

Spain
Credit Analysis

Banco Espanol de Credito

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	AA
Short-Term IDR	F1+
Individual Support Rating	
Individual Support Rating	B 1
Sovereign Risk	
Foreign Long-Term IDR	AAA

Outlook

Foreign Long-Term IDR	Stable
Sovereign Foreign Long-Term IDR	Stable

Financial Data

	31 Dec 07	31 Dec 06
Banco Español de Crédito		
Total assets (USDm)	164,796.1	138,743.1
Total assets (EURm)	111,946.0	105,347.6
Total equity (EURm)	4,779.3	4,418.9
Operating profit (EURm)	1,132.2	888.7
Published net income (EURm)	763.5	1,550.3
Comprehensive income (EURm)	699.6	1,541.8
Operating ROAA (%)	1.15	1.00
Operating ROAE (%)	24.62	21.14
Internal capital generation (%)	6.76	29.24
Eligible capital/weighted risks (%)	6.11	6.79
Tier 1 ratio (%)	6.98	7.43

Analysts

Roger Turro
+34 93 323 8406
roger.turro@fitchratings.com

Carmen Munoz
+34 93 323 8408
carmen.munoz@fitchratings.com

Rating Rationale

- Banco Español de Crédito's (Banesto) Long- and Short-Term IDRs are in line with those of its parent, Banco Santander (Santander, rated 'AA'), given its strategic importance and the close integration within Santander, particularly in terms of IT systems and the insurance business. Nevertheless, the bank is independently managed. Banesto's Individual Rating reflects its strong national banking franchise, consistently good profitability, healthy asset quality and sound liquidity. However it also factors in risk concentration and real estate exposure.
- Steady volume growth in diverse activities together with a relatively stable net interest margin, active cross-selling initiatives, product innovation, tight cost control and healthy asset quality have been the key drivers behind Banesto's good operating performance (above 1% operating ROAA). In 2007, the bank's cost/income ratio continued to improve to 45.5% from 52.5% in 2006.
- The sale of its 50.37% stake in real estate company Inmobiliaria Urbis (Urbis) boosted net income by EUR1bn in 2006.
- The main risk arises from its retail lending portfolio, although the bank has also increased its treasury activities for customers. The latter has controls and limits which Fitch Ratings views as adequate. Risk concentration from corporate lending exists, albeit with sound Spanish and European corporates from a variety of sectors. However, 85% of the loan book is to individuals and SMEs, which brings risk granularity. Exposure to the construction and real estate sectors (22% of lending at end-2007) is diversified in nature and is aimed at gaining individual customers. Asset quality indicators remain healthy, with an impaired to total loans ratio of 0.67% (251% cover) at end-Q108, supported by an active risk management and sophisticated risk management systems.
- Market risk mostly stems from structural balance sheet mismatches, which are closely monitored. Liquidity is sound and well managed, backed by a stable and rising retail deposit base, as well as varied access to capital markets. It issued in Q108 through private placements and increased liquid assets.
- While Banesto's capital ratios have felt the pressure of strong loan growth, Fitch views capital as adequate, particularly given the backing from Santander and EUR1.1bn in generic loan impairment reserves at end-2007.

Support

- Banesto is 88.39%-owned by Santander, the largest banking group in Spain. Fitch believes that there would be an extremely high probability that support would be forthcoming from Santander, if needed.

Key Rating Drivers

- Downside risk for Banesto's Long- and Short-Term IDRs would arise if Santander were to reduce its stake in Banesto or if the latter were to become significantly less integrated into the group. Upward potential on Banesto's Individual Rating is currently limited by risk and geographic concentration.

Profile

Banesto was Spain's fifth-largest bank by total assets at end-2007. Its strategy is based on volume growth in all market segments, with particular focus on mortgage and consumer lending to individuals and lending to small and medium-sized enterprises (SMEs). At end-2007 it had 9,923 employees and 1,946 branches.

- Majority-owned by Santander although independent day-to-day operations
- Focused on domestic retail banking and lending to corporates

Profile

Banesto, historically one of Spain's largest banks, was founded in 1902 in Madrid. In December 1993, it was the subject of intervention from the Bank of Spain as a result of a number of problems from increasing its lending substantially in previous years. Banesto was given considerable assistance by Spain's Deposit Guarantee Fund (DGF) and was finally auctioned off by the DGF in April 1994, with the former Banco de Santander winning the bid.

While it is majority-owned by Santander, Banesto is independently managed. However, it benefits from economies of scale and sophisticated IT systems derived from the group. It also holds a 39% stake in the Santander group's insurance company, Santander Seguros, S.A. (consolidated by proportional integration), a product of the merger with Santander's insurance operations in October 2006. Banesto focuses on retail banking for individuals and SMEs and, to lesser extent, wholesale banking.

The focus of its current 2006-2008 strategic plan is to increase market share in commercial banking, with particular emphasis on increasing cross-selling and customer retail deposit base as well as gaining new customers for the bank's key segments: individuals and SMEs. Over the past five years, it has developed expertise in providing structured deposits and treasury products – including derivatives – mainly for these segments. It also aims to maintain good cost-efficiency and better-than-banking-system-average asset quality. Objectives are being achieved by continuing to exploit its multi-channel approach, offering high-quality services supported by sophisticated IT systems. In 2007, Banesto completed its branch expansion plan, under which it has opened 300 new branches since 2006. These are expected to break even by 2009.

Presentation of Accounts

Banesto sold its 50.37% stake in Urbis in November 2006, which was fully consolidated. In 2006, 'Profit from discontinued operations' (line 16 in the attached income statement analysis) included Urbis's net profit and capital gains net of taxes. The bank restated its 2005 income statement, which has not been audited.

- Diversified retail banking earnings and tight cost control are key drivers behind sound operating profitability

Performance

Banesto has a track record of sound operating profitability, supported by greater business volumes, product innovation and making better use of cross-selling, as well as tight cost control, which is deeply ingrained in the organisation. Since the late 1990s, historically low interest rates and a favourable economic environment in Spain have supported strong loan growth – mostly secured lending – and good asset quality.

Table 1: Performance

(%)	Banesto				Peer Group ^a			
	2007	2006	2005	2004	2007	2006	2005	2004
Net interest margin	1.40	1.34	1.51	n.a.	1.66	1.61	1.82	n.a.
Cost/Average assets	1.09	1.21	1.37	1.40	1.21	1.28	1.43	1.59
Cost/Income ratio	45.46	52.50	54.62	50.64	50.04	52.25	53.41	55.02
Pre-impairment Op. ROAA	1.39	1.22	1.28	1.68	1.37	1.37	1.44	1.55
Operating ROAA	1.15	1.00	1.08	1.41	1.01	1.04	1.14	1.21
Operating ROAE	24.62	21.14	20.59	n.a.	19.07	18.82	19.62	n.a.
Core capital/Total assets	3.53	3.66	3.88	4.15	4.35	4.14	4.53	4.53

^a Banesto, Banco de Sabadell (rated 'A+'), Banco Popular Español ('AA'), Bankinter ('A+'), Caja Madrid ('AA-') and Caixa Catalunya ('A')

Source: Banks data under IFRS adapted by Fitch

As shown in Table 1, Banesto's performance indicators compared well with those of its peer group average, considering that Banco Popular Español's strong performance is included in the peer group average and Banesto has a large

Table 2: Other Op. Income

(EURm)	2007	2006
Commission Income	741.9	694.9
Collection & Payment Handling	329.7	292.4
Inv. and Pension Funds	230.0	219.4
Investment Services	41.2	40.1
Guarantees	67.9	65.9
Other	73.1	77.1
Commission Paid	161.3	143.1
Net Commissions	580.6	551.8
Net Insurance Revenue	107.2	82.3
Trading Income and Hedging	50.9	9.3
Distribution of Treasury products	124.6	110.3
Securitisation margin	5.2	5.1
Net sales of Non-Financial Subsidiaries	74.1	110.0
Other	42.8	46.4
Total Other Operating Income	985.4	915.2

Source: Banesto

proportion of low-margin, low-risk treasury and capital market activities (around 20% of the balance sheet). Its operating ROAA, as in the case of its peers, continued to be undermined by most of the loan impairment charge being related to the build-up of the Bank of Spain's generic reserve (58% in 2007).

Highlighting the core retail nature of Banesto's activities, 61% of operating revenues in 2007 were derived from net interest revenue (NIR) and a further 24% from commissions. The strong rise in NIR (up 18% in 2007) was attributable to strong loan growth. Despite strong competition and higher funding costs, Banesto's net interest margin (NIM) slightly widened in 2007, supported by a higher proportion of assets devoted to lending (67% in 2007 from 59% in 2006), interest rate rises and an active asset and liability management.

As shown in Table 2, commission income dominated 'Other Operating Income', benefiting from the bank actively increasing its cross-selling. Collection and payment handling fees continued to dominate commission income, due to higher business volumes. Commissions from the distribution and management of investment and pension funds increased in 2007, although these may decline in 2008 due to off-balance-sheet customer resources diverting back to balance sheet deposits as a result of higher remuneration and market volatility. However, insurance revenue continued to rise strongly, closely related to the emphasis in cross-selling initiatives. Banesto is not very active in trading activities and its treasury mainly focuses on distribution of products to clients, which is proving successful, assisted by the rise in interest rates.

The decline in net sales of non-financial subsidiaries (see Table 2) was explained by the sale of Isban to Santander in June 2007, an IT company set up in conjunction with Santander to implement its state-of-the-art IT platform across the Santander group and sell software to other institutions. Previously, Isban was one of the largest contributors. Other contributors related to real estate and other services subsidiaries.

Banesto has succeeded in keeping a tight grip on costs. Since it was taken over by Santander, Banesto has reorganised much of its branch network, optimising its multi-channel approach, as well as adjusting its staffing structure through the use of early retirement programmes, and has either centralised or outsourced many of its administrative functions. It also benefits from IT synergies by being part of the Santander group. This and sound operating revenue generation has led to a steady improvement in its cost-efficiency ratio, which stood at 46% in 2007.

'Other income and expenses' (line 13 of the attached spreadsheet) mainly included EUR24m capital gains from the sale of fixed assets, EUR20m release of non-credit provisions, EUR20m impairment charge from the sale of Banesto's held-to-maturity portfolio and EUR42.7m losses from the sale of loans in 2007. In 2006, the main element was the build up an early retirement fund, amounting to EUR256.4m.

Table 3: Results Q108

(EURm)	Q108	Q107
Net interest revenue	397.4	348.5
Fees & commissions	145.4	145.2
Net insurance rev.	27.2	23.4
Other op. income	56.2	72.9
Operating expenses	264.7	276.1
Pre-imp. op. profit	361.5	313.9
Loan imp. charge	61.1	53.8
Operating profit	300.4	260.1
Other inc. & exp.	-1.8	4.7
Pre-tax profit	298.6	264.8
Taxes	81.6	77.6
Net income	217.0	187.2

Source: Banesto

As shown in Table 3, Banesto continued to report sound operating profitability in Q108, which stood at above 1% of average assets. This was supported by good net interest revenue generation, helped by a slight widening of its NIM, and a lower cost base. These factors compensated for a slight decline in non-interest operating income mainly due to lower net sales from non-financial subsidiaries. Lending grew by around 16% yoy, which shows the slow down of business growth. Banesto's cost/income ratio continued to improve and stood at 42.7%.

Prospects

2008 is proving to be a challenging year for banks, with a more limited access to wholesale funds leading to higher funding costs. In addition, the Spanish housing market and economy have slowed down significantly and Fitch forecasts that Spain's GDP will grow by just 1.8% in 2008 and 2009. Banesto will find it challenging to manage its exposure to the real estate sector and gain productivity for newer

branches in a much slower economic environment. However, Fitch is confident that Banesto will continue to deliver sound profitability, due to its proactive commercial approach and sophisticated IT systems, which should help to further develop its sales capacity and offer innovative products. These, in turn, will allow the bank to further diversify its income sources and increase its customer cross-selling to counteract the margin pressure caused by a highly competitive operating environment in Spain. Despite the recent branch expansion, cost growth is expected to remain low, given Banesto's tight cost control and the early retirements taken by some of its staff.

- Sophisticated risk management systems
- Healthy asset quality ratios
- Concentration in individual exposures, although these are of sound credit quality

Risk Management

Given Banesto's focus on retail banking, its main risk is credit-related, stemming from its loan book, off-balance-sheet commitments and counterparty risk from treasury products. The group has progressively diversified its activities, increasing the share of wholesale activities. These activities are mostly treasury customer-driven and structured deposit products. Contrary to many Spanish banks, Banesto does not have a strong appetite for equity investments, and market risk is concentrated in interest rate from structural balance-sheet mismatches. Derivatives are mainly used for hedging purposes or as a service to its clients. Risk management and control systems are sound, in line with Santander's policies. Banesto will adopt the more advanced methods for calculating regulatory capital requirements under Basel II for credit risk in 2008.

Credit Risk

Banesto's credit risk management and control procedures are fairly centralised, allowing branches to concentrate on customer business. Non-retail credit risk (corporates, public sector and financial institutions) is managed by the corporate risk unit, and a special unit for real estate developers exists and actively manages risks to this sector. The bank has different scoring systems for individuals and small businesses as well as rating systems for companies. These systems were upgraded to incorporate a risk/return on economic capital, taking into account the probability of default and severity of loss, which enables the bank to achieve better pricing and capital allocation. Risks – mainly counterparty risk – relating to the distribution of treasury products are mitigated by the careful selection of counterparties (minimum rating of 'A'), the use of ISDA agreements and an active management of collaterals.

Loan growth remained strong at about 21% in 2007 (27% in 2006), particularly in the core segment of SMEs, while in individuals it was more moderate and there was a slight decline in loans to large corporates. As a result, the lending portfolio was roughly split as follows at end-2007: 35% to individuals; 50% to SMEs; 14% to large corporates; and 1% to the public sector. Banesto's lending to companies was mainly to the following sectors: construction and real estate 38%; manufacturing 14%; other services 13%; commerce 11%; financial services 10%; transport and utilities, 4% each; and agribusiness and hotels, 3% each. While there is concentration within the construction and real estate sectors, this declined in 2007 as a result of active management of the portfolio, and these exposures are aimed at attracting individual customers through mortgage loans. In addition, exposures are well controlled by the bank's real estate unit, monitoring both the real estate and the financed development. The maximum LTV on residential mortgages is generally set at 80%, while for commercial property it is 70%. In the case of real estate developments, the LTV is capped at 68%. The average LTV of the mortgage portfolio, at cost, was 63%, with only 5% of the portfolio above the 80%.

At end-2007, Banesto's 20 largest risk exposures (including loans, guarantees issued, unused credit lines, trading assets, derivatives, private fixed income portfolio and equity investments) accounted for 13% of total risks and a high 334% of Fitch eligible capital. These figures have been declining for the last two years, reflecting

Banesto's policy to reduce its corporate exposure due to narrow spreads. Most of these large exposures exceeded 10% of Fitch's eligible capital. High risk concentration is mitigated by the fact that the exposure is to large Spanish and European corporates from diverse market sectors and with good financial profiles. In terms of risk concentration in the loan book, 31% of this related to individual exposures of less than EUR150,000 and a further 21% up to EUR0.5m, while 30% of the total comprised exposures of more than EUR5m, reflecting Banesto's corporate lending exposure.

At end-Q108, asset quality indicators remained healthy, despite deteriorating somewhat from historically low levels, with an impaired/total loans ratio of 0.67% and loan impairment coverage of 251%. These ratios reflected the bank's sound credit risk policies, active risk management as well as an internal monitoring and recovery unit for the early detection of problem loans. The bank sold EUR700m of impaired loans in 2007, supporting asset quality indicators. These loans mostly related to mortgages to individuals underwritten through a broker channel. However, there are also EUR127m of performing loans classified as potentially doubtful as a prudent measure, in anticipation of potential difficulties. 87% of the loan impairment reserve related to the generic reserve.

At end-2007, EUR13.6bn of 'Loans and Advances to Banks' (line B.1 of the attached spreadsheet) related to temporary acquisitions of Spanish government securities. Taking this into account, Banesto is a net lender in the interbank market of EUR0.5bn. Interbank placements are mainly short-term and are held mainly with large and highly rated OECD institutions.

The majority of the group's government securities portfolio related to Spanish bonds at end-2007 and was classified in the available-for-sale portfolio. Most of 'Other securities and investments' (line B.5 in the attached Balance Sheet Analysis) related to highly rated cédulas hipotecarias (Spanish mortgage-covered bonds) and Spanish securitisations. The bank's policy states that it is only allowed to invest in investment-grade securities (except for the bonds issued in its own securitisations).

Market Risk

The assets and liabilities committee meets monthly and is responsible for the management of structural balance-sheet-mismatches, using gap and sensitivity analyses. As with most Spanish banks, Banesto has a negative gap in the very short term, turning positive in a one-year period. At end-2007, management estimated that a 100-basis point increase/(decrease) in interest rates would translate into a EUR37.8m/(EUR63.5m) increase/(decrease) in the budgeted net interest margin. Virtually all the equity investments portfolio related to the hedging of customer-driven treasury activities. Proprietary trading is very small, with a value-at-risk limit of EUR4.7m, taking into account risk diversification.

Funding and Capital

The bank's main funding source continues to be its customer deposits, which accounted for around 32% of total liabilities and equity at end-2007 (48% of gross lending), having grown by 14% in the year. While the proportion of deposits appears low, it is worth noting that almost 20% of Banesto's balance sheet at end-2007 was devoted to repo activity (temporary sale of government securities to banks and depositors with repurchase agreements as shown in Table 4). Moreover, 17% of assets sold to depositors consisted of commercial paper issued by a subsidiary and bought by the bank, which at the same time temporarily sells it to customers. As show in Table 3, the bank accessed the capital markets to fund business growth through diverse funding sources (by instrument and maturity). Around EUR2.8bn of the senior debt issued related to structured issues sold to the bank's customers or to other financial institutions, and reflects the expertise gained in producing structured treasury products.

- Sound liquidity policy, supported by well-diversified funding sources
- Adequate capital levels

In terms of the maturity of its long-term funding, EUR6.3bn will mature in 2008, EUR2.7m in 2009 and EUR3.2m in 2010. Banesto will manage the commercial gap depending on its capacity to issue into the wholesale markets. In order to refund maturities, Banesto continued to issue during H108 through private placements (EUR1bn), created an Euro commercial paper programme (placing around EUR3bn) and had EUR4bn of eligible assets to be discounted at the ECB (all were available at that date), if needed. As a cushion, the bank expects to increase eligible assets to EUR8bn through retaining securitisations (a further EUR2bn already done in July). Considering all these amounts, Banesto has enough potential liquidity to cover a disruption in the short- and long-term capital markets. Fitch views Banesto's liquidity to be sound and well managed.

Table 4: Funding Breakdown

(EURm)	31 Dec 07	31 Dec 06
Customer deposits (lines G.1, G.2 and G.3)	36,105.4	31,710.6
Deposits with banks (line G.4)	4,885.9	3,918.7
Short-term borrowing (line G.5)	24,551.2	28,048.0
<i>of which commercial paper</i>	498.0	0.0
<i>of which repurchase agreements sold to banks</i>	5,455.5	14,173.4
<i>of which repurchase agreements sold to customers</i>	16,642.0	12,724.2
<i>of which deposits with central banks</i>	1,955.7	1,150.4
Long-term borrowing (line I.1)	27,722.4	23,860.2
<i>of which securitisations</i>	1,298.6	767.6
<i>of which mortgage-covered bonds</i>	15,325.3	13,433.7
<i>of which senior debt</i>	11,098.5	9,658.9
Total	93,264.9	87,537.5

Source: Banesto

Banesto's common equity grew by a sound 10% in 2007, although the internal capital generation ratio showed a more moderate growth owing to the decline of revaluation reserves. The latter was mostly due to a decline in value of Banesto's fixed income portfolio. Whereas since 2002 Banesto had been remunerating its shareholders by reducing the par value of its shares, since 2006 it has been paying dividends (around 50% of its recurrent net income; 2007: 50.9% of net income). Capital levels have been generally declining owing to strong loan growth. Nevertheless, the bank is adequately capitalised, particularly given that, as a subsidiary of another bank, the total capital adequacy requirement is set by the Bank of Spain at 4.8% instead of 8%; and the large generic loan impairment reserve. Additionally, Banesto is closely integrated within the Santander group. At end-2007, its Tier 1 ratio was 7% and its total regulatory capital ratio was 10.4%, calculated according to Basel I guidelines.

Balance Sheet Analysis

BANCO ESPANOL DE CREDITO (BANESTO)

	31 Dec 2007				31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	EURm	Assets	EURm	EURm	Assets	EURm	Assets	EURm	Assets
	Original	Original	Original	Original	Original	Original	Restated	Restated	Original	Original
A. LOANS										
1. Private	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Corporate	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Government	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Other	110,882.2	75,322.3	67.28	68,775.4	62,228.5	59.07	48,805.3	55.43	39,958.4	57.43
5. Loan Impairment	1,823.6	1,238.8	1.11	1,165.8	1,092.7	1.04	949.9	1.08	836.6	1.20
6. Loan Impairment (memo)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
7. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL A	109,058.6	74,083.5	66.18	67,609.7	61,135.8	58.03	47,855.4	54.35	39,121.8	56.22
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	27,958.0	18,991.9	16.97	21,258.7	23,525.4	22.33	18,285.6	20.77	12,912.7	18.56
2. Government Securities	5,236.3	3,557.0	3.18	5,768.6	7,980.1	7.58	2,280.5	2.59	4,525.2	6.50
3. Trading Assets	2,743.0	1,863.3	1.66	2,073.7	2,284.1	2.17	1,776.9	2.02	926.8	1.33
4. Derivatives	4,012.4	2,725.6	2.43	2,764.3	2,803.0	2.66	2,279.6	2.59	2,028.1	2.91
5. Other Securities and Investments	4,571.9	3,105.7	2.77	2,532.5	1,959.3	1.86	8,846.6	10.05	4,360.1	6.27
6. Equity Investments	1,004.7	682.5	0.61	779.4	876.3	0.83	262.3	0.30	177.1	0.25
7. Insurance	2,345.2	1,593.1	1.42	1,452.9	1,312.6	1.25	304.8	0.35	320.9	0.46
TOTAL B	47,871.5	32,519.1	29.05	36,630.0	40,740.8	38.67	34,036.3	38.66	25,250.9	36.29
C. TOTAL EARNING ASSETS (A+B)	156,930.1	106,602.6	95.23	104,239.6	101,876.6	96.71	81,891.7	93.01	64,372.7	92.51
D. TANGIBLE FIXED ASSETS	1,757.5	1,193.9	1.07	1,067.4	940.8	0.89	1,443.8	1.64	1,248.3	1.79
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	2,079.9	1,412.9	1.26	915.6	418.2	0.40	514.4	0.58	412.5	0.59
2. Other	4,028.6	2,736.6	2.44	2,424.3	2,112.0	2.00	4,192.7	4.76	3,548.5	5.10
F. TOTAL ASSETS	164,796.1	111,946.0	100.00	108,646.8	105,347.6	100.00	88,042.6	100.00	69,582.0	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers - Current	21,079.2	14,319.1	12.79	14,206.8	14,094.5	13.38	11,999.5	13.63	10,051.9	14.45
2. Due to Customers - Savings	8,404.7	5,709.3	5.10	5,882.2	6,055.1	5.75	5,842.8	6.64	5,444.1	7.82
3. Due to Customers - Term	23,667.0	16,077.0	14.36	13,819.0	11,561.0	10.97	8,014.4	9.10	4,011.2	5.76
4. Deposits with Banks	7,192.6	4,885.9	4.36	4,402.3	3,918.7	3.72	6,874.5	7.81	3,691.4	5.31
5. Other Deposits and Short-term Borrowings	36,141.9	24,551.2	21.93	26,299.6	28,048.0	26.62	21,223.8	24.11	20,111.0	28.90
TOTAL G	96,485.4	65,542.5	58.55	64,609.9	63,677.3	60.44	53,955.0	61.28	43,309.6	62.24
H. OTHER LIABILITIES										
1. Derivatives	5,335.5	3,624.4	3.24	3,469.6	3,314.7	3.15	1,879.5	2.13	1,759.2	2.53
2. Trading Liabilities	142.6	96.9	0.09	97.0	97.1	0.09	174.9	0.20	114.2	0.16
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Insurance	3,277.8	2,226.6	1.99	1,814.8	1,403.0	1.33	1,832.2	2.08	1,192.9	1.71
TOTAL H	8,755.9	5,947.9	5.31	5,381.4	4,814.8	4.57	3,886.6	4.41	3,066.3	4.41
I. OTHER FUNDING										
1. Long-term Borrowing	40,810.2	27,722.4	24.76	25,791.3	23,860.2	22.65	17,859.9	20.29	11,886.3	17.08
2. Subordinated Debt	2,379.5	1,616.4	1.44	1,669.3	1,722.2	1.63	1,766.4	2.01	1,899.2	2.73
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL I	43,189.8	29,338.8	26.21	27,460.6	25,582.4	24.28	19,626.3	22.29	13,785.5	19.81
J. NON-INTEREST BEARING	8,580.7	5,828.9	5.21	6,083.5	6,338.0	6.02	6,061.1	6.88	5,312.9	7.64
K. HYBRID CAPITAL										
1. Hybrid capital accounted for as equity	748.7	508.6	0.45	512.4	516.2	0.49	524.0	0.60	514.7	0.74
2. Hybrid Capital accounted for as debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
L. TOTAL LIABILITIES	157,760.5	107,166.7	95.73	104,047.7	100,928.7	95.81	84,053.0	95.47	65,989.0	94.84
M. EQUITY										
1. Common Equity	6,986.8	4,746.1	4.24	4,530.5	4,314.8	4.10	3,425.7	3.89	3,086.4	4.44
2. Minority Interest	68.7	46.7	0.04	50.2	53.7	0.05	505.0	0.57	441.9	0.64
3. Revaluation Reserves	-19.9	-13.5	-0.01	18.5	50.4	0.05	58.9	0.07	64.7	0.09
TOTAL M	7,035.6	4,779.3	4.27	4,599.1	4,418.9	4.19	3,989.6	4.53	3,593.0	5.16
MEMO: CORE CAPITAL	5,768.9	3,918.8	3.50	3,878.8	3,838.7	3.64	3,391.9	3.85	2,860.5	4.11
MEMO: ELIGIBLE CAPITAL	6,517.6	4,427.4	3.95	4,391.2	4,354.9	4.13	3,915.9	4.45	3,375.2	4.85
N. TOTAL LIABILITIES & EQUITY	164,796.1	111,946.0	100.00	108,646.8	105,347.6	100.00	88,042.6	100.00	69,582.0	100.00
Exchange Rate		USD1 = EUR 0.6793			USD1 = EUR 0.7593		USD1 = EUR 0.8477		USD1 = EUR 0.7342	

Income Statement Analysis

BANCO ESPANOL DE CREDITO (BANESTO)

	31 Dec 2007		31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	EURm	Earning Assts	EURm	Earning Assts	EURm	Earning Assts	EURm	Earning Assts
Original	Original	Original	Original	Restated	Restated	Original	Original	
1. Interest Income	4,606.2	4.42	3,312.8	3.61	2,309.7	3.16	1,949.0	-
2. Interest Expense	3,150.2	3.02	2,079.4	2.26	1,202.7	1.64	941.2	-
3. NET INTEREST REVENUE	1,456.0	1.40	1,233.4	1.34	1,107.0	1.51	1,007.8	-
4. Net Fees & Commissions	580.6	0.56	551.8	0.60	514.8	0.70	488.8	-
5. Net Insurance Revenue	107.2	0.10	82.3	0.09	63.4	0.09	50.4	-
6. Other Operating Income	297.6	0.29	281.1	0.31	245.7	0.34	317.1	-
7. Personnel Expenses	664.6	0.64	648.8	0.71	631.5	0.86	548.7	-
8. Other Operating Expenses	410.9	0.39	421.0	0.46	366.5	0.50	298.4	-
9. PRE-IMPAIRMENT OPERATING PROFIT	1,365.9	1.31	1,078.8	1.17	932.9	1.28	1,017.0	-
10. Loan Impairment Charge	229.0	0.22	190.1	0.21	152.2	0.21	164.9	-
11. Other Credit Impairment and Provisions	4.7	0.00	n.a.	-	n.a.	-	n.a.	-
12. OPERATING PROFIT	1,132.2	1.09	888.7	0.97	780.7	1.07	852.1	-
13. Other Income and Expenses	-33.1	-0.03	-231.5	-0.25	-2.7	0.00	-68.9	-
14. PUBLISHED PRE-TAX PROFIT	1,099.1	1.05	657.2	0.72	778.0	1.06	783.2	-
15. Taxes	335.6	0.32	277.9	0.30	247.0	0.34	261.7	-
16. Profit/(Loss) from Discontinued Operations	n.a.	-	1,171.0	1.27	123.8	0.17	n.a.	-
17. Change in Value of AFS investments	-63.9	-0.06	-8.5	-0.01	-5.8	-0.01	64.7	-
18. Currency Translation Differences	n.a.	-	n.a.	-	n.a.	-	n.a.	-
19. Other Gains/(Losses) not in Published Net Income	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. FITCH COMPREHENSIVE INCOME	699.6	0.67	1,541.8	1.68	649.0	0.89	586.2	-
21. Total Gains/(Losses) not in Published Net Income	-63.9	-0.06	-8.5	-0.01	-5.8	-0.01	64.7	-
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-	n.a.	-
23. PUBLISHED NET INCOME	763.5	0.73	1,550.3	1.69	654.8	0.90	521.5	-

Ratio Analysis

BANCO ESPANOL DE CREDITO (BANESTO)

		31 Dec 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004
		Year End	Year End	Year End	Year End
		EURm	EURm	EURm	EURm
		Original	Original	Restated	Original
I. PERFORMANCE					
1. Net Interest Margin	%	1.40	1.34	1.51	n.a.
2. Loan Yield	%	5.87	4.81	3.86	n.a.
3. Cost of Funds	%	3.40	2.54	1.83	n.a.
4. Costs/Average Assets	%	1.09	1.21	1.37	1.40
5. Costs/Income	%	45.46	52.50	54.62	50.64
6. Pre-Impairment Operating ROAA	%	1.39	1.22	1.28	1.68
7. Operating ROAA	%	1.15	1.00	1.08	1.41
8. Pre-impairment Operating ROAE	%	29.70	25.66	24.61	n.a.
9. Operating ROAE	%	24.62	21.14	20.59	n.a.
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	6.76	29.24	17.12	n.a.
2. Core Capital/Total Assets	%	3.53	3.66	3.88	4.15
3. Eligible Capital/Regulatory Weighted Risks	%	6.11	6.79	7.14	6.95
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	6.09	6.87	7.25	7.09
5. Tier 1 Regulatory Capital Ratio	%	6.98	7.43	7.06	7.29
6. Total Regulatory Capital Ratio	%	10.43	11.18	11.35	12.34
7. Free Capital/Equity	%	73.69	78.38	97.96	85.17
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	27.04	36.93	30.85	20.13
2. Loans/Deposits	%	205.19	192.79	185.08	200.55
IV. ASSET QUALITY					
1. Loan Impairment Charge/Gross Loans (av.)	%	0.33	0.34	0.34	n.a.
2. Total Credit Impairment/Pre-impairment Operating Profit	%	17.11	17.62	16.31	16.21
3. Loan Impairment/Gross Impaired Loans	%	310.87	372.94	351.16	308.48
4. Individual Loan Impairment/Gross Impaired Loans	%	39.30	47.30	68.20	76.80
5. Impaired Loans Gross / Loans Gross	%	0.53	0.47	0.55	0.68
6. Impaired Loans Net/Eligible Capital	%	-18.98	-18.36	-17.35	-16.75
7. Net Charge-offs/Gross Loans (av.)	%	0.12	0.07	0.09	n.a.

Copyright © 2008 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.