



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

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Mr. Jose Antonio Alvarez
Chief Executive Officer
Banco Santander, S.A.
Santander Group City
Avda de Cantabria s/n
Edif. Pereda, 2nda Planta
28660 Boadilla del Monte
Madrid, Spain

Mr. Scott Powell
Chief Executive Officer
Santander Holdings USA, Inc.
75 State Street, 5th Floor
Boston, Massachusetts 02109

Dear Messrs. Powell and Alvarez:

This letter is in response to your request, dated August 8, 2014, that the Board permit Banco Santander, S.A. (“Santander”), Madrid, Spain, to hold its ownership interest in five U.S. subsidiaries, including Abbey National Capital L.P. I and Abbey National Capital Trust I (the “ANC Subsidiaries”), two U.S. asset management subsidiaries of SAM Investment Holdings Limited (“SAM Holdings”), a U.K. joint venture (the “SAM Subsidiaries”), and BST International Bank, Inc. (“BST”) outside of the intermediate holding company (“IHC”) established by Santander for purposes of compliance with Regulation YY.

Regulation YY requires a foreign banking organization with \$50 billion or more in total U.S. non-branch assets to establish an IHC and to transfer its ownership interest in its U.S. subsidiaries to the IHC.¹ Under Regulation YY, the Board may permit

¹ 12 CFR 252.152. U.S. non-branch assets are measured as an average of the amount reported for the four most recent consecutive quarters, as reported to the Board on the FR Y-7Q.

the foreign banking organization to hold its ownership interest in a U.S. subsidiary outside of its IHC if circumstances warrant an exception based on the foreign banking organization's activities, scope of operations, structure, or similar considerations.² Santander is a foreign banking organization with [REDACTED] billion in total U.S. non-branch assets as of June 30, 2015. Accordingly, Santander is required to establish an IHC under Regulation YY.

Santander currently holds its ownership interest in the ANC Subsidiaries indirectly through Santander UK plc ("Santander UK"), a higher-tier holding company located in the United Kingdom. The ANC Subsidiaries facilitate the issuance of trust preferred securities that qualify as regulatory capital for Santander UK ("ANC Capital Instruments"), and Santander argues that transfer of the ANC Subsidiaries to the IHC would render the ANC Capital Instruments ineligible as capital for Santander UK.³ The ANC Capital Instruments have an outstanding liquidation preference amount of [REDACTED] and would be callable in [REDACTED]. Santander represents that the loss would equal approximately [REDACTED] basis points of tier 1 capital at Santander UK.

Santander has a 50 percent ownership and voting interest in SAM Holdings. Warburg Pincus and General Atlantic, both of which are U.S.-based private equity firms, share the remaining 50 percent ownership interest. As of September 30, 2015, the SAM Subsidiaries collectively have assets of approximately [REDACTED], representing [REDACTED] percent of Santander's IHC pro-forma assets.

Santander has a 100 percent ownership in BST, a U.S. subsidiary licensed in Puerto Rico as an international banking entity ("IBE"). Santander owns BST indirectly through its subsidiary, Banco Santander Totta, S.A. ("Santander Totta"), a Portuguese bank regulated by the Bank of Portugal. BST has total assets of [REDACTED] and provides international banking services, including time deposit services and electronic funds transfers upon maturity of deposits, to clients that have accounts in and outside of Portugal, based on an internet-based, commercial banking business model. IBEs are prohibited from accepting deposits from residents of Puerto Rico, and BST also does not accept deposits from residents of Portugal or the United States. In 2006, BST issued perpetual preferred shares to Banco Santander, and this interest is included in Santander Totta's regulatory capital. Santander argues that transferring BST to Santander's IHC would reduce the regulatory capital of Santander Totta and require approval from the Bank of Portugal and that such an approval is uncertain.

² 12 CFR 252.153(c)(1)-(2).

³ The ANC Capital Instruments currently are grandfathered securities in tier 1 capital, although they are included subject to a cap of 70 percent notional amount.

After consideration of all relevant facts, including Santander's activities, scope of operations, structure, and similar considerations, the Board has granted Santander's request for an exemption for the ANC Subsidiaries and the SAM Subsidiaries.

Regulation YY provides that, in considering an exemption request, the Board may consider whether applicable law would prohibit the foreign banking organization from owning or controlling one or more of its U.S. subsidiaries through a single IHC.⁴ In this case, under applicable law, transferring the ANC Subsidiaries would render them ineligible for the limited purpose for which they were established, because the transfer of the ANC Subsidiaries would disqualify the ANC Capital Instruments from inclusion in Santander UK's regulatory capital under U.K. law. Moreover, even if the ANC Subsidiaries were consolidated with the IHC under applicable accounting standards, the transfer would have a minimal effect on capital at Santander's IHC, in light of the size of the ANC Subsidiaries relative to the pro forma size of Santander's IHC.⁵ In addition, the ANC Subsidiaries would not likely pose liquidity risk to Santander's U.S. operations given the ANC Capital Instruments' long duration and the ANC Subsidiaries' limited activities. In order to limit the size and character of the ANC Subsidiaries and the interactions between the U.S. operations of Santander and the ANC Subsidiaries, Santander has entered into the commitments listed in Attachment A.⁶

With respect to the SAM Subsidiaries, SAM Holdings is a foreign company without a banking presence in the United States, and the vast majority of its operations are conducted outside of the United States. Neither of the other joint-venture partners are required to form an IHC and, thus, are not compelled to facilitate the restructuring. Santander is not a majority investor in SAM Holdings and cannot require SAM Holdings to divest the SAM Subsidiaries or to transfer the SAM Subsidiaries to the Santander IHC. In addition, excluding the SAM Subsidiaries would have an immaterial effect on the regulatory capital or liquidity requirements of the Santander IHC. In order to limit Santander's ownership interest in the SAM Subsidiaries and the size and systemic

⁴ 12 CFR 252.153(c)(2).

⁵ The ANC Capital Instruments have a liquidation preference of [REDACTED], which is immaterial relative to the size of the IHC's pro forma asset size of [REDACTED] billion (as reported in Santander's implementation plan, dated January 1, 2015).

⁶ Santander has committed that it will not, without prior approval of the Board, directly or indirectly, issue any new securities through the ANC Subsidiaries or allow the ANC Subsidiaries to engage in any activity with Santander's combined U.S. operations. Santander has also committed that, to the extent that the ANC Capital Instruments cease to qualify as regulatory capital under applicable foreign law, Santander will, as promptly as practicable, notify the Board and take all necessary action to liquidate the ANC Subsidiaries or transfer the ownership interests in the ANC Subsidiaries to its IHC.

footprint of the SAM Subsidiaries going forward, Santander has entered into the commitments listed in Attachment B.⁷ The Board reserves the right to revoke the exemption if it determines that Santander has taken actions to expand its presence in the U.S. through the SAM Subsidiaries beyond that which was presented in its exemption request or to otherwise evade the IHC requirement, and, as a consequence, Santander may be required to divest its ownership interest in SAM Holdings.

With respect to BST, the Board has denied Santander's request. Although Santander argues that transferring BST to Santander's IHC would reduce the regulatory capital of Santander Totta and require approval from the Bank of Portugal and that such an approval is uncertain, Santander has not otherwise demonstrated that it would be unable to transfer or restructure BST. While nonbank subsidiaries in Puerto Rico have historically been treated as non-U.S. subsidiaries for supervisory purposes, Regulation YY defines a "U.S. subsidiary" to include a subsidiary located in Puerto Rico because treating Puerto Rico as part of the United States is consistent with the definition of "State" in the Dodd-Frank Act. Accordingly, BST is considered part of Santander's U.S. operations, and granting the exemption request would be inconsistent with the stated objective of Regulation YY to provide a platform for consistent supervision and regulation of the U.S. operations of a foreign banking organization. Upon the transfer to the IHC, BST would be subject to oversight by the U.S. risk committee of Santander and subject to its U.S. risk management framework, consistent with the goals of Regulation YY.

For the reasons stated above, the Board has granted Santander's request for an exemption from Regulation YY's requirement to transfer its ownership interests in the ANC Subsidiaries and the SAM Subsidiaries to its IHC and is denying Santander's request for an exemption from Regulation YY's requirement to transfer its ownership interest in BST to its IHC. This action is based on all the facts of record and on all the representations and commitments made by Santander in the submissions to the Board in connection with the request, including the commitments listed in Attachment A and Attachment B. These representations and commitments constitute conditions imposed in writing in connection with the findings and decisions herein and, as such, may be enforced in proceedings under applicable law. Any material change in those facts or

⁷ Santander has committed that it will not, without the prior approval of the Board, directly or indirectly, increase its ownership interest in SAM Holdings to greater than 50 percent. Santander has also committed that it will provide written notice to the Board within 60 days of the end of the calendar quarter in which the total assets of the SAM Subsidiaries, individually or collectively, exceed \$1 billion or 1 percent of the total consolidated assets of Santander's IHC, whichever is smaller, or the total assets under management by the SAM Subsidiaries, individually or collectively, exceed 5 percent of the SAM Holdings' total global assets under management.

representations could affect this approval and should be communicated promptly to Board staff.

Very truly yours,

(signed) Margaret McCloskey Shanks



Margaret McCloskey Shanks
Deputy Secretary of the Board

cc: Ms. Julia L. Cox
Federal Reserve Bank of Boston

Attachment A
Commitments by Banco Santander, S.A.
to the Board of Governors of the Federal Reserve System

In connection with the request, dated August 8, 2014, to the Board of Governors of the Federal Reserve System (the “Board”) for the Board’s approval under section 252.153(c) of the Board’s Regulation YY for an exemption from Regulation YY’s requirement that Banco Santander, S.A. (“Santander”), Madrid, Spain, transfer its ownership interest in two U.S subsidiaries, Abbey National Capital L.P. I and Abbey National Capital Trust I (together, the “ANC Subsidiaries”), to an intermediate holding company established by Santander for purposes of compliance with Regulation YY, Santander makes the following commitments to the Board:

1. Santander will not, without the prior approval of the Board, directly or indirectly, issue any new securities through the ANC Subsidiaries;
2. Santander and its combined U.S. operations, as defined in section 252.2(e) of Regulation YY, will not, without the prior approval of the Board, directly or indirectly, engage in any activity with either of the ANC Subsidiaries; and
3. To the extent the securities issued by the ANC Subsidiaries cease to qualify as regulatory capital under applicable foreign law, Santander will, as promptly as practicable, notify the Board and take all necessary action to liquidate the ANC Subsidiaries or transfer the ownership interests in the ANC Subsidiaries to its intermediate holding company.

Santander agrees that the foregoing commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions on Santander’s request and, as such, may be enforced in proceedings under applicable law.

Attachment B
Commitments by Banco Santander, S.A.
to the Board of Governors of the Federal Reserve System

In connection with the request, dated August 8, 2014, to the Board of Governors of the Federal Reserve System (the "Board") for the Board's approval under section 252.153(c) of the Board's Regulation YY for an exemption from Regulation YY's requirement that Banco Santander, S.A. ("Santander"), Madrid, Spain, transfer its ownership interest in two U.S subsidiaries owned by SAM Investment Holdings Limited ("SAM Holdings"), Jersey, United Kingdom, Santander Asset Management USA LLC ("SAM USA") and Santander Asset Management LLC ("SAM PR") (together, the "SAM Subsidiaries"), to an intermediate holding company established by Santander for purposes of compliance with Regulation YY, Santander makes the following commitments to the Board:

1. Santander will not, without the prior approval of the Board, directly or indirectly, increase its ownership interest in SAM Holdings to greater than 50 percent;
2. Santander will provide written notice to the Board within 60 days of the end of the calendar quarter in which the total assets of the SAM Subsidiaries, individually or collectively, exceed \$1 billion or 1 percent of the total consolidated assets of Santander's intermediate holding company, whichever is smaller; and
3. Santander will provide written notice to the Board within 60 days of the end of the calendar quarter in which the total assets under management by the SAM Subsidiaries, individually or collectively, exceed 5 percent of the SAM Holdings' total global assets under management.

Santander agrees that the foregoing commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions on Santander's request and, as such, may be enforced in proceedings under applicable law.