

Commercial Banking

2016 Strategic Plan

Boston, June 12, 2013

Agenda

Executive Summary

Competitive Landscape & Market Environment

Business Unit Background

Business Plan 2014-2016

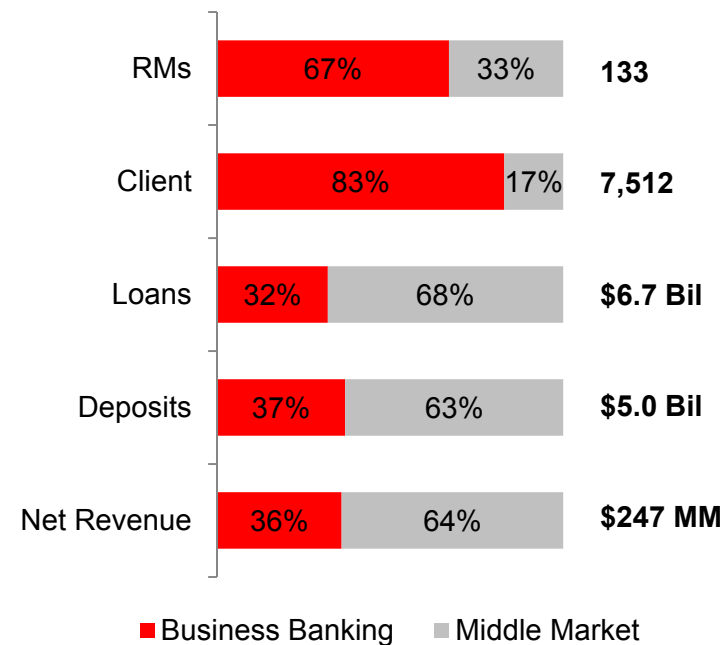
Appendix

Executive Summary – Building the Foundation

2013 was a year of building the foundation for the “new” Commercial Banking business

- Integrated the Business Banking segment into Commercial Banking
- Launched the Flame & “Philly Pilot” sales effectiveness initiatives in Middle Market
- Enhanced the Middle Market coverage model with Account Managers
- Implemented a modified Incentive Plan structure

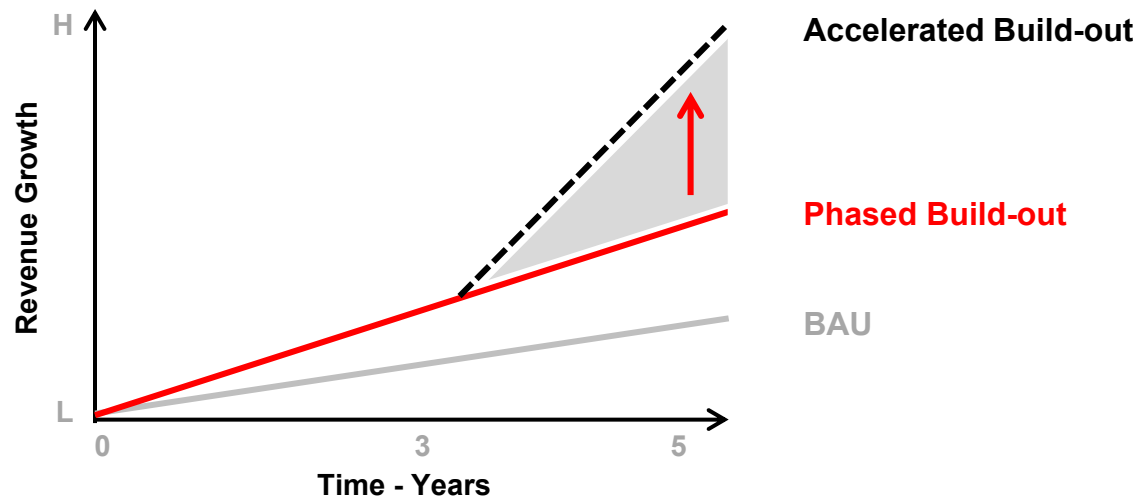
“New” Commercial Banking



Executive Summary – Strategy to Grow the Franchise

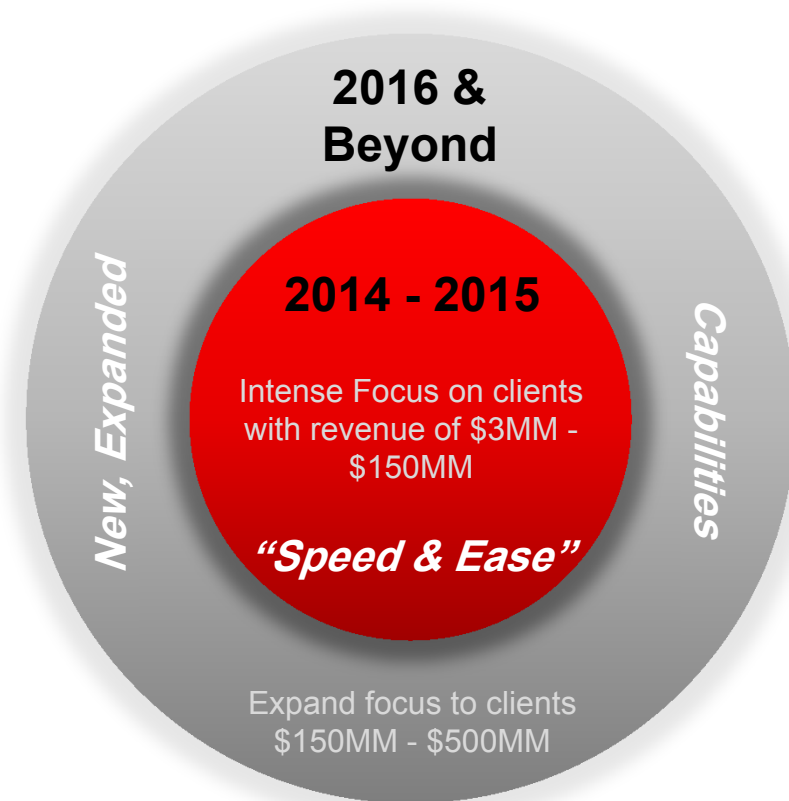
2014 represents an opportunity to migrate from a “Phased” to “Accelerated” build-out of the Santander Commercial franchise in the US:

- Phased Build-out leverages core growth strategies from Flame and completes in-footprint expansion of Commercial RM coverage model deployed in the Philly Pilot
- Accelerated Build-out assumes funding and implementation of U.S. Corporates Initiative, positioning Santander to close product and platform gaps in the Commercial Bank



Executive Summary – Keys to Executional Success

Critical to our success is aligning our current AND future core competencies to the needs of the market



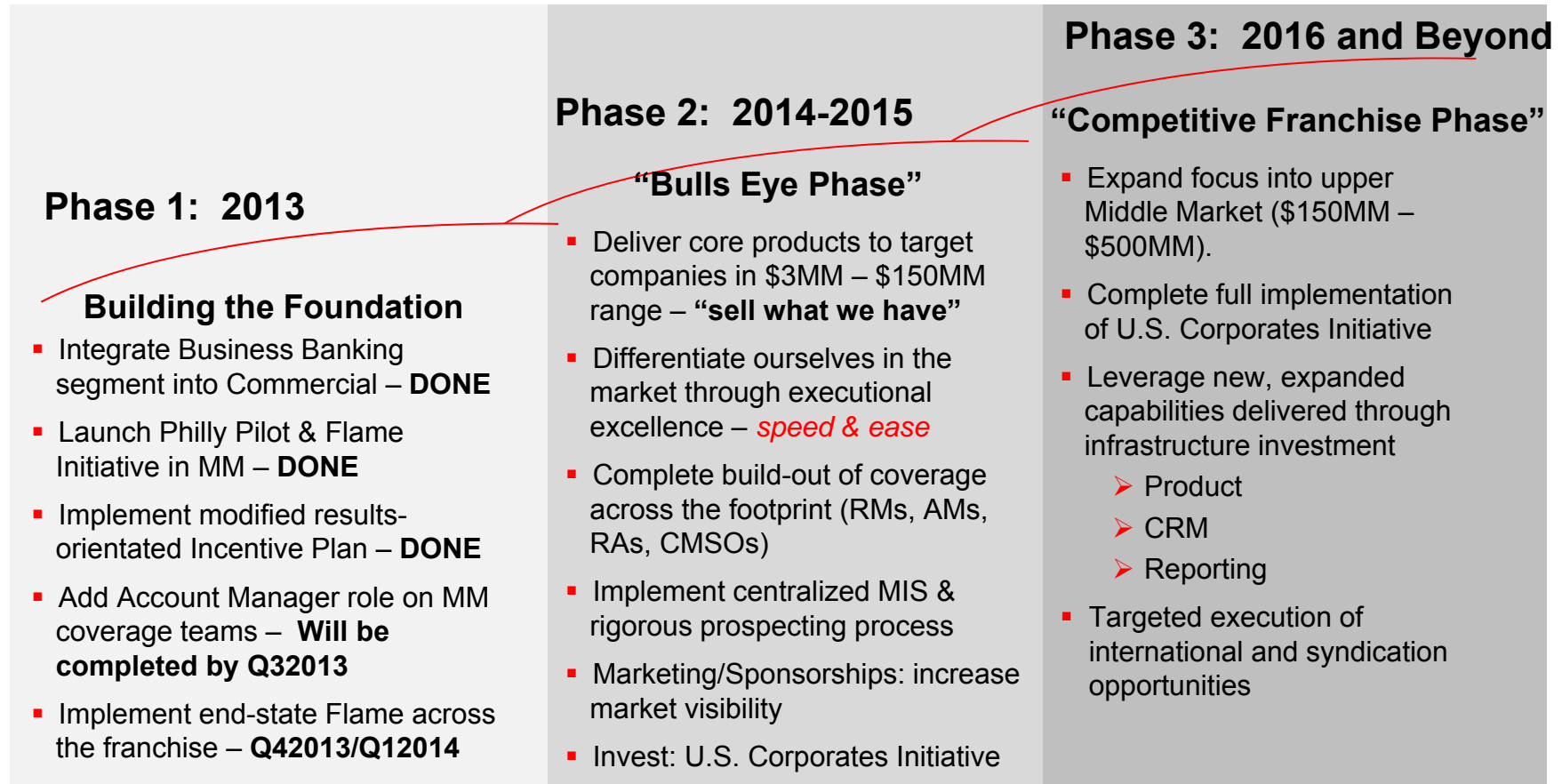
2014 - 2015: ***"Bulls Eye Phase"***

- Primary focus on delivering the core capabilities we have right now to target companies in the \$3MM – \$150MM range where current product gaps have *less* impact on new client acquisition
- Differentiate ourselves in the market through flawless execution - - *"the speed and ease of doing business with Santander"*

2016 & Beyond: ***"Competitive Franchise Phase"***

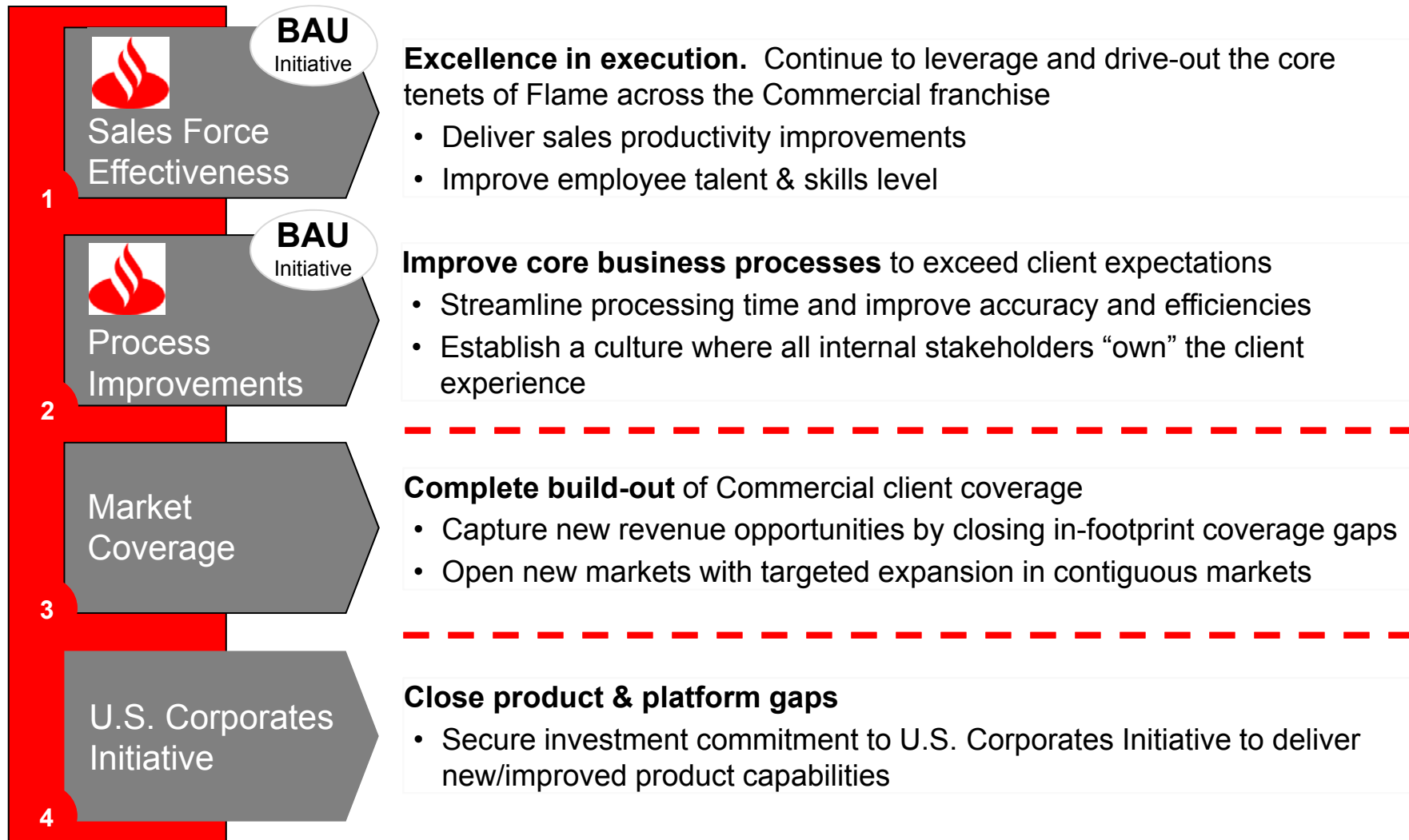
- Effectively compete and expand focus into upper Middle Market (\$150MM – \$500MM) once full investment and implementation of U.S. Corporates Initiative has occurred
- Leverage new, expanded capabilities delivered through infrastructure investment
- Targeted execution of international and syndication opportunities

Executive Summary – Three Year Vision



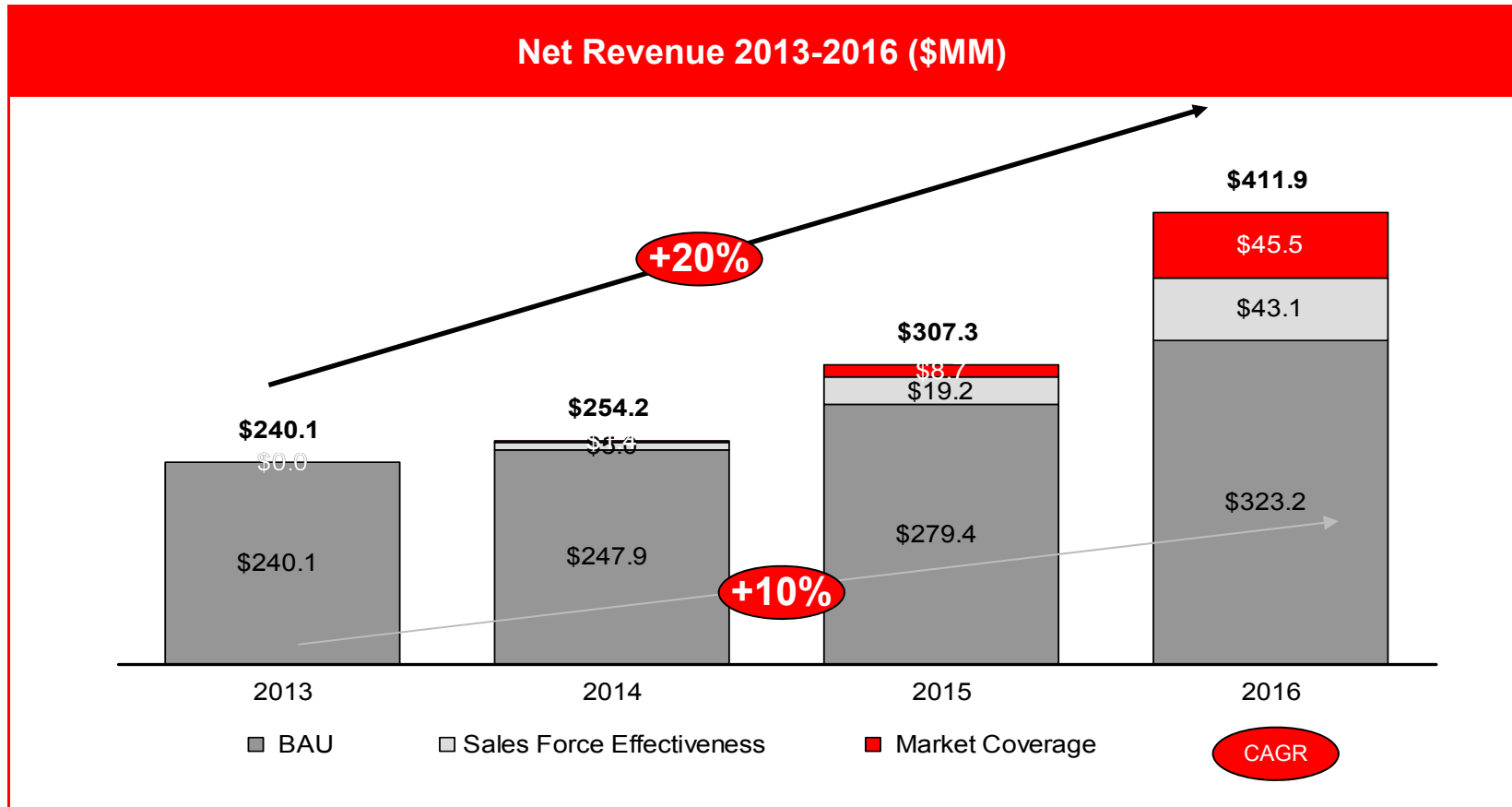
Building the Santander U.S. Commercial Franchise

Executive Summary – Areas of Strategic Focus



Commercial Banking – Expected Revenue Growth

Collectively, the 2014-2016 initiatives are expected to grow the business from \$240MM to \$412MM by 2016.



2013-2016 CAGR = 20%; Rate Forecast = 7%; Market Coverage = 5%; Sales Force Effectiveness = 5%; BAU/GDP = 3%

Key Conclusions

- The Commercial Bank is an important component of Sovereign| Santander, representing 8% of the Bank's revenues and 22% of its net income
- While intensely competitive, Commercial Banking is an attractive business with a large, in-footprint market opportunity and attractive, annuity-like returns
- The current rate environment, coupled with regulatory impacts and competition approaching pre-crisis levels, have negatively affected the bottom line over the last 18 months
- Since the 2015 Strategic Plan was approved in November, 2012, significant progress has been made building out the foundation of the franchise (integration of Business Banking, launch of Philly Pilot & Flame initiative, expanded MM coverage model)

Key Conclusions

- Going forward, Commercial Banking has three overarching execution strategies that must be accomplished to successfully grow net revenue per the contemplated three year plan:
 1. We must seize the new client acquisition opportunity available to us within our current and proposed footprint
 2. We must improve employee retention in concert with our efforts to attract new employees to the Bank
 3. We must build upon organizational engagement across all business units to endorse Commercial Banking's commitment to execution excellence in all aspects of the client and employee experience
- Collectively, these three broad strategies as executed within Flame and Coverage Expansion, will deliver \$123MM in cumulative net revenues (on top of BAU) between now and 2016.

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Competitive Landscape & Market Environment

Business Unit Background

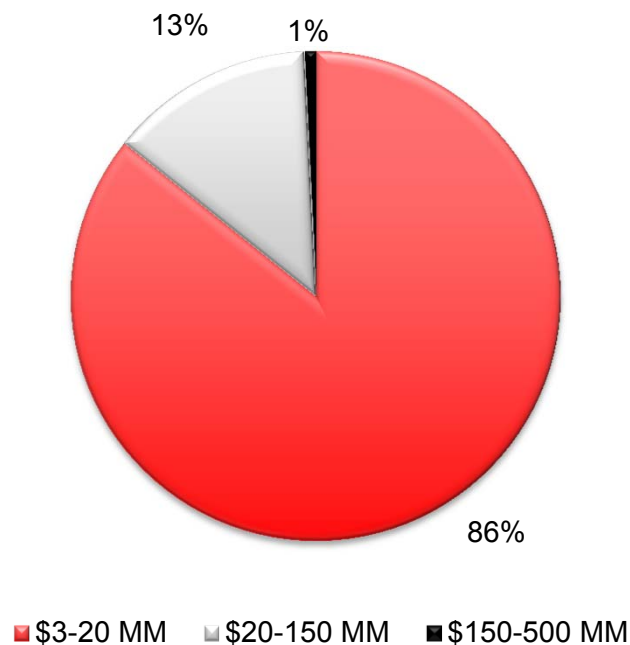
Business Plan 2014-2016

Appendix

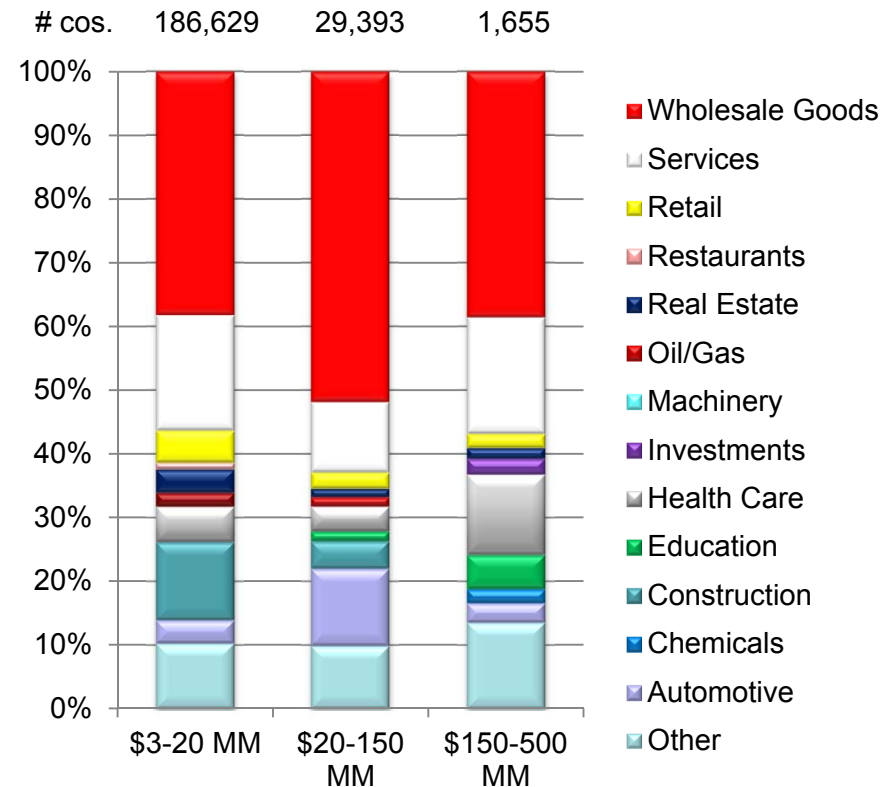
Market Sizing – Commercial Banking Segment

Sovereign Commercial Banking holds a share position in our footprint of less than 5% across the Middle Market and Business Banking segments

NUMBER OF COMPANIES – 217,677











COMPANIES BY INDUSTRY



Note: Sovereign footprint as defined by credit policy Chapter 2, Section G pg. 2 (ME, NH, VT, MA, RI, CT, NY, NJ, PA, DE, MD, DC, Arlington VA, Fairfax VA, Fauquier VA, Loudon VA & Prince William VA)
 Source: Gross number of companies and industry definition from OneSource data. Scrubbed prospects
 ~157,000 viable targets .

Competitive Positioning – Products

In the majority of product categories, the Sovereign Commercial Banking product set lags behind the competition, validating the need for the U.S. Corporates Initiative

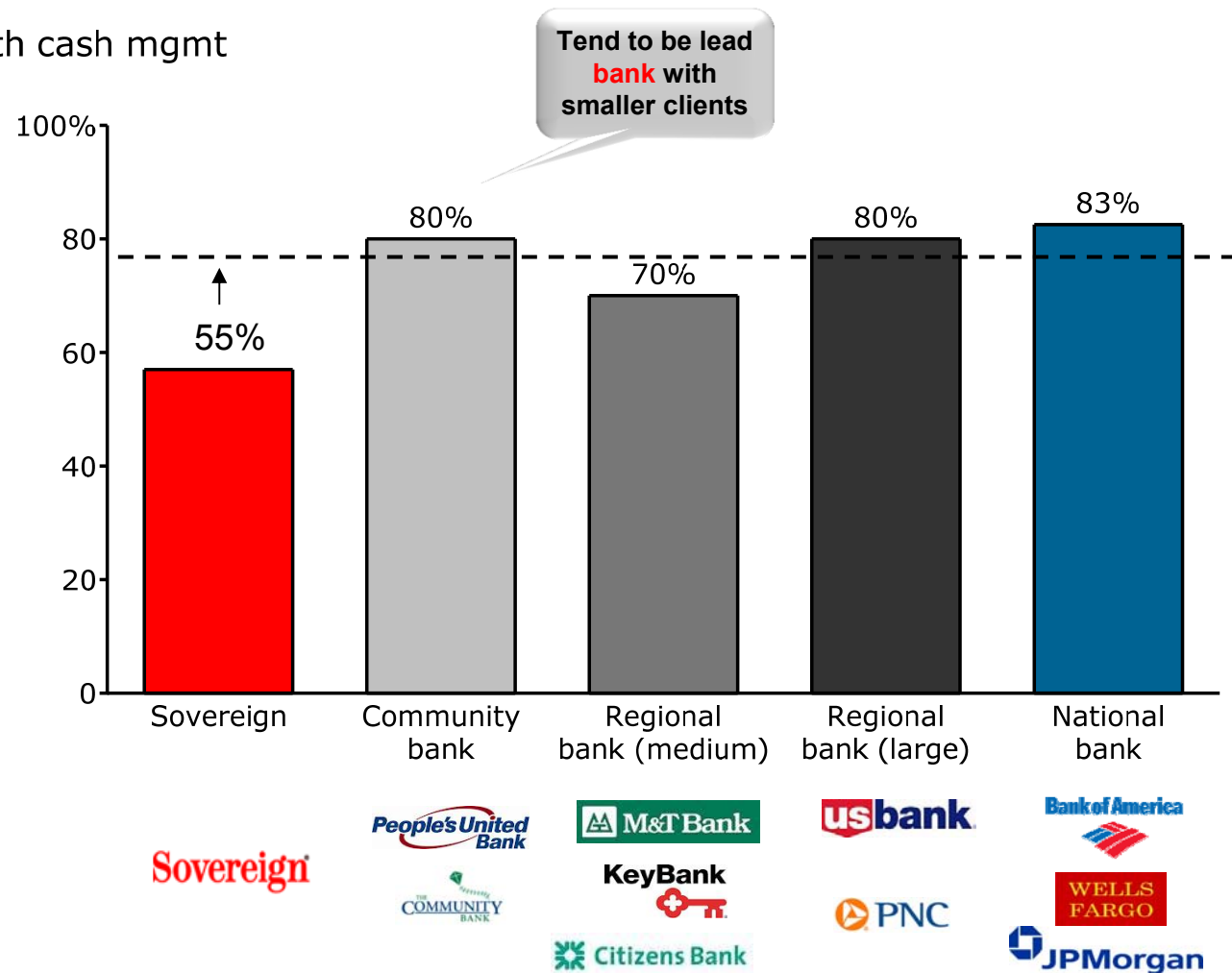
Product Category	Key Products Offered	Evaluation vs. Competition BB MM	Key Comments
Loans	<ul style="list-style-type: none"> Lines of Credit Term Loans Commercial Real Estate Letters of Credit Equipment Leasing 	 	<ul style="list-style-type: none"> Competitive pricing (top 25% of industry, but not lowest) Better than market turnaround times for small loans <\$1MM Weak syndications capabilities and operational risk
Deposits	<ul style="list-style-type: none"> DDAs (analyzed and non-analyzed) MMDA Sweep and Repo's 	 	<ul style="list-style-type: none"> Core domestic product functionality exists to match major competitors Improvements required in liquidity account options and international products (e.g. multi-currency)
Cash Management	<ul style="list-style-type: none"> Reporting and Online Tools Integrated payables and receivables Corporate Card Pooling products 	 	<ul style="list-style-type: none"> Online Banking platform lacks key functionalities Payables and Receivables products behind peers Lack Purchasing Card
Additional Transactional Products Offered by Competition With Modest or No Sovereign Product	<ul style="list-style-type: none"> Rates (Swaps and F/X) International Trade Merchant Wealth Management Insurance Capital Market Capabilities 	 	<ul style="list-style-type: none"> Weak integrations with Trade capability No Wealth Management in U.S. No Insurance Services in U.S. Limited Capital Market Relevance or Experience delivered to Commercial Market in U.S.

KEY:  = At or above competition

Competitive Positioning – Cash Management Cross-Sell

Sovereign lags competitors in cash management cross-sell

% of customers with cash mgmt



Note: For non-Sovereign banks, the middle of the range is shown

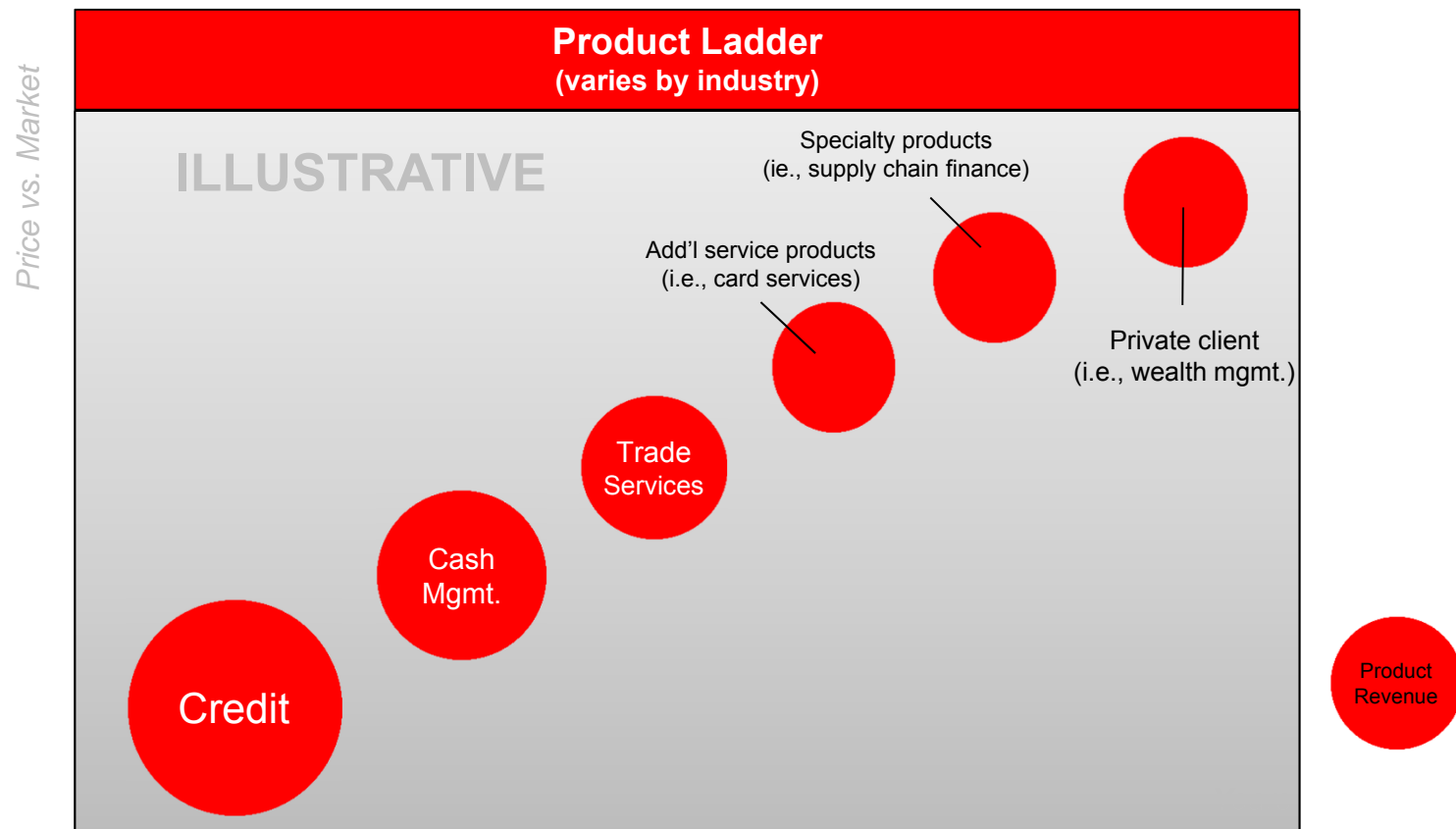
Source: Expert input; Bain experience

* Based on total CM fees 2012 annualized results of \$16MM

Competitive Positioning – Selling through the Opportunity

Banks typically lead with credit, which then provides access to cash management and other higher margin product opportunities

- *During the “Bulls Eye Phase” (2014-2015), we must balance realistic RORAC/cross-sell expectations with the need to increase new client acquisition - - we want as many clients as possible when the U.S. Corporates Initiative is completed to ACCELERATE ROI across the client base.*







Source: Bain experience; expert interviews

Competitive Positioning – Sales Effectiveness

External benchmarking indicates improvements in process and tools will result in higher sales productivity

Investment in Process and Tools

<i>Productivity Metric (per Middle Mkt RM)</i>	<i>Less Sophisticated Process and Tools</i>	<i>Good Process and Tools</i>	<i>Competitive Process & Tools</i>
Loans Outstandings	~\$15MM	\$30-50MM	\$50MM+
New Clients Per Year	2-3	3-5	4-6
Cross-sell expectations	2-3	3-5	5-8
Peers Today	  	  	



Santander



Source: Combined external benchmarking reports; RM interviews.

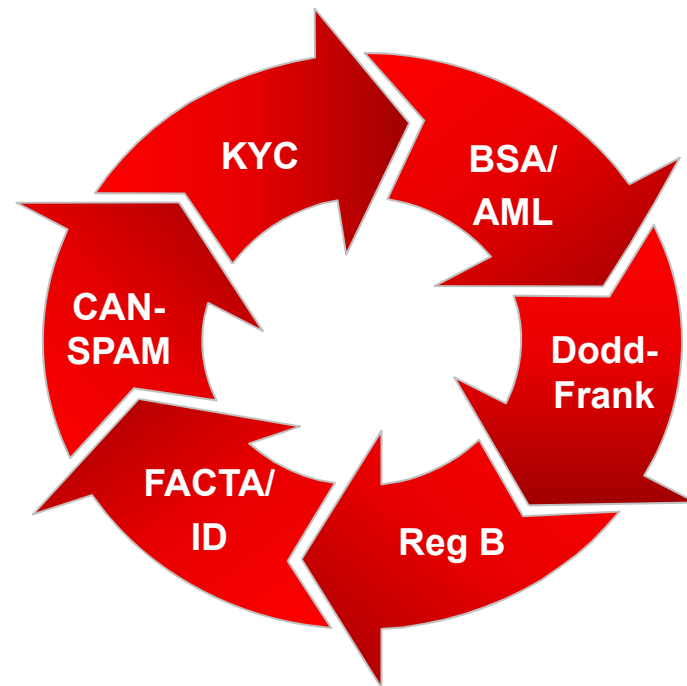


Santander®

Current Regulatory Environment

Compliance continues to be a critical component of how we execute:

- The change in charter from the OTS to a National Association has significantly increased regulatory requirements and expectations
- Regulators are demanding that business lines have a strong first line of defense for AML/ compliance
- Through Flame improvement committees, we will continuously improve our effectiveness and efficiency in all compliance related activities



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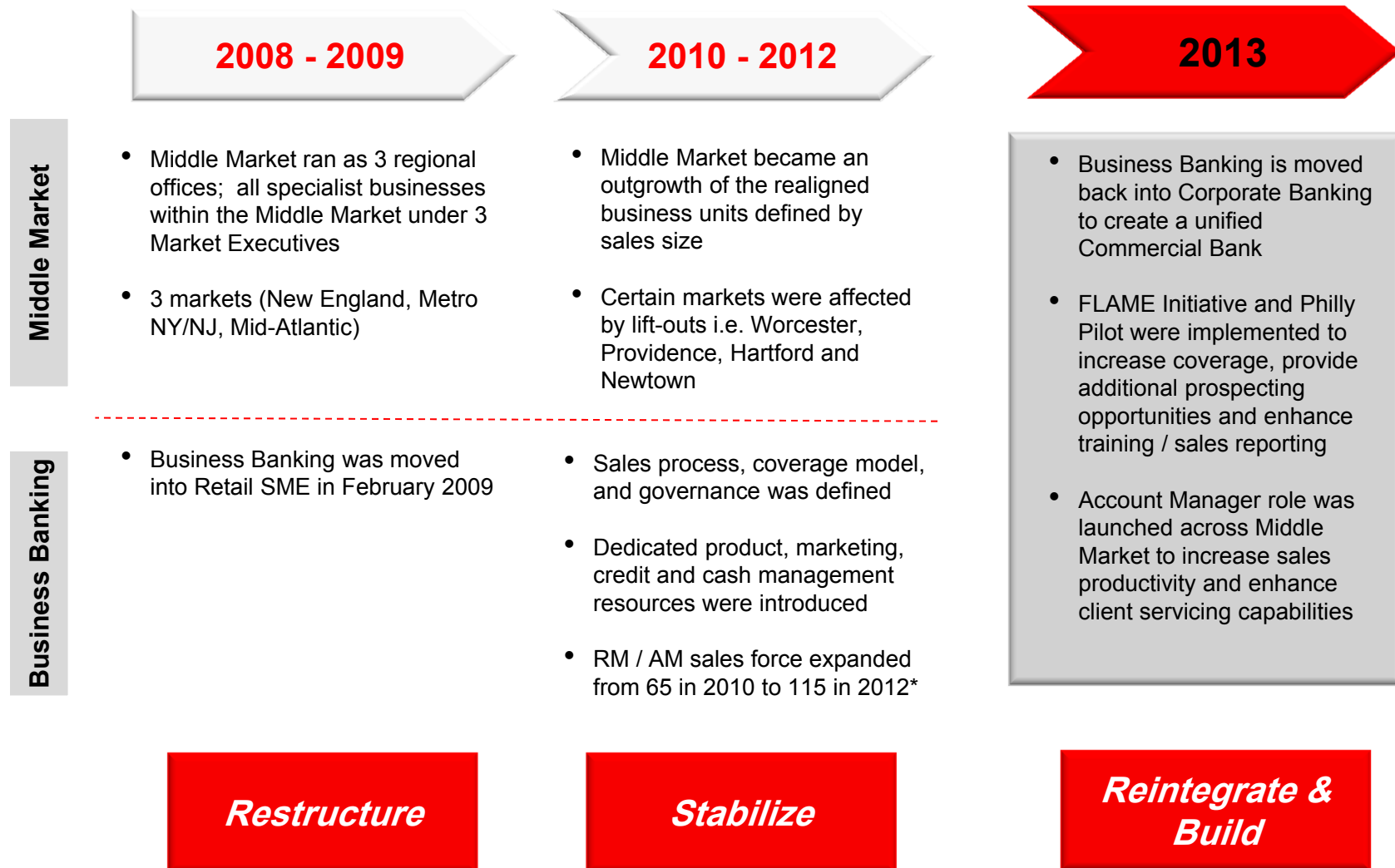
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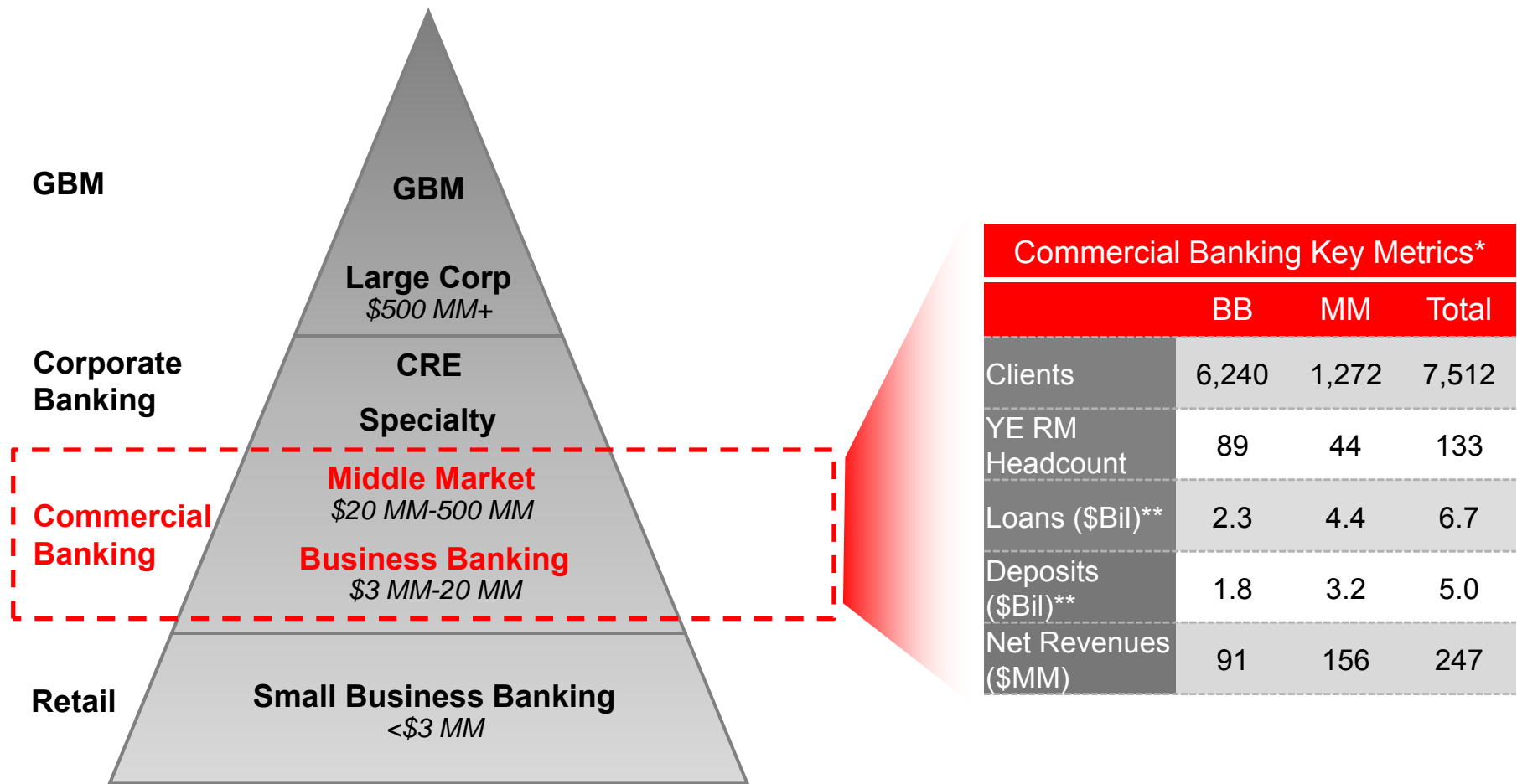
Appendix

Commercial Banking History



* Starting headcount in Jan. 2010 to ending headcount in Dec. 2012

Commercial Banking Segmentation

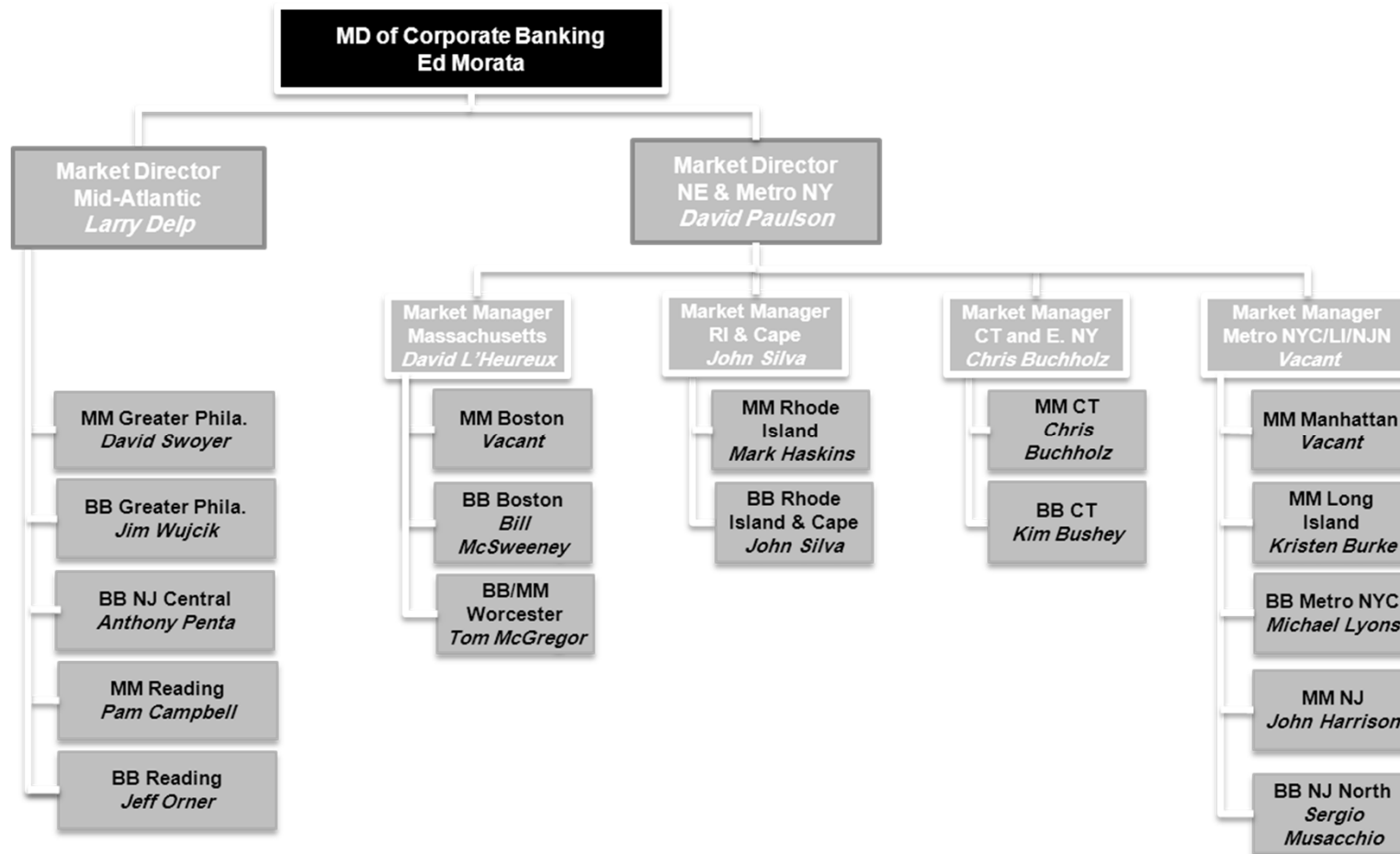


* Metrics as of 2012 YE

** Balances are average balances

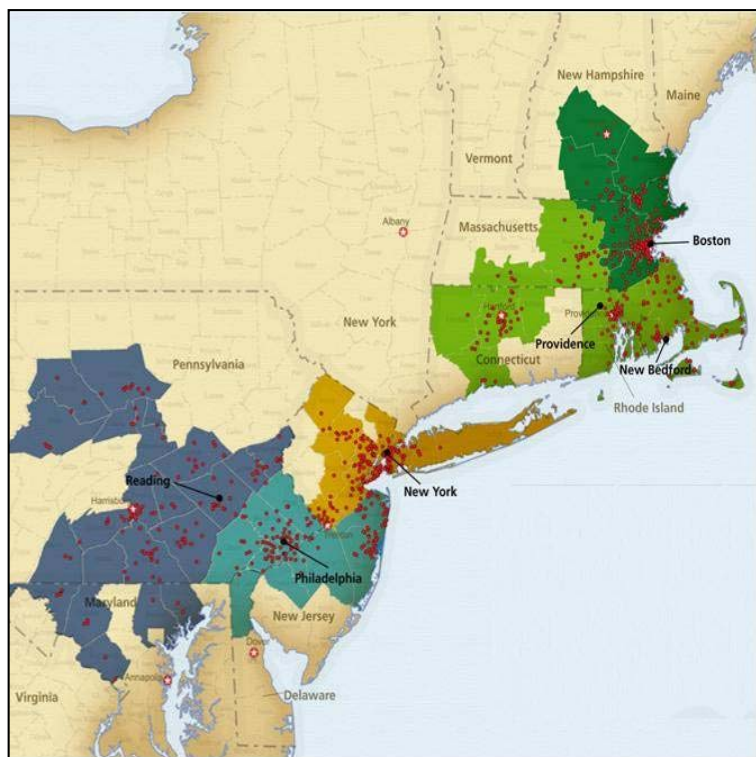
Commercial Banking – Client Coverage Structure

Segment orientation, geographically integrated management structure



Commercial Banking – RM Market Coverage

Middle Market & Business Banking coverage has been established in key footprint markets



	BB*	MM*	Total
Commercial NE / NY			
Greater Boston MA	16	5	21
Worcester MA	3	3	6
Providence / SE MA	9	2	11
Greater Hartford CT	6	3	9
Manhattan NY	10	4	14
Long Island NY	4	2	6
Northern NJ	7	6	13
Commercial Mid Atlantic			
Greater Phila / NJ South / Delaware	22	8	30
PA West / MD	9	7	16

* Includes only filled RM positions as of June 3, 2013

Commercial Banking – Client Segment Attributes

There are many synergies between the Middle Market & Business Banking segments

	Business Banking	Middle Market
Customer contact	<ul style="list-style-type: none"> Owner/CEO Chief Financial Officer/Controller 	<ul style="list-style-type: none"> Owner/CEO Chief Financial Officer/Treasurer
Customer type	<ul style="list-style-type: none"> Small local business Mix personal/business wallet 	<ul style="list-style-type: none"> Lower MM: Small/Regional businesses, mix personal/business wallet Upper MM: National and/or Regional businesses, limited access to capital markets
Customer needs	<ul style="list-style-type: none"> One-bank relationship Fast access to credit Quick and personal service Retail branch network Little to no international exposure 	<ul style="list-style-type: none"> Lower MM: one-bank relationship Upper MM: multiple banking relationships Strong customer service expectations Strong local market knowledge and presence in local business Lower MM: limited international exposure Upper MM: tailored products, international exposure, capital markets access
Coverage approach	<ul style="list-style-type: none"> By region/geography Branch and generalist RM with local market knowledge 75 clients/RM 	<ul style="list-style-type: none"> By region/geography Generalist RM with local market knowledge 25 clients/RM

Commercial Banking – Middle Market Deal Profile

Commercial Banking covers a wide spectrum of clients

MM Worcester
April 2013



DGS Retail, Inc.
Total deal amount \$8.2MM
Products: credit, deposit, leasing
credit sweep, IRIS, ACH, Wire,
onsite check deposit, and merchant
services

MM Short Hills
April 2013



McRoberts Protective Agency, Inc.
Total deal amount: \$8MM
Products: credit, deposits, CM,
Equipment Leasing

MM RI
April 2013



Rhode Island Economic
Development Corporation
Total deal amount: \$38.4MM
Products: Interest rate cap

MM Long Island
May 2013



Daymon Worldwide
Total deal amount \$23.5MM
Products: deposit, swaps

MM CT
December 2012



American Cruise Lines
Total deal amount: \$25MM
Products: credit, deposit

MM Reading
January 2013



HVAC Distributors
\$8,500,000 revolving working
capital line of credit
Products: credit, deposits, ACH, FX

Commercial Banking – Business Banking Deal Profile

Commercial Banking covers a wide spectrum of clients

BB Boston
May 2013



Etex Corporation
\$2.5MM revolving line of credit
Products: credit, deposit, IRIS,
Remote Deposit, Positive Pay,
Account Recon, Wire Transfer

BB Greater Philly
July 2012



Lacas Coffee Company LLC
Total deal amount: \$4.3MM
Products: Term loan, working
capital line of credit, CRE loan,
letter of credit, merchant services,
cash management, low cost
deposits

BB RI & Cape
December 2012



Coventry Lumber, Inc.
Total deal amount: \$3.7MM
Products: deposit, CM, merchant
services; Derivative (SWAP);
Sovereign at Work

BB PA West
July 2012



Ames Construction
\$3MM line of credit
Products: credit, deposit, CM

BB NJ Central
October 2012



RevZilla Motorsports
\$3.3MM line of credit
Products: credit, deposit, CM

BB CT/Western MA
September 2012



AB Container
\$500M revolving line of credit
Products : credit, merchant
services & CM

Commercial Banking P&L

Despite challenges growing topline revenues, most notably rate compression, significant progress has been made in cleaning up & re-positioning the Commercial portfolio

\$MM	2011	2012	% Δ	2013F	% Δ
NII on Assets	180	177	-2%	180	2%
NII on Liabilities	33	22	-34%	18	-19%
Total Net Interest Income	213	199	-7%	198	0%
Loan Fees	12	11	-6%	12	2%
Deposit Fees	28	27	-2%	25	-7%
Allocated Income	8	9	18%	5	-47%
Total Fees & Other Income	48	48	0%	42	-12%
Net Revenues	261	247	-5%	240	-3%
Direct Costs	31	37	19%	42	11%
Provisions for Loan Losses*	-6	4	N/A	-97	N/A
Net Revenues After Direct Costs & Provisions	236	205	-13%	296	44%

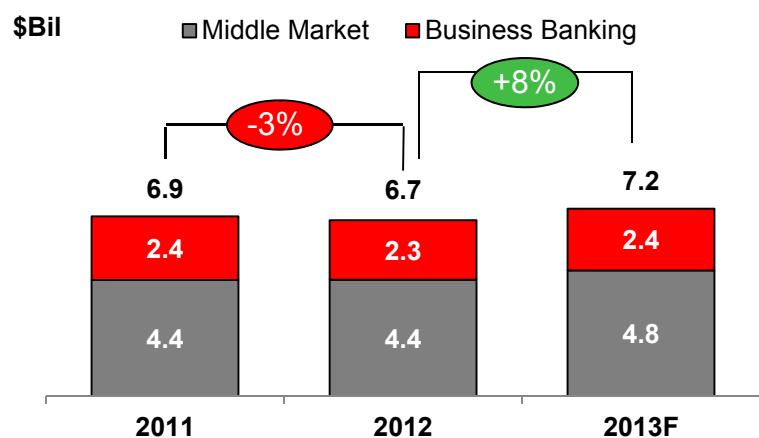
Rate environment is compressing deposit spreads

New regulations impacting SWAP & derivative fees

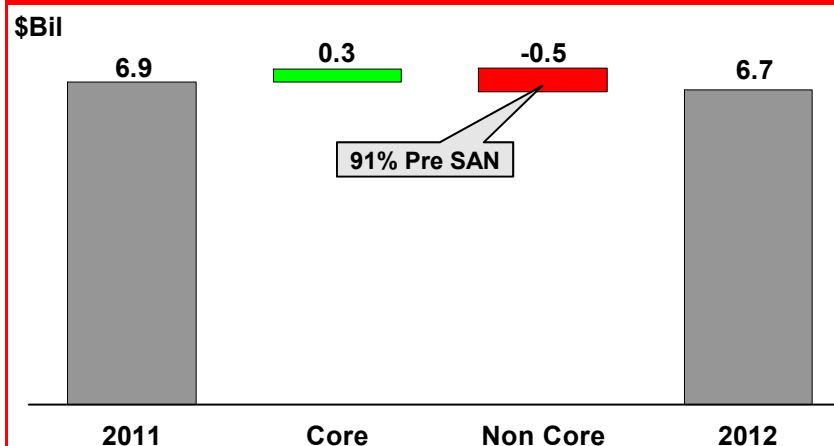
Portfolio clean-up and new client targeting driving provision releases

Historical Loan Performance

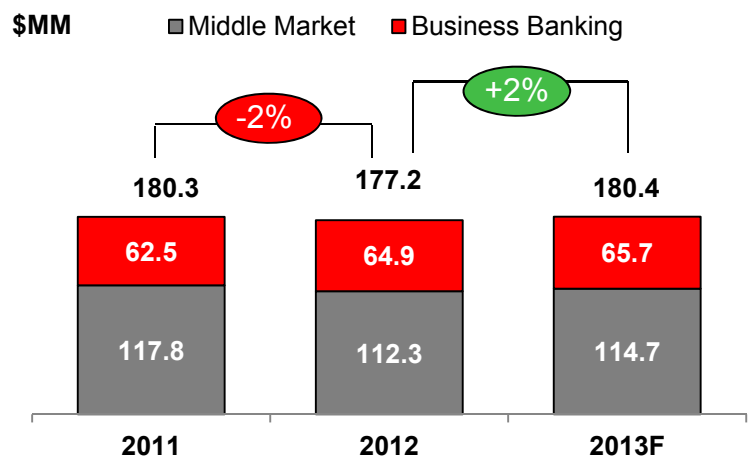
Total Loan Balances



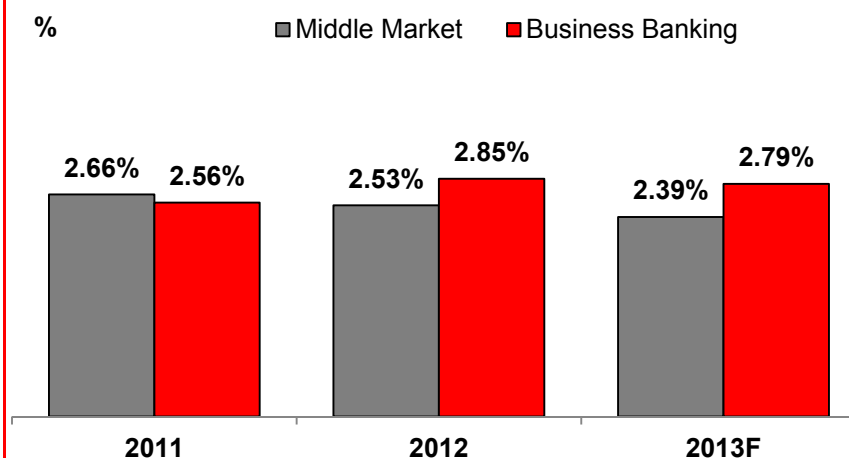
Core vs. Non-core Balances



Loan NII



Loan Spreads

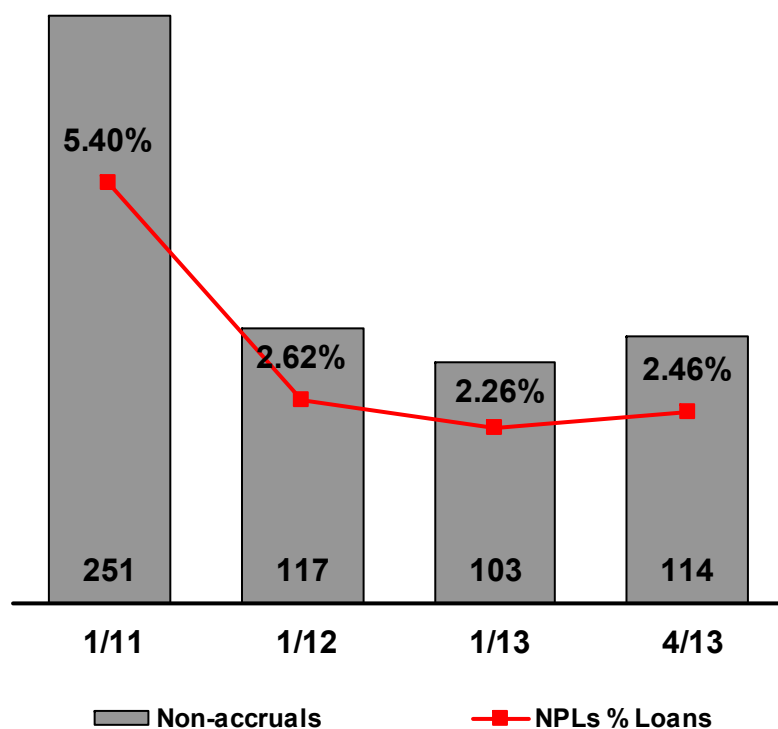


Note: All balances are full year average balance

Asset Quality: Year over Year Loan Evolution

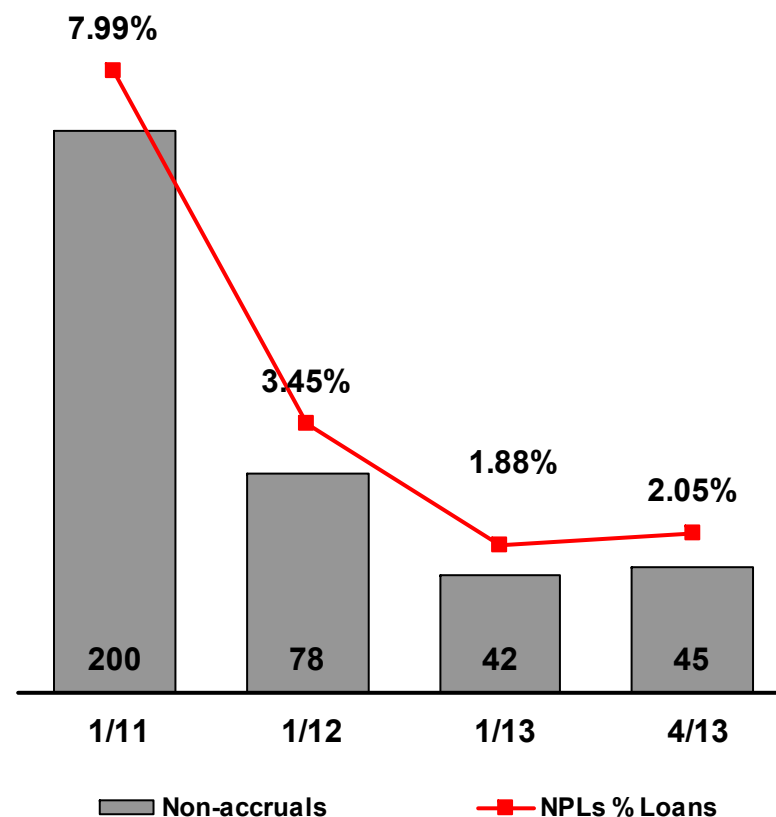
Middle Market

\$MM, %

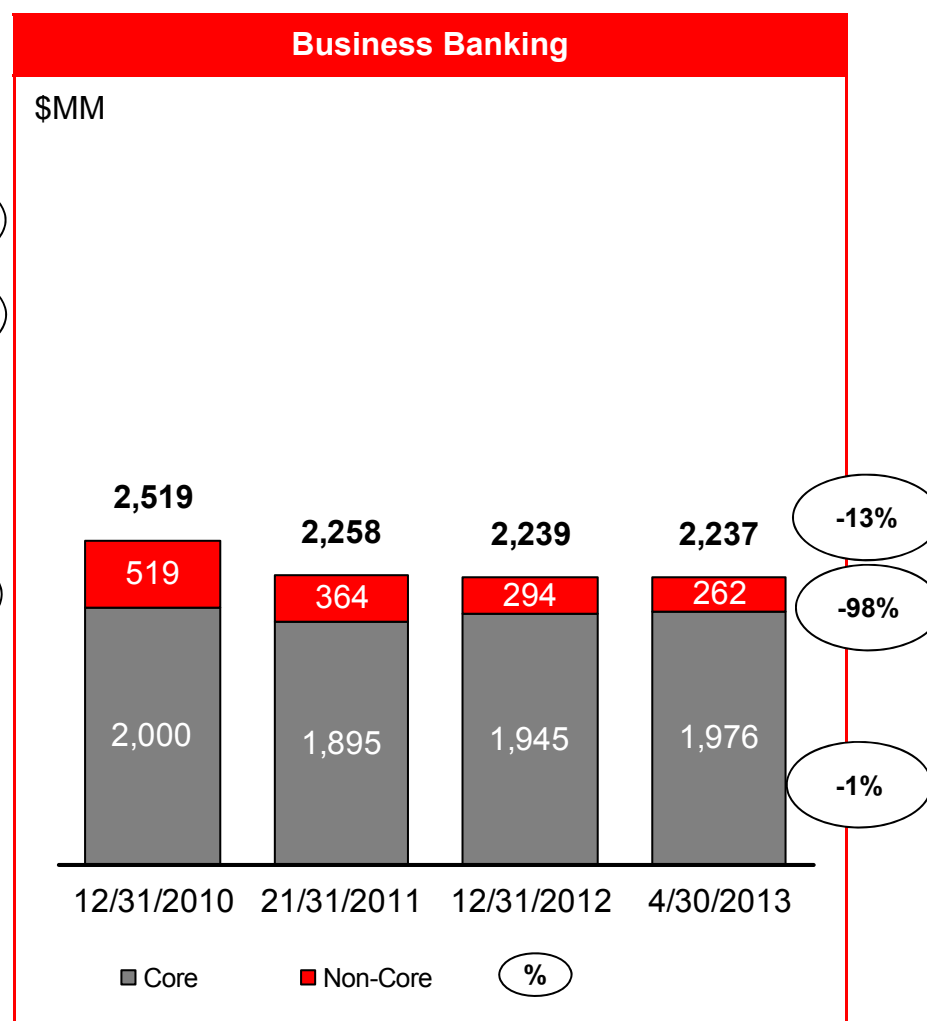
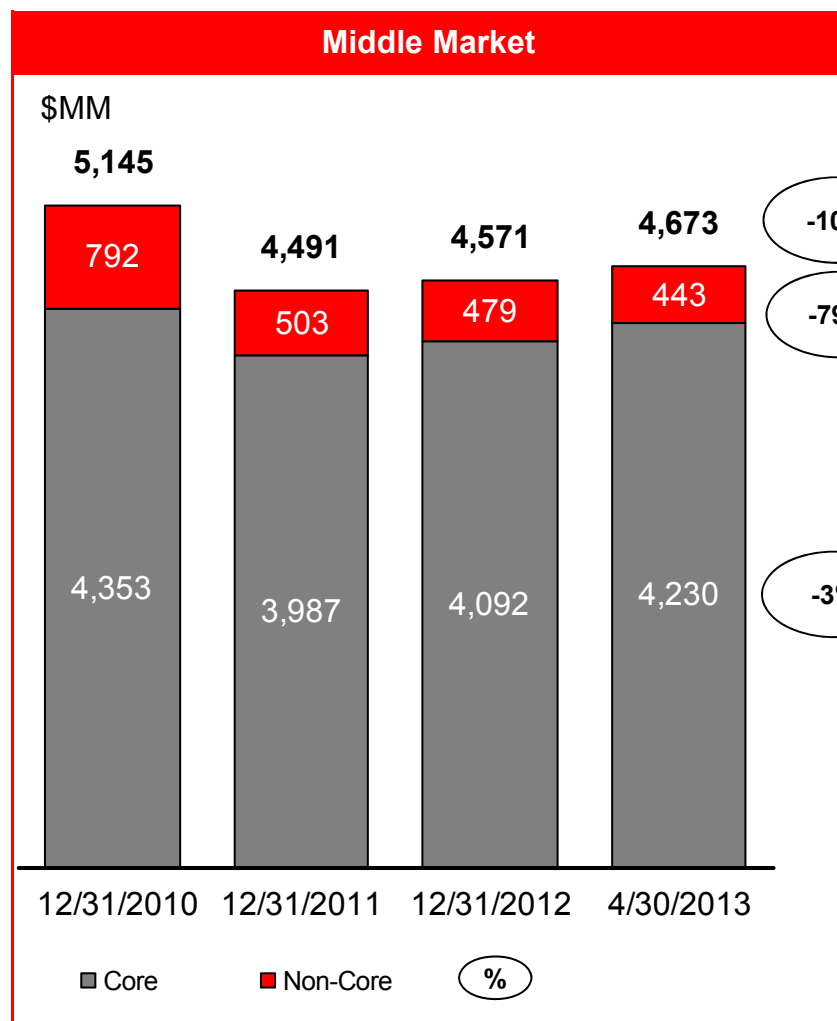


Business Banking

\$MM, %



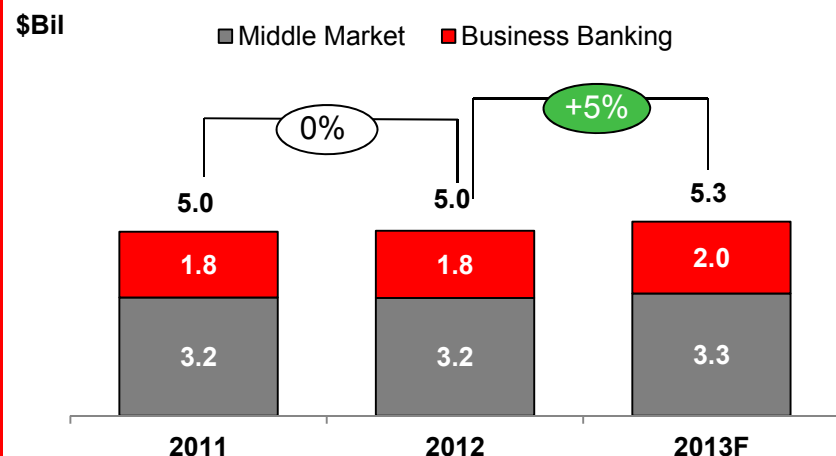
Loan Portfolio Evolution



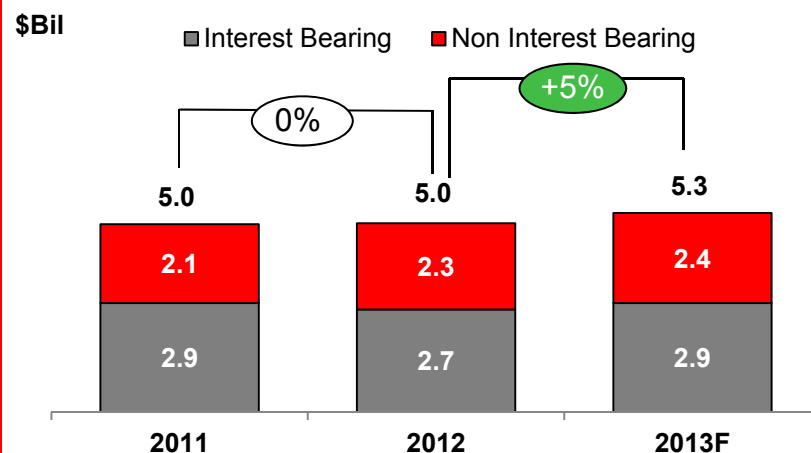
*Non-Core: Sovereign Risk Rating 7 & Higher

Historical Deposit Performance

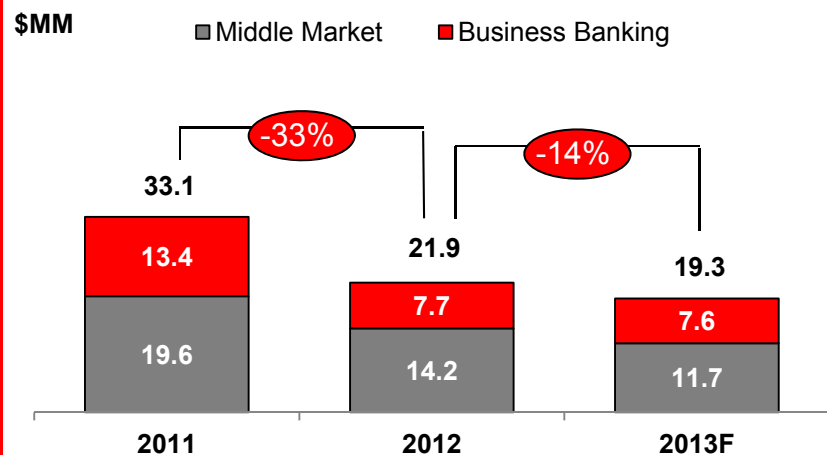
Total Deposit Balances



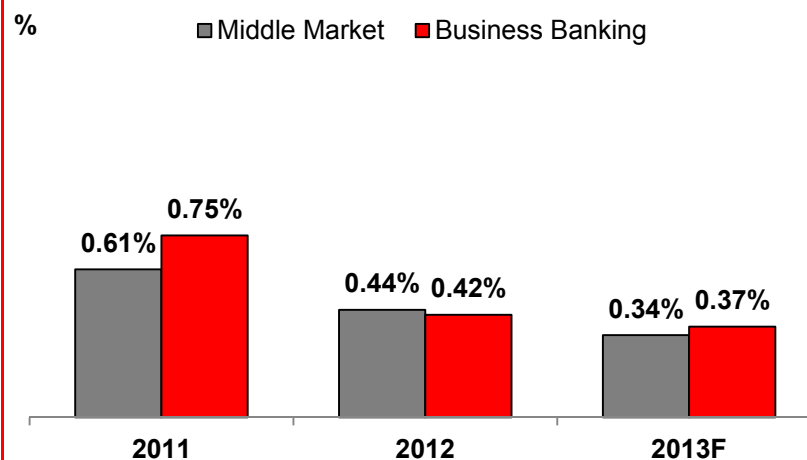
Interest Bearing vs. Non Interest Bearing



Deposit NII



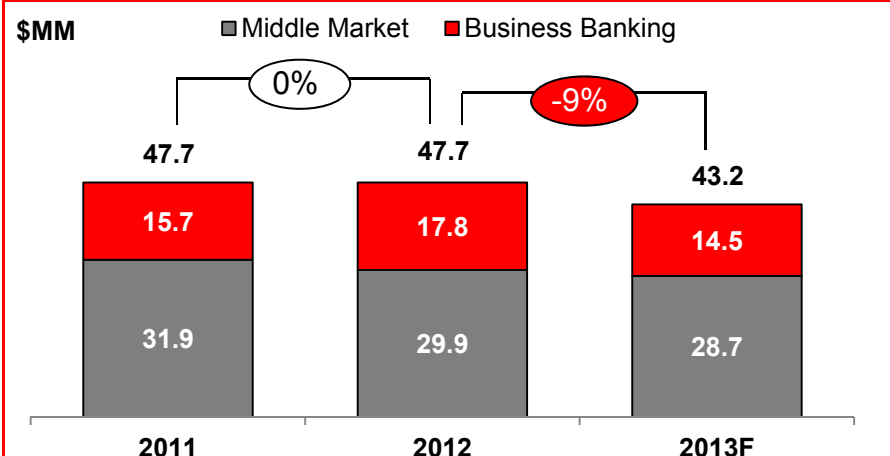
Deposit Spreads



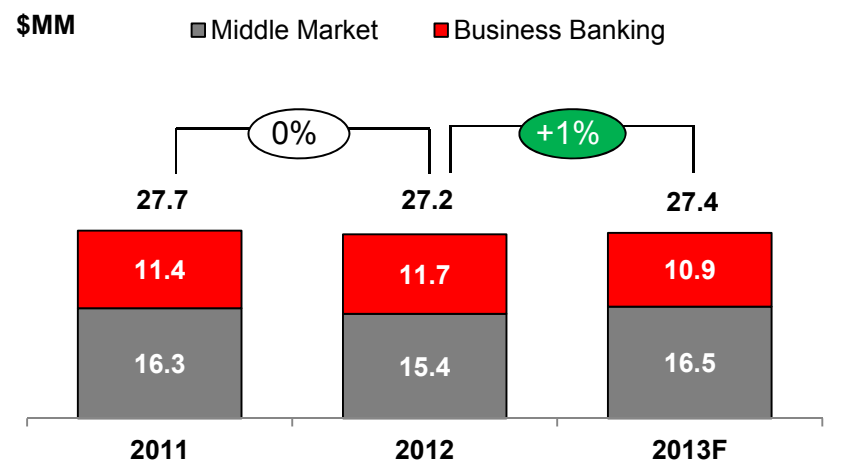
Note: All balances are full year average balance

Historical Fees Performance

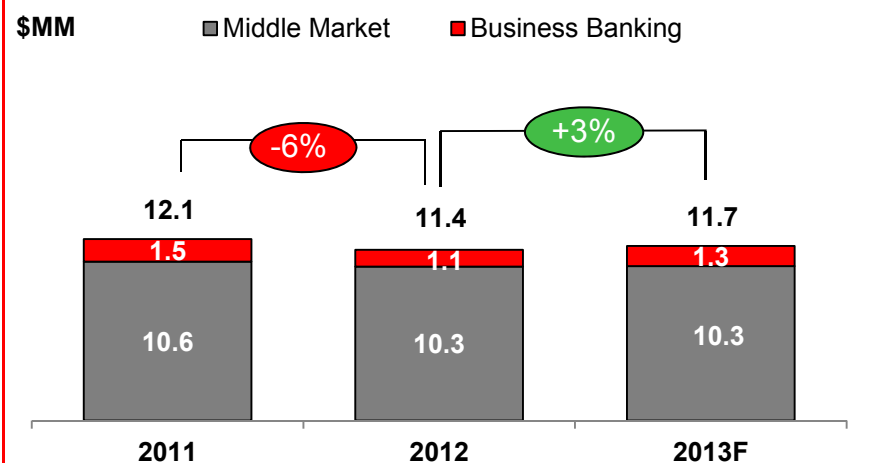
Total Fee Revenue



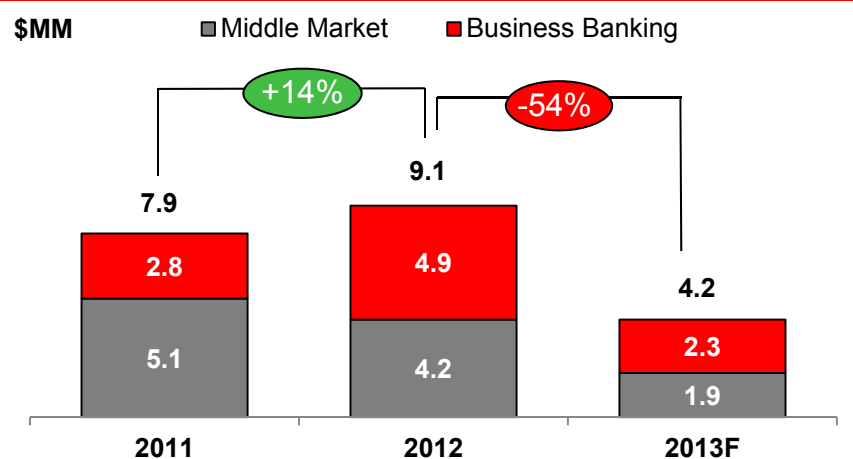
Cash Management & Deposit Fees



Loan Fees



Other Fees*



* Other fees include derivatives, foreign exchange, misc.

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Business Unit Background

Business Plan 2014-2016

- **Business-as-Usual**
- **Initiatives**
- **Consolidated Plan**

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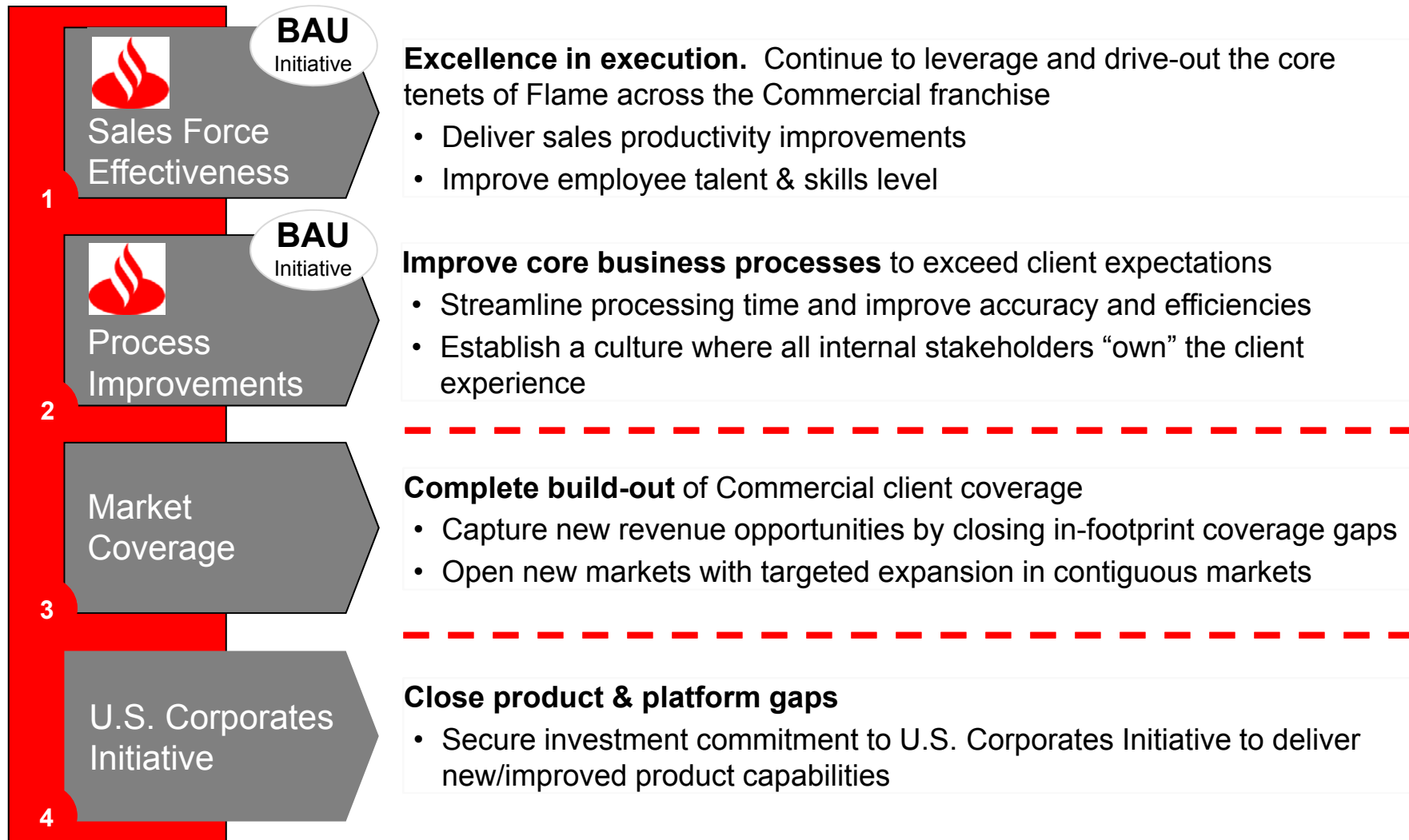
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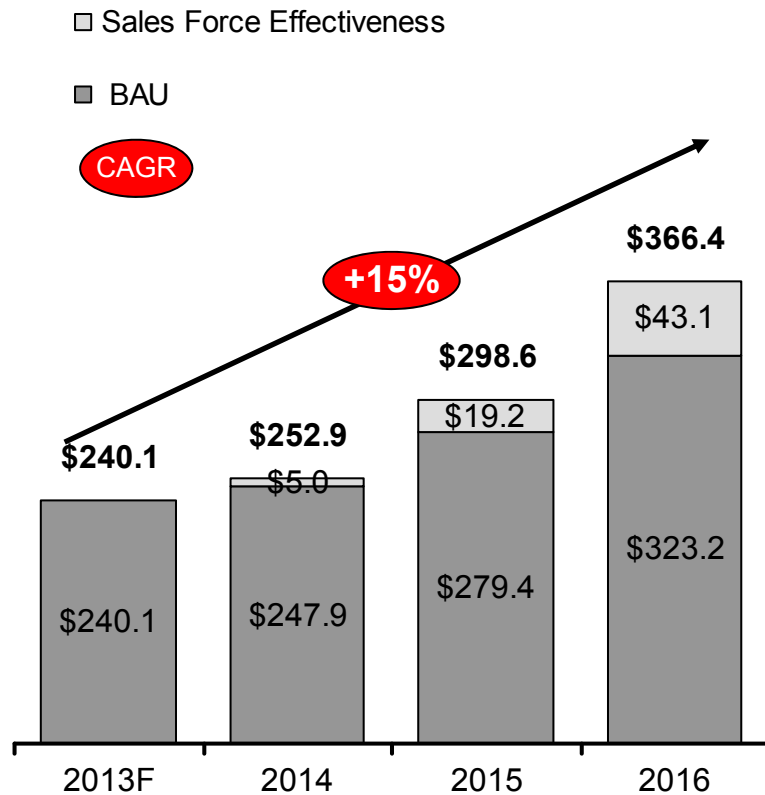
Appendix

Executive Summary – Areas of Strategic Focus



1 Business-as-Usual: Baseline + Sales Effectiveness

Net Revenue 2013-2016 (\$MM)



Key Growth Drivers

- BAU tracks with 2.5% GDP growth during this period
- 2015-2016 rate environment forecast includes spread increases of 45bps & 110bps in 2015 & 2016 respectively
- Includes improvements of new BB & MM RMs hired in 2012/13 as they ramp to full productivity levels
- Also includes increased RM productivity results from the execution of sales effectiveness, performance management, IP realignment and marketing initiatives

1 Sales Force Effectiveness – Overview

Learning's from the Philly & Flame pilots drive the franchise-wide Flame initiative - - Flame evolves from an “initiative” to a ongoing “continuous improvement vehicle”

Late 2012 - 2013
Strategic

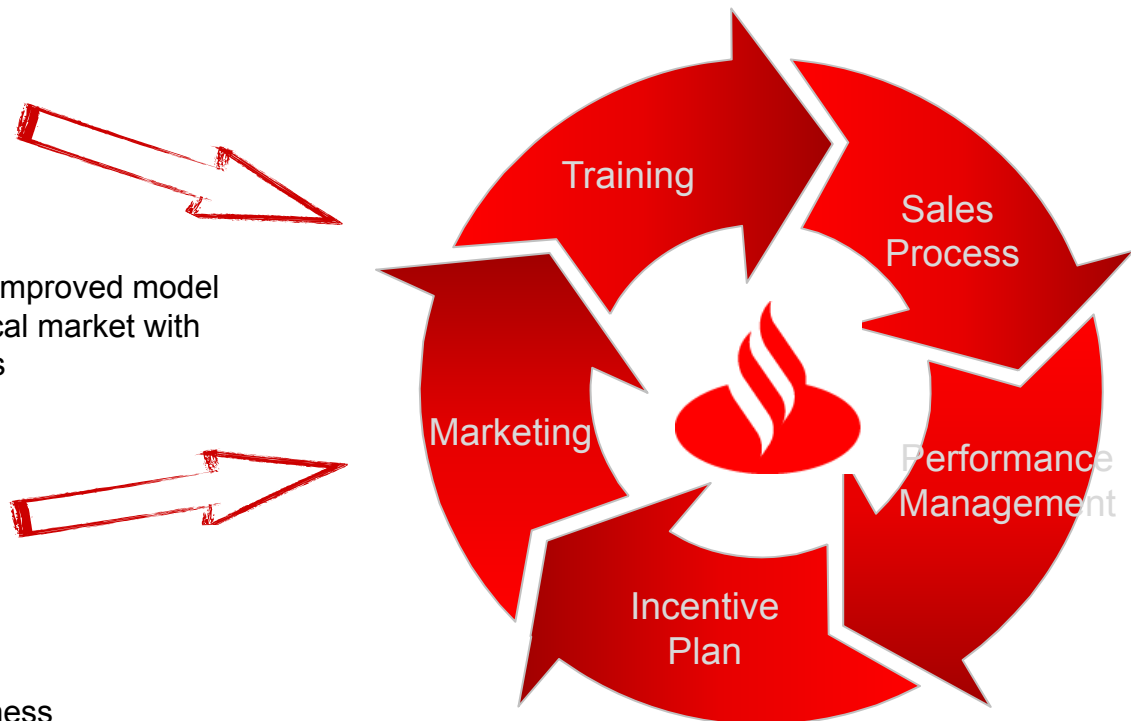
Philly Pilot

- Launched in 2012
- Philly Pilot's goal was to implement an improved model for the Middle Market division in one local market with increased investment to improve results

Project Flame

- Launched in January, 2013
- Focused on improving overall effectiveness across all elements of the business

2014+
Tactical



1 Sales Force Effectiveness – Philly Pilot Learnings

Preliminary Philly Pilot results are encouraging - - Philadelphia is currently above the MM average in YTD New O/S

Middle Market Region	# of RMs	Expected O/S (\$MM)	% Variance to Average	O/S Per RM (\$MM)	% Variance to Average
Greater Philadelphia	6	248	90%	41	36%
Reading	7	197	51%	28	-8%
Manhattan	4	194	49%	49	59%
Boston	5	135	4%	27	-11%
New Jersey	6	116	-11%	19	-36%
Connecticut	3	102	-22%	34	12%
Worcester	3	89	-32%	30	-3%
Long Island	2	66	-49%	33	8%
Rhode Island	2	26	-80%	13	-57%
Average	4	130		30	

Early results of the Philly Pilot are showing loan pipeline 90% higher than the Middle Market Average



*Total RMs in Philadelphia = 8. 2 excluded from analysis due to Q2 start date

**Average excludes outlier (Rhode Island)

1 Sales Force Effectiveness – Prospecting Learnings

“Test & Learn” Pilot

As a Flame initiative, deployed Expert Business Development in March 2013 to:

- Increase awareness with targeted businesses
- Set up prospecting appointments with third tier targets (*thereby freeing up RMs’ time to prospect first and second tier target*)
- Specialty lines were also included in the pilot

Initial Results

Results in the first 3 months have shown positive momentum in Philly:

- 132 decision makers have been reached
- **20 appointments** have been scheduled (representing 15% hit rate on decision makers)
- Now tracking resulting pipeline activity

Recommendation

“Test and Learn”

Expand

2013

2014

2015-16

Philadelphia & Connecticut

Boston, Worcester, Providence

Reading, New York, New Jersey

1

Sales Force Effectiveness = Flame



Flame – 5 Areas of Focus

Sales Process

- Deliver an interim, robust client management tool
- Develop improved prospecting & cross-sell processes
- Expand the use of Expert Business System as a prospecting tool

Performance Management

- Develop & deliver individual producer goals in Q12014
- Implement consistent sales management reporting & inspection routines
- Establish consistent coaching guidelines for front-line leaders

Incentive Plan

- Enhance RM incentive plans to focus on “major” levers that drive revenue growth
- Deliver Commercial Banking incentive plan framework in Q12014
- Produce regular RM plan performance results

Marketing

- Develop and introduce Commercial Banking value proposition
- Establish local marketing budgets to support sponsorships, COI & client events
- Initiate external marketing research to better understand market dynamics

Training

- Develop & launch Corporate Banking Academy
- Implement a comprehensive onboarding program
- Develop product training program to improve product penetration

1 Sales Force Effectiveness – FTE Requirements

Incremental Corporate Development resources are required to support the achievement of productivity targets. These resources will provide support across Corporate Banking.

People	Division	Function	Area to support	Number of FTEs	2014	2015	2016
	Corporate Development	Prospecting	Commercial Banking	2	2		
	Corporate Development	CRM	Commercial Banking	2	2		
	Corporate Development	MIS/Reporting	Commercial Banking	1	1		
	Corporate Development	Training	Commercial Banking	1	1		
	Corporate Development	HR	Commercial Banking	1	1		
	TOTAL			7	7	0	0

Note: Estimated costs to be verified by HR

1 Sales Force Effectiveness – Marketing Requirements

2014 will represent an investment in building Santander's Commercial Banking brand across the footprint

Project Name	Business Driver	Description	Delivery date	Estimated cost (\$M)
Brand and Advertising	Marketing	Brand and Advertising – Commercial Banking	2014	\$1,000
Local Sponsorship	Marketing/ Corporate	Establish local sponsorship budget for each Commercial region (7)	2014	\$950
COIs & Events	Marketing/ Corporate	Establish local COI & client events budget for each of the Commercial regions (7)	2014	\$700
Marketing Research	Marketing/ Corporate	Purchase external marketing research	2014	\$100
EBD	Marketing/ Prospecting	Prospecting, marketing	2014	\$90
				\$2,840

1 Sales Force Effectiveness – Training Requirements

2014 will represent an investment in building Santander's Commercial Banking brand across the footprint

Project Name	Business Driver	Description	Delivery date	Estimated cost (\$M)
HR	Training: Internal	Trainers & Developers	2014	\$400
HR	Training: External	Vendor Costs	2014	\$100
				\$500

Total estimate is for all of Corporate Banking

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- **Business as Usual**

- **Initiatives**

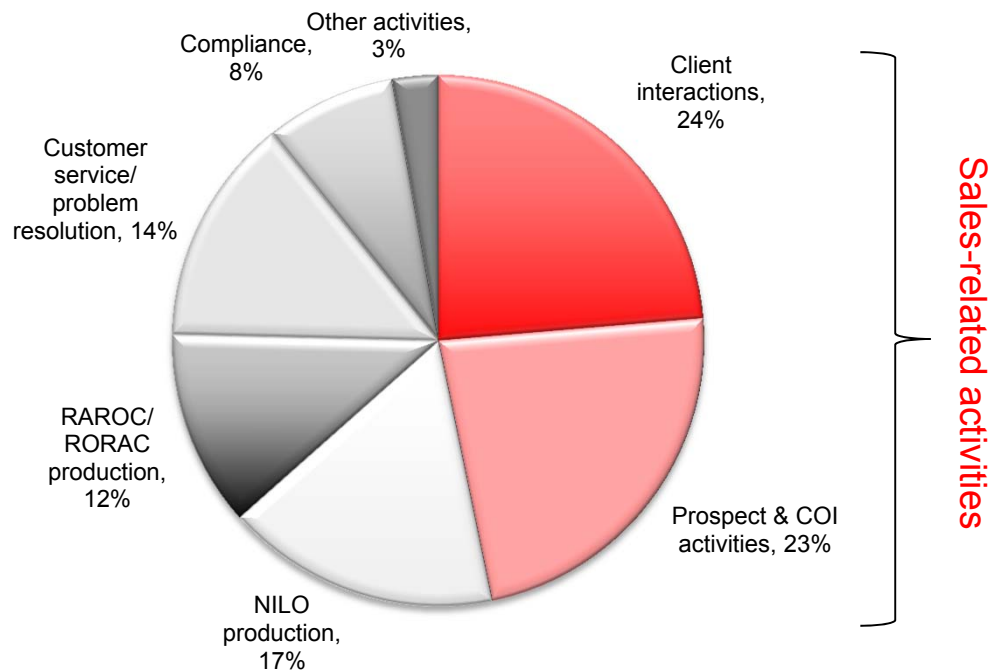
- **Consolidated Plan**

Appendix

2 Process Improvements

Despite progress, many executional challenges continue to impact our ability to meet our client's needs and drive revenue growth

Indicate the percentage of time you spend on each of these activities in an average month*



Based on 37 MM RM responses

53% of a Middle Market RMs time is spent on non-sales related activities, impacting our ability to drive revenue growth.

- *Problem resolution and RORAC calculations consume 26% of RMs' daily activity*
- *Client/Prospect interactions representing 47% of daily activities don't necessarily mean "revenue generating activities"*
- *Systemic inefficiency prevalent*
- *Too many paper-based and/or manual processes exist*
- *Customer Service responsiveness not sufficiently prioritized with all employees*
- *Employee morale diminished*

*Internal Survey sent to 43 MM RMs May 13, 2013 - 86% response rate.

2 Process Improvement – Enhance Customer Service

Quality Service is not only the heart of a relationship but at the core of strong leadership.

Scope

- To improve customer satisfaction; design a customer centric culture to “**own the customer experience**” measured and supported by tools, leadership and coaching.

Define and Assess the Current State and Needs

- Define the current state of the Corporate Customer’s experience
- Assess the Corporate **Customer’s expectations**
- Assess the **systematic issues**

Process Development and Improvements

- **Establish internal and external SLAs to exceed the** customer’s expectations
- Establish PMO to resolve systematic issues

Resources

- Engage Central Service Quality and Customer Service resources
- Develop/Produce KPI’s to measure process improvements and support coaching opportunities
- Invest in Corporate Banking customer research

2 Process Improvements – Credit

Recommendations

- Establish joint guidelines with Credit Risk to and establish joint ownership for the client risk and tracking approval activity
- Embed RONES to ensure alignment between Risk and the Line
- Work jointly with Madrid Credit Risk to ensure that all >\$35MM Commercial Banking credits are reviewed at a monthly pre-approval pipeline meeting attended by U.S. executive line representation and Madrid risk approvers
- Increase Local Credit Authority in the U.S. over time
- Work jointly with Credit Risk to ensure that sufficient level of local credit professionals are in place to support the projected growth in Commercial Banking
- Improve components of NILO/CRR/RORAC production

Next Steps with Credit Risk Partners

- Ensure incremental credit resources increase commensurate with the Market Expansion as approved
- Continue enhancing the communication and strategic planning between U.S. Commercial Banking and Madrid Credit Risk
- Implement the joint recommendations from the Flame Credit workstream as proposed in the second half of 2013

3 Market Coverage

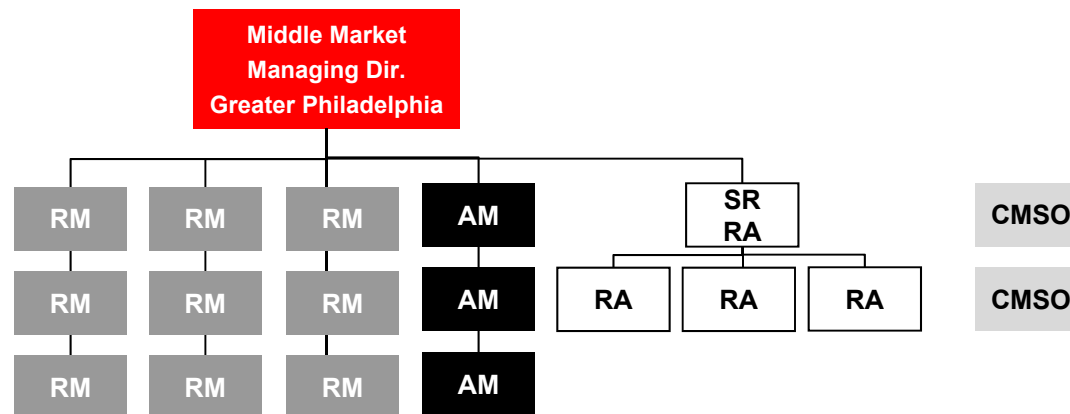
The opportunity exists to leverage the coverage model deployed in the Philly Pilot to complete the build-out across the Commercial footprint

- The coverage model deployed as part of the Philly Pilot was structured to better position Santander to capture additional market share in Greater Philadelphia
- Account Managers were deployed to enhance prospecting and client service capabilities

Greater Philadelphia Market Profile

Middle Market

Prospects per RM	~ 350
Loan O/S per RM	\$75.5 mm
RM per AM	3:1
RA per RM	2:1
RM per CMSO	5:1

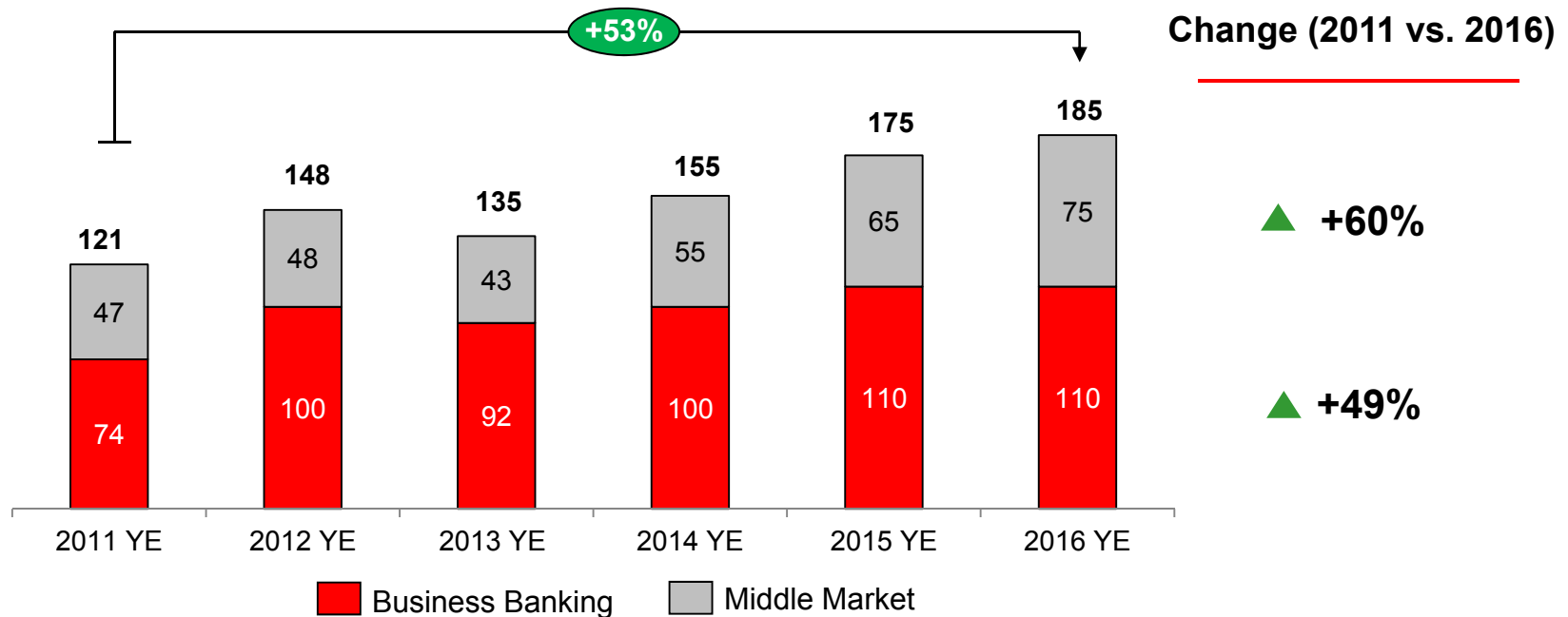


Note: Portfolio loan data as a April 30 2013

3 Market Coverage

- Recommendation calls for the addition of 50 Relationship Managers in Commercial Banking over the next 3 years
- 32 RMs will be added to Middle Market over the next 3 years essentially replicating the headcount growth initiative conducted in Business Banking in 2011 and 2012

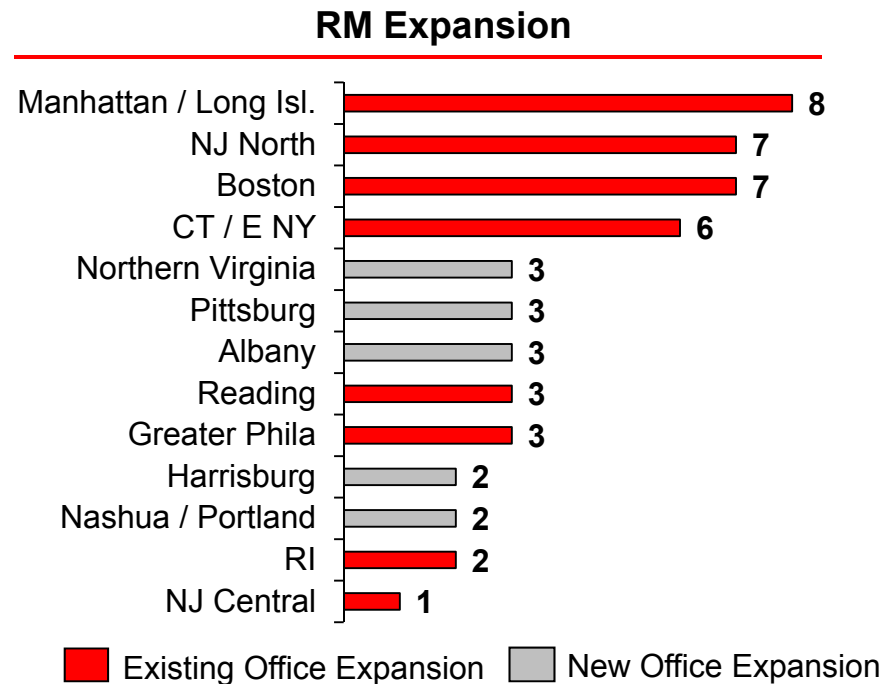
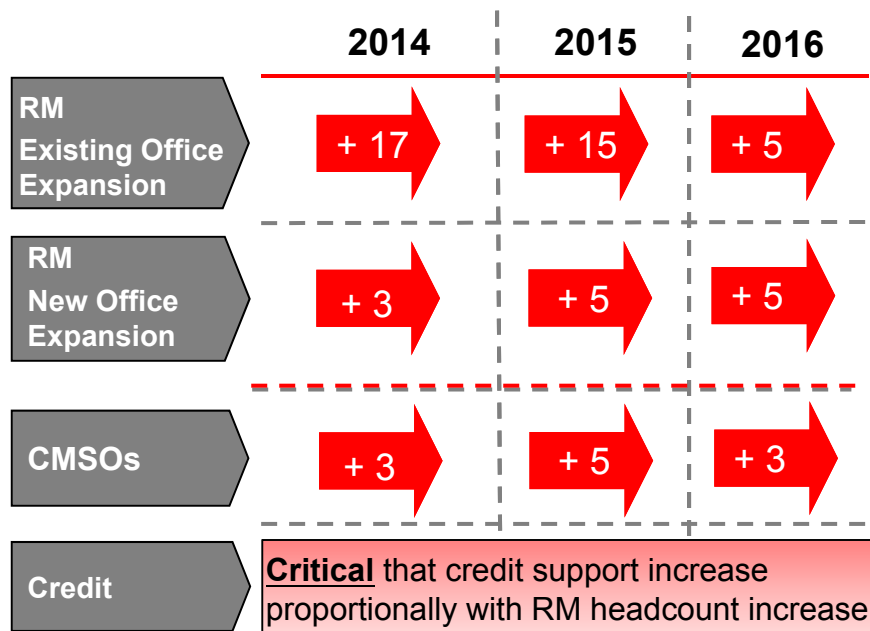
RM Headcount (Filled + Open)



Note: Headcount includes RMs only

3 Market Coverage

- Segment split: 32 MM / 18 BB
- Existing Office vs New Office split: 37 existing / 13 new office (all MM)
- Pacing: 20 in 2014; 20 in 2015; 10 in 2016
- Expansion RMs are forecasted to be at full production capacity by year 3



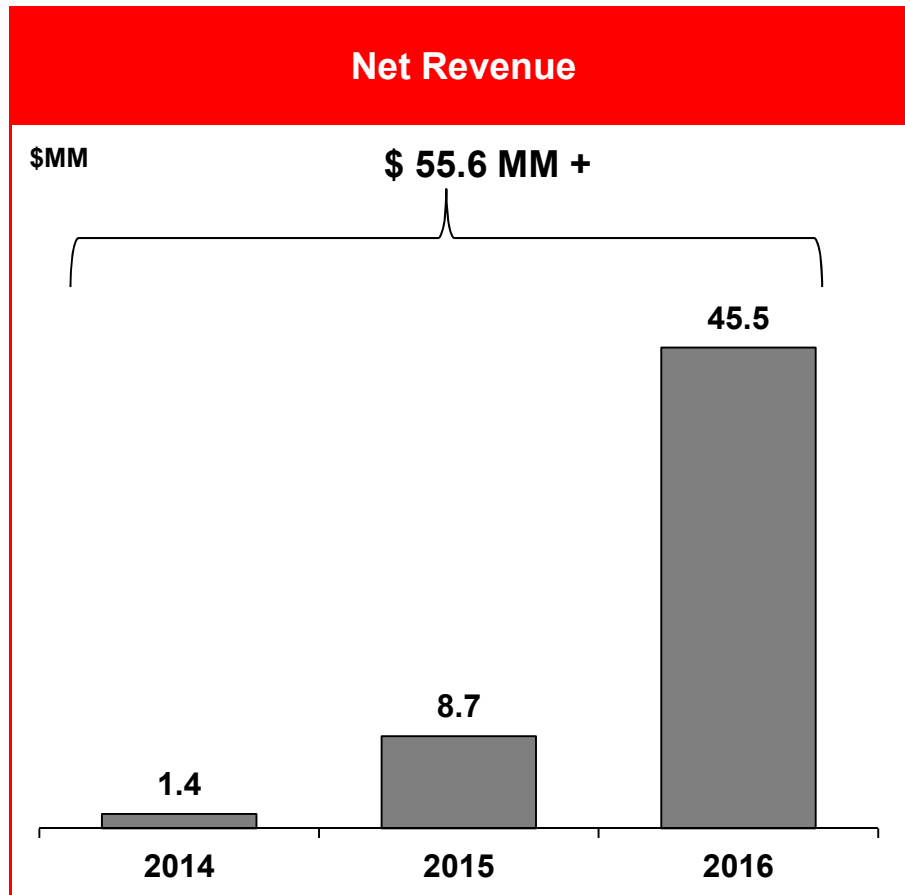
3 Market Coverage – Commercial Summary

People	Division	Function	Area to support	Number of FTEs	2014	2015	2016
	Sales	Relationship Manager	Commercial	50	20	20	10
	Sales	Account Manager	Commercial	19	5	11	3
	Sales	Relationship Administrator	Commercial	30	15	11	4
	Credit Risk	Credit Professional	Commercial	17	7	6	4
	Transactional	CMSO	Commercial	11	3	5	3
	Transactional	Treasury SO	Commercial	3	1	1	1
	Transactional	Analyst	Commercial	5	2	2	1
	Transactional	Associate / Technical SO	Commercial	6	4	1	1
	Operations	Loan Administrator	Commercial	TBD	TBD	TBD	TBD
TOTAL				141	57	57	27

1. Headcount costs are run-rate direct costs
2. Assume 1 Credit Analyst per 3 RMs
3. Estimated costs to be verified through conversations with HR, IT
4. Sales Associates and Technical Analyst are dedicated to Commercial Banking as a whole

3 Market Coverage – Revenue Impact

By 2016 (Year 3), the expanded RM coverage is expected to contribute \$56MM in incremental revenue to the Commercial Banking business



Key Drivers

- New hire RMs are forecasted to achieve the same production levels as an average RM in year 3
- Middle Market is expected to contribute 82% of the cumulative net revenue growth
- Business Banking is expected to contribute 18% of the cumulative net revenue growth

4 Commercial Banking – Products and Tools

Further growth in Commercial Banking is dependent now on closing the gaps with peers in terms of core capabilities

Gaps to Peers

1

PRODUCTS

- Syndications capabilities require upgrading
- Corporate online banking does not meet many basic requirements
- Missing key products in payables and receivables
- Basic liquidity products in place, but missing multi-currency capabilities and investment options
- International trade and international payment capabilities are either manual or outsourced to competitors

2

CLIENT TOOLS

- No single client view exists impacting both the ability to measure and control performance as well as manage client relationships for RMs
- No client segmentation or data-warehouse tools to manage the client base
- Weak and non-integrated front-end “CRM” tool results in poor sales information

3

STRUCTURAL

- Operational risk and inefficiencies created by numerous manual processes and gaps in system integration
- Payments platforms not scalable to support future growth and/or international capabilities
- Core infrastructure requires some upgrades to support future product development (e.g. multi-currency accounting and MIS improvements)

4 U.S. Corporates Initiative – Gaps to be Addressed

The vision and approach for the program has been refined against a back-drop of achievability and affordability

Vision

Provide Sovereign Bank with a competitive Commercial and Corporate Product & Service offering, in order to become a competitive player in line with our peers¹

Current Approach:

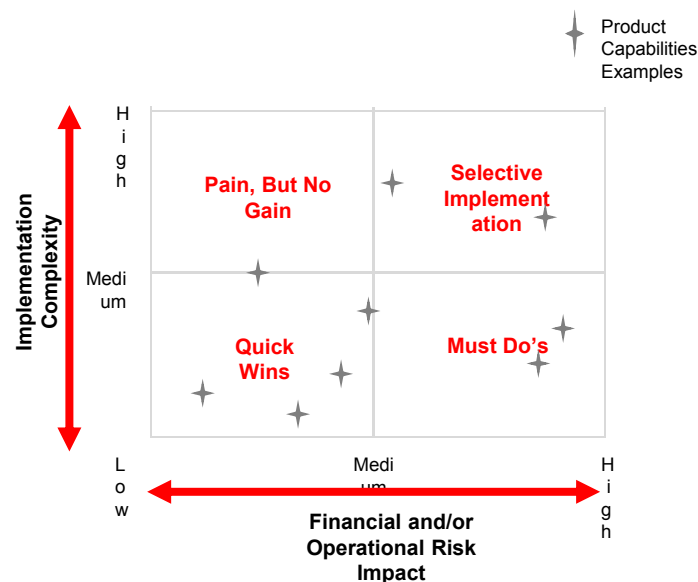
- **Develop a sequenced 2+ year Plan** for a complete offering, with a **phased delivery** based on **Sovereign Business priorities**, which will allow for **early returns**
- 1 **Products: Product & Service offerings for the US market**, and prioritized and approved based on **cost-benefit criteria**
- 2 **Segmentation and Client Management:** Projects to accurately **manage Corporate clients** from an **MIS, Commercial, Segment and Portfolio perspective**
- 3 **Structural: Essential system architecture** provided to support the required offering in a scalable manner and **minimize operational and regulatory risk**

¹ Peers as defined by the Sovereign bank-wide approved peer set including mid-size banks with common characteristics both in and out of footprint.

4 U.S. Corporates Initiative – Prioritization Approach

The project has been developing a sequenced roadmap led by business needs and guided by IT cost and complexity

Prioritization Framework



Review Schedule

0	Infrastructure (incl. CRM)	29-May (Initial)
1	Syndications and Multicurrency Loans (Loan IQ)	15-May
2	Confirming and Supply Chain Finance	12-June
3	Trade (BankTrade)	12-June
4	Corporate Online Banking (Trans. Bking)	29-May
4	Purchasing Cards (Trans. Bking)	5-June
4	Liquidity, Payables, Receivables (Trans. Bking)	5-June
5	Rates (Swaps/FX)	28-June
5	DCM/ECM	28-June
Additional	Core Loan Platform Approach (AFS)	TBD

4 U.S. Corporates Initiative – Products

Products

Syndications and
Loan Capabilities

Transaction
Banking

Trade and
International

Strategic Approach

- Grow cross-sell and deposits by up-tiering in upper middle market and establishing lead positions in key markets
- Dependent on combination between building sales expertise, clarifying risk appetite and limits and upgrading loan syndication platform capabilities
- Close key gaps with peers by addressing weaknesses through three strategic projects:
 - **Corporate Online Banking:** Implement new upgraded platform
 - **Receivables, Payables and Liquidity:** Implement specific projects to close gaps with peers
 - **Purchasing Card:** Launch new purchasing card capability
- Bring trade capabilities in-house to support growth in International Trade, and improve standby L/C process
- Improve international capabilities by implementing multi-currency accounts and improved international payments and SWIFT capabilities

4 U.S. Corporates Initiative – Client Tools & Structural

These product offerings will be supported by strengthened tools and structure support

2

CLIENT TOOLS

Description

- Develop single client view (Master BDP)
- Build ability to provide financial and marketing segmentation
- Implement client management tools including CRM and Portfolio Management

Benefits

- Improved client servicing capabilities
- Improved ability to manage sales
- Increased sales productivity
- Improved financial and performance MIS

3

STRUCTURAL

- Upgrade domestic payments capabilities for wires and ACH
- Upgrade international payments capabilities
- Implement “perquisites” to support products (e.g. multicurrency accounting)

- Improved client experience
- Reduced operational risk
- Improved scalability
- Improved efficiency

4 U.S. Corporates Initiative – Revenue Impact

Timing and size of revenue impact directly related to timing and level of investment approved for plan

Sequencing of US Corporates Upgrade?

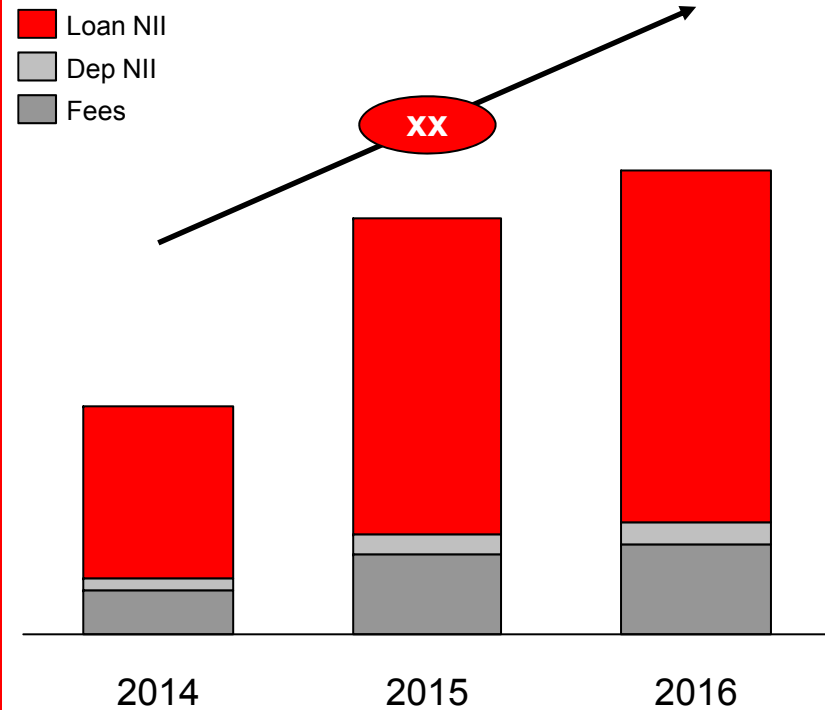
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Approved Investment?



Incremental Net Revenue 2013-2016

In \$M's



Agenda

Competitive Landscape & Market Environment

Business Unit Background

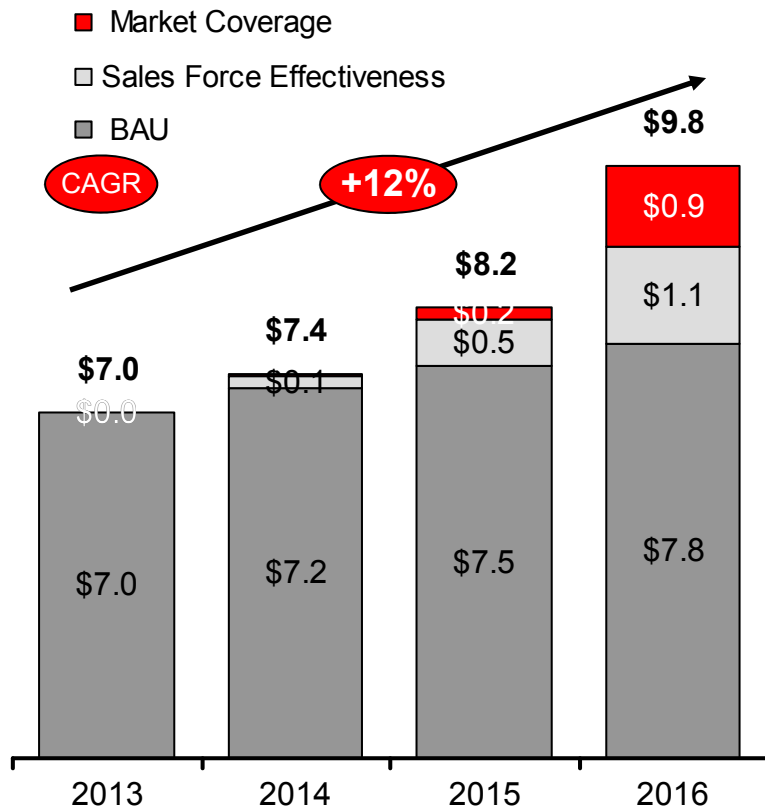
Business Plan 2014-2016

- **Business as Usual**
- **Initiatives**
- **Consolidated Plan**

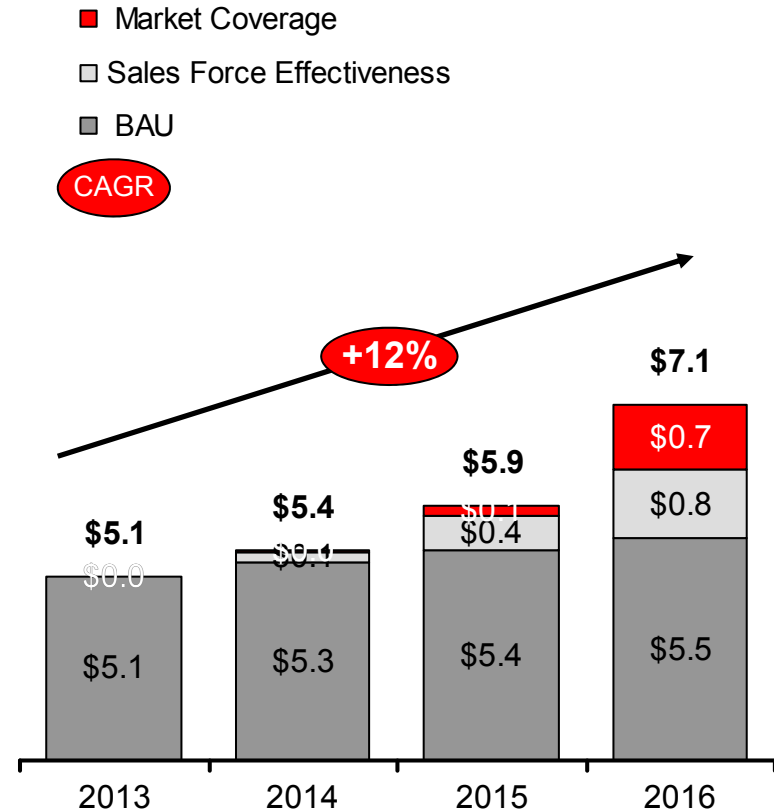
Appendix

Commercial Banking Consolidated 2016 Plan

Loan Outstandings 2013-2016 (\$Bil)

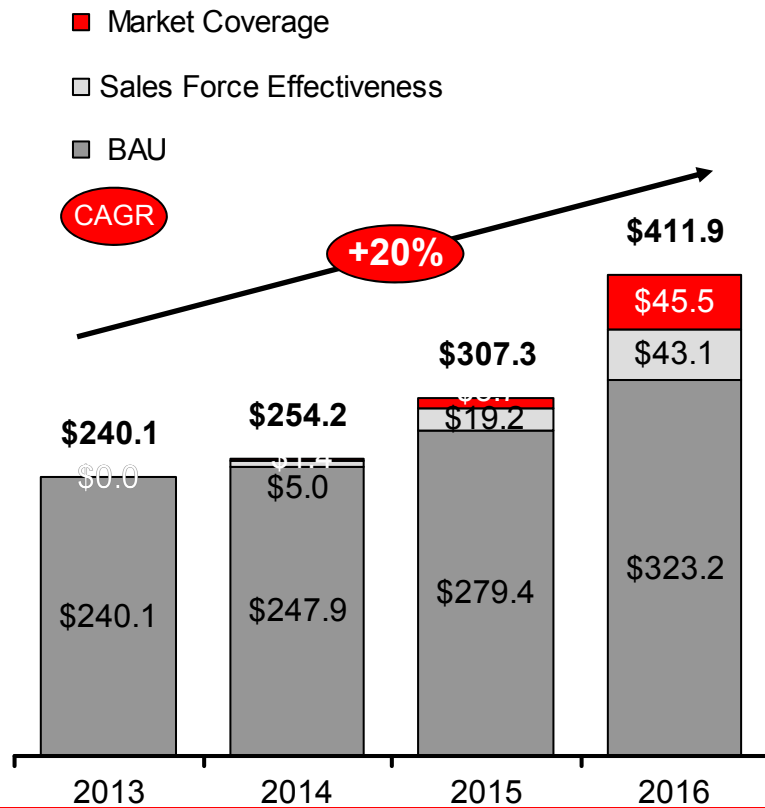


Deposit Balances 2013-2016 (\$Bil)



Commercial Banking Consolidated 2016 Plan

Net Revenue 2013-2016 (\$MM)



Non-deposit BAU rate CAGR is 2.0%

Consolidated P&L – BAU

\$MM

	2013E	2014	2015	2016	CAGR '13E-'14	CAGR '13E-'16
Net Interest Income	198	206	238	281	4%	12%
Fees & Other	42	42	42	42	-1%	0%
Total Revenue	240	248	279	323	3%	10%
Direct Cost	-42	-43	-44	-45	2%	2%
Operating Profit	199	205	236	278	3%	12%
C/I	17.3%	17.2%	15.6%	13.8%		
Total Commitment	10,642	11,086	11,463	11,863	4%	4%
- Total Assets	6,957	7,247	7,494	7,755		
- Total Liabilities	5,094	5,275	5,407	5,542		
HC	266.0	266.0	266.0	266.0	0%	0%




Consolidated P&L – BAU with Initiatives

\$MM

	2013E	2014	2015	2016	CAGR '13E-'14	CAGR '13E-'16
Net Interest Income	198	211	259	352	6%	21%
Fees & Other	42	43	48	60	3%	13%
Total Revenue	240	254	307	412	6%	20%
Direct Cost	-42	-46	-58	-76	10%	22%
Operating Profit	199	208	249	336	5%	19%
C/I	17.3%	18.0%	18.9%	18.5%		
Total Commitment	10,642	11,344	12,507	14,975	7%	12%
- Total Assets	6,957	7,416	8,176	9,790		
- Total Liabilities	5,094	5,399	5,918	7,074		
HC	266.0	306.0	348.0	365.0	15%	11%

Consolidated P&L – Initiatives Detail (Incremental Adds)

\$MM

		Inc Commit.	Yr 3 Inc. Loan O/S	Inc Deposit	Inc Revenue	3 Year Total Cost	3 Year Total FTE	Status
	Commercial Banking	\$3.1B	\$2.0B	\$1.5B	\$123	\$35	106/50	
1	Sales Force Effectiveness	\$1,693	\$1,106	\$796	\$67	\$3	7	
2	Market Expansion	\$1,420	\$928	\$736	\$56	\$32	99/50	

Status
indicators



Not
started



Started
needs
expanding



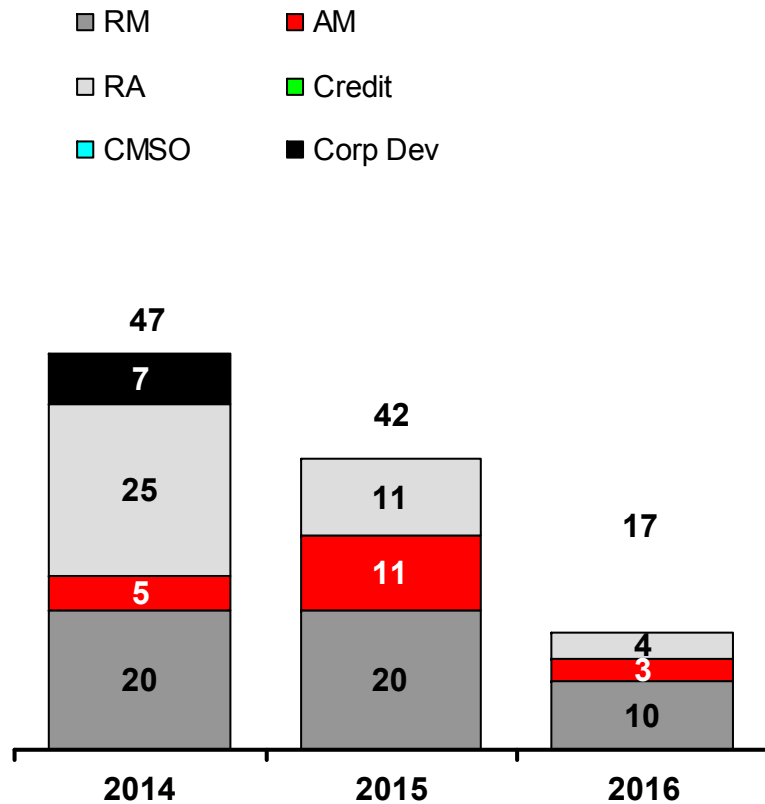
Launched needs
additional resource/
policies



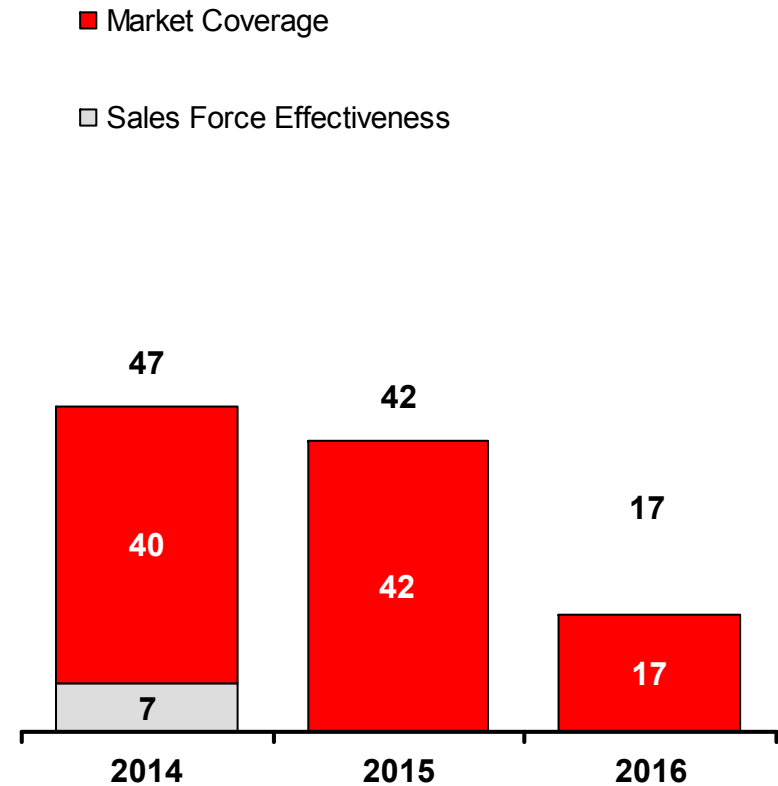
Santander

Strategic Plan – FTE Required

FTE Required by Function 2014-2016



FTE Required by Initiative 2014-2016



Agenda

Appendix

Competitive Positioning – Role of Regional Banks

U.S. Regional banks fill a significant role in the Commercial segment

REGIONALS FACE COMPETITION FROM BOTH NATIONAL AND COMMUNITY BANKS

“Big 4” national banks

- Strengths: Compete with best in class product capabilities, broader product array, access to capital markets and depth of experience in numerous industry verticals
- Weaknesses: Slow to adapt to local markets, perceived as inflexible/too big, and RM turnover

Regional banks

Opportunity to blend local market knowledge with relevant breadth of products and expertise. Can “out local” and service the Nationals, yet having greater scale and capital than the smaller community banks

Community banks

- Strengths: Relationship flexibility, decision speed, and access to top management
- Weaknesses: Relatively unsophisticated, limited product and geographic reach, focus on small opportunities

FOR MANY REGIONAL BANKS, COMMERCIAL MARKETS ARE THE CORE OF CORPORATE BANKING

“All the regionals are focused on the opportunity in their footprint – it’s their bread and butter, and really plays off their core strengths.”

Former President and CEO of
Regional Bank








“It is typical of banks to cultivate products and verticals that meet the demands of their clients, and then build on that to broaden their reach. PNC’s leasing business is a good example of this.”

Former EVP Commercial Banking of
Regional Bank

Source: Expert interviews; Bain experience

Competitive Positioning – Client Segmentation









Our commercial segmentation is generally consistent with major market players

Competitor	Business Banking	Middle Market
	<ul style="list-style-type: none"> \$1-10 million (business banker) \$10-30 million (RM) 	<ul style="list-style-type: none"> \$30-500 million (mid market)
	<ul style="list-style-type: none"> \$0-5 million (small business) \$5-25 million (RM) 	<ul style="list-style-type: none"> \$25-\$150 million
	<ul style="list-style-type: none"> \$3-25 million (RM) 	<ul style="list-style-type: none"> \$25-\$1 billion
	<ul style="list-style-type: none"> \$1-10 million (RM) 	<ul style="list-style-type: none"> \$10-500 million (middle market) \$500-2 billion (middle corporate)
	<ul style="list-style-type: none"> \$2 -20 million (RM) 	<ul style="list-style-type: none"> \$20 million-\$150 million (lower) \$150MM - \$2B (Commercial)
	<ul style="list-style-type: none"> Tier 1: \$0-5 million (branch) Tier 2: \$5-20 million (RM) 	<ul style="list-style-type: none"> \$20-100 million (commercial) \$100 million-\$5 billion (National Corporate Bank)
	<ul style="list-style-type: none"> \$3-50 million (RM) 	<ul style="list-style-type: none"> \$50- 250 million (mid market) \$250- 2 billion (mid corporate)

Source: Internal Sovereign Santander Analysis. Internal and external RM interviews.

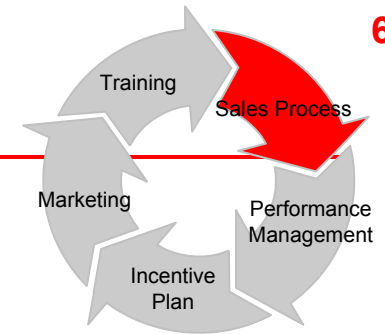
Competitive Positioning – Sales Practices & Productivity

Best in class processes lead to higher average cross sell and more new customers annually, as well as stronger ability to retain existing clients

	Less Sophisticated Process	Good Process	Best-in-class Process
Example banks	 	 Bank KeyBank 	 Citizens Bank   
New loan o/s expectations	<ul style="list-style-type: none"> • ~\$15M new annual o/s per RM 	<ul style="list-style-type: none"> • \$30-50M new annual o/s per RM 	<ul style="list-style-type: none"> • \$50M new annual o/s per RM
New clients per year	<ul style="list-style-type: none"> • 2-3 new customers per year 	<ul style="list-style-type: none"> • 3-5 new customers per year 	<ul style="list-style-type: none"> • 4-6 new customers per year
Cross sell expectations	<ul style="list-style-type: none"> • 2-3 products per customer 	<ul style="list-style-type: none"> • 3-5 products per customer 	<ul style="list-style-type: none"> • Avg. 5-8 products per customer

Sovereign is in-between:
 \$20-30M new loan o/s
 3 new clients p.a.
 2-4 products per customer

Source: Expert input; Bain experience



1 Sales Effectiveness – Sales Process

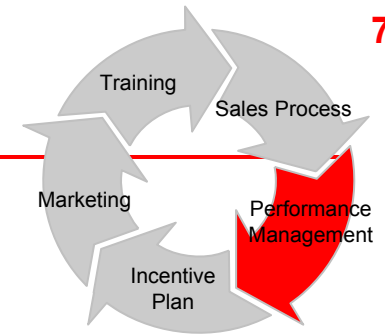
Sales Process

Key Tactics

- Deliver an interim, robust client management tool
- Develop improved prospecting & cross-sell processes
- Expand the use of Expert Business System as a prospecting tool
- Improve prospecting and cross sell methodologies employing best practices and enhanced discipline
- Define/develop better cross-sell targeted lists
- Formulate pre-call planning standards
- Follow more structured pipeline format between Line and Risk

Next Steps

- Refine the Account Manager position through further clarifications of roles and responsibilities
- Roll out *Expert Business System* usage and best practices to entire footprint
- Establish more structured pipeline management process as multiple levels between Risk and Line
 - With U.S and Madrid Risk and Market Directors
 - With Regional Credit Directors and MM and BB Line Execs



1 Sales Effectiveness – Performance Mgmt.

Performance Management

Key Tactics

- Develop & deliver individual producer goals in Q12014
- Implement consistent sales management reporting & inspection routines
- Establish consistent coaching guidelines for front-line leaders
- Focus Business Banking RMs towards C&I prospecting versus dependence on real estate deals

Next Steps

- Integrate more consistent and effective sales reporting
- Create & distribute individual goals in far more systematic fashion
- Establish consistent coaching guidelines
- Revise incentive plans to enhance RM focus on “major” contributors to Net Revenue growth (need to focus on things that “move the needle”)



1 Sales Effectiveness – Incentive Plan

Incentive Plan

Key Tactics

- Enhance RM incentive plans to focus on “major” levers that drive revenue growth
- Deliver Commercial Banking incentive plan framework in Q12014
- Produce regular RM plan performance results

Next Steps

- Establish a deep dive analysis in a Flame improvement working group to analyze and put forth various incentive plan recommendations
- Determine and then incent the key drivers of revenue generation and behavioral activities that lead to success
- Develop integrated Incentive Plan and seek final approval for 2014 Commercial Banking incentive plan by early Q4 2013

1 Sales Effectiveness – Marketing



Marketing

Key Tactics

- Develop and introduce Commercial Banking value proposition
- Establish local marketing budgets to support sponsorships, COI & client events
- Initiate external marketing research to better understand market dynamics
- Take the lead of new Corporate Banking Strategic Marketing Director to formulate a Commercial Banking Marketing Plan
- Develop sales materials with help of Marketing to increase awareness and consistent message on Santander and its value proposition

Next Steps

- Continue work with Marketing, Corporate Development and outside Ad Agency to develop the Commercial Banking Value Proposition
- Create an integrated Pitch book that can be employed across all of Commercial Banking with ability to tailor presentations as necessary

You're dedicated to your business, and Sovereign is, too.

At Sovereign, we provide Professional Services Banking with a personalized touch.

SEE WHAT WE CAN DO FOR YOU

Sovereign

Santander



1 Sales Effectiveness – Training

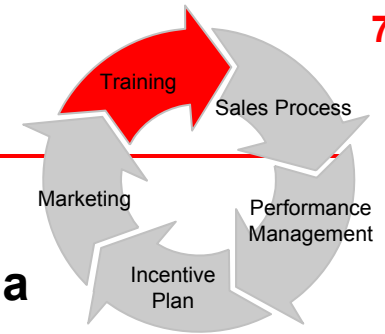
Training

Key Tactics

- Develop & launch Corporate Banking Academy
- Implement a comprehensive onboarding program
- Develop product training program to improve product penetration

Next Steps

- Audit current training that's in place
- Derive findings via a Flame working group to develop needs assessment and determine best practices found in other organizations
- Work with the HR Training team to develop a new Commercial Banking Training Program with a robust curriculum



1 Sales Effectiveness – Training

Scope:

- ❖ Implement a training program for new & existing staff with a robust focus on on-boarding new hires and enhancing the skill set of existing staff.
- ❖ Training program will additionally support career advancement within the organization as well as the overall efficiency of the units.

Content	Method of Delivery	Project Team
<ul style="list-style-type: none"> ▪ Acclimation/What it means to be part of Santander Corporate Banking ▪ Product ▪ Process ▪ Credit ▪ Systems 	<ul style="list-style-type: none"> ▪ Class Room ▪ Webinars ▪ Job Aids ▪ San Learn Tutorials 	<ul style="list-style-type: none"> ▪ Business Development ▪ Human Resources ▪ Training & Development ▪ Sovereign subject matter experts (LOB input) ▪ Outside vendor



1 Sales Effectiveness – Training

Scope:

- ❖ Implement a training program for new & existing staff with a robust focus on on-boarding new hires and enhancing the skill set of existing staff.
- ❖ Training program will additionally support career advancement within the organization as well as the overall efficiency of the units.



3 Market Coverage

Using the Philly Pilot as a benchmark, Middle Market will target ~350 prospects per RM across the footprint

Market Name	Current State			Proposed Future State		
	Current RMs (open + filled)	Prospects	Prospects per RM	Expansion RMs	Total End State RMs	Prospects per RM
MM Existing Office Expansion	43	21,389	497	19	62	345
<u>MM New Office Expansion</u>	<u>NA</u>	<u>6,993</u>	<u>NA</u>	<u>13</u>	<u>13</u>	<u>538</u>
Total Middle Market	43	28,382	660	32	75	378
BB Existing Office Expansion	92	136,131	1,480	18	110	1,238
Total Commercial	135	157,520*	1,167	50	185	851

Note: Portfolio loan data as a April 30 2013.

*Total prospect count excludes industries outside the target risk profile

3 Market Coverage - Assumptions

- Ramp-up time for new RMs is 12 -18 months in Middle Market and 9 -12 months in Business Banking
- Financial model assumes RMs will be at full production capacity in year 3
- Year 1 assumes new RMs will be hired at the beginning of Q2
- Attrition of expansion RMs is forecasted to be 20% in Business Banking and 10% in Middle Market
- Deposit spreads increase in years 2 – 3 while loan spreads are held constant

	Business Banking			Middle Market		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
<i>Credit</i>						
Avg Bal per RM	500,000	7,500,000	22,500,000	2,500,000	10,000,000	80,000,000
Spread	2.83%	2.83%	2.83%	2.54%	2.54%	2.54%
NIM per RM	14,164	212,453	637,358	63,500	254,000	2,032,000
<i>Deposits</i>						
Avg Bal per RM	500,000	7,500,000	22,500,000	1,875,000	7,500,000	60,000,000
Spread	0.44%	0.82%	1.15%	0.47%	0.79%	1.35%
NIM per RM	2,200	61,500	258,750	8,775	59,250	810,000
<i>Fees</i>						
Loan Fees	284	4,253	12,760	12,500	50,000	400,000
Deposit Fees	2,951	44,263	132,788	8,438	33,750	270,000
Other Fees	<u>5,250</u>	<u>30,750</u>	<u>81,750</u>	<u>52,500</u>	<u>212,500</u>	<u>427,500</u>
Total fees per RM	8,485	79,266	227,298	73,438	296,250	1,097,500
Revenue per RM	24,848	353,218	1,123,406	145,713	609,500	3,939,500

3 Market Coverage – Middle Market Detail

People	Division	Function	Area to support	Number of FTEs	2014	2015	2016	Estimated cost
	Sales	Relationship Manager	Middle Market	32	12	10	10	TBD
	Sales	Account Manager	Middle Market	13	4	6	3	TBD
	Sales	Relationship Administrator	Middle Market	13	4	5	4	TBD
	Credit Risk	Credit Professional	Middle Market	11	4	3	4	TBD
	Transactional	CMSO	Middle Market	7	2	3	2	TBD
	Transactional	Treasury SO	Middle Market	3	1	1	1	TBD
	Transactional	Analyst	Middle Market	3	1	1	1	TBD
	Operations	Loan Administrator	Middle Market	TBD	TBD	TBD	TBD	TBD
TOTAL				82	28	29	25	
	Facilities (offices)	New Offices	Middle Market	5 offices	1	3	1	TBD

1. Headcount costs are run-rate direct costs
2. Assume 1 Credit Analyst per 3 RMs
3. Estimated costs to be verified through conversations with HR, IT

3 Market Coverage – Business Banking Detail

People	Division	Function	Area to support	Number of FTEs	2014	2015	2016	Estimated cost
	Sales	Relationship Manager	Business Banking	18	8	10	0	TBD
	Sales	Account Manager	Business Banking	6	1	5	0	TBD
	Sales	Relationship Administrator	Business Banking	17	11	6	0	TBD
	Credit Risk	Credit Professional	Business Banking	6	3	3	0	TBD
	Transactional	CMSO	Business Banking	4	1	2	1	TBD
	Transactional	Analyst	Business Banking	2	1	1	0	TBD
	Operations	Loan Administrator	Business Banking	TBD	TBD	TBD	TBD	TBD
TOTAL				53	25	27	1	

1. Headcount costs are run-rate direct costs
2. Assume 1 Credit Analyst per 3 RMs
3. Estimated costs to be verified through conversations with HR, IT