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# **Santander US P19**

## **Global Corporate Banking**

August 2016

Federico Papa – Managing Director - GCB

# Agenda

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- **GCB YTD Performance – SHUSA level**

- GCB P-19 Round 2 - SHUSA
- GCB P-19 Round 2 - SBNA
- GCB P-19 Round 2 - SIS

# GCB YTD Performance – SHUSA level highlights

## Key highlights

- GCB ROE at 6.3%
- Net income growing at 19% and 15% over budget with SIS over performance more than compensating underperformance at SBNA
- Cost flat vs July 2015 with direct expenses under budget and indirect expenses over at SBNA
- Pending budget adjustment at SBNA to reflect the effect of the new FTP and new profitability rules (RUSReC)

	2016 YTD	YoY Growth	Budget %
ROE	6.3%		
Efficiency	40.2%		
Total Revenues	\$270.8 MM	17%	108%
Cost	\$108.8 MM	0%	91%
Net Income	\$92.5 MM	19%	115%
Funded Assets	\$12.9 BN	-5%	93%
Unfunded Assets	\$7.1 BN	-52%	70%
FTEs**	264	-14%*	84%
* Growth vs Dec 2015			
** June 2016			

Note: July preliminary figures

# GCB YTD Performance – SHUSA level details

	July YTD 2016								
	SBNA	% Change yoy	Budget Achiev.	SIS	% Change yoy	Budget Achiev.	TOTAL	% Change yoy	Budget Achiev.
<b>Total Revenues</b>	<b>185.9</b>	<b>8%</b>	<b>97%</b>	<b>84.9</b>	<b>40%</b>	<b>143%</b>	<b>270.8</b>	<b>17%</b>	<b>108%</b>
<b>Costs</b>	<b>-63.7</b>	<b>3%</b>	<b>100%</b>	<b>-45.1</b>	<b>-6%</b>	<b>80%</b>	<b>-108.8</b>	<b>0%</b>	<b>91%</b>
- Direct	-38.6	6%	99%	-33.9	-5%	81%	-72.5	1%	90%
- Indirect	-25.1	0%	103%	-11.2	-7%	76%	-36.3	-2%	93%
<b>Operating Income</b>	<b>122.1</b>	<b>11%</b>	<b>96%</b>	<b>39.8</b>	<b>214%</b>	<b>1369%</b>	<b>162.0</b>	<b>32%</b>	<b>124%</b>
<b>Total Provisions &amp; Other</b>	<b>-29.8</b>	<b>396%</b>	<b>N/A</b>	<b>0.0</b>	<b>N/A</b>	<b>N/A</b>	<b>-29.8</b>	<b>396%</b>	<b>420%</b>
<b>Profit Before Tax</b>	<b>92.3</b>	<b>-11%</b>	<b>76%</b>	<b>39.8</b>	<b>214%</b>	<b>1369%</b>	<b>132.1</b>	<b>13%</b>	<b>107%</b>
<b>Taxes</b>	<b>-31.6</b>	<b>-13%</b>	<b>75%</b>	<b>-8.0</b>	<b>214%</b>	<b>1369%</b>	<b>-39.6</b>	<b>2%</b>	<b>92%</b>
<b>Profit After Tax</b>	<b>60.7</b>	<b>-10%</b>	<b>77%</b>	<b>31.9</b>	<b>214%</b>	<b>1369%</b>	<b>92.5</b>	<b>19%</b>	<b>115%</b>
<b>C/I</b>	<b>34.3%</b>			<b>53.1%</b>			<b>40.2%</b>		
<b>ROE</b>	<b>5.5%</b>			<b>29.4%</b>			<b>6.3%</b>		
<b>TOTAL EXPOSURE IN BN\$</b>	<b>19.9</b>	<b>-30%</b>					<b>19.9</b>	<b>-30%</b>	
<b>FUNDED IN BN\$</b>	<b>12.9</b>	<b>-5%</b>	<b>93%</b>				<b>12.9</b>	<b>-5%</b>	<b>93%</b>
<b>UNFUNDED IN BN\$</b>	<b>7.1</b>	<b>-52%</b>	<b>70%</b>				<b>7.1</b>	<b>-52%</b>	<b>70%</b>

Note: - Pending budget adjustments for new FTP and RUSReC at SBNA  
 - SIS cost not including Severance Payments (-\$3MM)

# Agenda

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- GCB YTD Performance – SHUSA level
- GCB P-19 Round 2 - SHUSA
- GCB P-19 Round 2 - SBNA
- GCB P-19 Round 2 - SIS

# GCB P-19 Round 2 - SHUSA

## Main Changes since Round 1 presentation

- Capital Credit reduced based on the new interest rate curve for SBNA
- Compensation cost at SBNA reduced
- Indirect expenses at SBNA increased
- Release of specific provisions removed
- General provisions increased following forecast provided by Risk
- Deposits adjusted upwards
- Confirmed that cybersecurity cost was included in SIS Round 1 figures

## 2019 performance targets

	Round 1*	Round 2	Delta
ROE (excl. Ind. Cost)	13.9%	13.6%	-0.3%
ROE (**)	10.8%	10.4%	-0.4%
ROA	1.3%	1.2%	-0.1%
Efficiency	44%	53%	+9%
Net Income (MM)	\$121 MM	\$113 MM	-\$8 MM
Funded Assets (BN)	\$7BN	\$7 BN	-
Avrg Deposits (BN)	\$1.4 BN	\$1.8 BN	+\$0.4BN

\* As presented on June 15<sup>th</sup>

\*\* SIS ROE based on Target Equity

# Agenda

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- GCB YTD Performance – SHUSA level
- GCB P-19 Round 2 - SHUSA
- **GCB P-19 Round 2 - SBNA**
- GCB P-19 Round 2 - SIS

# GCB P-19 Round 2 - SBNA

## Main Changes since Round 1 presentation

- Capital Credit reduced based on the new interest rate curve for SBNA
- Compensation cost at SBNA reduced
- Indirect expenses at SBNA increased
- Release of specific provisions removed
- General provisions increased following forecast provided by Risk
- Deposits adjusted upwards

## 2019 performance targets

	Round 1*	Round 2	Delta
ROE (excl. Ind. Cost)	11.4%	11.0%	-0.4%
ROE (**)	9.7%	9.2%	-0.5%
ROA	1.3%	1.2%	-0.1%
Efficiency	39%	45%	+6%
Net Income (MM)	\$92.6 MM	\$84.0 MM	-\$8.6 MM
Funded Assets (BN)	\$7.0 BN	\$7.0 BN	-
Avrg Deposits (BN)	\$1.4 BN	\$1.8 BN	+\$0.4 BN

\* As presented on June 15<sup>th</sup>



# GCB P-19 Round 2 – SBNA Financial Summary

(\$ millions)		2015	2016	2017	2018	2019	'16 - '17 YOY	'16 - '19 CAGR
Income statement	Loan & Inv. Spread	172.4	161.5	114.3	99.3	84.4	-29%	-19%
	Deposits Spread	11.7	15.2	10.3	11.5	13.5	-33%	-4%
	Capital Credit	0.0	10.4	16.9	22.7	26.4		
	Other A/L Spread(*)	(10.2)	(12.2)	(11.4)	(10.0)	(11.2)	-7%	-3%
	<b>Net Interest Income - BAU</b>	173.9	175.0	130.1	123.5	113.0	-26%	-14%
	Tax Equivalent Adj.	45.0	51.3	21.0	22.5	18.5	-59%	-29%
	<b>Net Interest Income</b>	<b>218.9</b>	<b>226.3</b>	<b>151.1</b>	<b>146.0</b>	<b>131.5</b>	<b>-33%</b>	<b>-17%</b>
	Fee income	89.2	73.4	70.0	69.9	70.0	-5%	-2%
	<b>Total revenue - BAU</b>	263.1	248.4	200.1	193.4	183.1	-19%	-9%
	<b>Total revenue</b>	<b>308.1</b>	<b>299.7</b>	<b>221.1</b>	<b>215.9</b>	<b>201.5</b>	<b>-26%</b>	<b>-12%</b>
	Direct expenses	(60.9)	(66.4)	(58.2)	(55.9)	(52.1)	-12%	-8%
	Indirect expenses	(47.8)	(44.4)	(45.3)	(41.5)	(39.4)	2%	-4%
	<b>PPNR</b>	<b>199.4</b>	<b>188.9</b>	<b>117.7</b>	<b>118.4</b>	<b>110.1</b>	<b>-38%</b>	<b>-16%</b>
	Provisions	(40.9)	(46.1)	(4.1)	(6.0)	4.9	-91%	-147%
	<b>PBT</b>	<b>158.5</b>	<b>142.7</b>	<b>113.5</b>	<b>112.4</b>	<b>115.0</b>	<b>-20%</b>	<b>-7%</b>
Balance sheet - AVG	Taxes	(55.8)	(45.6)	(33.8)	(31.4)	(31.0)	-26%	-12%
	<b>Net income</b>	<b>\$102.7</b>	<b>\$97.1</b>	<b>\$79.7</b>	<b>\$81.0</b>	<b>\$84.0</b>	<b>-18%</b>	<b>-5%</b>
	Loans & Investments	\$11,309	\$11,493	\$9,977	\$8,330	\$7,304	-13%	-14%
	Total exposure	26,736	22,451	17,491	14,346	11,131	-22%	-21%
	Deposits	1,797	1,881	1,407	1,566	1,837	-25%	-1%
Profitability (% of earning assets)	RWA	17,580	15,529	12,429	10,313	8,318	-20%	-19%
	Capital	1,934	1,708	1,367	1,134	915	-20%	-19%
	Net interest income	1.94%	1.97%	1.51%	1.75%	1.80%	-0.45%	-0.17%
	Fee income	0.79%	0.64%	0.70%	0.84%	0.96%	0.06%	0.32%
	<b>Revenue</b>	<b>2.72%</b>	<b>2.61%</b>	<b>2.22%</b>	<b>2.59%</b>	<b>2.76%</b>	<b>-0.39%</b>	<b>0.15%</b>
	Expenses	-0.96%	-0.96%	-1.04%	-1.17%	-1.25%	-0.07%	-0.29%
	Provisions	-0.36%	-0.40%	-0.04%	-0.07%	0.07%	0.36%	0.47%
	Profit before tax	1.40%	1.24%	1.14%	1.35%	1.57%	-0.10%	0.33%
	<b>Net income</b>	<b>0.91%</b>	<b>0.85%</b>	<b>0.80%</b>	<b>0.97%</b>	<b>1.15%</b>	<b>-0.05%</b>	<b>0.30%</b>

(\$ millions)		2015	2016	2017	2018	2019	'16 - '17 YOY	'16 - '19 CAGR
Performance metrics	ROE	5.31%	5.69%	5.83%	7.14%	9.18%	0.1%	3.5%
	ROA	0.91%	0.85%	0.80%	0.97%	1.15%	-0.05%	0.30%
	Fee / Revenue	29%	24%	32%	32%	35%	7%	10%
	Efficiency ratio	35%	37%	47%	45%	45%	10%	8%
	Loan / deposit	629%	611%	709%	532%	398%	98%	-214%
	NCO / Loans	0.27%	0.03%	0.19%	0.09%	0.12%	0.16%	0.09%

# GCB P-19 Round 2 – SBNA Financial Summary

		P19 ROUND 1					P19 ROUND 2				
(\$ millions)		2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Income statement	Loan & Inv. Spread	172.4	160.1	122.4	103.5	90.3	172.4	161.5	114.3	99.3	84.4
	Deposits Spread	11.7	14.3	10.0	10.0	10.0	11.7	15.2	10.3	11.5	13.5
	Capital Credit	0.0	11.9	29.2	40.4	37.3	0.0	10.4	16.9	22.7	26.4
	Other A/L Spread(*)	(10.2)	(7.1)	(9.3)	(14.5)	(15.7)	(10.2)	(12.2)	(11.4)	(10.0)	(11.2)
	Tax Equivalent Adj.	45.0	48.1	21.0	22.5	18.5	45.0	51.3	21.0	22.5	18.5
	<b>Net Interest Income</b>	<b>218.9</b>	<b>227.3</b>	<b>173.4</b>	<b>161.8</b>	<b>140.3</b>	<b>218.9</b>	<b>226.3</b>	<b>151.1</b>	<b>146.0</b>	<b>131.5</b>
	Fee income	89.2	76.4	67.7	73.9	71.6	89.2	73.4	70.0	69.9	70.0
	<b>Total revenue</b>	<b>308.1</b>	<b>303.7</b>	<b>241.0</b>	<b>235.6</b>	<b>211.9</b>	<b>308.1</b>	<b>299.7</b>	<b>221.1</b>	<b>215.9</b>	<b>201.6</b>
	Direct expenses (**)	(60.9)	(72.7)	(62.0)	(60.2)	(58.6)	(60.9)	(66.4)	(58.2)	(55.9)	(52.1)
	Indirect expenses (***)	(47.8)	(42.3)	(37.7)	(29.3)	(25.0)	(47.8)	(44.4)	(45.3)	(41.5)	(39.4)
	<b>PPNR</b>	<b>199.4</b>	<b>188.7</b>	<b>141.3</b>	<b>146.1</b>	<b>128.2</b>	<b>199.4</b>	<b>188.9</b>	<b>117.7</b>	<b>118.4</b>	<b>110.1</b>
	Provisions	(40.9)	(25.1)	31.0	15.9	14.2	(40.9)	(46.1)	(4.1)	(6.0)	4.9
	<b>PBT</b>	<b>158.5</b>	<b>163.7</b>	<b>172.4</b>	<b>162.0</b>	<b>142.4</b>	<b>158.5</b>	<b>142.7</b>	<b>113.5</b>	<b>112.4</b>	<b>115.0</b>
	Taxes	(55.5)	(57.3)	(60.3)	(56.7)	(49.8)	(55.5)	(45.6)	(33.8)	(31.4)	(31.0)
	<b>Net income</b>	<b>\$103.0</b>	<b>\$106.4</b>	<b>\$112.0</b>	<b>\$105.3</b>	<b>\$92.6</b>	<b>\$103.0</b>	<b>\$97.1</b>	<b>\$79.7</b>	<b>\$81.0</b>	<b>\$84.0</b>

- Direct expenses reduced to reflect Bonus adjustment
- AVG deposits increased from to \$1.3 B to \$1.8 B for 2019
- Provision releases for Tidewater, Freeport, etc. were removed as requested

# GCB P-19 Round 2 – SBNA Financial Summary

		2016		2017		2018		2019	
(\$ millions)		Δ \$	Δ %	Δ \$	Δ %	Δ \$	Δ %	Δ \$	Δ %
Income statement	Loan & Inv. Spread	1.4	0.9%	(8.1)	-6.6%	(4.2)	-4.1%	(5.9)	-6.6%
	Deposits Spread	0.9	6.4%	0.3	2.7%	1.6	15.8%	3.5	35.0%
	Capital Credit	(1.5)	-12.3%	(12.3)	-42.1%	(17.6)	-43.7%	(10.8)	-29.1%
	Other A/L Spread(*)	(5.1)	71.8%	(2.1)	22.9%	4.5	-31.0%	4.5	-28.9%
	Tax Equivalent Adj.	3.3	6.8%	0.0	0.0%	0.0	0.0%	0.0	0.0%
	<b>Net Interest Income</b>	<b>(1.0)</b>	<b>-0.4%</b>	<b>(22.3)</b>	<b>-12.8%</b>	<b>(15.8)</b>	<b>-9.7%</b>	<b>(8.7)</b>	<b>-6.2%</b>
	Fee income	(3.0)	-3.9%	2.3	3.5%	(4.0)	-5.4%	(1.5)	-2.1%
	<b>Total revenue</b>	<b>(4.0)</b>	<b>-1.3%</b>	<b>(19.9)</b>	<b>-8.3%</b>	<b>(19.8)</b>	<b>-8.4%</b>	<b>(10.3)</b>	<b>-4.8%</b>
	Direct expenses (**)	6.2	-8.6%	3.9	-6.2%	4.3	-7.1%	6.5	-11.0%
	Indirect expenses (***)	(2.1)	5.0%	(7.6)	20.1%	(12.2)	41.7%	(14.4)	57.3%
	<b>PPNR</b>	<b>0.1</b>	<b>0.1%</b>	<b>(23.6)</b>	<b>-16.7%</b>	<b>(27.7)</b>	<b>-19.0%</b>	<b>(18.2)</b>	<b>-14.2%</b>
	Provisions	(21.1)	84.2%	(35.2)	-113.3%	(21.9)	-137.6%	(9.3)	-65.4%
	<b>PBT</b>	<b>(21.0)</b>	<b>-12.8%</b>	<b>(58.8)</b>	<b>-34.1%</b>	<b>(49.7)</b>	<b>-30.6%</b>	<b>(27.4)</b>	<b>-19.2%</b>
	Taxes	11.7	-20.5%	26.5	-43.9%	25.3	-44.7%	18.8	-37.8%
	<b>Net income</b>	<b>(9.3)</b>	<b>-8.7%</b>	<b>(32.3)</b>	<b>-28.9%</b>	<b>(24.3)</b>	<b>-23.1%</b>	<b>(8.6)</b>	<b>-9.3%</b>

# Agenda

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- GCB YTD Performance – SHUSA level
- GCB P-19 Round 2 - SHUSA
- GCB P-19 Round 2 - SBNA
- **GCB P-19 Round 2 - SIS**

# GCB P-19 Round 2 – SIS

## Main Changes since Round 1 presentation

- Confirmed that cybersecurity cost was included in SIS Round 1 figures

- No changes made from P19 Round 1

## 2019 performance targets

ROE*	17%
Efficiency	68%
Revenues	\$ 111.9 mm
Net Income	\$ 28.5 mm

\*ROE calculated using SIS Equity as of December 2015 ( \$165 mm)

\* SIS ROE based on Target Equity

# SIS P19 financial summary – As presented on June 15<sup>th</sup>

\$mm

- Net Income estimated to growth to \$ 29 mm (6%)
- Balance sheet reduction at SBNA will hinder growth at USD DCM business
- Counting on SCUSA as frequent issuer and SIS participating in 3-4 deals per year
- Recovery of LatAm markets(Equity & Credit ) will compensate reduction in US business

	2015	2016B	2016	2017	2018	2019	16E-16B %	16-17 CAGR	16-19 CAGR
<b>Revenues</b>	83.0	112.3	112.4	106.3	107.7	111.9	0.1%	-5.4%	-0.1%
<b>Expenses (w/ SLAs)</b>	(83.7)	(94.2)	(81.8)	(74.3)	(74.3)	(75.8)	-13.2%	-9.2%	-2.5%
Direct	(58.9)	(66.2)	(57.6)	(52.3)	(52.3)	(53.4)	-13.0%	-9.1%	-2.5%
Indirect	(24.9)	(28.0)	(24.2)	(22.0)	(22.0)	(22.4)	-13.6%	-9.3%	-2.6%
Provisions	-	-	-	-	-	-	-	-	-
<b>Profit Before Taxes</b>	(0.79)	18.10	30.62	31.98	33.42	36.11	69.1%	4.5%	5.7%
Taxes	(1.84)	(3.80)	(6.43)	(6.72)	(7.02)	(7.58)	69.1%	4.5%	5.7%
<b>Net Income</b>	(2.62)	14.30	24.19	25.26	26.40	28.53	69.1%	4.5%	5.7%
<b>Cost to Income</b>	100.9%	83.9%	72.8%	69.9%	69.0%	67.7%			
<b>Equity*</b>	165	165	165	165	165	165			
<b>ROE</b>	-1.6%	8.7%	14.6%	15.3%	16.0%	17.3%			

\* SIS Equity kept flat at \$ 165 mm (December 2015 level).

# Thank you

Our purpose is to help people and businesses prosper.

Our culture is based on the belief that everything we do should be

**Simple | Personal | Fair**



# SBNA P19 financial summary – As presented on June 15<sup>th</sup>

(\$ millions)		2015	2016	2017	2018	2019	'16 - '17 YOY	'16 - '19 CAGR
Income statement	Loan & Inv. Spread	172.4	160.1	122.4	103.5	90.3	-24%	-17%
	Deposits Spread	11.7	14.3	10.0	10.0	10.0	-30%	-11%
	Capital Credit	0.0	11.9	29.2	40.4	37.3		
	Other A/L Spread(*)	(10.2)	(7.1)	(9.3)	(14.5)	(15.7)	31%	30%
	Tax Equivalent Adj.	45.0	48.1	21.0	22.5	18.5	-56%	-27%
	<b>Net Interest Income</b>	<b>218.9</b>	<b>227.3</b>	<b>173.4</b>	<b>161.8</b>	<b>140.3</b>	<b>-24%</b>	<b>-15%</b>
	Fee income	89.2	76.4	67.7	73.9	71.6	-11%	-2%
	<b>Total revenue</b>	<b>308.1</b>	<b>303.7</b>	<b>241.0</b>	<b>235.6</b>	<b>211.9</b>	<b>-21%</b>	<b>-11%</b>
	Direct expenses (**)	(60.9)	(72.7)	(62.0)	(60.2)	(58.6)	-15%	-7%
	Indirect expenses (***)	(47.8)	(42.3)	(37.7)	(29.3)	(25.0)	-11%	-16%
	<b>PPNR</b>	<b>199.4</b>	<b>188.7</b>	<b>141.3</b>	<b>146.1</b>	<b>128.2</b>	<b>-25%</b>	<b>-12%</b>
	Provisions	(40.9)	(25.1)	31.0	15.9	14.2	-224%	-183%
	<b>PBT</b>	<b>158.5</b>	<b>163.7</b>	<b>172.4</b>	<b>162.0</b>	<b>142.4</b>	<b>5%</b>	<b>-5%</b>
	Taxes	(55.5)	(57.3)	(60.3)	(56.7)	(49.8)	5%	-5%
	<b>Net income</b>	<b>\$103.0</b>	<b>\$106.4</b>	<b>\$112.0</b>	<b>\$105.3</b>	<b>\$92.6</b>	<b>5%</b>	<b>-5%</b>
Balance sheet - AVG	Loans & Investments	\$11,309	\$11,835	\$10,549	\$8,203	\$7,009	-11%	-16%
	Total exposure	26,736	23,276	18,724	14,712	11,772	-20%	-20%
	Deposits	1,797	1,800	1,382	1,362	1,363	-23%	-9%
	RWA	17,580	16,070	13,432	10,624	8,706	-16%	-18%
	Capital	1,934	1,768	1,477	1,169	958	-16%	-18%
Profitability (% of earning assets)	Net interest income	1.94%	1.92%	1.64%	1.97%	2.00%	-0.28%	0.08%
	Fee income	0.79%	0.65%	0.64%	0.90%	1.02%	0.00%	0.38%
	<b>Revenue</b>	<b>2.72%</b>	<b>2.57%</b>	<b>2.29%</b>	<b>2.87%</b>	<b>3.02%</b>	<b>-0.28%</b>	<b>0.46%</b>
	Expenses	-0.96%	-0.97%	-0.95%	-1.09%	-1.19%	0.03%	-0.22%
	Provisions	-0.36%	-0.21%	0.29%	0.19%	0.20%	0.51%	0.41%
	Profit before tax	1.40%	1.38%	1.63%	1.98%	2.03%	0.25%	0.65%
	<b>Net income</b>	<b>0.91%</b>	<b>0.90%</b>	<b>1.06%</b>	<b>1.28%</b>	<b>1.32%</b>	<b>0.16%</b>	<b>0.42%</b>

(\*) Spreads on various items such as Cash holdings, Equity Method Investments (Route 66, El Centro, and Stephen Ranch), ALLL, etc.

(\*\*) FDIC Insurance based on business estimate, to be revised by Management Control

(\*\*\*) Indirect expenses as of 2017 calculated based on budget 2016 and drop equivalent to change in outstanding balances

(\$ millions)		2015	2016	2017	2018	2019	'16 - '17 YOY	'16 - '19 CAGR
Performance metrics	ROE	5.33%	6.02%	7.58%	9.01%	9.67%	1.6%	3.6%
	ROA	0.91%	0.90%	1.06%	1.28%	1.32%	0.16%	0.42%
	Fee / Revenue	29%	25%	28%	31%	34%	3%	9%
	Efficiency ratio	35%	38%	41%	38%	39%	4%	2%
	Loan / deposit	629%	657%	763%	602%	514%	106%	-143%
	NCO / Loans	0.27%	0.03%	0.09%	0.09%	0.12%	0.05%	0.09%

- ROE at 2019 was calculated under several scenarios, reaching:
  - 9.67% when indirect expenses drop aligned with outstandings CAGR (-16%)
  - 9.13% when drop tied to 50% change in in balances (-8% CAGR)
  - 8.5% when indirect expenses kept flat as of Budget 2016