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Summary:

Banco Espanol de Credito, S.A.

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Summary:

Banco Espanol de Credito, S.A.

Credit Rating: AA/Stable/A-1+

Rationale

The ratings on Banco Español de Crédito, S.A. (Banesto) are based on the bank's core position within Banco Santander S.A. (AA/Stable/A-1+). Standard & Poor's Ratings Services' view of Banesto's position is underpinned by Santander's continued management control and majority ownership of the bank since 1994 and Banesto's significant contribution to the strength of Santander in one of the group's main markets and banking businesses. Given the bank's core importance to Santander, we have enhanced the ratings on Banesto by two notches to equalize them with those on the parent.

Banesto's stand-alone credit worthiness reflects a focused strategy and sound management--which bolster the bank's valuable, growing franchise as the fifth-largest financial institution in Spain--as well as a healthy financial profile.

Banesto enjoys solid asset quality, largely as a result of its strong credit culture and sound credit risk management standards and systems. Nonetheless, the bank's aggressive credit expansion in the past few years increases risks for the loan book's performance, particularly in the context of the current slowdown in Spanish economy. Specifically, the high degree of exposure to the real estate development and construction sectors, which are facing unfavorable prospects, increases Banesto's risk profile.

Banesto's earnings power has improved significantly in recent years, owing to its increasing commercial dynamism. The bank's healthy and stable operating profitability compares well with that of its peers, owing mainly to cost management--a competitive advantage that we expect to help the bank weather challenges to its performance in the context of a tougher economic environment.

Banesto's core risk-adjusted solvency is adequate by international standards, benefiting from sound capital generation. We will, however, monitor the impact on capital leverage of the bank's tighter stance on capital management.

Outlook

The stable outlook mirrors that on parent Santander. The trends in Santander's credit risk profile are fundamental in determining Banesto's creditworthiness, given the impact that Banesto's management control by and integration within Santander, and Santander's strength, have on Banesto as a core member of the group. Any positive or negative rating actions on Banesto will therefore be driven by those on the parent; negative rating actions could also result from changes in Banesto's position within the Santander group, which we do not currently envisage.

Our view on Banesto's credit standing takes into account our belief that the bank will continue to benefit from its deepening, strong franchise; streamlined organization; and well-developed IT systems. We also expect Banesto's asset quality to remain comparatively sound through the cycle. Consequently, the impact on the bank of the expected economic deterioration in Spain should be limited, thanks to Banesto's strong credit risk management

capabilities and sturdy loan loss reserves. We expect core solvency to remain relatively stable, owing to forecast slower growth and adequate capital generation capacity. An unexpected significant deterioration in asset quality or further significant increases in exposure to the decelerating real estate market could lead to a weakening of Banesto's stand-alone credit profile. Conversely, continued deepening of Banesto's franchise while preserving asset quality, and a strengthening of performance beyond current expectations, could be beneficial for Banesto's stand-alone creditworthiness.

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