FEDERAL RESERVE SYSTEM

Banco Santander, S.A.
Madrid, Spain

Order Approving the Acquisition of Additional Shares
of a Savings Association and Other Nonbanking Subsidiaries

Banco Santander, S.A. ("Santander"), a foreign banking organization that is a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.24 of the Board's Regulation Y[1] to acquire all the voting shares of Sovereign Bancorp, Inc. ("Sovereign"), Philadelphia, and thereby indirectly acquire its subsidiary federal savings bank, Sovereign Bank ("Sovereign Bank"), Wyomissing, both of Pennsylvania. In addition, Santander has requested the Board's approval under section 4 of the BHC Act to acquire indirectly the other nonbanking subsidiaries of Sovereign.[2] The Board previously approved Santander's proposal to acquire up to 24.99 percent of Sovereign's voting shares and to control Sovereign.[3] Santander currently owns approximately 24.35 percent of Sovereign's voting shares.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (73 Federal Register 63,149 (2008)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4 of the BHC Act.

Santander has total consolidated assets equivalent to approximately $1.4 trillion and is the largest banking organization in Spain.[4] Santander engages in

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[1] 12 U.S.C. §§ 1843(c)(8) and (j); 12 CFR 225.24.

[2] See 12 U.S.C. § 1843.

[3] Banco Santander Central Hispano, S.A., 92 Federal Reserve Bulletin C151 (2006) ("2006 Order").

[4] Asset data and rankings are as of June 30, 2008, and are based on the exchange rate then in effect.

a broad range of banking and financial services worldwide through an extensive network of offices and subsidiaries. Santander controls a U.S. subsidiary bank that operates in Puerto Rico only, Banco Santander Puerto Rico ("BSPR"), San Juan. BSPR controls deposits of approximately $6 billion, which represent less than 1 percent of total deposits in insured depository institutions in the United States ("total U.S. deposits").[5] Santander also operates branches in New York, New York, and Stamford, Connecticut, and an Edge corporation in Miami, Florida.[6]

Sovereign has total consolidated assets of approximately $79 billion and is the 22nd largest banking organization in the United States.[7] Sovereign operates one insured depository institution, Sovereign Bank, with offices in Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, and Rhode Island. Sovereign Bank controls approximately $47.8 billion in deposits, which represents less than 1 percent of total U.S. deposits.

As noted, Santander controls Sovereign and on a combined basis has total assets of approximately $120 billion in the United States and is the 20th largest banking organization in the United States.[8] The combined organization controls deposits of approximately $53.8 billion, representing less than 1 percent of total U.S. deposits.

Factors Governing Board Review of the Transaction

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[9] The Board requires that savings associations acquired

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[5] Deposit data are as of June 30, 2008. In this context, the term "insured depository institution" includes insured commercial banks, savings associations, and savings banks.

[6] Edge corporations are organized under section 25A of the Federal Reserve Act (12 U.S.C. § 611 et seq.).

[7] Domestic asset and ranking data are as of June 30, 2008.

[8] Id.

[9] 12 CFR 225.28(b)(4)(ii).

by bank holding companies or financial holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4(c)(8) of the BHC Act.[10] Santander previously has committed to the Board that all of Sovereign's activities will conform to the requirements for permissible activities under section 4 of the BHC Act and Regulation Y.[11]

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the proposed acquisition of Sovereign and its subsidiary savings association "can reasonably be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[12] As part of its evaluation of a proposal under these public interest factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, and the public benefits of the proposal.[13] In acting on a notice to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[14]

Financial and Managerial Resources

In reviewing the proposal under section 4 of the BHC Act, the Board has carefully considered the financial and managerial resources of Santander, Sovereign, and their subsidiary insured depository institutions. The Board also has reviewed the effect the transaction would have on those resources in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary federal

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[10] 12 CFR 225.28(b)(4)(ii) and 225.86.

[11] 2006 Order at C151.

[12] 12 U.S.C. § 1843(j)(2)(A).

[13] See 12 CFR 225.26; see, e.g., BancOne Corporation, 83 Federal Reserve Bulletin 602 (1997).

[14] 12 U.S.C. § 2901 et seq.

supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by Santander. In addition, the Board has consulted with the Bank of Spain, which is responsible for the supervision and regulation of Spanish financial institutions.

In evaluating financial resources in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary insured depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of measures, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the financial resources of Santander and Sovereign. The capital levels of Santander would continue to exceed the minimum levels required under the Basel Capital Accord and are considered to be equivalent to the capital levels that would be required of a U.S. banking organization. In addition, BSPR and Sovereign Bank are well capitalized and would remain so on consummation of the proposal. Based on its review of the record, the Board finds that Santander has sufficient financial resources to effect the proposal. The proposed transaction is structured as a stock-for-stock exchange.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization.[15] The Board has reviewed the examination records of Santander's U.S. operations, Sovereign, and their subsidiary depository institutions, including assessments of their management, risk-management

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[15] The Board has previously determined that Santander is subject to comprehensive consolidated supervision by the Bank of Spain. See, e.g., Banco Santander, S.A., 85 Federal Reserve Bulletin 441 (1999).

systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws and with anti-money laundering laws.

Based on all the facts of record, the Board has concluded that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under section 4 of the BHC Act.

Competitive and CRA Performance Record Considerations

As part of the Board's consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record. Those effects were previously reviewed by the Board when it approved Santander's control of Sovereign in 2006. As in 2006 Order, Santander continues to have no retail banking operations in the metro New York banking market or in any other banking market in which Sovereign Bank operates. Santander and Sovereign, therefore, do not directly compete.[16]

The Department of Justice also has reviewed the proposal and has advised the Board that it does not believe that Santander's proposal would likely have a significant adverse effect on competition in any relevant banking market. The Office of Thrift Supervision ("OTS") also has been afforded an opportunity to comment and has not objected to the proposal.

Based on all of the facts of record, the Board reaffirms its conclusion in the 2006 Order that consummation of the proposal would not result in any significantly adverse effects on competition or on the concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that competitive factors are consistent with approval of the proposal.

In addition, based on a review of the entire record, the Board reaffirms that the CRA performance records of the relevant depository institutions are consistent with

[16] 2006 Order at C152.

approval.[17] BSPR received an "outstanding" rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation, as of October 22, 2008. Sovereign Bank also received an "outstanding" rating at its most recent CRA performance evaluation by the OTS, as of March 11, 2005. The Board has consulted with the OTS about Sovereign Bank's record of CRA performance since its last evaluation.

Public Benefits

As part of its evaluation of the public interest factors under section 4 of the BHC Act, the Board also has reviewed carefully the public benefits and possible adverse effects of the proposal in light of its previous review of these factors in 2006.[18] The Board reaffirms its conclusions in the 2006 Order that consummation of the proposal would result in benefits to consumers and businesses currently served by Sovereign by allowing Sovereign's customers to draw on Santander's global experience in retail banking, technological expertise, and experience with Spanish-speaking customers, particularly in light of Sovereign's presence in the New York metropolitan area, which has a large and increasing Hispanic population. In addition, the proposal would enhance Sovereign's financial and operational performance, which in turn would strengthen Sovereign Bank's ability to better meet the convenience and needs of communities it serves.

For the reasons discussed above, and based on the entire record, the Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Moreover, based on all the facts of record, the Board concludes that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects. Accordingly, the Board has determined that the balance of the public benefits under section 4(j)(2) of the BHC Act is consistent with approval.

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[17] 12 U.S.C. § 2903; see 2006 Order at C154.

[18] 2006 Order at C155.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the proposal should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Santander and Sovereign with the conditions imposed in this order and the commitments made to the Board in connection with the notice. The Board's approval is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),[19] and to the Board's authority to require such modification or termination of the activities of the bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions herein and, as such, may be enforced in proceedings under applicable law. The acquisition shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,[20] effective December 10, 2008.

(SIGNED)

Robert deV. Frierson
Deputy Secretary of the Board

[19] 12 CFR 225.7 and 225.25(c).

[20] Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.