



Small Business Banking Strategic Plan 2014 - 2016

**Boston
Presented May 30, 2013**

Agenda

I. Market and Competitive Environment

II. Our Historical Background

III. Organic Growth Plan

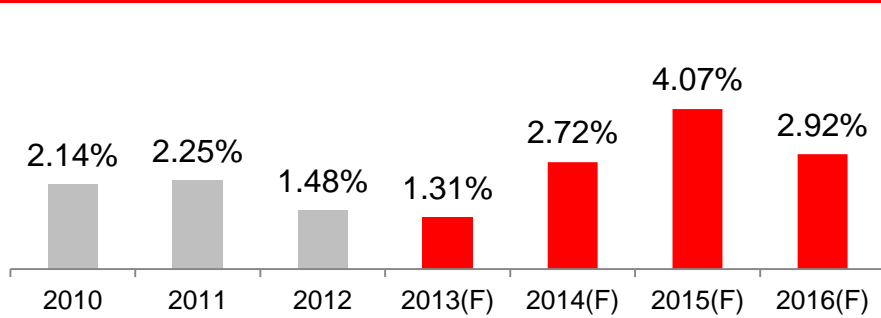
IV. Financial Plan and Resource Requirements

V. Key Conclusions

Macro Economy Indicators & Business Indices

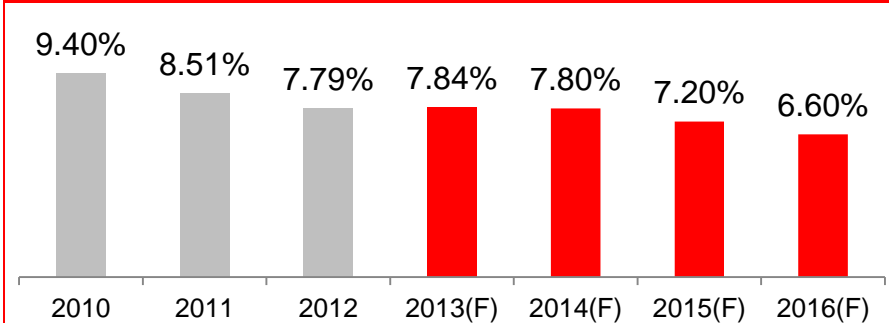
Low growth environment with high levels of unemployment. Output has steadily, yet slowly increased since the downturn.

US GDP Growth (%)



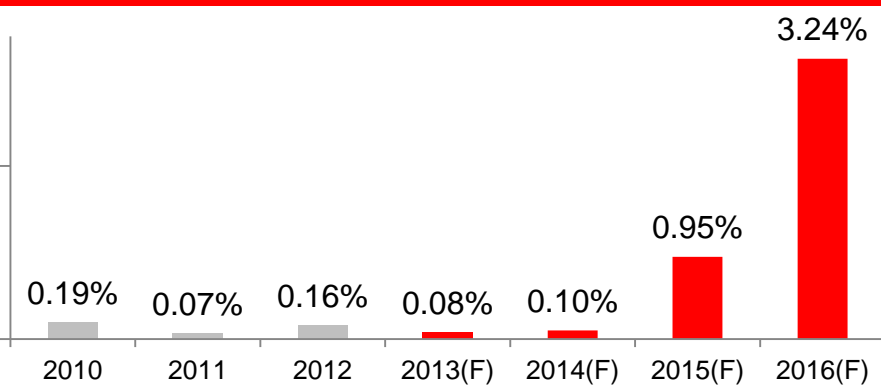
Source: Moody's

US Unemployment Rate (%)



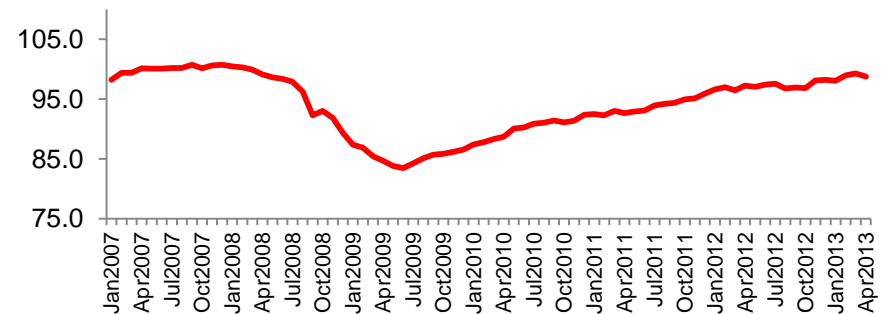
Source: Moody's

Federal Funds Rate



Source: Moody's

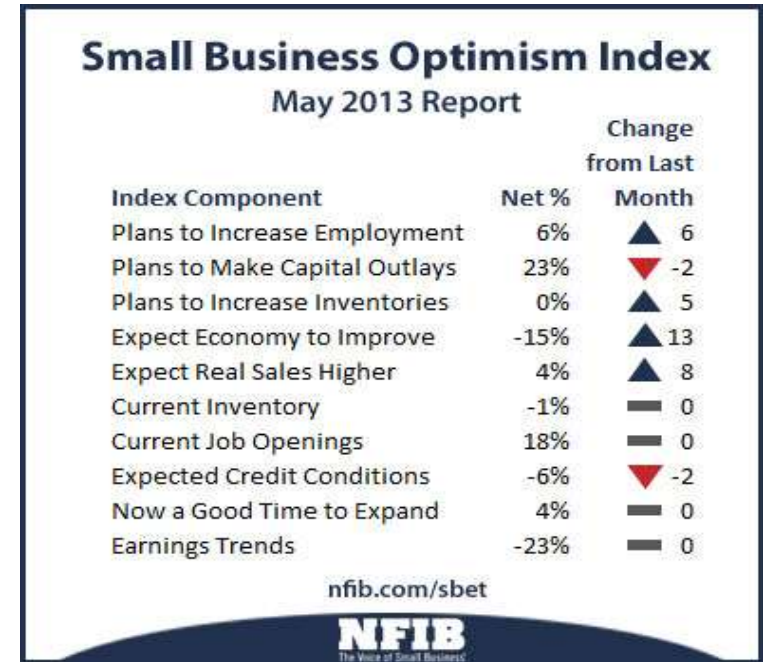
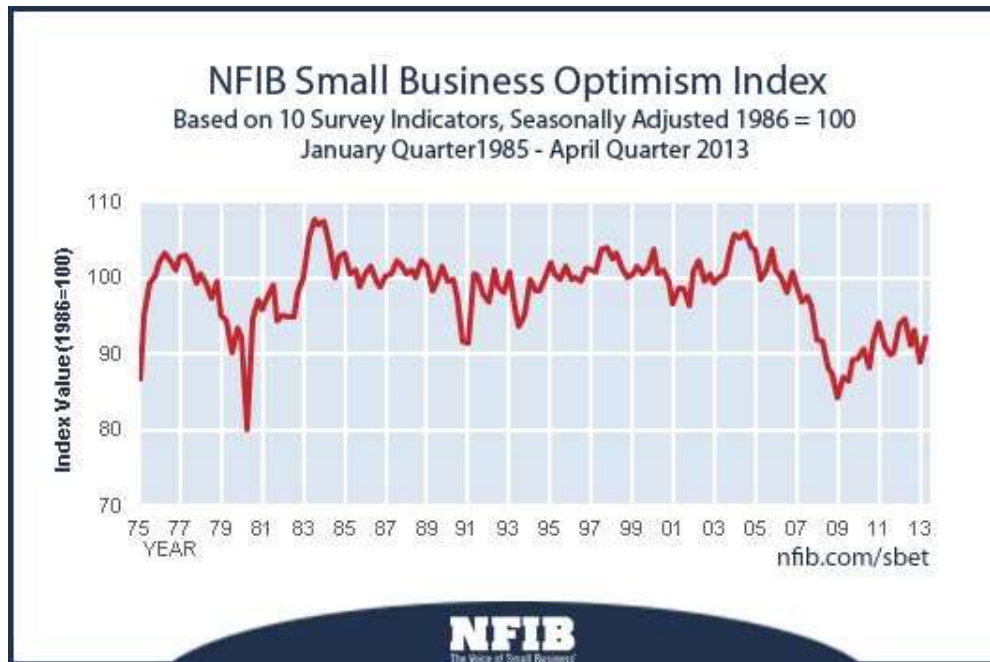
US Industrial Production Index



Source: Federal Reserve

Small Business Optimism

However, Small Business owners continue to be pessimistic about the economy, depressing spending and hiring. More than half of SB owners explicitly state they are not interested in additional borrowing.

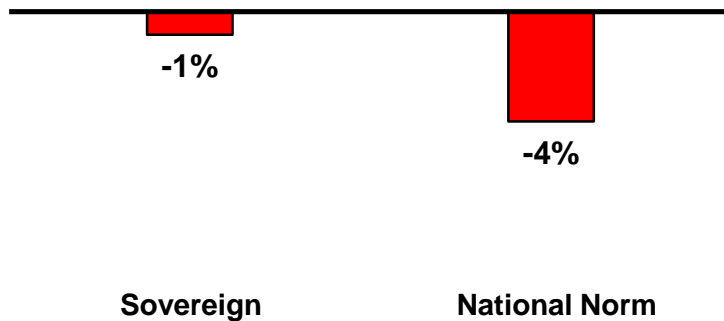


Source: National Federation of Independent Businesses May 2013

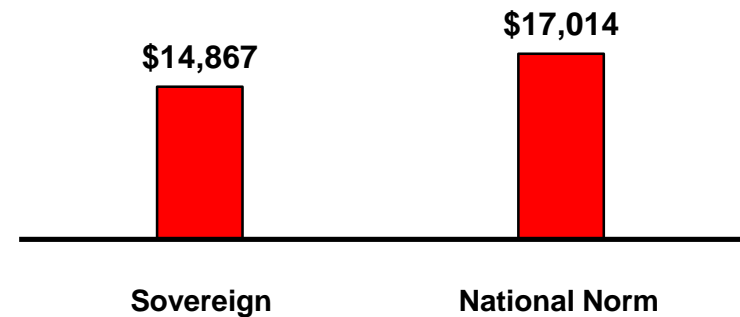
Small Business Loans and Deposits

Small Businesses continue to deleverage and Sovereign is doing slightly better than the national norm.

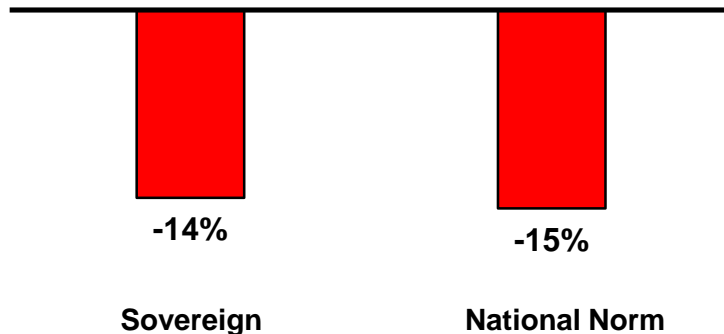
Growth in Deposit Balance - Sales Size <\$2.5MM



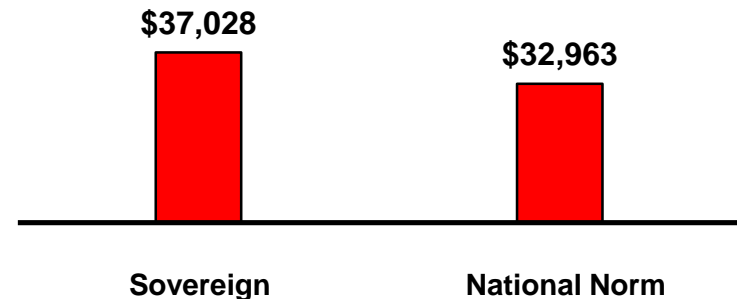
Average Deposit Balance – Sales Size <\$2.5MM



Growth in Loan Balances - Sales Size <\$2.5MM



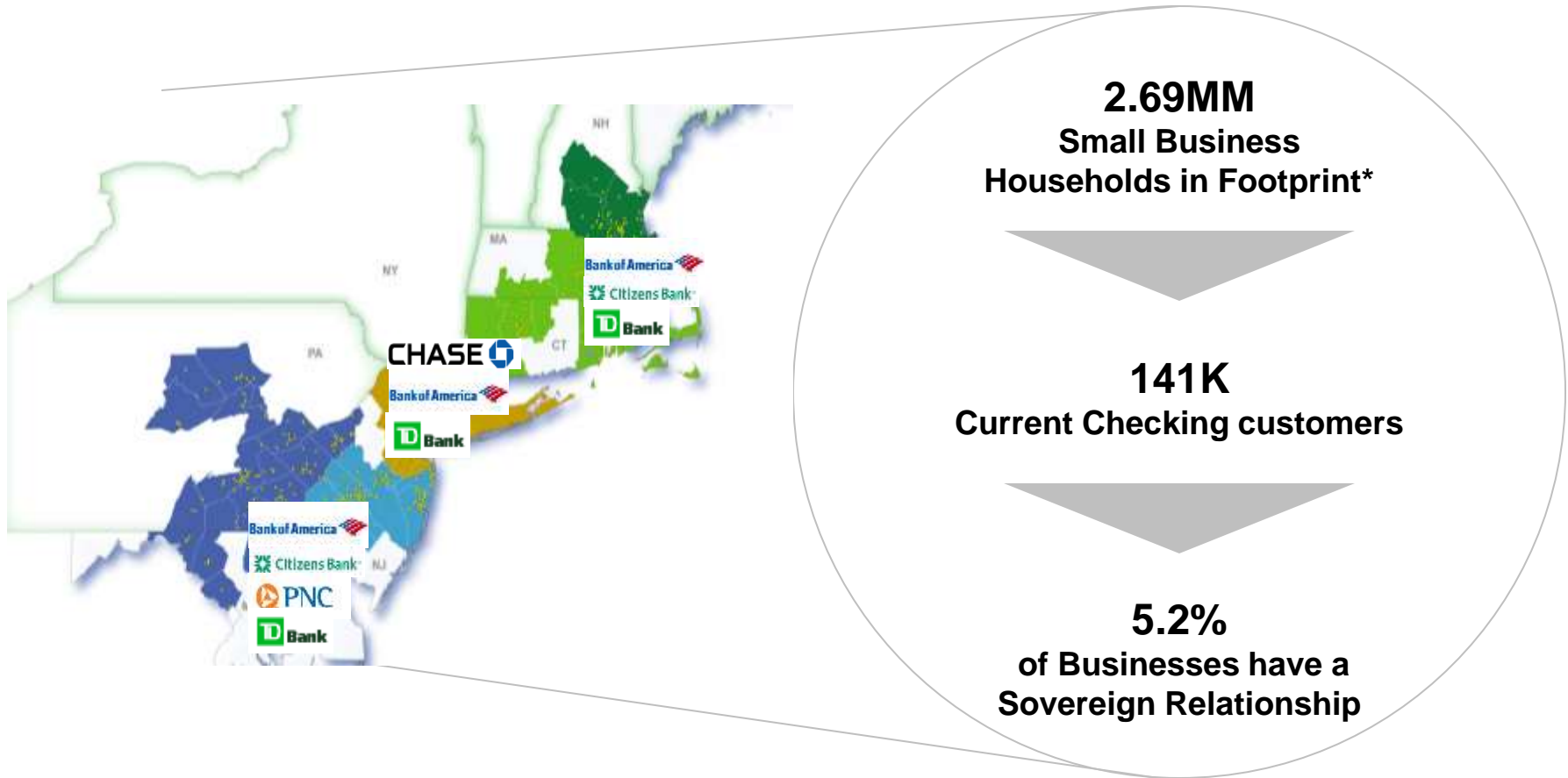
Average Loan Balance – Sales Size <\$2.5MM



Source: BAI Report 5/11-5/12. Sales Size Detail; Excludes companies with sales >\$2.5MM. Small Business at Sovereign is defined as <\$3MM so this is not wholly representative of SB.

Market Share

Sovereign operates in a mature, attractive market creating an intensely competitive landscape with many banks now focused on Small Business.



Source: Nielsen Claritas Business Facts

*Defined as \$0-3MM in business sales. State-wide data for states within footprint.

Client Needs by Segment

	Small Business	Business Banking	Middle Market Banking
Customer revenue size	<ul style="list-style-type: none"> \$0MM to \$3MM 	<ul style="list-style-type: none"> >\$3MM to \$20MM 	<ul style="list-style-type: none"> \$20MM to >\$500MM
Customer contact	<ul style="list-style-type: none"> Owner/operator 	<ul style="list-style-type: none"> Owner/operator Bookkeeper/accountant 	<ul style="list-style-type: none"> Owner/operator CFO/Treasurer/accountant
Customer type	<ul style="list-style-type: none"> Small local business Mix personal/business wallet 	<ul style="list-style-type: none"> Medium local business Mix personal/business wallet 	<ul style="list-style-type: none"> Regional/ limited international business
Coverage approach	<ul style="list-style-type: none"> By branch trade area Branch Managers and Small Business Specialists with strong local market knowledge 	<ul style="list-style-type: none"> By region/geography Branch and generalist RM with regional market knowledge 	<ul style="list-style-type: none"> By geography and increasingly industry Generalist/dedicated RM with local market/industry knowledge supported by product specialists
Customer needs	<ul style="list-style-type: none"> Fast access to credit Quick and personal service Transact in branch Core operating account 	<ul style="list-style-type: none"> Fast access to credit Quick and personal service Transact in branch 	<ul style="list-style-type: none"> Tailored products, at the high end, and flexible service Strong local market knowledge and retail branch network
Product usage	<ul style="list-style-type: none"> Basic products (loans, deposits, savings, debit cards, credit cards, merchant, payroll, payment products) 	<ul style="list-style-type: none"> Basic products (e.g., bilateral loans, deposits, checking/saving, line of credit, merchant processing) Some complex products 	<ul style="list-style-type: none"> Mostly complex products (e.g., equipment finance and leasing, term loans, cash management, limited risk management/ derivatives/hedging)

Small Business Customer Profile

Micro / Hobby



Main Street



Upper Main Street



Revenue size

\$0M to \$100M

\$100M to \$500M

\$500M to \$3MM

Description

A smaller business often run out of the home of the owner and generally a newer business or start-up

A "real" business which often has a store front or office location with a few employees

A larger and more established business with more complex needs. Often have a number of employees

Concerns/Focus

- Inexpensive Services
- Separation from personal accounts/funds

- Cash Flow
- Services that make things easier
- Financial Advice

- Cash Flow
- How to fund growth
- Financial Expertise

Profile

Deposit Balances: **\$24M**
 Loan Balances: **\$32M**
 Products & Services: **3.7**
 Customers with Loans: **9%**

\$57M
\$47M
3.8
22%

\$103M
\$69M
4.2
40%

Need

- Basic Deposit Accounts
- Online Banking
- Debit Card
- Credit Cards

- Deposit Accounts
- Online Banking
- Credit Cards
- Smaller Loans
- Merchant Services

- Multiple Deposit Services
- Advanced Online Banking
- Larger Loans
- Cash Management
- Merchant Services
- Payroll

Value Proposition

To be competitive in the small business segment, a differentiated value proposition is important. We have 4 core tenets we aspire to deliver:

Local Business Expertise

Highly trained Small Business Specialists covering 100% of the Branches throughout our footprint

Responsiveness

Superior service by assigning our best customers to a banker through portfolios

Tailored Solutions

































































































Packaged solutions and relationship pricing designed specifically for the Small Business segment

Strong and International

Unmatched strength and global support - Santander is one of the strongest and safest banks in the World

Competitive Landscape: Products

The core of our product set is competitive. With the delivery of enhanced deposit products and payments capabilities still planned for 2013, credit card offerings will be the largest product gap.

	Deposit		Credit					Services & Payments**			Overall
	DDA*	MMDA	Line of Credit	Term Loan	CRE	Leasing	Card	Merchant Services	Payroll	Payments/CM	
											
											
											
											
											
											
											
											

 Above Average

 Average

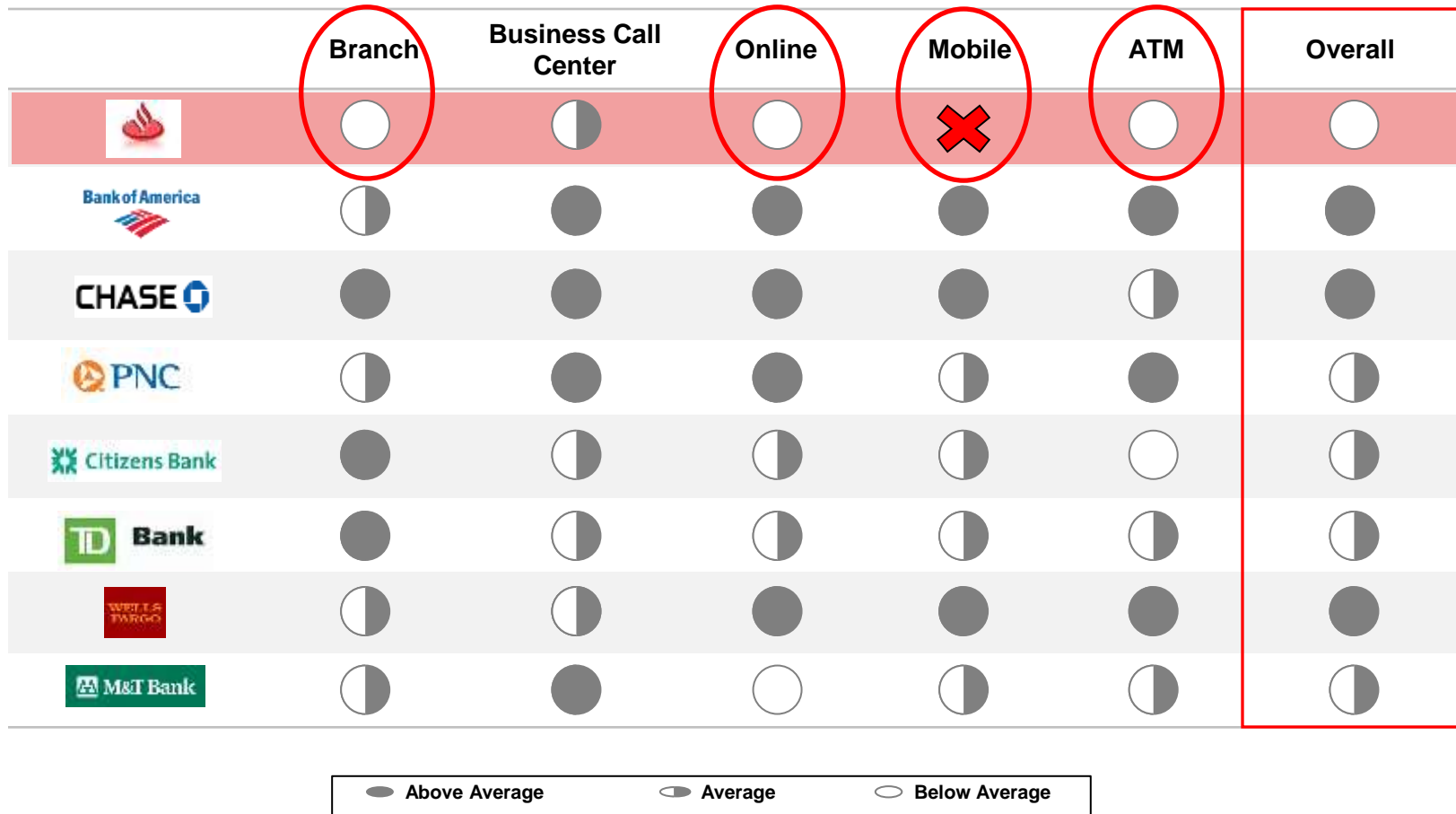
 Below Average

*DDA on business is primarily on breadth of product set and packaging components









**Business Owner Insurance products are under evaluation. Today: TD, Wells Fargo, M&T offer

Competitive Landscape: Channels

In 2013, Sovereign will make significant investments in the Branches, Online and ATMs, improving these channels to be more competitive.



Competitive Landscape: Model Comparison

								
Segmentation By Sales Size*	SB: \$0-3MM	SB: \$0-5MM	SB: \$0-5MM	SB: \$0-3MM	Branches: \$0-1MM SB: \$1-10MM	SB: \$0-2MM	SB: \$0-5MM	SB: \$0-10MM
# Branches in Footprint	722	664	1,095	576	290	663	711	859
Specialist Branch Coverage Model	Multiple	Multiple	Multiple	Multiple	Multiple	Multiple	Multiple	Multiple
Small Business Reporting Structure	Integrated LOB	Separate LOB	Separate LOB	Separate LOB	Separate LOB	Integrated LOB	Separate LOB	Separate LOB
Branch Referral Credit	✓	✓	✓	✓	✓	✗	✓	✓
Portfolio Management	✓	✓	✓	✓	✓	✓	✓	✓
Confirmed SBS Technology								
CRM (C)	✗	✓	✓			✓	✓	✓
Laptop (L)	✓	✓	✓	✓	✓	✓	✓	✓
Blackberry (B)	✓	✓	✓	✓	✓	✓	✓	✓

Source: Employee Interviews, FDIC Data

* Indicates that some peer Banks define the small business segment as "Business Banking"

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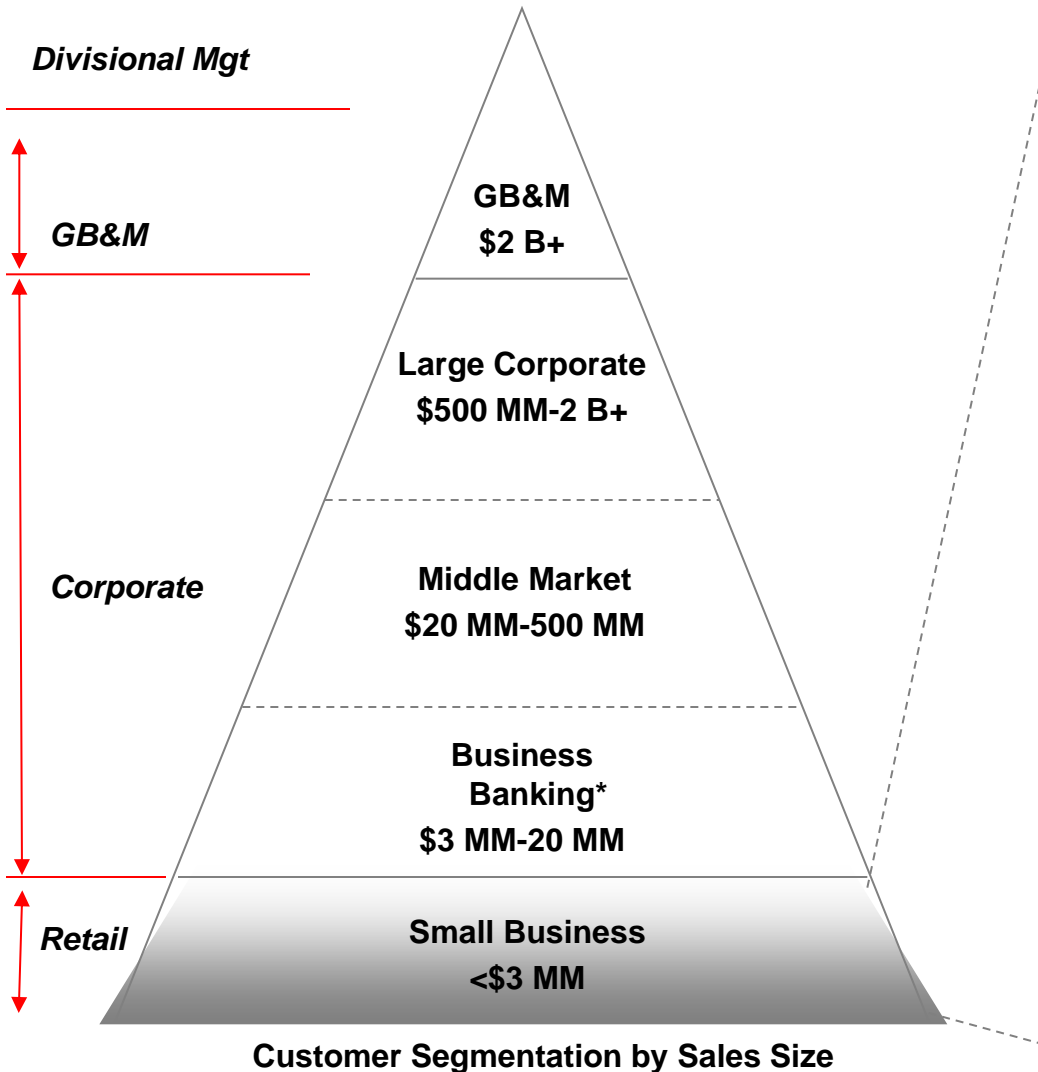
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Segmentation



Key Facts and Figures

KPI	Amount (Mar 2013)
Total Customers	191K
Checking Customers	141.4K
Senior Specialists	171 (authorized) 163 (in seat)
Customers / SBSS	300 in portfolio (max)
Customers / BM	75 in portfolio (max)
Total Avg Loans	\$0.95B
Total Avg Deposits	\$4.26B
Total Revenue**	\$114MM
Average Revenue / Checking Customer**	\$772
Average Deposit Balances / Checking Customer	\$30K
Average Loan Balance / Loan Customer*	\$32K

*Average balance based on loan customers only

** Forecast for 2013

The Small Business segment is responsible for business strategy, product development and tactical plan execution, with all sales resources directly reporting through the Retail Distribution Network.



The Evolution of the Segment

Small Business was formed as part of SME at the beginning of 2009 and we spent 3 years building the Segment.

	Feb 2009: Merger “Starting Point”	2010 – 2011: Creation of Small Business	2012: “Stabilization”
Strategy & Structure	<ul style="list-style-type: none"> ✓ No clear segmentation ✓ No segment resources 	<ul style="list-style-type: none"> ✓ Clear segmentation of business customers ✓ Creation of a Small Business segment team 	<ul style="list-style-type: none"> ✓ Upgrade in segment talent
Governance	<ul style="list-style-type: none"> ✓ No dedicated Small Business leaders within the network ✓ No governance process 	<ul style="list-style-type: none"> ✓ Dedicated Sales Managers and performance coaches ✓ Implementation of strong governance 	<ul style="list-style-type: none"> ✓ Implementation of Small Business Team Leaders ✓ Enhanced sales governance routines
Sales Model	<ul style="list-style-type: none"> ✓ 89 shared Small Business sales resources 	<ul style="list-style-type: none"> ✓ Increase in Small Business sales resources (162 shared & 93 dedicated) 	<ul style="list-style-type: none"> ✓ Elimination of shared Branch Small Business resources ✓ Increase in Small Business dedicated resources (171) ✓ Introduction of portfolios
Products & Pricing	<ul style="list-style-type: none"> ✓ No clear pricing model and inadequate product set 	<ul style="list-style-type: none"> ✓ Enhanced product set with introduction of bundling at point of sale 	<ul style="list-style-type: none"> ✓ Credit process enhancements

Current State of the Business: Summary

In 2013, we continue to mature the segment with a focus on sales execution, and filling channel, product and process deficiencies.

Completed H1

Planned for H2

Sales Model & Branches

- ✓ **Cluster model implemented Jan 1, 2013**
- ✓ Formal Coaching and Sales Management routines
- ✓ Training curriculum re- launched
- ✓ Expanded lead generation with OBTM

- **Formalize Low Performer Strategy**
- Manage performance at individual level
- Increase Branch Manager participation and SSBS average production

Channels

- ✓ **Business Online Banking Phase I**
- ✓ Inbound phone channel for Cash Management
- ✓ Pilot of Outbound Customer outreach

- **Business Online Banking Phase II**

Products and Pricing

- ✓ **Retired Free Business Checking; Launched Basic Business Checking**
- ✓ Santander Credit Origination Scorecard
- ✓ Mobile Merchant for SSBSs
- ✓ Strong promotional offers

- **Enhance Deposit packages**
- Credit Workflow benchmarking
- Pre-selected credit for deposit customers
- Mobile Merchant for Branch Managers
- Remediate data issues in BDP

State of Resources

Small Business Distribution Model

Today we have two job families responsible for servicing and selling small business products.

- **Branch Managers** focus roughly **20%*** of their time on Small Business and drive checking acquisition
- **SSBS** team members focus roughly **80%*** of their time on Small Business, with the remainder of their time spent developing business owner personal relationships. SBSS have a heightened focus on driving credit.

Branch Manager

Number of Resources:	722
Production (average quarterly)**	
New Checking Accounts	7
New Credit Bookings	\$30k
New Customer Profile***:	
Deposit Balances:	\$10.8k
Loan Balances:	\$1.5k
Avg. Ticket Size:	\$50k
Products & Services:	3.93
Production Contribution**:	
New Customers:	63%
New Loan Exposure:	40%

SSBS

Number of Resources:	171
Production (average quarterly)**	
New Checking Accounts	17
New Credit Bookings	\$185k
New Customer Profile***:	
Deposit Balances:	\$9.4k
Loan Balances:	\$3.8k
Avg. Ticket Size:	\$66k
Products & Services:	4.24
Production Contribution**:	
New Customers:	37%
New Loan Exposure:	60%

* Based on Q2 2013 Incentive Plan

** Based on Acquisition Quality Tool for 2012 (Month 3)

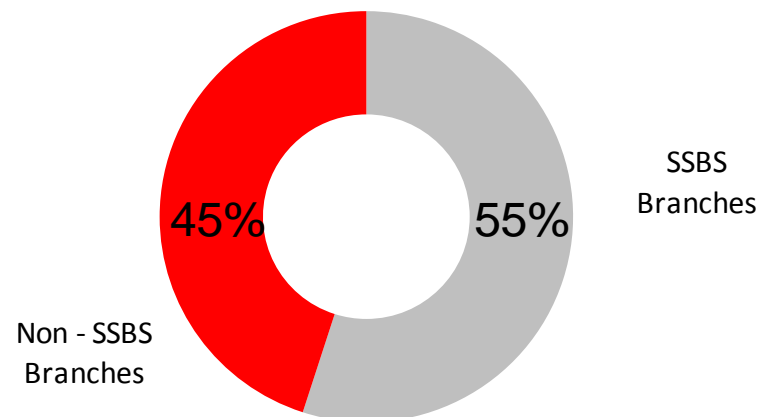
***Based on KPI from Q1 2013 (active team members)

SSBS Coverage Model

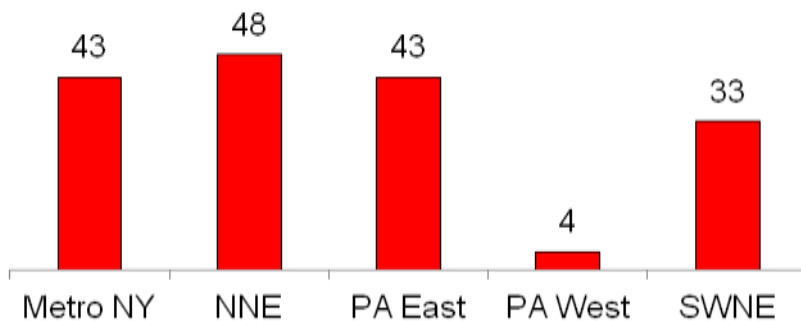
Sovereign Footprint



Small Business Branch Coverage



Allocated SSBS Resources*



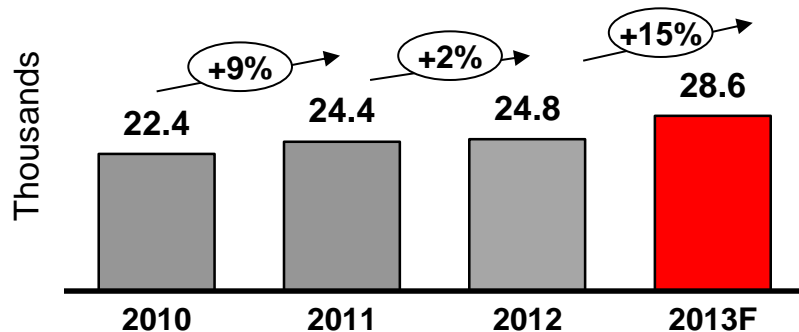
Avg. SSBS Cluster Profile

	Branches	SB Checking Households	Portfolio Households	Prospects
Metro NY	2.2	504	264	5,004
NNE	2.3	622	345	4,414
PA East	2.1	517	274	5,144
PA West	2.8	477	267	5,788
SWNE	2.5	596	335	4,670

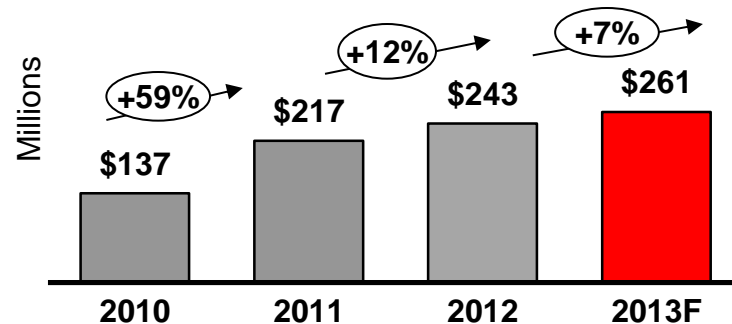
*Based on authorized headcount

Key Production Metrics

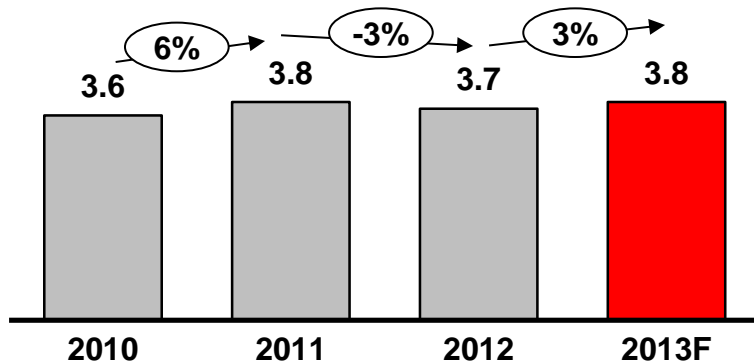
New Checking Account Production (#Units)



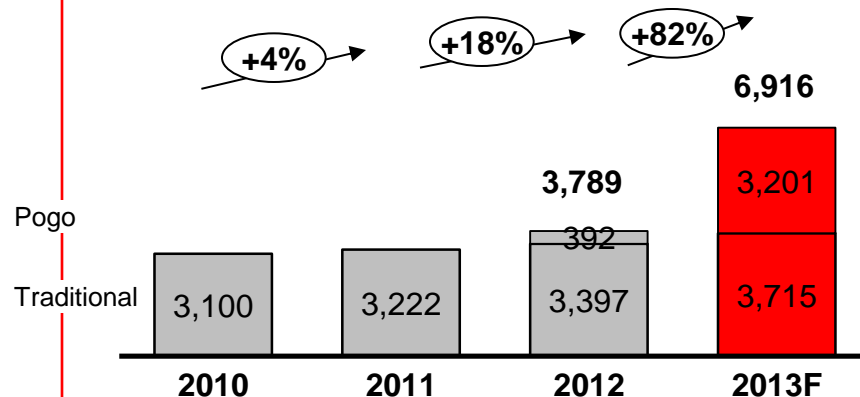
Total Loan Production (Bookings)



Products and Services Per New HH

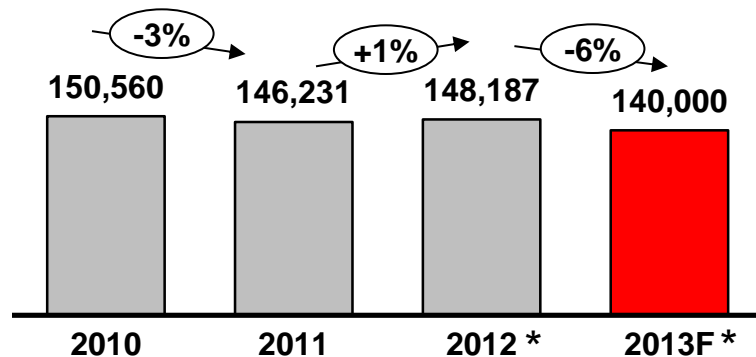


Merchant Services

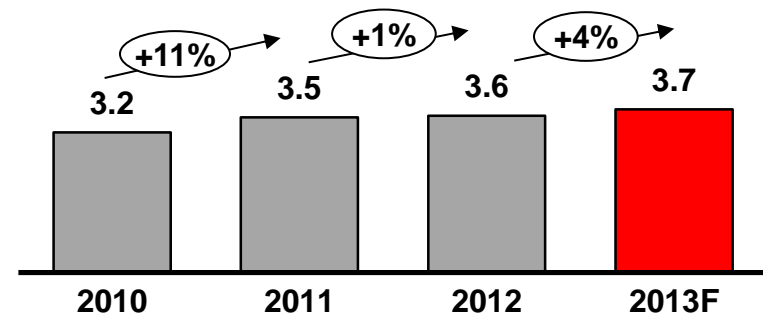


Key Portfolio Metrics

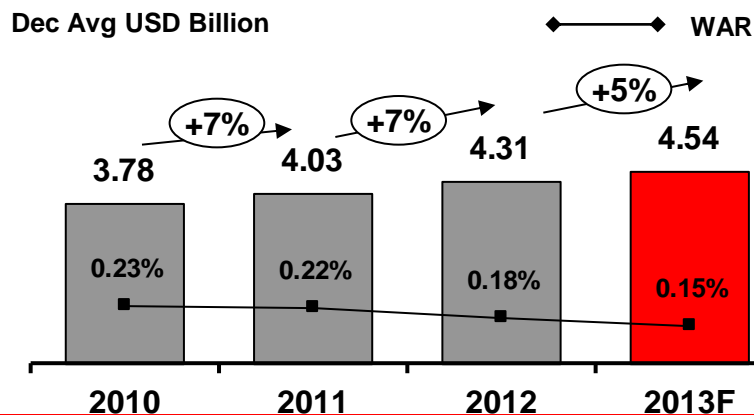
Total Checking Customers*



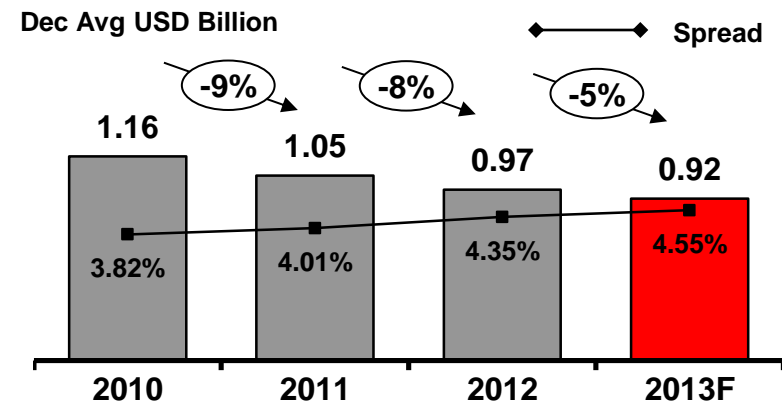
Products & Services Per HH



Total Deposits



Total Loans

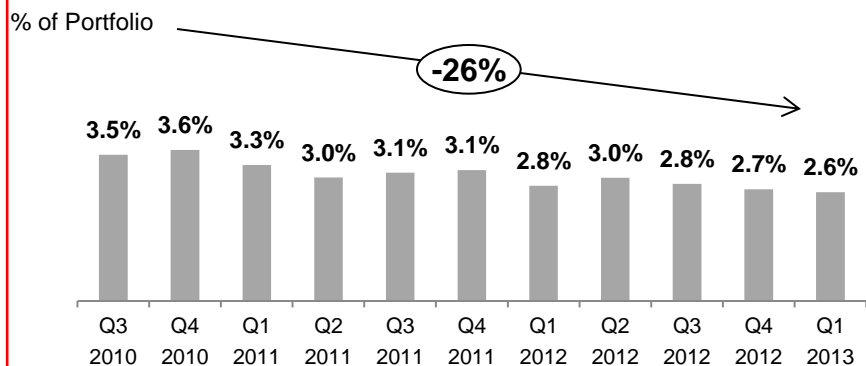


* Auto purge of inactive accounts was discontinued in May 2012 artificially inflating Household counts. Purge of inactive resumes in 2013 along with the Free Business Checking migration impact

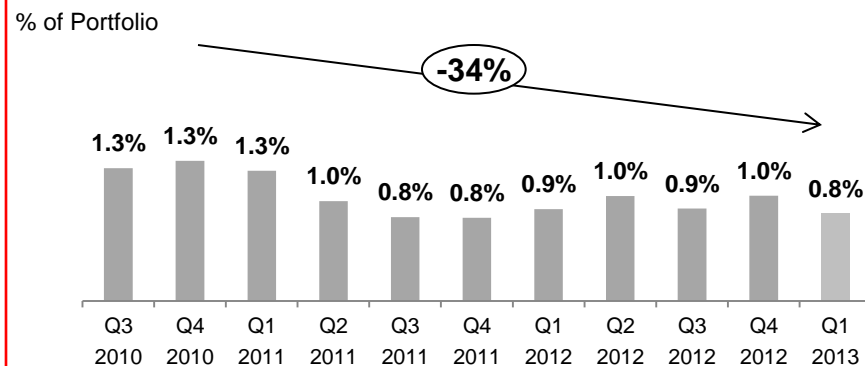
Asset Quality

Asset quality has been steadily improving.

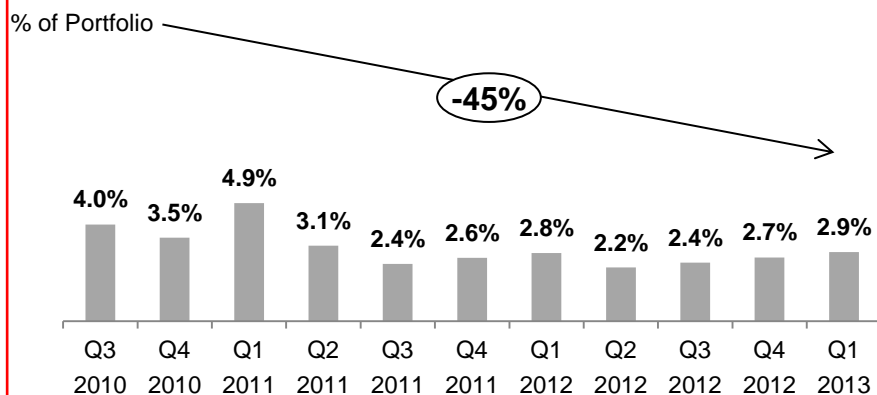
Classified Balances (Workout)



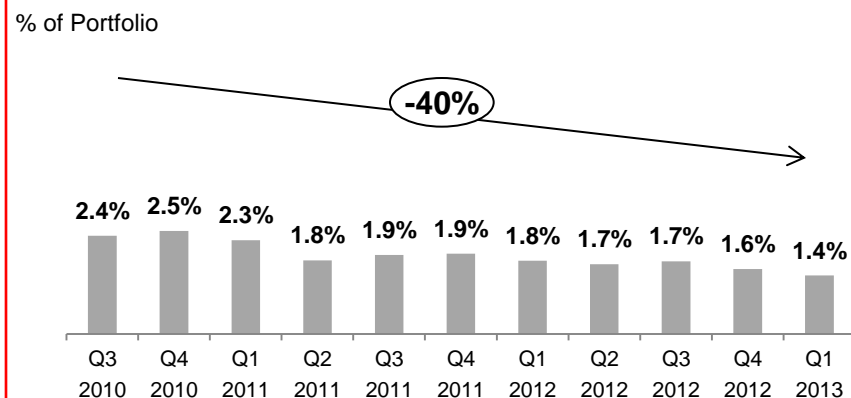
Accruing Delinquencies (30+ days)



Net Charge-Offs



NPLs



Financial Performance 2011-2013 (Budget FTP/Actual WAR)

In a challenging economic environment, Small Business has increased loan NIM %, grown deposit balances, reduced deposit WAR % and added fee revenue (2013). Loan balance growth remains a challenge and a priority for Small Business.

		2011	2012	2013F	2013B
Credit	Avg Bal	\$1,090	\$1,013	\$941	\$998
	Spot Bal	\$1,050	\$975	\$916	\$1,028
	Yield %	5.92%	5.90%	5.88%	5.96%
	Cost of Funds %	1.91%	1.56%	1.33%	1.56%
	Spread %	4.01%	4.35%	4.55%	4.40%
	NIM	\$43.7	\$44.0	\$42.9	\$43.9
Deposits	Avg Bal	\$3,982	\$4,118	\$4,338	\$4,360
	Avg Bal (Dec)	\$4,031	\$4,312	\$4,538	\$4,538
	FTP %	1.50%	1.05%	0.77%	0.77%
	WAR %	0.22%	0.18%	0.15%	0.16%
	Spread %	1.28%	0.87%	0.61%	0.61%
	NIM	\$50.9	\$35.6	\$26.6	\$26.6
Fees		\$46.6	\$43.3	\$44.3	\$45.5
Revenue		\$141.2	\$123.0	\$113.7	\$116.0

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The Next Three Years

The next 3 year plan for Small Business Banking will focus on optimizing the sales execution model, quality account acquisition, optimizing channels, and maintaining a competitive product set.

2009 – 2013

Foundation and Stabilization

SME was created in 2009 and a 3-year plan was put in place to stabilize the segment

- ✓ **Strategy & Structure:** Defined the segment and business strategies; created a dedicated segment team for product, marketing and financial management
- ✓ **Governance:** Established formal governance processes
- ✓ **Channels:** Retail Coverage model and Sales Process implemented and integrated into Retail STARR strategy
- ✓ **Product and Pricing:** Tailored products and processes designed for Small Business Banking and strong pricing controls were executed

2014 – 2016

Execution and Expansion

Become the “**Small Business Bank of Choice**” for small business bankers and small business customers

- **Channels:**
 - **Branches** – Leverage current resources to become more productive, and expand the coverage area of more specialized resources
 - Expand **Phone and Online** capabilities
- **Products and Processes:** Regain competitive position across the product set to drive revenues
- **Marketing:** Invest in building a business brand for Santander US

Summary Organic Growth Plan: 2014-2016

There are six “pillars” which will enable Small Business to achieve the goals.

Strategies

1. Segment

- Expand Small Business **segment definition** to \$5MM in annual revenue
 - Introduce a robust **CRM tool** to increase service quality across channels
-
- Leverage **Performance Improvement Program**
 - Expand **training and educational programs**
 - Expand **specialist sales force** to achieve 100% branch coverage model by 2017

2. Branches

- **Segment the prospects and customers** to improve quality of acquisition and customer experience
 - Assign high value **customer portfolios** to bankers to provide superior service
-

Summary Organic Growth Plan: 2014-2016

There are six “pillars” which will enable Small Business to achieve the goals.

Strategies

3. Phone

- Build **remote customer management model**

4. Online

- Deliver Phase III of **Business Online Banking**
- Launch **Mobile** Capabilities

5. Products and Processes

- Move to **target credit platform**
- Introduce **Merchant Point of Service**
- Launch **Santander business credit card suite**

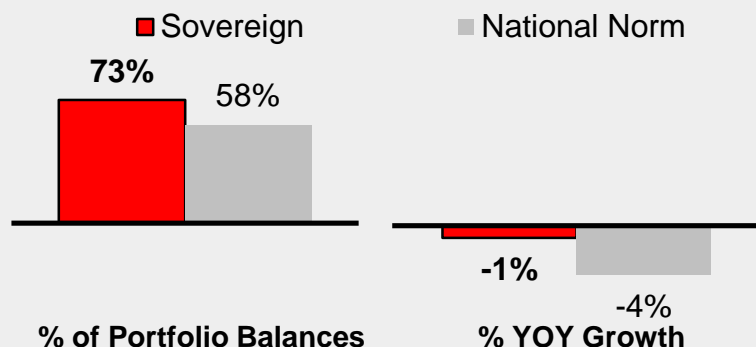
6. Marketing

- **Support the growth agenda** with a well coordinated marketing effort focused on business customers
- Increase **local community involvement** and sponsorship budgets

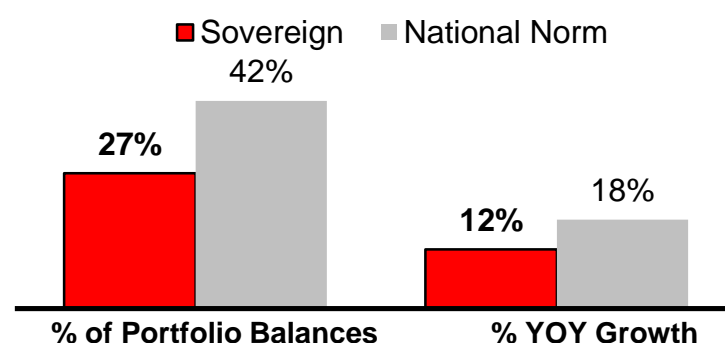
1. Segment: Expansion of Small Business Segment

Sovereign is growing the <\$2.5MM segment in line with the national norms, but we are over-penetrated with these smaller customers. Customers up to \$5MM in sales may be best served by the Retail Bank.

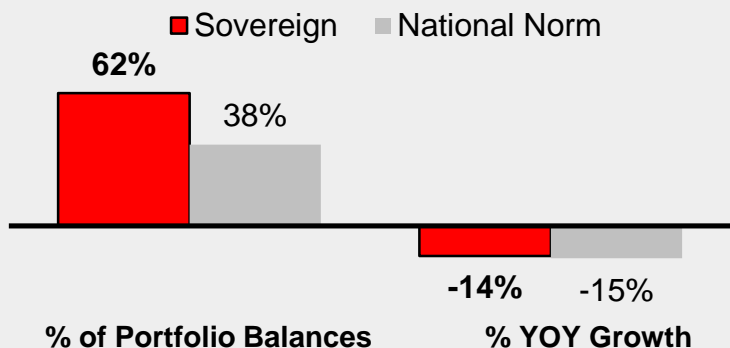
Deposits - Sales Size <\$2.5MM



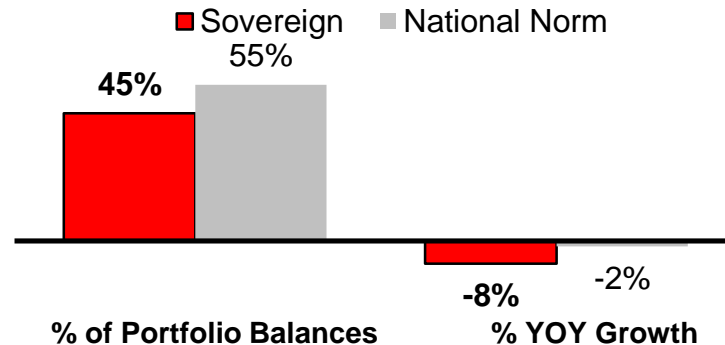
Deposits - Sales Size >\$2.5MM



Loans - Sales Size <\$2.5MM



Loans - Sales Size >\$2.5MM

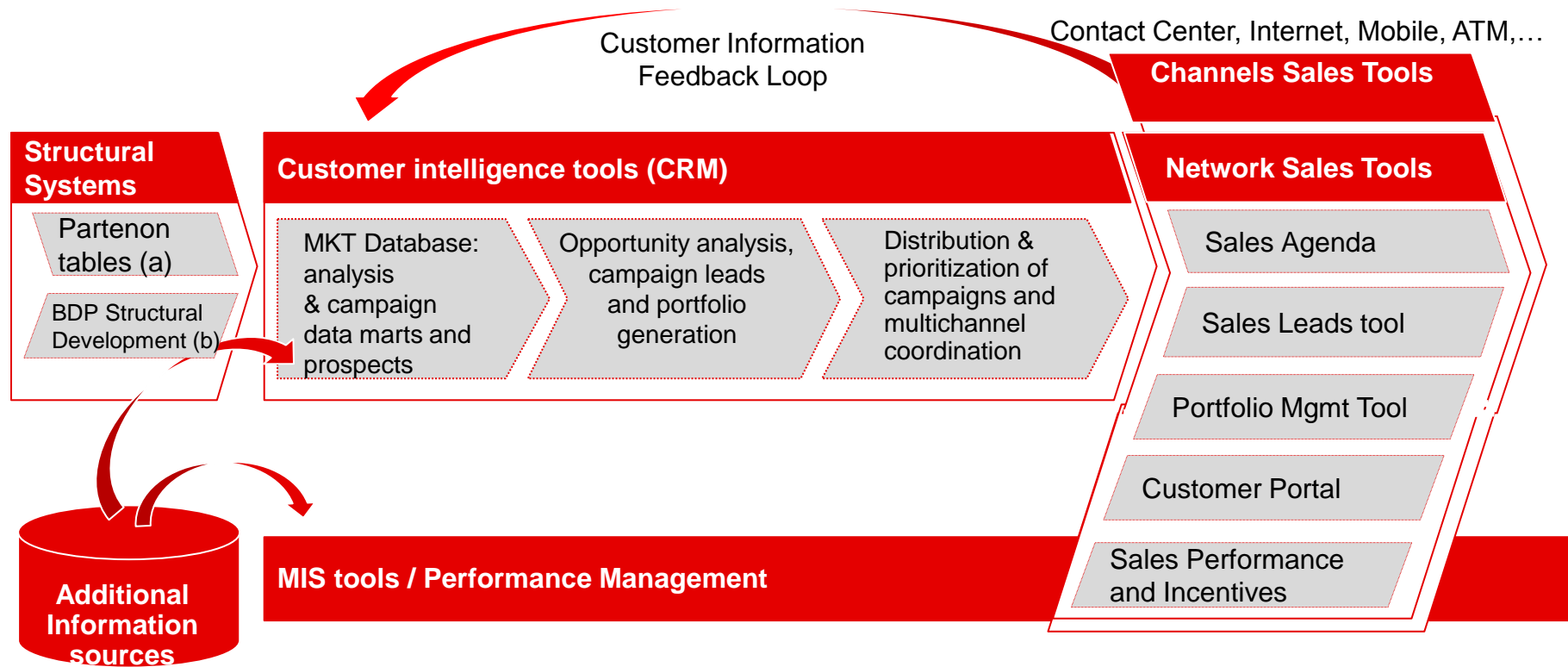


*Benchmarks are from BAI Study period 5/11-5/12.
BAI uses all commercial accounts, and then excludes customers with loan or deposit balances > \$1MM or stated sales > \$10MM

1. Segment: Customer Management tools

A functional CRM tool is a critical Retail initiative. Today, portfolios, channels, and customer information are disconnected and less timely than we need.

The business priority is to deliver the Sales Tools with adequate customer intelligence to drive actionable recommendations to the users in order to increase sales performance, improve customer profitability, and grow the customer base.



2. Branch Channel: Network Key Challenges

Small Business continues to be a Branch based business. We need more of our resources participating at higher levels to drive small business growth.

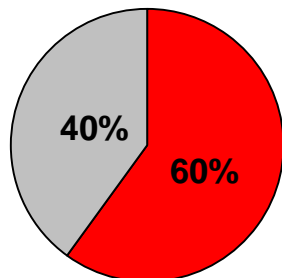
Current Scenario

Q1 2013

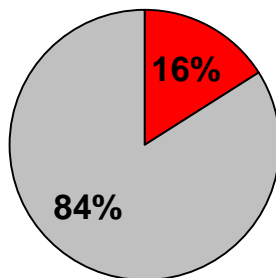
BM & SSBS Credit Engagement Per Quarter*

■ Zero Performers ■ Booked >= 1 SB Credit Deal

BM



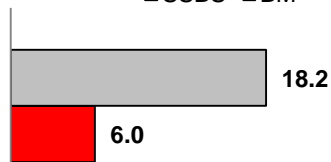
SSBS



Average Production Per Quarter*

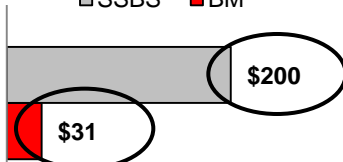
New to New Checking (# accounts)

■ SSBS ■ BM



Credit Bookings (\$K)

■ SSBS ■ BM



Five Key Strategies

1

The **Performance Improvement Program** will drive better engagement across the network

2

Expanding training and educational resources will keep our resources relevant

3

Expanding the specialist sales force will enable us to provide more expertise to the market

4

Sub-segmentation will focus our more skilled resources at the more complex businesses

5

We will manage **customers with assigned resources** efficiently

* End of quarter results utilizing KPI Report (excluding hires within the quarter + non-active team members as of the last day of the quarter)

2. Branch Channel: Performance Improvement Plan

In order to increase the overall engagement and production levels of branch managers and small business specialists we will launch a performance improvement program.

Project Scope

A structured & measurable approach to target zero/low performers.

BM Metrics

Based on the performance during the previous quarter:

- WAP (% to goal) > 50%
- \$ Booked (% to goal) = 0 -70%

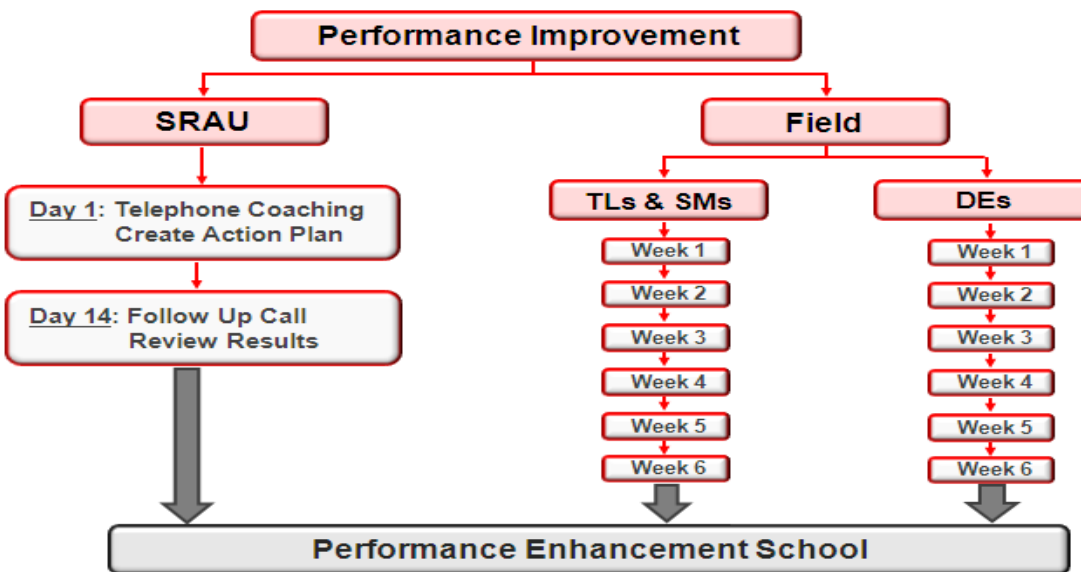
For example, the targeted population based on Q1 performance would be 256

SSBS Metrics

Based on the performance during the previous quarter:

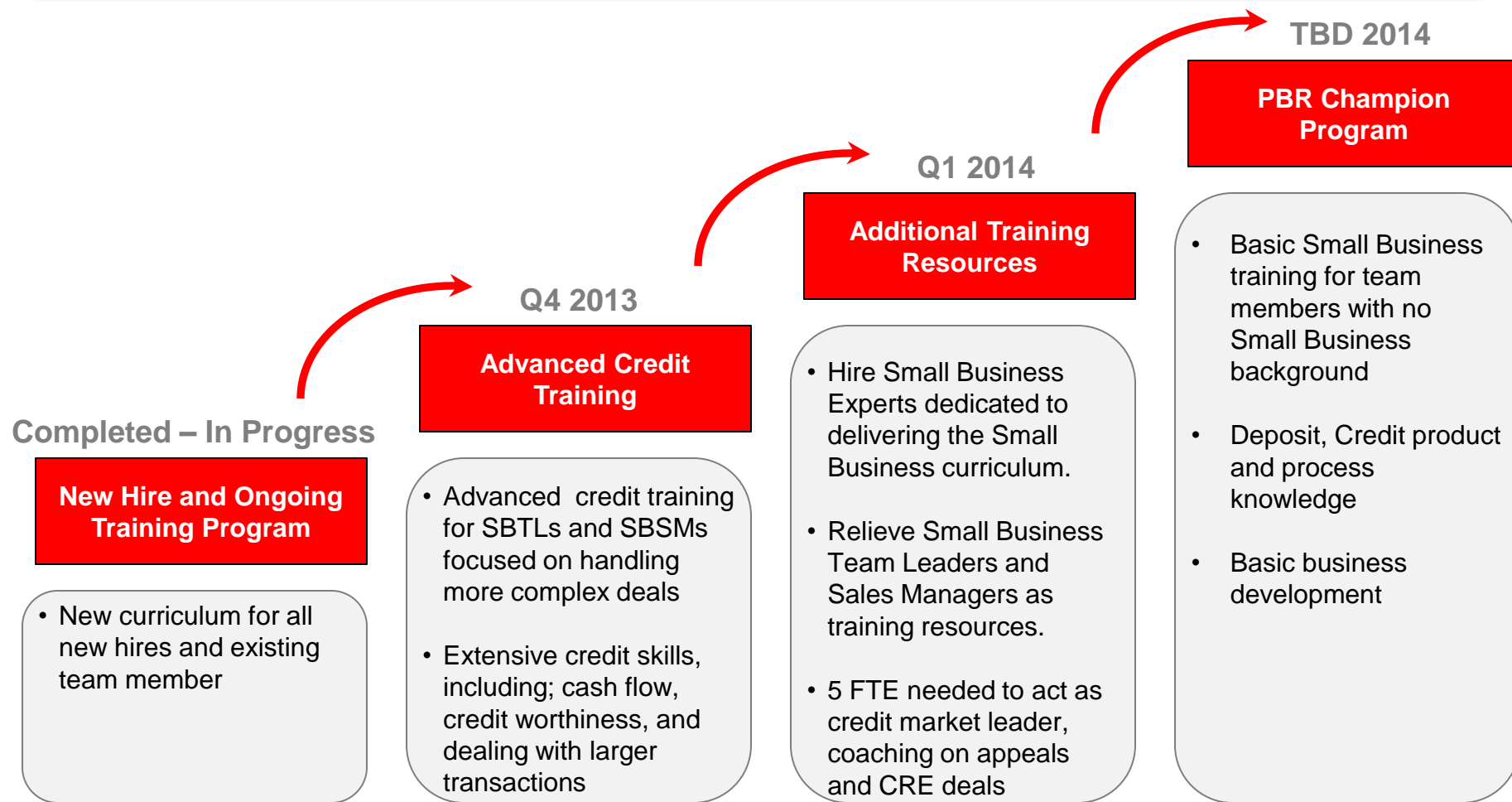
- WAP (% to goal) n/a
- \$ Booked (% to goal) = 0 -70%

For example, the targeted population based on Q1 performance would be 66



2. Branch Channel: Expand Training and Educational Resources

To build the necessary skill-set of our team members, there are a number of stepping stones which we will need to implement.

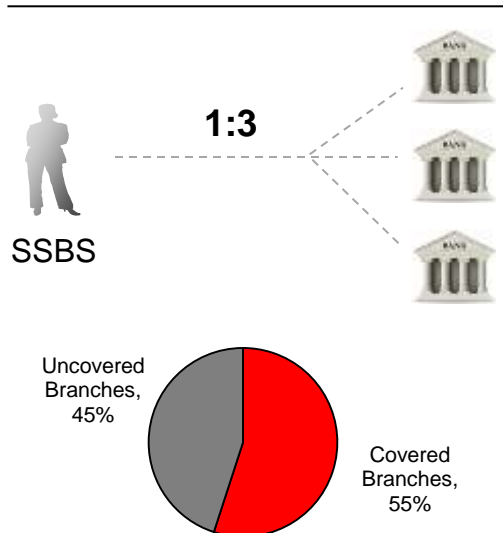


2. Branch Channel: Expand Specialist Sales Force

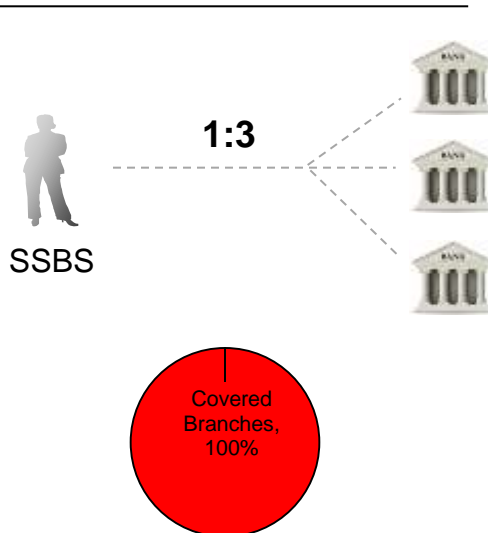
As the market environment improves, we will add additional specialist resources. In 2014, we will focus on execution with current sales resources.

Branch Coverage

Today



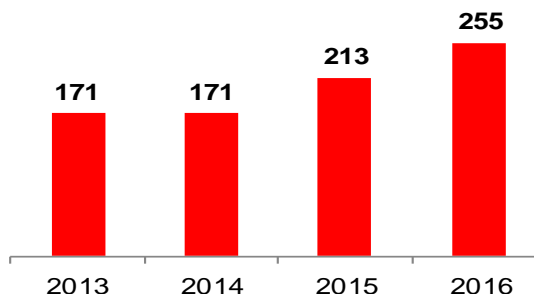
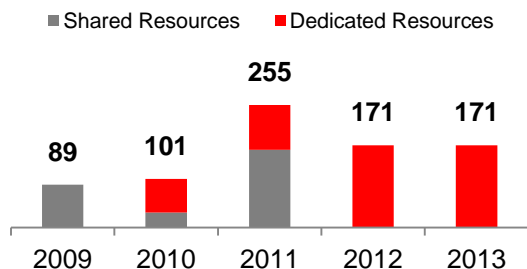
2016



Reasons for Future Expansion

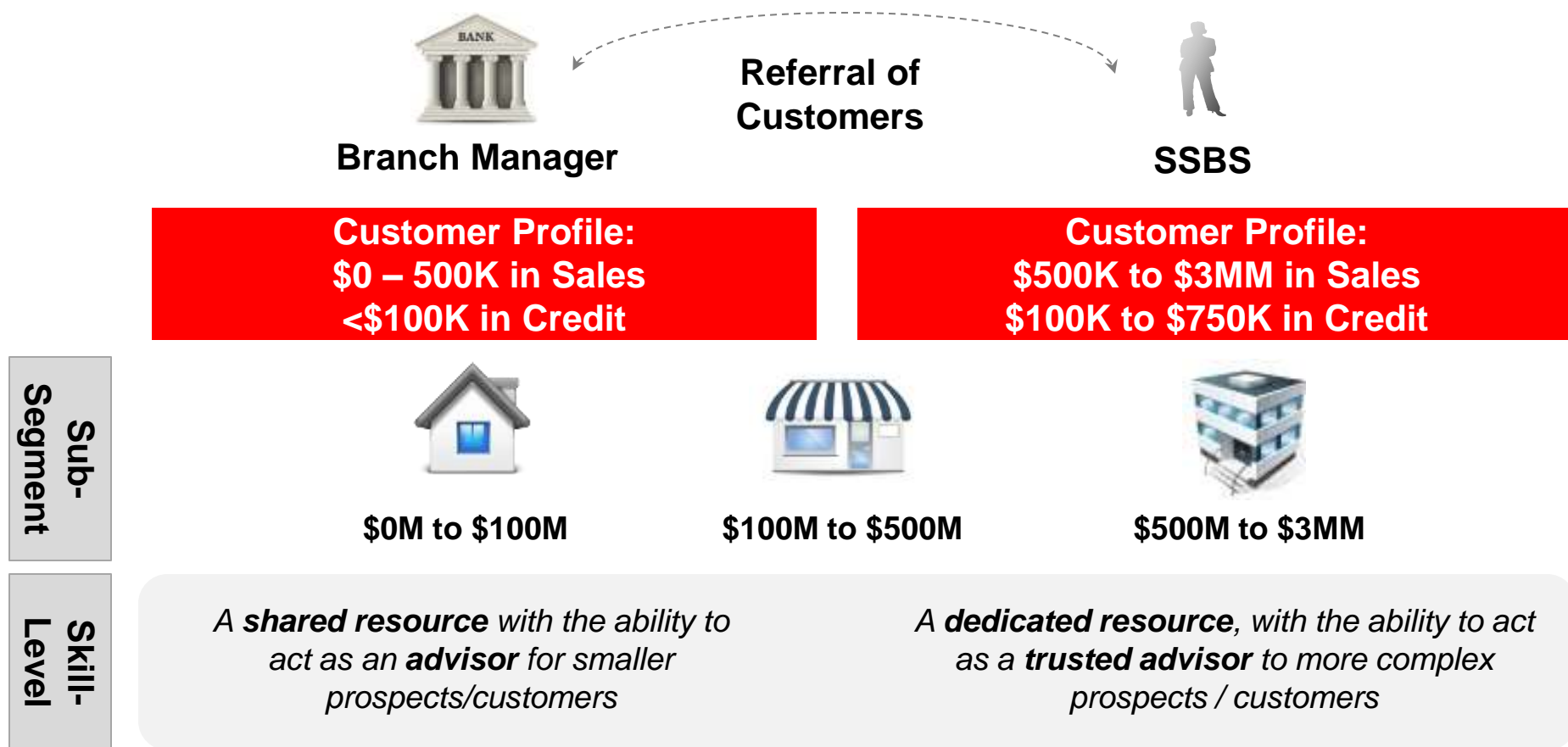
- ✓ Provide Small Business expertise across our entire footprint
- ✓ More specialized team members to serve our more sophisticated customers
- ✓ Increase branch manager engagement across the footprint by having more commercial resources available

SSBS Resources



2. Branch Channel: Sub-Segment

We will focus our specialized resources on larger customer acquisition and management and exploit the partnership/cluster model introduced in 2013 to drive higher quality acquisition and retention of our best customers.



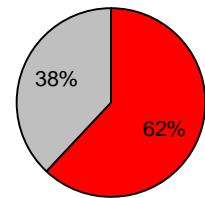
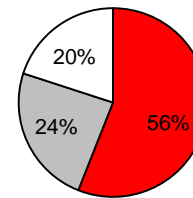
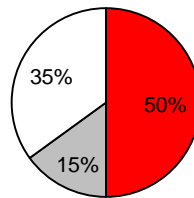
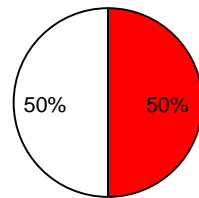
2. Branch Channel: Assign High Value Customer Portfolios

Every customer will be assigned to a portfolio manager. The top 60% of customers will have a field resource; the remaining 40% will be managed remotely via phone.



% unassigned / unmanaged
 % covered for outreach via phone
 % portfolio managed by BM or SSBS

Phone Coverage vs. BM/SSBS Coverage



Customer Experience

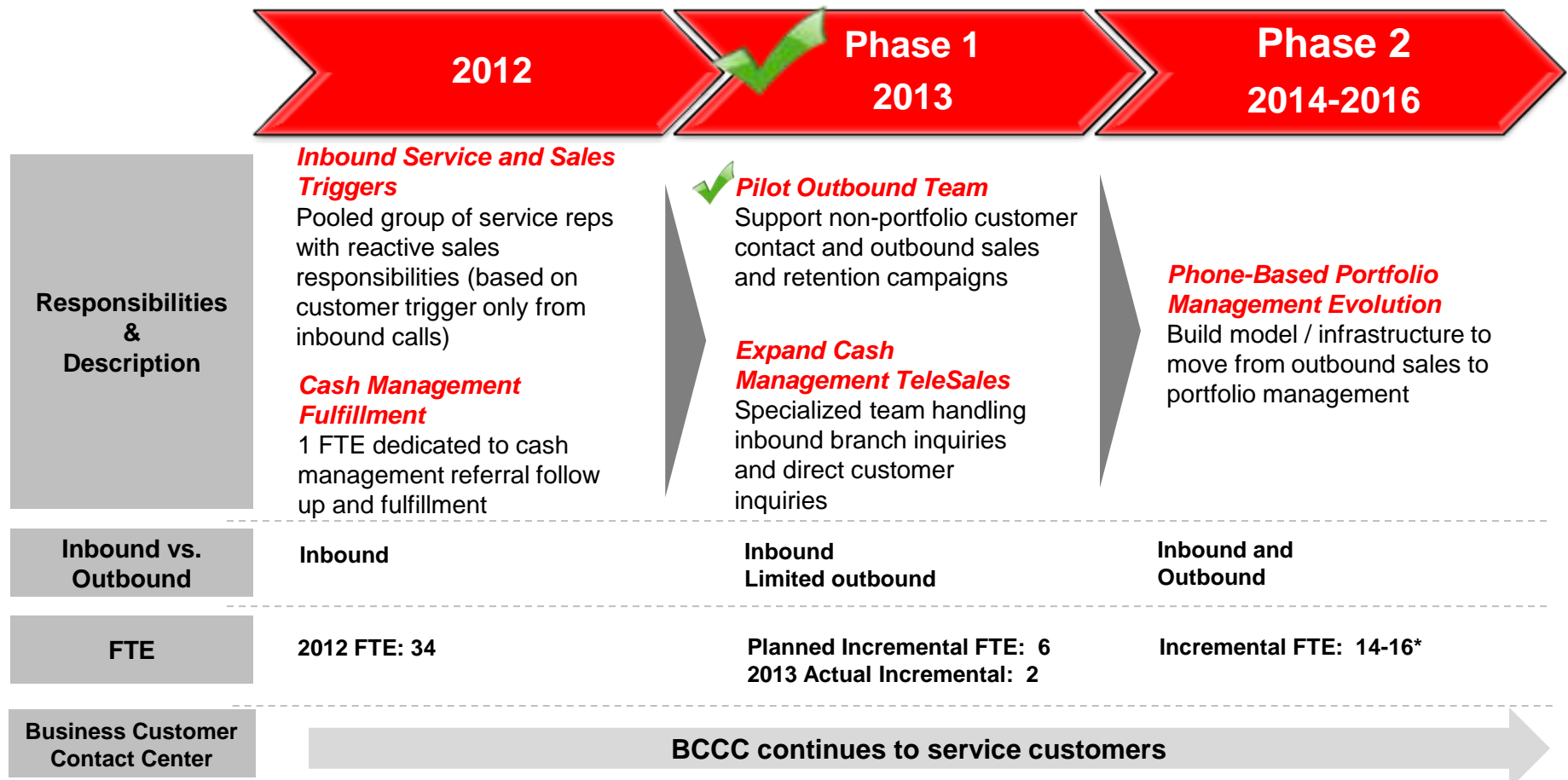
- 50% of portfolio managed by BM or SSBS
- Piloting cross-sell and retention with two remote FTE
- 50% of portfolio managed by a BM or SSBS
- Pilot Remote Management channel
- 56% of portfolio managed by BM or SSBS
- 24% of portfolio managed remotely
- 62% of portfolio managed by a BM or SSBS
- 38% of portfolio managed remotely

Enablers

- Build outbound team in Phone Channel
- Deploy Intelligent Call Routing
- Enhance TM Portfolio Tools
- Enhance Customer Database
- **Build Integrated CRM and Sales Tools System**
- Deploy New Referral System

3. Phone Channel: Expand Phone Channel

The Phone channel model will require incremental FTE over time to support the new outbound remote portfolio team and incremental cash management volumes.



*Total 3 year FTE increase: 16-18

4. Online Channel: Enhance Online Banking and Cash Management

BOB Phase I delivered the core platform. Phases II and III will drive revenue.

2012 and 2013

2014

In Progress

Stage II:
Build to regional bank competitive parity

- **Domestic Wires and ACH**
- **Integrated access** to consumer accounts for business owner
- **Enhanced security** and OTP

Stage III:
Build to national bank competitive parity

- **Line of Credit access** and payments
- Inter-bank transfers
- **E-invoicing**
- **Self enrollment in payments**
- Debit card expense reporting
- Integrated business credit card access
- Expanded help solutions and co-browsing

MOVED TO STAGE III

- **International Wire transfers and FX**
- Multi-user Bill Pay
- **Real time enrollment**
- **Single sign-on** for partner products (OCD, Merchant, Deluxe)
- **Mobile** banking application




Stage I:
Replace BOB platform

- **Enhanced user-experience**
- **Basic functionality:** Account transfers, Bill-pay, e-statements, expanded help center

5. Products & Processes: Replace Credit Systems

The current underwriting platform, BBO, is very manual and inefficient. To process planned production volumes in the future, the platform will need to be replaced or resources will need to be added to the underwriting team.

	Front End Process	Underwriting	Risk Models	Loan Documentation Post-Approval
Issue(s)	Relies heavily on paper and re-keying	Every application is still “touched” many times	Limited pre-screen and pre-approval strategies; 3 rd party origination model	Time, complexity and cost of closing is above market
Solution(s)	Financial package tracking <ul style="list-style-type: none"> Replace with web based platform to securely upload documents (micro-site) Replace WebApp <ul style="list-style-type: none"> Replace with true “smart app” 	Automate 3rd party connections for BBO underwriting platform <ul style="list-style-type: none"> Automate connections Auto-scoring for smaller dollar requests Accurate status reporting <ul style="list-style-type: none"> Real-time status tracking & bi-lateral communication 	Pre-screened campaigns – Planned for 2013 <ul style="list-style-type: none"> Leverage deposit base to drive volume  Replace Industry scorecard <ul style="list-style-type: none"> Santander Analytic models in development Pre-approved credit card program <ul style="list-style-type: none"> Expand capabilities to FCRA compliant offers 	Streamline closing process <ul style="list-style-type: none"> Remove barriers to close

5. Products & Processes: Break-through Bundle

Continue to acquire customers using Merchant processing as a value added service. As technology changes, we need to be at the forefront of merchant solutions.



A Santander Branded Point of Service Solution

Drive new customer acquisition with a bundled point of sale system provided by Clover, a First Data technology company

Santander Business Premier Plus POS

We want to be first to market with a new value proposition

- **Sovereign's Best Checking package**
 - Automatic Monthly Maintenance fee waiver with Merchant
 - Debit Card, Business Online Banking and MMDA
 - Built in lending discounts and preferred pricing



- **New, market leading Point of Service**
 - Simple, straightforward pricing, \$500 + \$30 monthly fee
 - Plug and Play register, MSR and wireless printer
 - Cloud based, open platform with "app store" philosophy

5. Products & Processes: Santander Business Credit Card

Sovereign has a significant product gap in Business Credit Cards. Card solutions for small business can be simple, and a great introduction to a larger lending relationship.

Q1 2014

TBD 2014

Basic Business Card

- Leverage PCAS to introduce basic business scorecard, highly reliant on business owner
- Add best-in-class partner tools, such as InControl and EasySavings through Mastercard to give the card relevance to a business owner

Multi-product offerings

- Introduce more robust business variables into scorecard
- Add features and functionalities
- Pre-screen and pre-approve through existing tools



6. Marketing: Support the Growth Agenda

Connecting with Small Businesses during their decision making process requires a well executed marketing approach.

Research shows that small business owners:

- Value community involvement and advocacy
- Have a strong preference for local providers
- Use search engines and company websites in their purchase research

Therefore, our strategic marketing imperatives for Small Business are:

Leverage Corporate Rebranding and Build a Business Sub-Brand

- Within Corporate Rebranding, develop a Santander business identity
- Launch a program to market Santander US as “SME Bank of Choice” via events and advertising (i.e. “Breakthrough”)

Increase Local Sponsorships & PR

- Increase local sponsorship budget and have dedicated budget for Small Business
- Increase corporate and TM presence in business associations, community events, etc.

Leverage Website Redesign and Increase Online Presence

- Increase interactive content and capabilities
- Start online advertising, paid search, SEO and targeting (geographic, behavioral, demographic, contextual)

Agenda

I. Market and Competitive Environment

II. Our Historical Background

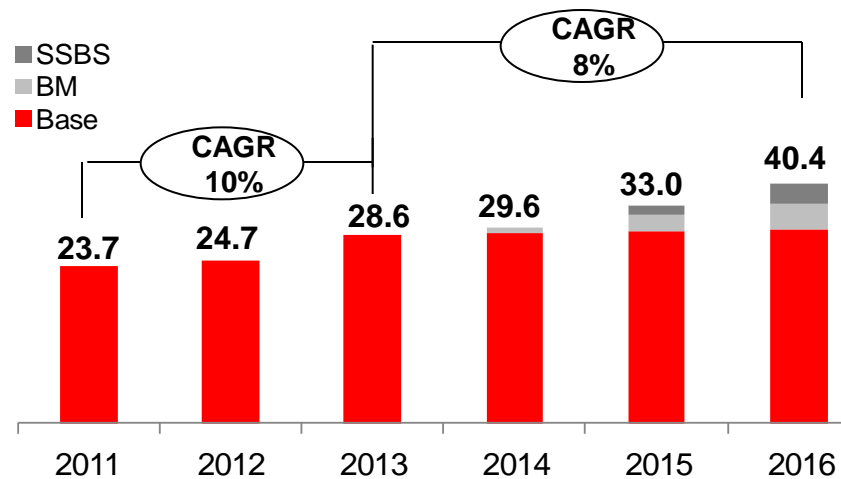
III. Organic Growth Plan

IV. Financial Plan and Resource Requirements

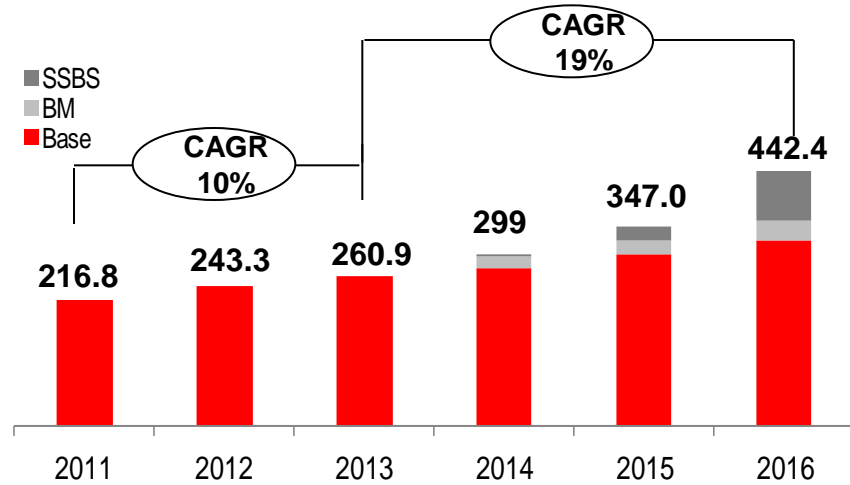
V. Key Conclusions

Production Growth by Job Family

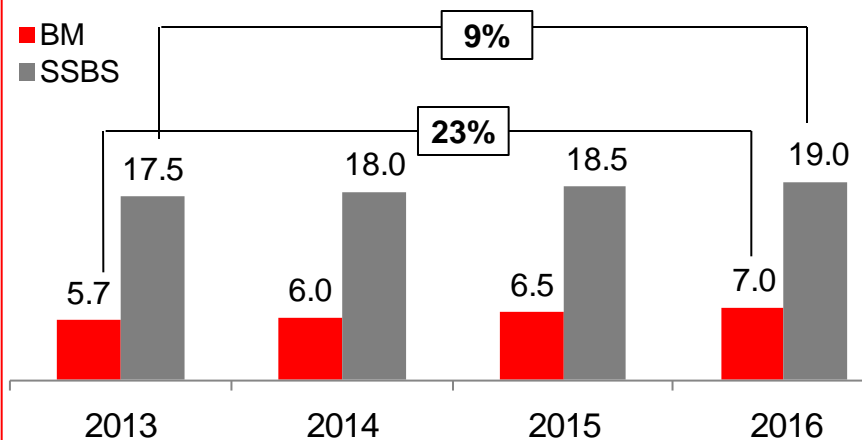
New to New Checking Production (Units)



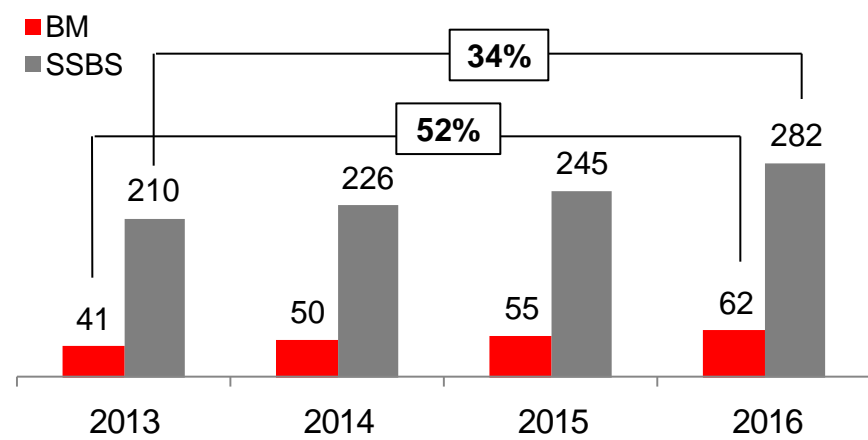
Credit Production (Bookings)



SSBS & BM Checking Production (Qtrly Units)

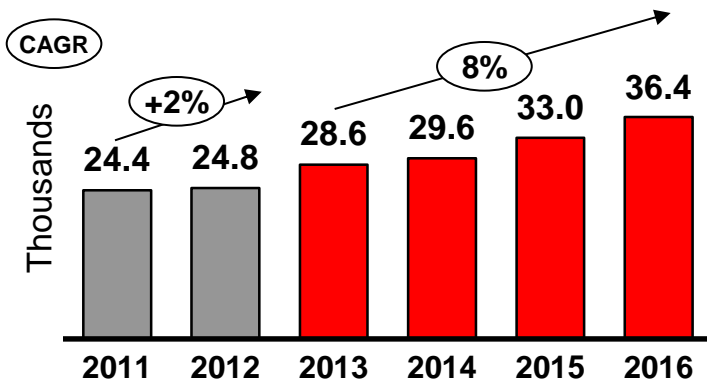


SSBS & BM Credit Production (Qtrly \$ Booking)

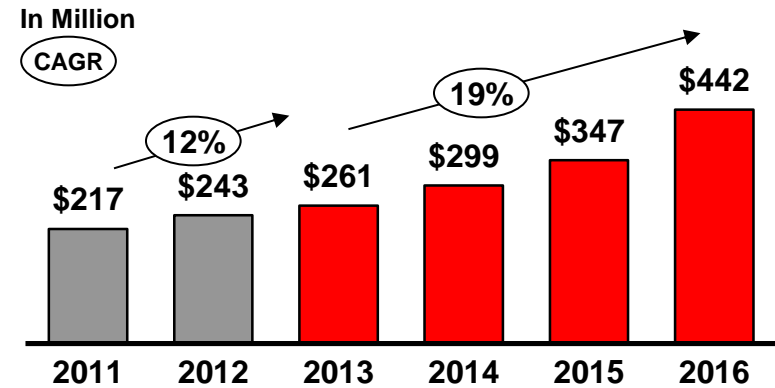


Production Growth

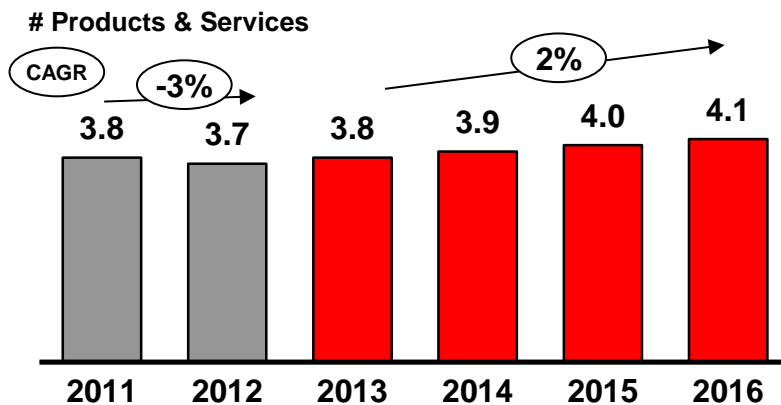
New Checking Account Production (#Units)



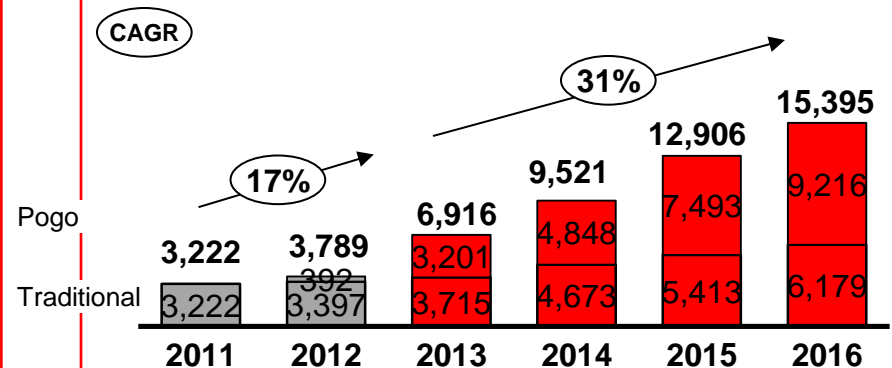
Total Loan Production (Bookings)



Products & Services Per New Checking HH

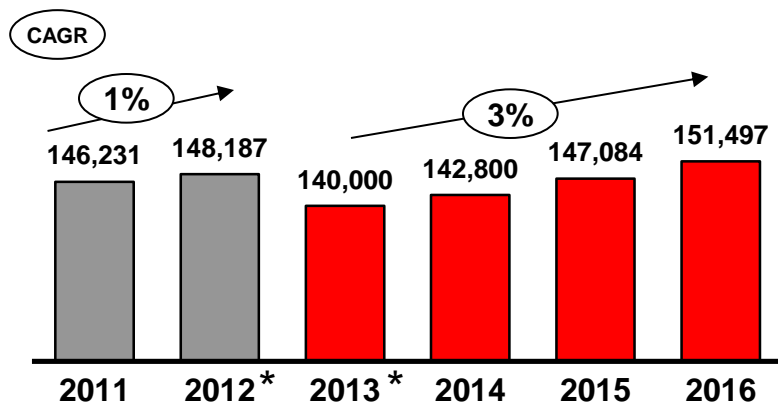


Merchant Services

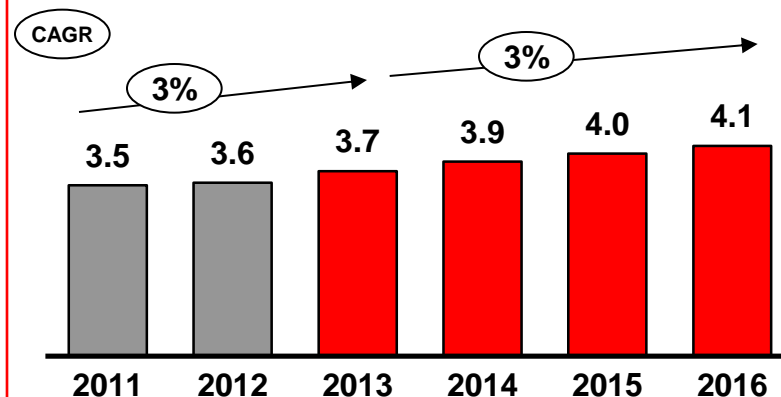


Portfolio Metrics

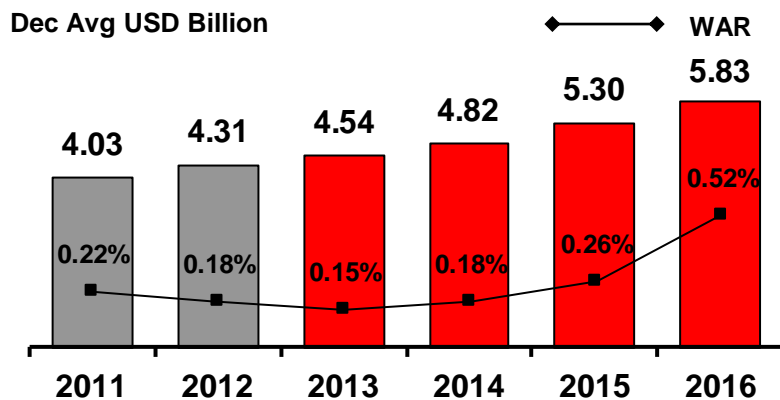
Total Checking Customers (HHLDs)



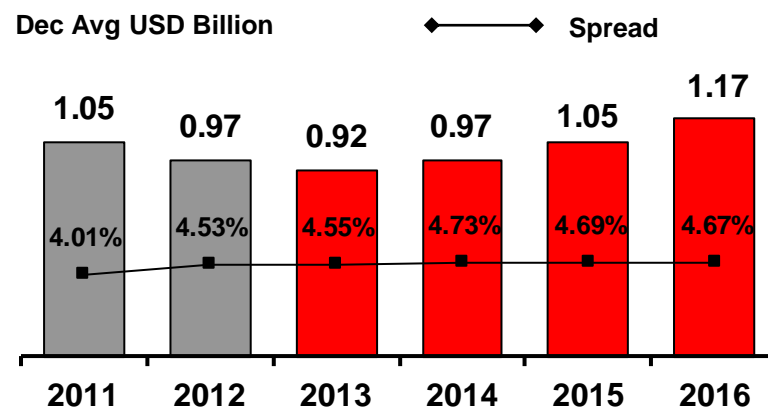
Total Products & Services Per Checking HH



Total Deposits



Total Loans



* Auto purge of inactive accounts was discontinued in May 2012 artificially inflating Household counts. Purge of inactive resumes in 2013 along with the Free Business Checking migration impact

Detailed P&L – Strategic Plan (FTP's = 2013 Budget)

In a flat FTP environment, Small Business still expects to grow revenue 8% on an annual basis.

		2013	2014	2015	2016	CAGR
Credit	Avg Bal	\$941	\$936	\$1,013	\$1,106	6%
	Spot Bal	\$916	\$974	\$1,049	\$1,177	9%
	Yield %	5.88%	5.92%	5.91%	5.91%	
	Cost of Funds %	1.33%	1.19%	1.22%	1.24%	
	Spread %	4.55%	4.73%	4.69%	4.67%	
	NIM	\$42.9	\$44.2	\$47.5	\$51.6	6%
Deposits	Avg Bal (TY)	\$4,338	\$4,609	\$4,974	\$5,467	8%
	Avg Bal (Dec)	\$4,538	\$4,824	\$5,304	\$5,831	9%
	FTP %	0.77%	0.77%	0.77%	0.77%	
	WAR %	0.15%	0.15%	0.14%	0.14%	
	Spread %	0.61%	0.62%	0.62%	0.63%	
	NIM	\$26.6	\$28.5	\$31.0	\$34.3	9%
Fees		\$44.3	\$47.9	\$51.6	\$56.8	9%
Revenue		\$113.7	\$120.6	\$130.0	\$142.7	8%

Detailed P&L – Strategic Plan (Forward Curve)

If rates rise as anticipated, the deposit heavy mix of balances will be very favorable to income for Small Business

		2013	2014	2015	2016	CAGR
Credit	Avg Bal	\$941	\$936	\$1,013	\$1,106	6%
	Spot Bal	\$916	\$974	\$1,049	\$1,177	9%
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	NIM	\$42.9	\$44.2	\$47.5	\$51.6	6%
Deposits	Avg Bal (TY)	\$4,338	\$4,609	\$4,974	\$5,467	8%
	Avg Bal (Dec)	\$4,538	\$4,824	\$5,304	\$5,831	9%
	FTP %	0.93%	1.29%	1.78%	3.03%	
	WAR %	0.15%	0.18%	0.26%	0.52%	
	Spread %	0.78%	1.11%	1.52%	2.51%	
	NIM	\$33.7	\$51.4	\$75.4	\$137.4	60%
Fees		\$44.3	\$47.9	\$51.6	\$56.8	9%
Revenue		\$120.8	\$143.5	\$174.5	\$245.8	27%

IT

Project Name	Business Driver	Description	Delivery date	Estimated cost
Business Deposit Product Development	Acquisition and Balance Growth	<p>Support DDA product Line Realignment: Develop and integrate new products into the product line. New DDA Products to be developed and supported would include :</p> <ul style="list-style-type: none"> ✓ Business Basic Checking • Business Complete Flex • Business Premier rewards programs 	2013	xxx
Business Fee-Based Products and Services	Revenue Growth	<p>Develop and Implement new fee structures to drive incremental revenue</p> <ul style="list-style-type: none"> • Additional online payment capabilities bundling structures • Value Packages: Account Extras for added fee 	2014	xxx
Deposit/Credit Acct Opening Process	Cross Sell	<p>Pre-filled product presentment of additional products appropriate for the customer/package. Pre-fill forms such as rate sheets to streamline acct opening. Automatically orders additional products and services or pre-fills other applications where legally required.</p>	2014	xxx

Resource Requirements

IT

Project Name	Business Driver	Description	Delivery date	Estimated cost
Credit Process re-engineering	Acquisition and Balance Growth	Build 3rd party verification interfaces; online real-time pipeline status reporting; external/internal data/work flow improvements; e-signature/online doc delivery	2014	TBD
Expand Pre-Screen POS/Delivery	Acquisition and Balance Growth	Expand POS Pre-screen functionality to include business products and eventually business credit card	2014	TBD
Credit Process	Acquisition and Balance Growth	Replace current WebApp with smart interface. Employ microsite technology for document storage.	2014	TBD
New Public Website	Market Visibility	Build new public website with business-specific interactive content and enhanced navigation	TBD	TBD
SB Business Online Banking	Customer Growth	Continue build out of Alhambra based Business Online Banking Platform with Phase III	2014	TBD
SB Business Credit Card	Customer Growth	Build and launch a Business Credit Card product suite	2014-2015	TBD

IT

Project Name	Business Driver	Description	Delivery date	Estimated cost
Business Intelligence Tool	Efficiency	Select and implement Business Intelligence tool	Q1 2014	TBD
Customer Level Data Structure	Efficiency	Implement customer level data structure	Q2 2014	TBD
CRM/ Campaign Mgt Module	Efficiency/flexibility/capability	Implement CRM/Campaign module integrating data mining, customer-centric modeling, targeting, messaging, multi-channel optimization & lead delivery	Q2 2014	TBD
Customer File	Efficiency	Implement a module integrating customer profile, product propensity, and sales scripts	Q4 2014	TBD
Commercial Agenda	Efficiency	Implement a sales management module integrating sales planning, scheduling, activity tracking, and customer notes capture	Q4 2014	TBD
Referral System	Customer Mgmt	Build new TM referral system to replace SovReferrals and be integrated with CRM platform	TBD	TBD
Intelligent Call Routing	Phone Support	Enable more efficient routing/tracking of calls to phone channel	TBD	TBD

People

Division	Function	Area to support	Number of FTEs	Timeline for hiring			Estimated cost
				2014	2015	2016	
Network	Small Business Specialist	Servicing & Outbound Sales	84	0	42	42	TBD
	Small Business Team Leaders	Management of Small Business Sales	5	5			TBD
	Small Business Dedicated FTE	Training for TMs	5	2	3		TBD
SME / Small Business Banking	Segment / Portfolio Support	Portfolio Management	1		1		TBD
	Marketing	Acquisition	1		1		TBD
	Analytics	SME Segments	1		1		TBD

People

Division	Function	Area to support	Number of FTEs	Timeline for hiring			Estimated cost
				2014	2015	2016	
SME / Credit	SBA Specialist	SB Sales	1		1		TBD
Risk	SB Underwriting	SB Sales	12	6	3	3	TBD
Manufacturing	SB Loan Processors	Loan Operations	4	2	1	1	TBD

Resource Requirements

People

Division	Function	Area to support	Number of FTEs	Timeline for hiring			Estimated cost
				2014	2015	2016	
Manufacturing	Phone Support for Customer Management	Dedicated Outbound Sales Team	2	2			TBD
		Cash Mgmt Telesales	2	2			TBD
		Activation, Onboarding, Retention, Expanded Hours, and Evolution to Phone Based Portfolio Management	12*	4	4	4	TBD

* Per BCCC, 10 FTEs is minimum required to staff a new team

Marketing

Project Name	Marketing Initiative	Description	Cost	Yearly Marketing Requirements (\$)		
				2014	2015	2016
Business Deposits	DDA Product Realignment	Develop and integrate the below new products into the product line to attract target segments: <ul style="list-style-type: none"> Basic Business Checking Business Complete Flex Business Premier 	\$1.0MM	\$.5 MM	\$.25M M	\$.25M M
Business Credit	Business Credit Product Launches	Develop marketing support for: <ul style="list-style-type: none"> New Credit Card Launch 	\$1.0MM	\$.25 MM	\$.75 MM	

Resource Requirements

Marketing

Project Name	Marketing Initiative	Description	Cost	Yearly Marketing Requirements (\$)		
				2014	2015	2016
"SME Bank of Choice" Program	Increase market visibility	Build SME sub-brand within Corporate Rebranding	TBD			
Local Sponsorships and PR	Support local marketing and community relationship building	Discretionary \$ allocated to SB field TMs; \$500-1,000 per SSBS annually	\$150-300K in 2015			
Online Presence	Increase online advertising	Advertise in 3 rd party sites, conduct paid search and SEO	TBD			
BAU Marketing Programs (2012 budget)	Customer Programs	Support BAU acquisition and retention marketing initiatives – 2012 budget plus 10% incremental yearly	\$2.0MM	\$1.65 MM	\$1.8 MM	\$2.0 MM

Agenda

I. Market and Competitive Environment

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III. Organic Growth Plan

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V. Key Conclusions

Key Conclusions

- ❑ The Branch Channel is integral to the success of Small Business. Branch Managers are a significant contributor to Small Business, and the SSBSs need to focus on larger customers
- ❑ Due to the market environment, and contraction in small business, we will not expand the specialist sales force in 2014
- ❑ Customers are looking for an assigned banker and the skill set and access to data of the their banker is critical
- ❑ Both phone and online channels continue to need expansion
- ❑ Products and processes require updates to stay competitive
- ❑ We need to build a business brand for Santander US

Loan Balance Growth
\$261MM

Deposit Balance Growth
\$1.3B

Fee Revenue Growth
\$12.5MM

Revenue Growth (flat ftp)
\$29MM

Appendix

Small Business Fees – 2011 to 2013

Fees declined in 2012 driven by NSF/OD and Cash Management. Small Business is forecasting growth of \$1MM in 2013 driven by Free Migration and increased Loan Fees.

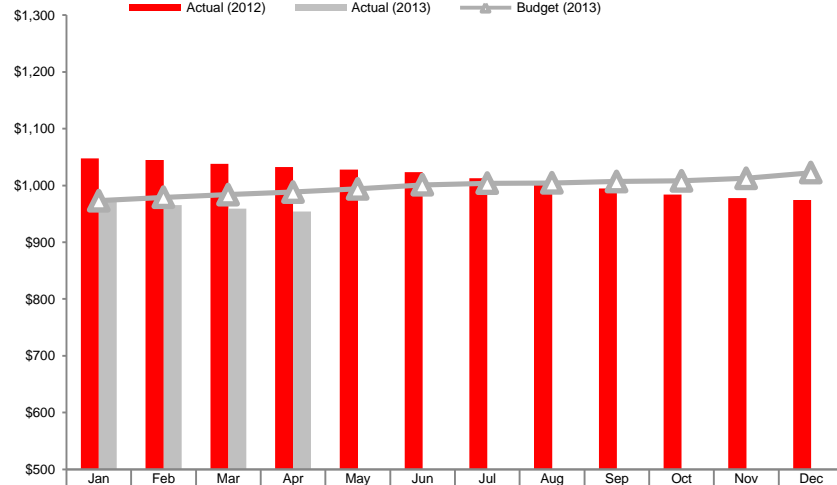
	2011	2012	2013F	2013B
NSF/OD	\$31.5	\$24.4	\$22.3	\$23.3
Reversals	(\$2.9)	(\$1.5)	(\$0.6)	(\$1.2)
Negative Bal Chargeoffs	(\$1.4)	(\$1.5)	(\$1.7)	(\$2.4)
Monthly and Other Chgs	\$4.7	\$8.2	\$10.7	\$11.0
Cash Management Fees	\$12.7	\$11.6	\$11.2	\$12.6
Payroll	\$0.5	\$0.5	\$0.5	\$0.4
Loan Fees	\$1.4	\$1.6	\$1.9	\$1.8
Total Fees	\$46.6	\$43.3	\$44.3	\$45.5

Small Business Loan Balances

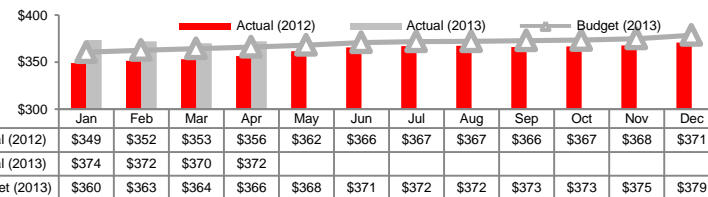
Line utilization has been slightly decreasing, but additional lines have allowed the portfolio to grow. New production of Term and CRE has not been enough to overcome the runoff. So, while balances decline, spreads have been strong.

Total Loan Balances (\$MM)

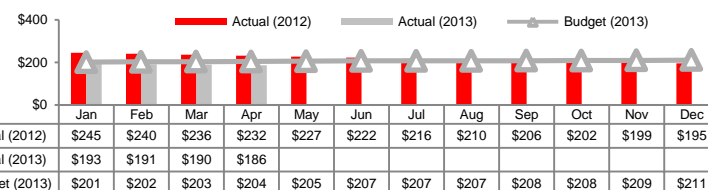
Actual (2012) Actual (2013) Budget (2013)



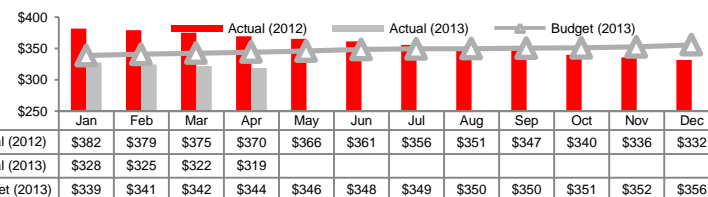
Lines of Credit (\$MM)



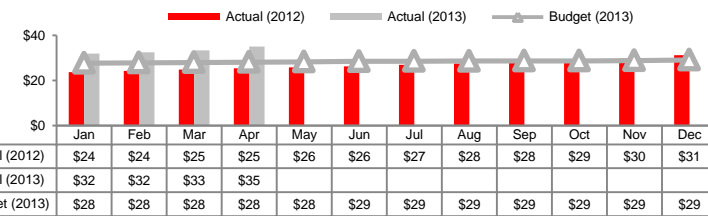
Term (\$MM)



Commercial Real Estate (\$MM)



Leasing (\$MM)



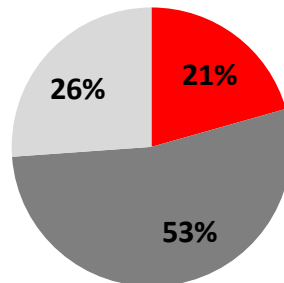
Small Business Performance vs. Goal

Branch Managers incentives are not weighted toward Small Business production. The vast majority of Branch Managers are spending less than 20% of their time on Small Business.

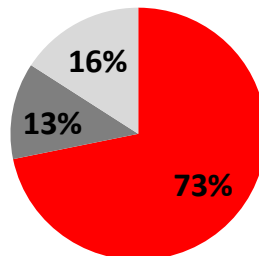
Incentive Plan Weightings (Q1 2013)

■ Core Business ■ Core Consumer ■ Profit Pool & Solutions

Branch
Manager



Sr SBS



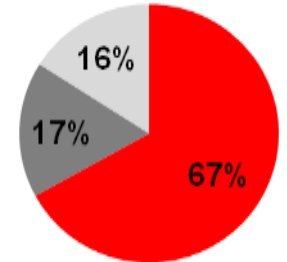
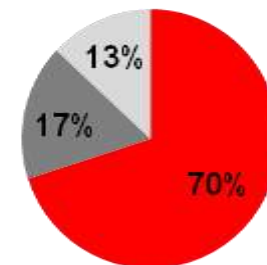
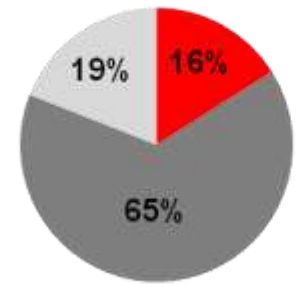
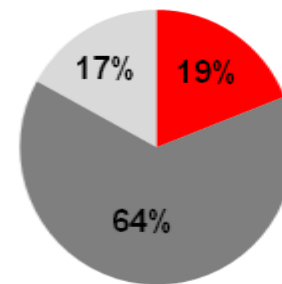
Actual Performance (Q1 2013)*

Ranked by Overall WAP Performance: Top 33% and Bottom 66%

Top 33% Performers

Bottom 66% Performers

■ Core Business ■ Core Consumer ■ Profit Pool & Solutions



*Final Q1 2013 Performance Report (IP Recap Report)

Core Business = BDDA Acquisition, Small Business Loans, and BDDA Net Growth

Small Business Performance vs. Goal

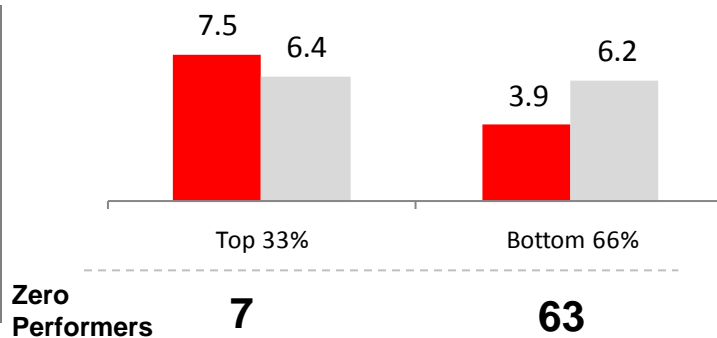
Our top performing Branch Managers are booking 1 credit deal on average. The majority of our lower performing Branch Managers are not booking a deal or only a very small deal.

DDA Performance vs. Goal (Q1 2013)

Ranked by Overall WAP Performance: Top 33% and Bottom 66%

■ Actual (# Units) ■ Goal (# Units)

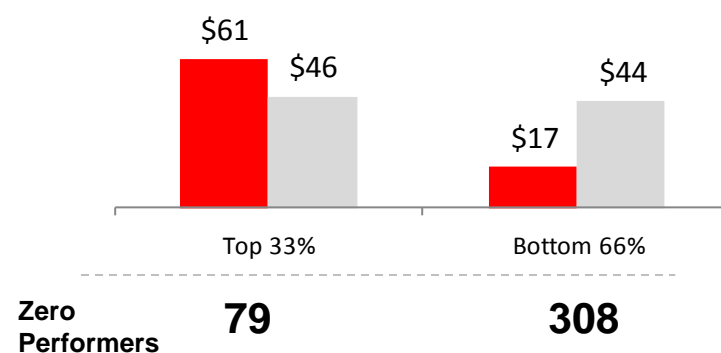
Branch
Manager



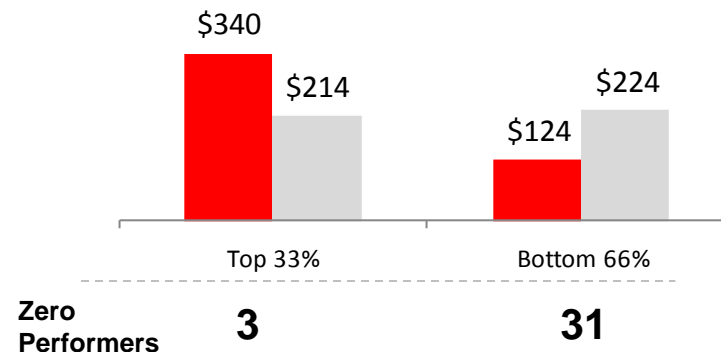
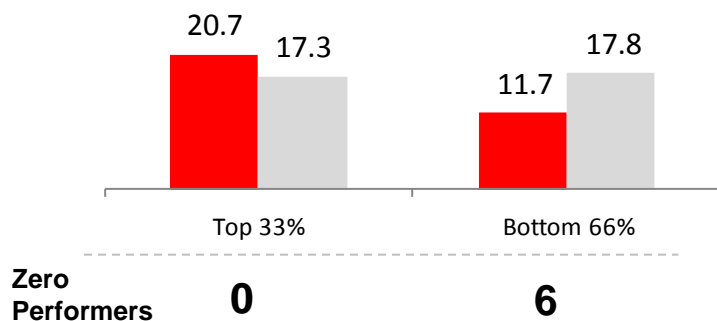
SB Credit Performance vs. Goal (Q1 2013)

Ranked by Overall WAP Performance: Top 33% and Bottom 66%

■ Actual (\$K) ■ Goal (\$K)



Sr SBS



*Final Q1 2013 Performance Report (IP Recap Report)

Core Business = BDDA Acquisition, Small Business Loans, and BDDA Net Growth

4) Online: Missing Functionality Expected in Phase I

As more customers have been added to the platform, gaps in “as-is” functionality have been identified. IT has classified the gaps as “working as designed”, requiring Change Requests to be submitted for evaluation/approval. Below are the top six.

Change Requests	Current Status
First time login multi-layer security check: the password portion of new enrollment credentials should only be sent after validating the customer via TIN confirmation	Approved by Gap Court on 04/11.
Multiple TINs allowed under a single user: customer should be able to manage accts of 2 or more cos. of his/her ownership under single organization id	Reviewed at Gap Court on 05/02 (decision pending)
Product name display: the product name displayed online should be the same used for acct statements, which is the standard reference name.	Denied by Gap Court as it requires cross channel change
Download Activity: transaction history available for download should go as far back as the IT Core system allows, not limited to 75 days.	Under evaluation by IT
Ability to change SYSADMIN: customer should be able to change the SYSADMIN as the signers on an account change	Reviewed at Gap Court on 05/02 (decision pending)

An added challenge is migrated customers that still have active credentials on old platform and can log in through IRIS access. IT has begun addressing the issue, purging 8.2K credentials of 24K migrated customers from the ACI platform (34%) as of May 2013.

* Change Request: A proposal to include a feature or function that has not been included in the original design of a system in a future upgrade . The proposal is submitted to Gap Court for evaluation and decisioning

Appendix

Transformation Overview – Requested Business Functionality (BOB) - ORIGINAL

As-Is	A Transformation Phase 1 Drop1	B Transformation Phase 1 Drop2	C Systems Plan	D Benchmark Phase 1BIS ¹
<ul style="list-style-type: none"> • Outdated look & feel • No online enrollment • Acct Info and activity (pending & posted) • Transaction search (by date) • Check, deposit slip and deposited check image availability • Download (Quicken, QuickBooks, CSV, TSV) • Fund Transfers (Intra-bank – me2me) • Transfer templates • Stop payments (requests, inquiries, cancels) • Reporting for loan activity • Business BillPay • Multi-user support (entitlements) • User audit reports • Banner Ads (login, logoff) • Change password <p><u>NI = not integrated</u></p> <ul style="list-style-type: none"> • NI email alerts / text msgs • NI online stmts (no suppression / no check images) • NI merchant services • NI remote deposit capture <p><u>Modules:</u></p> <ul style="list-style-type: none"> • ACH/ Wire Transfers² • ACH/ Wire Reporting² 	<ul style="list-style-type: none"> • New look & feel (similar to Retail UI) • Multi-factor authentication (SSA) • Recurring & future-dated transfers • Streamlined downloads (transaction history) • In-product Banner Ads • Masked account #s • Hide, nickname, reorder accts • Quick Transfer Widget (On Account Overview page) • Expanded Help Center • Create/Manage Alerts (text/email) • <u>Service Requests</u>: Change profile info, request check copy, Debit Card requests, etc. ^{NEW} 	<ul style="list-style-type: none"> • Immediate enrollment & access (Card/PIN) • ACH & Wire Transfer • Password Reset • Improved usability for search, info review, etc. • Spanish language • BillPay Widget (on landing page) • Advanced search & sort by transaction type ^{NEW} • Advanced Multi-factor (IP Active Monitoring, SMS email authentication ^{NEW}) • View images of Returned Deposited Items ^{NEW} • Online Statements, Remote Deposit Capture, Merchant Services & Payroll (SSO) 		<ul style="list-style-type: none"> • Immediate enrollment & access (Card/PIN) • Integrated access to personal accts (business owner) • Targeted banners & secure messaging • Spanish Language • Tethered login & Saved ID • 'Integrated online acct opening • Create/Manage Alerts (text/email) • Co-browsing • Embedded feedback pages • Intra-Interbank transfers/OTP • B2B/B2C transfers/payments (Sov & non-Sov) • Overnight Checks ^{NEW} • Mobile banking app (iPhone, Droid) • Mobile Merchant • Mobile Remote Deposit • Mobile ACH & Wire Transfer • Online chat, video & call me back • Paper suppression (stmts) • Electronic Invoicing services • BP Multiuser Entitlements • Escrow / IOLTA Account Maintenance • Self-enroll in ACH & Wires • Open BDMA and MMDA Online • Lockbox Services • Order Associate Debit Card • Integrate Debit Expense Reporting (MasterCard InControl) • Integrate Business Card • Integrate Investment Accounts

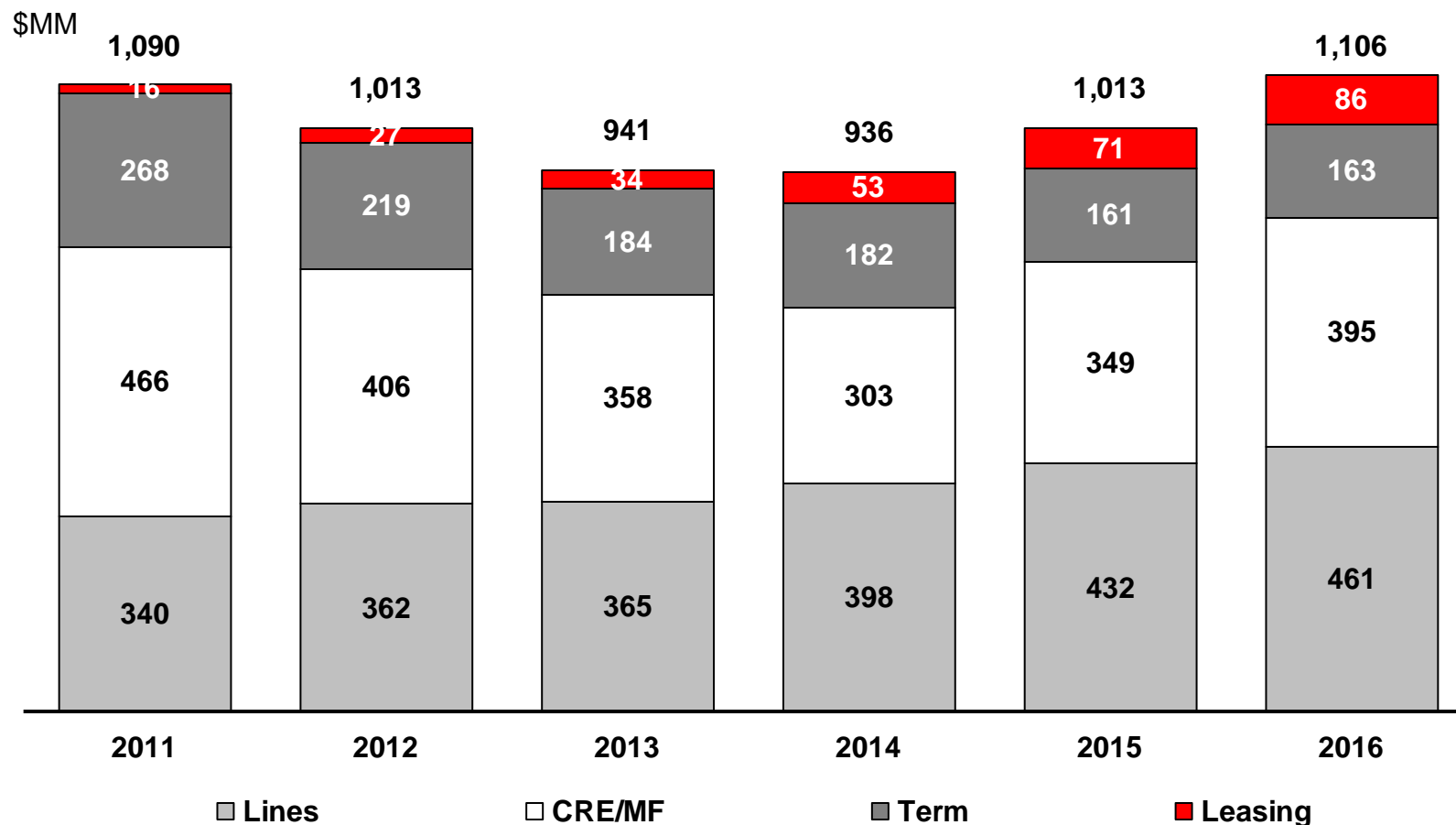
¹ 1B functionality not yet confirmed.² Affects 1% of BOB users and currently requires independent enrollment

Competitive Landscape Heat Map for Small Business

Product Set	Description	Chase	Wells Fargo	Bank of America	PNC	Citizens	Citi	TD	Sovereign
Standard Online Banking	•Check Balance	●	●	●	●	●	●	●	●
	•Transaction History	●	●	●	●	●	●	●	●
	•Transfer Funds	●	●	●	●	●	●	●	●
	•Bill Pay	●	●	●	●	●	●	●	●
	•QuickBooks Integration	●	●	●	●	●	●	●	●
Advanced Online Banking	•Spanish Site	●	●	●	○	○	●	●	○
	•Transfer to Escrow or IOLTA	●	●	●	●	●	○	○	○
	•Open BDDA Online	●	●	●	●	○	○	●	○
	•Open MMDA Online	●	●	●	●	○	○	●	○
	•Enroll in Paperless Statements	●	●	●	●	○	○	●	○
	•Mobile Alerts	●	●	○	●	●	○	○	○
	•Self Create Alerts Online	●	●	●	●	●	○	○	○
	•Alerts	●	●	●	●	●	○	○	○
	•Sort by Transaction Type	●	●	●	○	●	●	○	○
	•Single Sign-On	●	●	○	○	●	○	○	○
Mobile Apps	•Android App / BlackBerry App	●	●	○	○	●	○	●	○
	•iPhone App	●	●	○	●	●	○	●	○
Phone Service	•24 x 7	○	○	○	○	○	●	●	○
	•Chat Service	○	○	●	●	○	●	○	○
Payments	•Employee Debit Card Reporting	●	●	●	●	○	○	○	○
	•Employee Debit Cards	●	●	○	●	○	○	○	○
	•Mobile Wires	●	●	○	○	○	○	○	○
	•No Module Fee	●	●	○	○	○	○	○	○
	•Self Enroll in Online Wires & ACH	●	●	○	○	○	○	○	○
	•Online Wires & ACH (Non-Analyzed)	●	●	●	●	○	○	○	○
Inbound Cash Mgmt. Team	•Service in Spanish	●	○	○	○	○	○	○	○
	•Call Center Direct Transfer	●	○	○	○	○	○	○	○
	•Dedicated # for Inbound Team	●	○	○	○	○	○	○	○
	•Dedicated Inbound Team	●	○	○	○	○	○	○	○
Fraud Protection	•Reverse (Image) Positive Pay	○	●	○	○	○	○	○	○
	•Mobile Positive Pay	○	●	○	○	○	○	○	○
	•Positive Pay	○	●	○	○	○	○	○	○
Receivables	•E-Invoicing Self Enroll	●	●	●	○	○	○	○	○
	•E-Invoicing with Card & ACH Debit	●	●	●	○	○	○	○	○
	•Remote Deposit Single Sign On	●	●	●	○	○	○	○	○
	•Remote Deposit Self Enroll	●	●	○	○	○	○	○	○
	•Remote Deposit	●	○	○	○	○	○	○	○
	•Merchant Services	●	●	○	○	○	○	○	○
Addl. Specialty Products	•Business Insurance Products	○	●	●	○	○	○	○	○
	•Health Savings Accounts	○	●	●	○	○	○	○	○

Loan Balance Shifts

Small Business will experience a shift toward CRE in 2015-2016



Forward Curve – FTPs

