



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SCOTT G. ALVAREZ
GENERAL COUNSEL

March 24, 2016

Christopher M. Paridon, Esq.
Davis Polk & Wardwell LLP
901 15th Street, NW
Washington, D.C. 20005

Dear Mr. Paridon:

This responds to your request on behalf of Banco Santander, S.A. (“Banco Santander”), Boadilla del Monte, Spain, for a determination that an application under the Bank Holding Company Act of 1956 (“BHC Act”) would not be required in connection with a corporate reorganization by Banco Santander through which Banco Santander would transfer its indirect ownership interest in Santander Bancorp, San Juan, Puerto Rico, to Santander Holdings USA, Inc. (“SHUSA”), Boston, Massachusetts, a wholly owned, direct subsidiary of Banco Santander. Banco Santander, SHUSA, and Santander Bancorp are registered bank holding companies. Santander Bancorp is the direct parent of a U.S. nonmember bank, Banco Santander Puerto Rico (“BSPR”), San Juan, Puerto Rico.

The proposed transaction is an internal corporate rearrangement of companies within the Banco Santander corporate structure being undertaken as part of Banco Santander’s compliance with the Board’s intermediate holding company (“IHC”) requirement for foreign banking organizations.¹ The transaction would proceed as follows: Administración de Bancos Latinoamericanos Santander, S.L., Boadilla del Monte, Spain, the direct parent of Santander Bancorp and a subsidiary of Banco Santander, would sell all its shares in Santander Bancorp to Banco Santander in exchange for cash or a note. Banco Santander would then contribute all of its shares in Santander Bancorp to SHUSA. As a result, Santander Bancorp would become a wholly owned subsidiary of SHUSA.

Section 3 of the BHC Act and the Board’s Regulation Y require an application to the Board before any action can be taken that causes a bank to become a subsidiary of a bank holding company, and before any bank holding

¹ 12 CFR Part 252 Subpart O.

company acquires direct or indirect ownership or control of any voting shares of any bank or bank holding company if, upon consummation of the transaction, the bank holding company would control, directly or indirectly, more than 5 percent of the voting shares of the bank or bank holding company. Through the transaction described above, SHUSA would directly acquire 100 percent of the voting shares of Santander Bancorp, indirectly acquire 100 percent of the voting shares of BSPR, and cause BSPR to become a subsidiary of SHUSA. Accordingly, SHUSA would be required to obtain the Board's approval under section 3 of the BHC Act and Regulation Y before acquiring Santander Bancorp.

In certain circumstances, however, the Board's rules provide that a bank holding company may transfer control of a subsidiary holding company between one subsidiary holding company and another subsidiary holding company without the Board's prior approval under section 3. Specifically, section 225.12(d)(3) of the Board's Regulation Y provides that a bank holding company need not receive the Board's approval for this type of corporate reorganization where it occurs in the United States and meets certain other criteria.² While section 225.12(d)(3) does not apply to transactions that, as here, occur partly outside the United States, your proposal is consistent with the purposes of section 225.12(d)(3) of the Board's Regulation Y.

Importantly, movement of Santander Bancorp under Banco Santander's designated IHC is mandated by the Board's IHC rules and is being undertaken here in accordance with those rules. The designation of SHUSA as the U.S. holding company of BSPR as well as of the other U.S.-based non-branch and -agency operations of Banco Santander will facilitate the Board's supervision of Banco Santander's operations in the United States.

The transaction represents solely a corporate reorganization involving companies and an insured depository institution that, both preceding and following the transaction, are lawfully controlled and operated by Banco Santander. The transaction does not involve the acquisition of additional voting shares of an insured depository institution that, prior to the transaction, was less than majority owned by Banco Santander. In addition, Banco Santander has provided the Board with an IHC implementation plan that contains information on the expected financial performance and risk-management practices of Banco Santander's combined U.S. operations.³

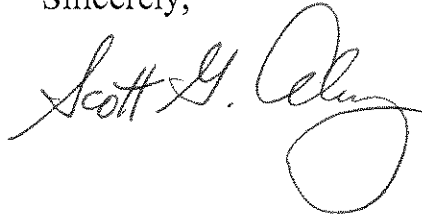
² 12 CFR 225.12(d)(3).

³ See 12 CFR 252.153(d).

After consultation with staff in the Division of Banking Supervision and Regulation, the Legal Division believes that no regulatory purpose would be served by requiring Banco Santander or SHUSA to file a formal application under section 3 of the BHC Act in connection with the proposed internal reorganization. This opinion is based on all the facts and representations presented to Federal Reserve staff. Any material change in those facts or representations should be communicated to Federal Reserve staff promptly and may cause this opinion to be reconsidered. This opinion also is limited to this proposed transaction and does not apply to any other transaction.

If you have any questions regarding this matter, please contact Flora Ahn (202-452-2317) of my staff.

Sincerely,

A handwritten signature in cursive script, appearing to read "Scott G. O'Connell". The signature is written in black ink and is positioned below the word "Sincerely,".