Santander

Executive Summary

The Board of Governors of the Federal Reserve System (the "Federal Reserve") requires public disclosure of the liquidity coverage ratio (the "LCR") by depository institution holding companies and covered nonbank financial companies that are required to calculate an LCR under the Federal Reserve's LCR rule ("covered companies"). On a quarterly basis, all covered companies are required to publicly disclose quantitative information about their LCR calculations and include a discussion of the factors that have a significant effect on the LCR. The rule is designed to promote market discipline through the publication of comparable liquidity information. This disclosure regarding Santander Holdings USA, Inc.'s ("SHUSA's") LCR should be read in conjunction with SHUSA's Quarterly Report on Form 10-Q for Q2 2019.

SHUSA is a wholly-owned subsidiary of Banco Santander, S.A. ("Santander"). SHUSA is Santander's top-tier U.S. bank holding company and is an intermediate holding company under the Federal Reserve's Regulation YY.

SHUSA is required to calculate a modified LCR. The modified LCR requirement applies to less complex banking organizations. Modified LCR companies calculate LCR on a monthly basis, report LCR as a weighted average of the monthly figures, and do not calculate a maturity mismatch add-on (please see the section "Maturity Mismatch Add-On").

Table 1: Liquidity Coverage Ratio

Average Weighted Amount (millions)	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019
HQLA	12,845	13,228
Estimated net cash outflows	7,730	7,281
LCR	**166%**	**182%**
HQLA in excess of estimated net cash outflows	5,116	5,947

As shown in Table 1, for the quarter ended June 30, 2019, the weighted average amount for SHUSA's monthly calculated LCR was 166%, which exceeds the regulatory minimum LCR ratio of 100%. The LCR ratio is calculated by taking the average of SHUSA's monthly unencumbered high quality liquidity assets ("HQLA") and dividing it by the monthly average of the estimated net cash outflows over a forward looking 30-day period of stress. On average, the excess of HQLA in the second quarter was $5.1 billion over the average projected net cash outflows. Our quarterly average LCR decreased by 16% versus the first quarter, this was primarily due to an increase in weighted total cash outflow.

HQLA includes certain types of liquid assets and debt securities (that meet regulatory defined criteria), subject to applicable value adjustments. Projected net cash outflows are the projected outflows minus the projected inflows. Outflows are cash obligations that SHUSA owes in addition to behavioral-based obligations (i.e., customer deposits) or increases in required funding (i.e., unanticipated draws on committed facilities). Inflows are cash flows that are owed to SHUSA in addition to its ability to generate cash from assets (i.e., through repurchase agreements, sales, or other contractual rights).

Liquidity Risk Management

SHUSA has in place a sustainable liquidity risk management framework that raises awareness of under-assessed liquidity risks and is integrated throughout SHUSA's U.S. operations. SHUSA recognizes that the identification, measurement, management and control of liquidity risk is an ongoing and evolving process. SHUSA operationalizes and embeds liquidity risk practices into our day to day management.

SHUSA incorporates all funding sources and uses, vulnerabilities, and interdependencies across its subsidiaries in making decisions about the liquidity profile of SHUSA and its consolidated subsidiaries. As a bank holding company, SHUSA serves as a source of strength to its subsidiaries.

SHUSA has access to a wide range of sources to support its funding needs. The funding sources that can be utilized by SHUSA include debt securities, issuances of preferred stock, dividends from subsidiaries and funding from its parent company. SHUSA manages its liquidity adequacy independently and, although Santander is a potential source of liquidity, SHUSA does not rely on Santander for funding.

SHUSA has organized its roles and responsibilities for liquidity risk management into a three line of defense (LoD) model, with separately defined and segregated responsibilities consistent with applicable regulations and guidance. The First LoD, responsible for liquidity risk management, reports to the CEO. The Second LoD, ensuring liquidity risk is managed in line with agreed frameworks and risk appetite levels, reports to the CRO. The Third LoD, providing independent assurance to the Board of Directors and senior management, reports to the Chief Audit Executive.

Section 1: Quantitative LCR Results

The following table provides the average values for SHUSA's LCR and required components (as detailed in the LCR rule) for the second quarter of 2019.

Table 2: Liquidity Coverage Ratio and Required Components

	Three months ended June 30, 2019	
	Average Unweighted Amount	**Average Weighted Amount**
High Quality Liquid Assets		
Total eligible high-quality liquid assets (HQLA), of which:	**13,330**	**12,845**
Eligible level 1 liquid assets	10,098	10,098
Eligible level 2A liquid assets	3,232	2,748
Eligible level 2B liquid assets	0	0
Cash Outflow Amounts		
Deposit outflow from retail customers and counterparties, of which:	**48,270**	**3,643**
Stable retail deposit outflow	21,885	657
Other retail funding	24,909	2,491
Brokered deposit outflow	1,476	495
Unsecured wholesale funding outflow, of which:	**11,594**	**5,734**
Operational deposit outflow	1,655	376
Non-operational funding outflow	9,685	5,105
Unsecured debt outflow	253	253
Secured wholesale funding and asset exchange outflow	**4,196**	**490**
Additional outflow requirements, of which:	**23,135**	**2,781**
Outflow related to derivative exposures and other collateral requirements	317	233
Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	22,818	2,548
Other contractual funding obligation outflow	**144**	**144**
Other contingent funding obligations outflow	**0**	**0**
TOTAL CASH OUTFLOW	**87,338**	**12,792**
Cash Inflow Amounts		
Secured lending and asset exchange cash inflow	**0**	**0**
Retail cash inflow	**2,005**	**1,002**
Unsecured wholesale cash inflow	**578**	**434**
Other cash inflows, of which:	**314**	**314**
Net derivative cash inflow	27	27
Securities cash inflow	120	120
Broker-dealer segregated account inflow	167	167
Other cash inflow	0	0
TOTAL CASH INFLOW	**2,897**	**1,750**
HQLA AMOUNT		**12,845**
TOTAL NET CASH OUTFLOW AMOUNT		**7,730**
LIQUIDITY COVERAGE RATIO (%)		**166%**

Section 2: Qualitative Requirements

The Main Drivers of the LCR

As discussed above, the LCR is calculated by dividing HQLA by the net cash outflows (cash outflows minus cash inflows). SHUSA's HQLA, as the numerator, is a significant driver of the Company's LCR (see "HQLA" below). The net cash outflows include unsecured wholesale funding outflows ($5.7B), retail deposit outflows ($3.1B), and facilities outflows ($2.5B). Our cash inflows include retail cash inflow ($1.0B). Compared to the prior quarter, the increase in total cash outflows was primarily due to unsecured wholesale funding ($254MM), and retail deposit ($343MM).

HQLA

SHUSA's HQLA weighted average was $12.8B for the second quarter of 2019 and down $383MM over the prior quarter. In total, average Level 1 assets (as described in the Federal Reserve's LCR regulations) were 79% of average HQLA. The majority of our Level 1 assets are unencumbered investment securities and cash held at the Federal Reserve. Level 1 securities are held at fair value plus accrued interest without a haircut. Additional information on our investment portfolio securities can be found in the section "Investment Securities" in our Form 10-Q for Q2 2019. Level 2 assets were 21% of total HQLA for the second quarter of 2019. The majority of our Level 2 assets are agency mortgage-backed securities ("MBS"), which are below the 40% maximum provided for in the LCR rule. All of SHUSA's Level 2 assets are classified as Level 2A. Level 2A assets are weighted with a haircut of 15% applied to fair value. The composition of our HQLA is detailed in Table 3 below. To be included in HQLA, assets must be unencumbered (in addition to other requirements). HQLA primarily consist of treasury securities, agency MBS, and cash at the Federal Reserve.

Table 3: HQLA Components

Average Weighted Amount (millions)	Three Months Ended June 30, 2019
Total Eligible level 1 liquid assets	**10,098**
Eligible level 2A liquid assets	2,748
Eligible level 2B liquid assets	0
Total eligible level 2 liquid assets	**2,748**
Total HQLA	**12,845**

Concentration of Funding Sources and Projected Cash Inflows and Outflows

SHUSA's primary sources of funding are deposits and wholesale funding. Wholesale funding is composed of securitizations, long-term debt, warehouse facilities, and short-term funding. Securitizations and warehouse facilities are used as funding for the auto loan business. Long-term debt is primarily domestically issued debt securities. For additional information on

SHUSA's borrowings, please refer to the "Borrowings" section of our Form 10-Q for Q2 2019. Other sources of cash inflows include contractual payments on loans and derivative transactions.

The weighted average of SHUSA's cash inflows for the second quarter of 2019 was $1.8 billion.

Deposit withdrawals are SHUSA's largest source of cash outflows and are diversified between retail and wholesale customers. Draws on revolving credit facilities and derivative transactions are also sources of cash outflows. For additional information on SHUSA's derivatives, please refer to the "Derivatives" section of our Form 10-Q for Q2 2019.

Maturity Mismatch Add-On

As a modified LCR holding company, we are not required to calculate the Maturity Mismatch Add-On. Modified LCR companies are required to apply a factor of 0.7 to their average total cash inflow and outflow amounts.

Cautionary Statement Regarding Forward-Looking Statements

This disclosure may contain forward-looking statements. Any statements about our expectations, beliefs, plans, or future events are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "can," "potential," "should," "will," "estimates," "projects," "continuing," "ongoing," and similar words or phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date on which the statements are made, these statements are not guarantees of future performance and involve risks and uncertainties that are subject to change based on various factors and assumptions, some of which are beyond our control. For additional discussion of these risks, refer to the section captioned "Risk Factors" and elsewhere in our Form 10-Q. Among the factors that could cause actual results to differ from those reflected in forward-looking statements include, without limitation, the risks and uncertainties described in SHUSA's filings with the Securities and Exchange Commission. New risks and uncertainties emerge from time to time, and it is not possible for SHUSA to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this disclosure. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by SHUSA or any other person that SHUSA's expectations, objectives or plans will be achieved in the timeframe anticipated or at all. Readers should not place undue reliance on SHUSA's forward-looking statements, and SHUSA undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Any forward-looking statements only speak as of the date of this disclosure. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.