterioration included exposures to real estate development in Spain and the consumer finance portfolios in Brazil and Mexico. In the latter two countries, there was a strategic move into higher-risk, higher-margin lending. The consumer finance portfolio in Spain has also deteriorated substantially. Santander's risk can mostly be deemed to be quantifiable with very limited exposure to complex structured products. Of EUR14.8bn in loan loss reserves at end-Q109, EUR6.3bn related to generic reserves. Santander tends to have very little cross-border exposure as units in emerging markets tend to be funded locally. However, with the acquisition of ABNR, which has a large proportion of funding from its former parent, Santander's cross-border exposure grew to EUR5.4bn at end-2008 from EUR0.9bn at end-2007, closely related to trade finance operations. The bank is to reducing this cross-border position so as to comply with its general policy.

**Table 7: Asset Quality**

	Q109	2008
Gross loan growth (%)	7 <sup>a</sup>	6 <sup>a</sup>
Impaired loans (EURm)	18,683	13,994
Foreclosed from real estate developers (EURm)	4,153	4,153
Foreclosed assets on other property	n.a.	1,113
Loan impairment reserve (EURm)	18,683	12,466
Impaired loans/total loans (%)	2.67	2.19
Loan impairment reserves/total loans (%)	79	89

<sup>a</sup> Excluding acquisitions and exchange rate effects  
Source: Santander quarterly reports

For interbank placements, conservative limits by institutions, banking group and country have been established. The group's largest exposures are placed mainly with the more important large US and western European banks.

At end-2008, the group had EUR43.6bn in "government securities" (see *Balance Sheet Analysis*) of which EUR20.5bn was Spanish government debt, EUR4.3bn was government debt from other EU countries and the remainder mostly related to exposure to Latin American sovereign debt, of which EUR12.2bn was Brazilian. If we include lending to central banks, total exposure to the public sector in Latin America was EUR39.1bn (EUR22bn exposure to central banks and EUR17bn was sovereign debt), of which EUR18.5bn related to Brazil and EUR9bn was to Mexico. The remainder was widely distributed through the rest of Latin America. This debt is locally funded. The group's private fixed-income portfolio totalled EUR55bn at end-2008, of which EUR23bn was classified as trading portfolio, EUR9bn as AFS and EUR17.4bn in loans. The latter largely relates to collateral for ECB discounting purposes or for repo activity.

### Market Risk

Market risk is managed across the group by a central risk unit, which operates independently of the group's trading activities and uses instruments encompassing gap, duration and simulation techniques but also includes a value-at-risk (VaR) methodology. Retail banking generates large balances in the different countries and each country has an assets and liabilities committee, which includes the most senior executives and is responsible for asset and liability management to measure structural interest rate sensitivity, maturity mismatches, and liquidity and foreign-

exchange risk. Santander's risk indicators include stop-loss limits, stress analysis, VaR limits (99% confidence, one-day holding period and 520 days' historical information) and position limits. Santander's VaR exposure to market risk at end-2008 was around EUR900m, of which two thirds stemmed from structural exchange rate risk. In addition to historical simulation, Santander uses stress testing to analyse the impact of extreme market movements.

Santander's structural exchange rate risk, largely from permanent investments financed in EUR and from earnings is, since 2009, managed centrally in Spain. With the change in its hedging policy, in terms of investments other than the EUR, the group only hedges the difference between the net book value of its investment and 7% of risk-weighted assets ratio instead of the entire book value. The largest positions at end-2008 related to Santander's investments in Brazil, Mexico and Chile, which were almost fully hedged towards the end of June 2009. Santander also hedges the earnings from its foreign operations.

The group's equity investment portfolio totalled EUR7.7bn at end-2008 (end-2007: EUR17.6bn), EUR1.3bn of which were equity-accounted holdings, mainly its previous 25% stake in SOV (now 100%-owned) and EUR6.4bn from the AFS portfolio). Santander's strategy has been to progressively sell its equity investment portfolio, the most recent being its former 32% stake in CEPSA in March 2009. However, the most important change in the equity investment line in 2008 was the change in accounting treatment in 2008 for the stake in ABNR towards full integration. Santander has also impaired its 2.3% stake in RBS (EUR1.3bn) and its 2.1% stake in Fortis SA/NV (EUR0.7bn) through P&L. The only remaining large stakes at end-2008 consisted of a 3.3% stake in Iberdrola (electricity utility, EUR1.5bn; AFS) and its stake in SOV (EUR1bn; equity accounted). As from 2009, SOV is fully consolidated into Santander. Equity investments of EUR6.3bn in the trading book and EUR2.8bn accounted for a fair value, largely relate to investments from insurance activities.

Through the A&L and SOV acquisitions, Santander's exposure to complex structured products/vehicles has risen somewhat. From A&L it incorporated EUR500m in CDOs and CLOs, a conduit with EUR900m in assets and exposure of EUR38m in monoline exposures. From SOV, it has had to integrate EUR811m in non-agency CMO and passthrough Alt-A exposures and indirect exposure to monolines of EUR1,430m. Fitch takes comfort from Santander's active management of these risks and recognition of impairments upon acquisition including a capital injection into A&L of GBP1bn.

### **Funding and Capital**

Santander's funding is diversified geographically and by instrument, maturity and currency. Santander is mainly funded through retail deposits (see Table 8), which have risen significantly since 2008 as a result of the acquisition of ABNR and the deposits of B&B, as well from organic growth in line with the strategic objective of gaining customer deposits at all units. The growth in deposits, together with lower lending growth has enhanced Santander's liquidity position. Retail deposits accounted for 63% of loans at end-Q109 (70% if EUR50bn in securitised assets are excluded from lending) compared to 52% at end-2007. It is worth noting that all units are funded independently in their home markets with the exception of SCF.

Santander had in the past grown its dependence on wholesale funding to match strong loan growth. The average residual maturity of medium- to long-term funds at end-2008 was 3.8 years. Santander has been able to comfortably refinance the EUR20bn in wholesale finds maturing in H109 and a further EUR14bn will mature in H209. In terms of maturities from 2010 onwards, EUR26bn is expected to mature in 2010, EUR23bn in 2011 and EUR14bn in 2012. In the first five months of 2009, Santander's retail network in Spain as generated EUR5bn in funding. In addition, in H109, Santander's subsidiaries have selectively accessed the wholesale markets to raise a total of EUR6.5bn to date as follows: Santander (parent), EUR2bn in senior

- Growing customer retail deposit base in 2008 and Q109, helped by commercial efforts and acquisitions
- Certain dependence on wholesale funding, although has achieved a better balance
- Adequate capital levels

**Table 8: Funding Sources**

(EURbn)	Dec 08	Dec 07
Customer deposits	378.7	293.3
Deposits with banks	88.2	76.3
Short-term borrowing	125.2	131.8
Of which CP	42.1	32.7
Of which repos	83.1	99.1
Long-term borrowing	194.3	185.5
Of which securitisation <sup>a</sup>	50.2	63.2
Of w/c covered bond	47.8	45.7
Of which senior debt	72.0	70.1
Of which other	24.3	6.6
Subordinated debt	30.2	28.4
Hybrid capital	15.7	14.8
Of w/c mand convert	7.0	7.0
Of which pref shares	8.7	7.8
<b>Total</b>	<b>832.3</b>	<b>730.0</b>

<sup>a</sup> Does not include EUR75bn of own securitisations available for ECB discounting which are eliminated on consolidation  
Source: Santander's financial data under IFRS

bonds and EUR1.5bn in mortgage covered bonds; Banesto, EUR1bn in senior bonds and EUR1bn in mortgage covered bonds; and Totta, EUR1bn in senior bonds. Fitch understands that the investor base on the wholesale funding raised in 2009 was diversified internationally. Although this entailed a higher cost of funds, the issuance highlights the group's capacity to obtain funding even under adverse circumstances. Santander has not issued under the state-guaranteed non-subordinated note issue facility. Santander has seen scope to increase the use of short-term funding mainly certificates of deposit issued by its New York and London branches and through its US commercial paper programme of USD6bn.

Although funding needs are managed at a group level, the group requires each subsidiary to have funding plans in place. It holds a large portfolio of readily marketable securities and has contingency plans to meet unforeseen requirements. At end-2008, the group had EUR84bn in eligible assets for discounting at the ECB. Use of the ECB's liquidity facility has been limited and these securities are mainly used as a back-up facility in case market disruption is protracted.

At end-Q109, the group's Basel II Tier 1 ratio was 8.9% and its total capital ratio was 13.5% (core capital regulatory ratio of 7.3%). In light of the more complex operating environment, Santander has raised its core capital objective to 7% from 6%. To achieve this, it undertook a share capital increase in November 2008, raising EUR7.2bn in capital. Fitch views this objective level of capital more appropriate given emerging markets exposures. In addition, Fitch takes comfort from the group's strong internal capital generation capacity of Santander, the close management of capital levels and EUR6.3bn in generic loan impairment reserves, which are not included as Tier 1 or core capital.

Santander issued EUR7bn in mandatory convertible securities in October 2007 to help fund its share of the consortium bid for ABN Amro. This instrument, as well as EUR8.7bn in preference shares receives 100% equity credit in calculating Fitch eligible capital. However, the total amount of hybrid capital at end-2008 exceeds Fitch's 30% of eligible capital tolerance limit. While Santander includes the convertible securities as core capital in calculating the regulatory ratio, Fitch does not include them in its core capital calculation until the conversion has been exercised. The regulatory core capital ratio at end-2008 deducts preference shares and EUR18.8bn in goodwill but not deferred tax assets as done by Fitch (see *Spread Sheet Annex*). Goodwill mainly arises from Abbey (EUR6.5bn), ABNR (EUR6.4bn) and Banco Santander Totta in Portugal (EUR1.6bn). Santander's deferred tax assets largely relate to timing differences between losses recognised by management and fiscal authorities and not loss carry-forwards. While there was EUR14.7bn in deferred tax assets on Santander's balance sheet at end-2008, the group expects recoverability to be high (in a three-year period) and, hence, Fitch has only deducted EUR2.2bn from Fitch's calculation of core and eligible capital.

"Other Accumulated OCI" in the equity section of the attached spreadsheet at end-2008, totalling EUR7.9bn related to foreign exchange adjustments of which EUR4.3bn related to goodwill mainly from ABNR and Abbey. The remainder related to the reduction in book value of the UK units (Abbey, A&L and B&B) and the Brazilian units as a result of currency devaluation. Had the group not hedged its positions, the effect would have been more significant. Valuation adjustments from AFS securities, if negative, are deducted from core capital to calculate regulatory capital requirements in Spain.

On 9 July 2009, Santander announced an offer to buy back certain of the group's outstanding EUR, GBP and YEN Tier 1 hybrid and Upper Tier 2 securities, totalling around EUR9.1bn, in exchange for new issues of Tier 1 and Lower Tier 2 instruments, respectively. The new instruments will be issued by a vehicle of the parent and guaranteed by Santander. Any capital gains from this offer will be used to strengthen the group's balance sheet.

**BANCO SANTANDER**  
**Income Statement**

	31 Mar 2009			31 Dec 2008		31 Dec 2007		31 Dec 2006	
	3 Months - 1st Quarter	3 Months - 1st Quarter	As % of Assets	Year End	As % of Assets	Year End	As % of Assets	Year End	As % of Assets
	USDm	EURm		EURm	EURm	EURm	EURm	EURm	
	Original	Original	Original	Original	Original	Original	Original	Original	Original
<b>Income Statement</b>									
1. Interest Income on Loans	n.a.	n.a.	-	47,057.2	4.5	38,717.7	4.2	29,478.3	3.5
2. Other Interest Income	19,143.6	14,384.5	1.3	9,150.5	0.9	7,085.7	0.8	7,354.5	0.9
3. Dividend Income	115.8	87.0	0.0	552.8	0.1	413.2	0.0	404.0	0.0
<b>4. Gross Interest and Dividend Income</b>	<b>19,259.4</b>	<b>14,471.5</b>	<b>1.3</b>	<b>56,760.5</b>	<b>5.4</b>	<b>46,216.6</b>	<b>5.1</b>	<b>37,236.8</b>	<b>4.5</b>
5. Interest Expense on Customer Deposits	n.a.	n.a.	-	19,207.4	1.8	16,268.9	1.8	14,681.1	1.8
6. Preferred Dividends Paid & Declared	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Other Interest Expense	10,847.1	8,150.5	0.7	18,828.5	1.8	14,652.6	1.6	10,075.9	1.2
<b>8. Total Interest Expense</b>	<b>10,847.1</b>	<b>8,150.5</b>	<b>0.7</b>	<b>38,035.9</b>	<b>3.6</b>	<b>30,921.5</b>	<b>3.4</b>	<b>24,757.0</b>	<b>3.0</b>
<b>9. Net Interest Income</b>	<b>8,412.3</b>	<b>6,321.0</b>	<b>0.6</b>	<b>18,724.6</b>	<b>1.8</b>	<b>15,295.1</b>	<b>1.7</b>	<b>12,479.8</b>	<b>1.5</b>
10. Net Gains (Losses) on Trading and Derivatives	1,433.7	1,077.3	0.1	1,199.5	0.1	2,321.6	0.3	1,875.5	0.2
11. Net Gains (Losses) on Other Securities	-104.1	-78.2	0.0	1,058.9	0.1	n.a.	-	0.0	0.0
12. Net Gains (Losses) on Assets at FV through Income Statement	-173.4	-130.3	0.0	607.3	0.1	n.a.	-	n.a.	-
13. Net Insurance Income	115.7	86.9	0.0	251.6	0.0	319.4	0.0	253.1	0.0
14. Net Fees and Commissions	2,941.6	2,210.3	0.2	8,450.5	0.8	8,040.2	0.9	7,024.2	0.8
15. Other Operating Income	166.1	124.8	0.0	1,047.6	0.1	1,001.7	0.1	420.6	0.1
<b>16. Total Non-Interest Operating Income</b>	<b>4,379.6</b>	<b>3,290.8</b>	<b>0.3</b>	<b>12,615.4</b>	<b>1.2</b>	<b>11,682.9</b>	<b>1.3</b>	<b>9,573.4</b>	<b>1.1</b>
17. Personnel Expenses	2,809.4	2,111.0	0.2	6,963.9	0.7	6,551.2	0.7	5,967.9	0.7
18. Other Operating Expenses	2,849.5	2,141.1	0.2	6,914.1	0.7	6,204.7	0.7	5,590.3	0.7
<b>19. Total Non-Interest Expenses</b>	<b>5,658.9</b>	<b>4,252.1</b>	<b>0.4</b>	<b>13,878.0</b>	<b>1.3</b>	<b>12,755.9</b>	<b>1.4</b>	<b>11,558.2</b>	<b>1.4</b>
20. At Equity Profit/ Loss - Operating	18.4	13.8	0.0	915.0	0.1	595.0	0.1	545.8	0.1
<b>21. Pre-impairment Operating Profit</b>	<b>7,151.3</b>	<b>5,373.5</b>	<b>0.5</b>	<b>18,377.0</b>	<b>1.8</b>	<b>14,817.1</b>	<b>1.6</b>	<b>11,040.8</b>	<b>1.3</b>
22. Loan Impairment Charge	2,999.2	2,253.6	0.2	5,964.4	0.6	3,496.1	0.4	2,483.9	0.3
23. Other Credit Impairment Charges	228.2	171.5	0.0	381.0	0.0	n.a.	-	n.a.	-
<b>24. Operating Profit</b>	<b>3,923.9</b>	<b>2,948.4</b>	<b>0.3</b>	<b>12,031.6</b>	<b>1.1</b>	<b>11,321.0</b>	<b>1.2</b>	<b>8,556.9</b>	<b>1.0</b>
25. At Equity Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
26. Non-recurring Income	n.a.	n.a.	-	4,777.9	0.5	566.1	0.1	1,444.0	0.2
27. Non-recurring Expense	n.a.	n.a.	-	5,579.8	0.5	1,526.5	0.2	12.8	0.0
28. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
29. Other Non-operating Income and Expenses	-154.9	-116.4	0.0	n.a.	-	814.7	0.1	-992.6	-0.1
<b>30. Pre-tax Profit</b>	<b>3,769.0</b>	<b>2,832.0</b>	<b>0.3</b>	<b>11,229.7</b>	<b>1.1</b>	<b>11,175.3</b>	<b>1.2</b>	<b>8,995.5</b>	<b>1.1</b>
31. Taxes	828.3	622.4	0.1	1,884.2	0.2	2,335.7	0.3	2,254.6	0.3
<b>32. Net Income</b>	<b>2,921.5</b>	<b>2,195.2</b>	<b>0.2</b>	<b>9,332.4</b>	<b>0.9</b>	<b>8,839.6</b>	<b>1.0</b>	<b>6,740.9</b>	<b>0.8</b>
33. Profit/Loss from Discontinued Operations	-19.2	-14.4	0.0	-13.1	0.0	796.6	0.1	1,504.9	0.2
34. Change in Value of AFS Investments	n.a.	n.a.	-	-1,313.9	-0.1	-832.7	-0.1	341.6	0.0
35. Currency Translation Differences	n.a.	n.a.	-	-7,319.4	-0.7	-1,165.4	-0.1	-526.8	-0.1
36. Other OCI Gains/(losses)	n.a.	n.a.	-	-388.5	0.0	-150.7	0.0	-24.4	0.0
<b>37. Fitch Comprehensive Income</b>	<b>2,902.3</b>	<b>2,180.8</b>	<b>0.2</b>	<b>297.5</b>	<b>0.0</b>	<b>7,487.4</b>	<b>0.8</b>	<b>8,036.2</b>	<b>1.0</b>
38. Memo: Profit Allocation to Non-controlling Interests	131.8	99.0	0.0	456.0	0.0	520.0	0.1	n.a.	-
39. Memo: Net Income after Allocation to Non-controlling Interests	2,789.7	2,096.2	0.2	8,876.4	0.8	8,319.6	0.9	6,740.9	0.8
40. Memo: Common Dividends Paid & Declared in respect to the Period	n.a.	n.a.	-	2,693.0	0.3	1,538.0	0.2	1,337.0	0.2

**BANCO SANTANDER**  
**Assets & Off-Balance Sheet Items**

	31 Mar 2009			31 Dec 2008		31 Dec 2007		31 Dec 2006	
	3 Months - 1st Quarter USDm Original	3 Months - 1st Quarter EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original
<b>A. Loans</b>									
1. Residential Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other Consumer/ Retail Loans	n.a.	n.a.	-	347,201.0	33.1	316,129.0	34.6	302,451.0	36.3
3. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	-	159,344.2	17.5	144,545.0	17.3
4. Other Loans	932,001.6	700,306.0	62.8	292,153.4	27.8	98,680.0	10.8	84,513.3	10.1
5. Less: Reserves for Impaired Loans/ NPLs	19,708.5	14,809.0	1.3	12,466.0	1.2	8,695.2	1.0	8,163.4	1.0
<b>6. Total Loans</b>	<b>912,293.1</b>	<b>685,497.0</b>	<b>61.5</b>	<b>626,888.4</b>	<b>59.7</b>	<b>565,458.0</b>	<b>61.9</b>	<b>523,345.9</b>	<b>62.8</b>
7. Memo: Gross Loans	932,001.6	700,306.0	62.8	639,354.4	60.9	574,153.2	62.9	531,509.3	63.7
8. Memo: Impaired Loans included above	24,864.3	18,683.0	1.7	13,994.0	1.3	6,070.0	0.7	4,613.0	0.6
9. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	38,555.5	4.6
<b>B. Other Earning Assets</b>									
1. Loans and Advances to Banks	151,865.9	114,112.0	10.2	124,573.6	11.9	76,343.6	8.4	74,209.7	8.9
2. Trading Securities	70,913.0	53,284.0	4.8	50,167.9	4.8	78,902.2	8.6	90,227.7	10.8
3. Derivatives	140,481.8	105,558.0	9.5	107,916.1	10.3	50,077.1	5.5	37,713.0	4.5
4. Available for Sale Securities	80,773.2	60,693.0	5.4	48,920.3	4.7	41,196.9	4.5	38,698.4	4.6
5. Held to Maturity Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. At-equity Investments	298.1	224.0	0.0	1,323.5	0.1	7,695.2	0.8	5,006.1	0.6
7. Other Securities	32,845.4	24,680.0	2.2	25,585.1	2.4	1,668.3	0.2	n.a.	-
<b>8. Total Securities</b>	<b>325,311.4</b>	<b>244,439.0</b>	<b>21.9</b>	<b>233,912.9</b>	<b>22.3</b>	<b>179,539.7</b>	<b>19.7</b>	<b>171,645.2</b>	<b>20.6</b>
9. Memo: Government Securities included Above	n.a.	n.a.	-	43,631.7	4.2	27,175.9	3.0	25,411.3	3.0
10. Investments in Property	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Insurance Assets	3,856.8	2,898.0	0.3	2,905.4	0.3	16,717.5	1.8	10,079.0	1.2
12. Other Earning Assets	n.a.	n.a.	-	4,001.6	0.4	9,792.1	1.1	949.3	0.1
<b>13. Total Earning Assets</b>	<b>1,393,327.1</b>	<b>1,046,946.0</b>	<b>93.9</b>	<b>992,281.9</b>	<b>94.5</b>	<b>847,850.9</b>	<b>92.9</b>	<b>780,229.1</b>	<b>93.6</b>
<b>C. Non-Earning Assets</b>									
1. Cash and Due From Banks	n.a.	n.a.	-	0.0	0.0	0.0	0.0	0.0	0.0
2. Foreclosed Real Estate	9,031.1	6,786.0	0.6	5,265.9	0.5	364.3	0.0	n.a.	-
3. Fixed Assets	11,911.1	8,950.0	0.8	8,501.6	0.8	9,459.0	1.0	10,111.0	1.2
4. Goodwill	27,573.9	20,719.0	1.9	18,836.2	1.8	21,824.6	2.4	14,512.7	1.7
5. Other Intangibles	2,801.4	2,105.0	0.2	1,787.1	0.2	2,202.3	0.2	2,444.1	0.3
6. Current Tax Assets	3,094.2	2,325.0	0.2	2,309.4	0.2	1,845.3	0.2	699.7	0.1
7. Deferred Tax	23,344.4	17,541.0	1.6	14,644.2	1.4	10,852.8	1.2	9,156.3	1.1
8. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Assets	13,299.2	9,993.0	0.9	6,005.3	0.6	18,515.8	2.0	16,719.8	2.0
<b>10. Total Assets</b>	<b>1,484,382.5</b>	<b>1,115,365.0</b>	<b>100.0</b>	<b>1,049,631.6</b>	<b>100.0</b>	<b>912,915.0</b>	<b>100.0</b>	<b>833,872.7</b>	<b>100.0</b>
<b>D. Off-Balance Sheet Items</b>									
1. Managed Securitised Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Liquidity Lines to SPEs	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	89,516.9	67,263.0	6.0	65,323.2	6.2	76,316.5	8.4	58,205.4	7.0
4. Acceptances Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Committed Credit Lines	205,012.0	154,046.0	13.8	123,329.0	11.7	102,215.9	11.2	91,690.4	11.0
6. Other Contingent Liabilities	n.a.	n.a.	-	8,396.0	0.8	12,460.6	1.4	11,559.0	1.4
<b>7. Total Business Volume</b>	<b>1,778,911.4</b>	<b>1,336,674.0</b>	<b>119.8</b>	<b>1,246,679.8</b>	<b>118.8</b>	<b>1,103,908.0</b>	<b>120.9</b>	<b>995,327.5</b>	<b>119.4</b>
<b>8. Memo: Total Weighted Risks</b>	<b>726,760.7</b>	<b>546,088.0</b>	<b>49.0</b>	<b>514,013.0</b>	<b>49.0</b>	<b>515,050.0</b>	<b>56.4</b>	<b>478,733.0</b>	<b>57.4</b>

**BANCO SANTANDER**

**Liabilities and Equity**

	31 Mar 2009			31 Dec 2008		31 Dec 2007		31 Dec 2006	
	3 Months - 1st Quarter USDm Original	3 Months - 1st Quarter EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original
<b>E. Interest-Bearing Liabilities</b>									
1. Deposits - Current	n.a.	n.a.	-	94,773.2	9.0	87,136.7	9.5	89,150.9	10.7
2. Customer Deposits - Savings	338,605.3	254,428.0	22.8	118,709.6	11.3	94,321.2	10.3	95,742.8	11.5
3. Customer Deposits - Term	240,598.9	180,786.0	16.2	165,266.7	15.7	111,794.8	12.2	99,312.8	11.9
<b>4. Total Customer Deposits</b>	<b>579,204.2</b>	<b>435,214.0</b>	<b>39.0</b>	<b>378,749.5</b>	<b>36.1</b>	<b>293,252.7</b>	<b>32.1</b>	<b>284,206.5</b>	<b>34.1</b>
5. Deposits from Banks	133,293.9	100,157.0	9.0	88,226.0	8.4	76,280.1	8.4	67,618.2	8.1
6. Other Deposits and Short-term Borrowings	153,067.6	115,015.0	10.3	125,243.7	11.9	131,796.9	14.4	127,841.7	15.3
<b>7. Total Deposits, Money Market and Short-term Funding</b>	<b>865,565.6</b>	<b>650,386.0</b>	<b>58.3</b>	<b>592,219.2</b>	<b>56.4</b>	<b>501,329.7</b>	<b>54.9</b>	<b>479,666.4</b>	<b>57.5</b>
8. Long-term Borrowing	255,047.9	191,643.0	17.2	194,291.0	18.5	185,452.4	20.3	161,076.0	19.3
9. Subordinated Borrowing	42,536.6	31,962.0	2.9	30,200.3	2.9	28,408.8	3.1	23,722.1	2.8
10. Other Funding	25,847.8	19,422.0	1.7	n.a.	-	n.a.	-	n.a.	-
<b>11. Total Long Term Funding</b>	<b>323,432.3</b>	<b>243,027.0</b>	<b>21.8</b>	<b>224,491.3</b>	<b>21.4</b>	<b>213,861.2</b>	<b>23.4</b>	<b>184,798.1</b>	<b>22.2</b>
12. Derivatives	125,552.3	94,340.0	8.5	95,565.1	9.1	52,421.1	5.7	42,232.0	5.1
13. Trading Liabilities	8,152.8	6,126.0	0.5	3,035.2	0.3	21,065.9	2.3	19,058.5	2.3
<b>14. Total Interest Bearing Liabilities</b>	<b>1,322,703.0</b>	<b>993,879.0</b>	<b>89.1</b>	<b>915,310.8</b>	<b>87.2</b>	<b>788,677.9</b>	<b>86.4</b>	<b>725,755.0</b>	<b>87.0</b>
<b>F. Non-Interest Bearing Liabilities</b>									
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	23,679.8	17,793.0	1.6	17,736.3	1.7	16,570.8	1.8	19,226.5	2.3
4. Current Tax Liabilities	3,586.6	2,695.0	0.2	2,304.6	0.2	2,412.1	0.3	761.5	0.1
5. Deferred Taxes	5,090.5	3,825.0	0.3	3,464.1	0.3	3,744.2	0.4	3,777.5	0.5
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	49.7	0.0	63.4	0.0	n.a.	-
8. Insurance Liabilities	25,085.2	18,849.0	1.7	16,849.5	1.6	13,033.6	1.4	10,704.3	1.3
9. Other Non-interest Bearing Liabilities	11,450.6	8,604.0	0.8	25,242.1	2.4	23,070.9	2.5	19,206.6	2.3
<b>10. Total Liabilities</b>	<b>1,391,595.7</b>	<b>1,045,645.0</b>	<b>93.7</b>	<b>980,957.1</b>	<b>93.5</b>	<b>847,572.9</b>	<b>92.8</b>	<b>779,431.4</b>	<b>93.5</b>
<b>G. Hybrid Capital</b>									
1. Pref. Shares and Hybrid Capital accounted for as Debt	10,455.2	7,856.0	0.7	8,673.0	0.8	7,784.0	0.9	7,369.0	0.9
2. Pref. Shares and Hybrid Capital accounted for as Equity	9,315.9	7,000.0	0.6	7,000.0	0.7	7,000.0	0.8	n.a.	-
<b>H. Equity</b>									
1. Common Equity	79,492.9	59,731.0	5.4	58,886.6	5.6	47,477.7	5.2	41,980.8	5.0
2. Non-controlling Interest	3,486.8	2,620.0	0.2	2,414.6	0.2	2,358.3	0.3	2,220.7	0.3
3. Securities Revaluation Reserves	-214.3	-161.0	0.0	-342.1	0.0	1,419.0	0.2	2,283.3	0.3
4. Other Accumulated OCI	-9,749.8	-7,326.0	-0.7	-7,957.6	-0.8	-696.9	-0.1	587.5	0.1
<b>5. Total Equity</b>	<b>73,015.7</b>	<b>54,864.0</b>	<b>4.9</b>	<b>53,001.5</b>	<b>5.0</b>	<b>50,558.1</b>	<b>5.5</b>	<b>47,072.3</b>	<b>5.6</b>
<b>6. Total Liabilities and Equity</b>	<b>1,484,382.5</b>	<b>1,115,365.0</b>	<b>100.0</b>	<b>1,049,631.6</b>	<b>100.0</b>	<b>912,915.0</b>	<b>100.0</b>	<b>833,872.7</b>	<b>100.0</b>
7. Memo: Fitch Core Capital	42,539.3	31,964.0	2.9	31,984.3	3.0	26,625.8	2.9	30,132.6	3.6
8. Memo: Fitch Eligible Capital	60,770.3	45,662.8	4.1	45,691.8	4.4	38,036.8	4.2	37,324.3	4.5

**BANCO SANTANDER**

**Summary Analytics**

	31 Mar 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
	3 Months - 1st Quarter	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
	Original	Original	Original	Original
<b>A. Interest Ratios</b>				
1. Interest Income on Loans/ Average Net Loans	n.a.	8.10	7.02	5.92
2. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	5.57	5.25	5.13
3. Interest Income/ Average Earning Assets	5.76	6.75	5.78	4.88
4. Interest Expense/ Average Interest-bearing Liabilities	3.41	4.63	4.07	3.49
5. Net Interest Revenue/ Average Earning Assets	2.51	2.23	1.91	1.63
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.62	1.52	1.48	1.31
<b>B. Other Operating Profitability Ratios</b>				
1. Non-interest Income/ Gross Revenues	34.24	40.25	43.31	43.41
2. Non-Interest Expense/ Gross Revenues	44.24	44.28	47.28	52.41
3. Pre-impairment Op. Profit/ Average Equity	40.41	36.96	30.82	24.47
4. Pre-impairment Op. Profit/ Average Total Assets	2.01	1.95	1.70	1.34
5. Credit Impairment Charges/ Pre-impairment Op. Profit	45.13	34.53	23.60	22.50
6. Operating Profit/ Average Equity	22.17	24.20	23.55	18.96
7. Operating Profit/ Average Total Assets	1.10	1.28	1.30	1.04
8. Taxes/ Pre-tax Profit	21.98	16.78	20.90	25.06
<b>C. Other Profitability Ratios</b>				
1. Net Income/ Average Total Equity	16.51	18.77	18.39	14.94
2. Net Income/ Average Total Assets	0.82	0.99	1.02	0.82
3. Fitch Comprehensive Income/ Average Total Equity	16.40	0.60	15.58	17.81
4. Fitch Comprehensive Income/ Average Total Assets	0.82	0.03	0.86	0.98
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.	n.a.
<b>D. Capitalization</b>				
1. Fitch Eligible Capital/ Regulatory Weighted Risks	8.36	8.89	7.39	7.80
2. Tangible Common Equity/ Tangible Assets	2.93	3.15	2.98	3.69
3. Tier 1 Regulatory Capital Ratio	8.90	8.78	7.71	7.42
4. Total Regulatory Capital Ratio	13.50	12.23	12.66	12.49
5. Fitch Eligible Capital/ Tier 1 Regulatory Capital	93.71	101.29	95.75	105.02
6. Equity/ Total Assets	4.92	5.05	5.54	5.65
7. Cash Dividends Paid & Declared/ Net Income	n.a.	28.86	17.40	19.83
8. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	905.21	20.54	16.64
9. Net Income - Cash Dividends/ Total Equity	n.a.	12.53	14.44	11.48
<b>E. Loan Quality</b>				
1. Growth of Total Assets	n.a.	14.98	9.48	3.06
2. Growth of Gross Loans	n.a.	11.36	8.02	19.86
3. Impaired Loans(NPLs)/ Gross Loans	2.67	2.19	1.06	0.87
4. Loan Impairment Reserves/ Gross loans	2.11	1.95	1.51	1.54
5. Reserves for Impaired Loans/ Impaired Loans	79.26	89.08	143.25	176.97
6. Impaired Loans less Reserves for Imp Loans/ Equity	7.06	2.88	-5.19	-7.54
7. Loan Impairment Charges/ Average Gross Loans	1.36	1.03	0.63	0.50
8. Net Charge-offs/ Average Gross Loans	0.26	0.66	0.49	0.37
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	3.60	2.99	1.12	n.a.
<b>F. Liquidity</b>				
1. Loans/ Customer Deposits	160.91	168.81	195.79	187.02
2. Loans/ Deposits and Short-term Funding	107.68	107.96	114.53	110.81
3. Liquid Assets/ Total Assets	4.78	4.78	8.64	14.68
4. Liquid Assets/ Wholesale Funding	14.06	13.62	20.68	36.11
5. Wholesale Funding/ Total Funding and Capital	39.10	41.47	47.59	45.95

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