



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

February 5, 2019

Mr. Scott Powell, CEO
Santander Holdings USA, Inc.
75 State Street, 5th Floor
Boston, MA 02109

Dear Mr. Powell:

Pursuant to the Board's Regulation YY, Santander Holdings USA, Inc. ("Santander") is required to participate in the supervisory and company-run stress tests for the stress test cycle that starts on January 1, 2019.¹ For the reasons stated below, the Board is providing relief for Santander from all regulatory requirements, including disclosure requirements, related to supervisory stress testing and company-run stress testing for the 2019 stress test cycle and is providing related relief from certain capital planning and regulatory reporting requirements that would otherwise apply in the 2019 stress test cycle. In addition, as discussed in detail below, Santander will not be required to submit a capital plan to the Board in 2019, or participate in the 2019 Comprehensive Capital Analysis and Review ("CCAR 2019").²

The Board may extend any compliance date in Regulation YY, including the dates of compliance for the stress test requirements, if it determines that such extension is appropriate.³ In determining whether an extension is appropriate, the Board considers the effect of the modification on financial stability, the period of time for which the modification would be necessary to achieve compliance with Regulation YY, and the actions the company is taking to come into compliance with Regulation YY.

¹ Pub. L. No. 111-203, 124 Stat. 1376 (2010); see 12 CFR 252, subparts E and F. See 12 CFR 252.153(e)(5).

² Santander remains subject to the requirement to develop and maintain a capital plan, and the board of directors of Santander (or designated subcommittee thereof) remains subject to the requirement to review and approve the firm's capital plan.

³ 12 CFR 252.3(b).

In assessing a company's risk profile, the Board takes into consideration the company's size, scope of operations, activities, and systemic importance. Size provides a measure of the extent to which customers or counterparties may be exposed to a risk of loss or suffer a disruption in the provision of services if a firm were to experience distress and can serve as an indicator of operational and managerial complexity. Nonbank assets may involve a broader range of risks than those associated with purely banking activities, and reflect the degree to which a firm may be engaged in activities through legal entities that are not subject to separate capital requirements or to the direct regulation and supervision applicable to a regulated banking entity. Other measures of risk include cross-jurisdictional activity, off-balance sheet exposure, and weighted short-term wholesale funding, which provide measures of a firm's complexity, interconnectedness, and liquidity risk. As of September 30, 2018, Santander reported total consolidated assets of \$131.6 billion, \$50.0 billion in nonbank assets, \$10.7 billion in off-balance sheet exposure,⁴ \$4.7 billion in weighted short-term wholesale funding, and \$8.7 billion in cross-jurisdictional activity.

In assessing Santander's risk profile, the Board also considered reports of examination and other supervisory information, including a review of Santander's 2018 capital plan and capital planning process, and the result of the Board's 2018 supervisory stress test, as well as other publicly reported information. In 2018, Santander received notice that the Federal Reserve did not object to its capital plan or planned capital actions. Based on all the facts of record, the Board has determined to provide a one-year extension of time for Santander to comply with the Board's stress test requirements. Specifically, Santander is not required to participate in the Board's supervisory stress test or conduct a company-run stress test for the 2019 stress test cycle.

Extension of 2019 capital plan submission requirement

Pursuant to the capital plan rule, Santander is required to submit a capital plan to the Federal Reserve on an annual basis.⁵ Consistent with the relief described above, the Board is providing a one-year extension of the requirement to submit a capital plan until April 5, 2020.⁶ Santander is not required to participate in CCAR 2019. Santander remains subject to the requirement to develop and maintain a capital plan, and the board of directors of Santander (or designated subcommittee thereof) must review and approve the firm's capital plan.⁷ The Federal Reserve will continue to review the capital planning and risk-management practices of Santander through the regular supervisory process.

As noted above, Santander received notice that the Federal Reserve did not object to the capital plan submitted in 2018, including distributions planned for the period beginning July 1, 2018, through June 30, 2019. For the period beginning July 1, 2019, through

⁴ Measured as total exposure, as defined on FR Y-15, minus total consolidated assets, as reported on the Consolidated Financial Statements for Holding Companies (FR Y-9C).

⁵ 12 CFR 225.8(e)(1)(ii).

⁶ *Id.*

⁷ 12 CFR 225.8(e)(1)(i), (iii).

June 30, 2020, the Board has approved Santander to make capital distributions up to the amount that would have allowed the firm to remain above all minimum capital requirements in CCAR 2018, adjusted for any changes in the firm's regulatory capital ratios since the Federal Reserve acted on the capital plan of Santander. In particular, Santander is authorized to distribute, net of any issuance of capital, up to the sum of the following: (1) the additional capital the firm could have distributed in CCAR 2018 and remained above minimum requirements; plus (2) capital accretion, as measured by the change in its capital ratios since CCAR 2018; plus (3) its approved planned capital distributions for the period January 1, 2018, through June 30, 2019; minus (4) its actual capital distributions in the first quarter of 2019 and its planned capital distributions for the second quarter of 2019.⁸

In addition, the Board is extending the deadline for submission of Schedule A – Summary, Schedule B – Scenario, and Schedule F – Business Plan Changes of the FR Y-14A until April 5, 2020.⁹ Santander must continue to submit Schedule C – Regulatory Capital Instruments and Schedule E – Operational Risk of the FR Y-14A, as well as all FR Y-14M and FR Y-14Q reports.

Santander must submit its planned capital actions for the period between July 1, 2019, through June 30, 2020, by April 5, 2019.¹⁰ If Santander chooses to submit a capital plan to the Board in the 2019 capital plan cycle notwithstanding the Board's approval of the additional capital distributions described above, Santander must submit the capital plan to the Board by April 5, 2019, in accordance with the Board's capital plan rule, and the firm will be subject to a supervisory stress test by the Board, notwithstanding the relief provided in this letter.

The actions of the Board are based on the foregoing and all the facts of record. The actions should not be construed as granting relief from any other conditions or commitments to which Santander may be subject, including regulatory capital requirements¹¹ and any

⁸ This letter also constitutes approval under 12 CFR 217.20 for any repurchases or redemptions of capital instruments made by Santander that are included in the amount of capital distributions approved as part of this order. Such repurchases or redemptions must be included on the firm's list of planned distributions provided to the Board by April 5, 2019.

⁹ 12 CFR 252.57(a)(1). If Santander's capital plan includes any material business plan changes, it may be required to provide supplemental information on any of these changes. The Board may request additional information regarding Santander's capital adequacy and capital planning. 12 CFR 225.8(e)(3).

¹⁰ If Santander wishes to make additional capital distributions beyond the amount approved under this letter, Santander may submit a capital plan to the Board or submit a request to the Federal Reserve for approval to make such distributions before March 1, 2019, or after July 1, 2019. 12 CFR 225.8(g)(4).

¹¹ See, e.g., 12 CFR 217.11.

requirements under the Board's stress test rules and related reporting requirements in the year 2020. Please contact Celeste Molleur at 202-452-2783 if you have questions.

Sincerely yours,



Ann Misback
Secretary of the Board

cc: Theresa J. Barry, Vice President
Steven Fay, Exam Manager
Federal Reserve Bank of Boston

Appendix: Details on Federal Reserve’s calculation of maximum approved planned capital actions for 2019

The Federal Reserve will use the following worksheet to compute the maximum planned capital distributions that Santander can make from July 1, 2019, through June 30, 2020, without seeking approval from the Federal Reserve.

Worksheet for determining pre-approved 2019-2020 capital distributions, millions of dollars

Line	Item	A	B	C	D
		CET1 capital ratio	Tier 1 risk-based capital ratio	Tier 1 leverage ratio	Total risk-based capital ratio
1.	CCAR 2018 distributable capital				
a.	Capital ratio as of 12/31/2018				
b.	Decline in capital ratio in CCAR 2018	1.6	2.2	1.9	2.4
c.	Minimum Requirement	4.5	6.0	4.0	8.0
d.	Capital ratio denominator as of 12/31/2018				
	Adjusted CCAR 2018 additional distributable capital				
2.	capital <i>= ((1.a - 1.b - 1.c)*(1.d/100))</i>				
3.	Planned capital actions				
a.	Planned capital actions PQ1-6 of CCAR 2018				
b.	Actual capital actions 2019:Q1				
c.	Approved planned capital actions 2019:Q2				
4.	2019:Q3 - 2020:Q2 capital distribution capacity <i>= (2. + 3.a - 3.b - 3.c)</i>				
5.	Maximum approved capital actions for 2019:Q3-2020:Q2				
a.	Net planned distributions from tier 2 capital <i>= (4.D)</i>				
b.	Net planned distributions from additional tier 1 capital <i>= (Min (4.B, 4.C, 4.D - Net planned distributions from tier 2 capital))</i>				
c.	Net planned distributions from CET1 capital <i>= (Min (4.A, 4.B - net planned distributions from additional tier 1 capital, 4.C - net planned distributions from additional tier 1 capital, 4.D - net planned distributions from additional tier 1 and tier 2 capital))</i>				

The Federal Reserve will complete the worksheet computing the maximum planned capital distributions that Santander can make from July 1, 2019, through June 30, 2020, consistent with the following description of each line item:

Line 1. CCAR 2018 distributable capital.

This section includes the information necessary to determine the additional capital distributions that the firm could have made in CCAR 2018 and remained above minimum capital requirements in the supervisory quantitative assessment, adjusted for the firm's updated starting capital ratios.

Line 1.a. Capital ratio as of 12/31/2018.

The regulatory capital ratios calculated using the standardized approaches as reported on the FR Y-9C as of December 31, 2018. Specifically, for line 1.a., column A, the common equity tier 1 capital ratio (BHCAP793); for line 1.a., column B, the Tier 1 capital ratio (BHCA7206); for line 1.a., column C, the Tier 1 leverage ratio (BHCA7204), and for line 1.a., column D, the total capital ratio (BHCA7205).

1.b. Decline in capital ratio in CCAR 2018.

For each capital ratio, the decline in the capital ratio equals the starting capital ratio minus the minimum capital ratios in the CCAR 2018 supervisory quantitative assessment under the severely adverse scenario or in any subsequent supervisory quantitative assessment conducted to evaluate a resubmitted capital plan.

1.c. Minimum Requirement.

The applicable minimum requirement for each regulatory capital ratio. Specifically, for the line 1.c., column A, a 4.5 percent common equity tier 1 ratio; line 1.c., column B, a 6 percent tier 1 capital ratio; line 1.a., column C, a 4 percent tier 1 leverage ratio, and column D, an 8 percent total capital ratio.

1.d. Capital ratio denominator as of 12/31/2018.

The applicable denominator for each regulatory capital ratio using the standardized approaches as reported on the FR Y-9C as of December 31, 2018. Specifically, for line 1.d., column A, B, and D, total risk-weighted assets (BHCAA223) and for line 1.d, column C, total assets for the leverage ratio (BHCAA224). To align with the format of the FR Y-14A, this item is divided by 1,000 so as to be expressed in millions of dollars.

2. Adjusted CCAR 2018 additional distributable capital.

For each column equal to $(\text{Line 1.a} - \text{line 1.b} - \text{line 1.c}) * (\text{line 1.d}/100)$.

This is the amount of additional capital the firm could have distributed in CCAR 2018 or in any subsequent quantitative assessment conducted to evaluate a resubmitted capital plan and remained above minimum requirements.

3. Planned capital actions.

The capital ratio declines in line 1.b. include the effect of the firm's 2018 planned capital actions. The sum of the additional distributable capital calculated in line 2 and the firm's 2018 planned capital actions comprise the maximum planned capital distributions that the firm can make for the 2019 capital plan cycle without seeking approval from the Federal Reserve.

Lines 3.a, 3.b, and 3.c adjust for any changes to the firm's planned capital actions for PQ1-6. The firm's 2018 PQ7-9 planned capital actions are assumed to be representative of its 2019 PQ7-9 planned capital actions.

For column A, common equity tier 1 planned capital actions are the sum of cash dividends declared on common stock (CPSK4460), cash dividends declared on preferred stock (CPSK4598), and total share repurchases (CPSDQ288) minus total issuance of common stock (CPSDQ285).

For column B and C, tier 1 capital planned capital actions are the sum of common equity capital actions in column A plus the amount recognized in regulatory capital from redemption or repurchases of non-cumulative perpetual preferred stock (CACIY515) and other additional tier 1 instruments (CACIY527) minus issuance of non-cumulative perpetual preferred stock (CACIY544) and other additional tier 1 instruments (CACIY556).

For column D, total capital planned capital actions are the sum of tier 1 capital actions in columns B and C plus the amount recognized in regulatory capital from redemption or repurchases of subordinated debt (CACIY528), cumulative dated preferred (TRUPS) instruments (CACIY535), and tier 2 capital instruments issued by subsidiaries (CACIY529) minus issuance of subordinated debt (CACIY557), cumulative dated preferred (TRUPS) instruments (CACIY564), and tier 2 capital instruments issued by subsidiaries (CACIY558).

3.a. Planned capital actions PQ1-6 of CCAR 2018.

For each category of regulatory capital, the firm's planned capital actions for the first through sixth quarters of the CCAR 2018 planning horizon.

3.b. Actual capital actions 2019:Q1.

The firm's actual capital actions taken in 2019:Q1 as reported on the FR Y-9C and FR Y-14.

3.c. Approved planned capital actions 2019:Q2.

The firm's capital distributions already included in the capital plan from the prior year and not objected to by the Federal Reserve for that quarter, including any approved requests for additional planned capital distributions.

4. 2019:Q3 - 2020:Q2 capital distribution capacity.

For each column equal to Line 2. + line 3.a – line 3.b – line 3.c.

This amount represents the amount of capital above each minimum requirement that the firm could distribute and still remain adequately capitalized in the severely adverse scenario, based on the CCAR 2018 supervisory quantitative assessment.

5. Maximum approved capital actions for 2019:Q3 - 2020:Q2.

This section computes the maximum net planned distributions approved for each category of regulatory capital (i.e. common equity tier 1 capital, additional tier 1 capital, tier 2 capital) that the firm can make for the period 2019:Q3 through 2020:Q2 without seeking approval from the Federal Reserve. Each value is expressed in millions of dollars.

5.a. Net planned distributions from tier 2 capital.

Equal to line 4. Column D.

5.b. Net planned distributions from additional tier 1 capital.

Equal to the minimum of:

- line 4. Column B;
- line 4. Column C; and
- line 4. Column D – net planned distributions from tier 2 capital.

5.c. Net planned distributions from CET1 capital.

Equal to the minimum of:

- line 4. Column A;
- line 4. Column B – net planned distributions from additional tier 1 capital;
- line 4. Column C – net planned distributions from additional tier 1 capital; and
- line 4. Column D – net planned distributions from additional tier 1 capital and tier 2 capital.