Santander Holdings USA

CREDIT RISK MANAGEMENT FRAMEWORK

Version 1.0 – March 19, 2015

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1. Introduction

1.1 Background

The identification, assessment, control, monitoring, testing and reporting of credit risk, together with the clear articulation and communication of credit risk tolerance, provides the foundation for the SHUSA Enterprise Risk Management ("ERM") credit risk management program. Success in managing credit risk as outlined in this framework is demonstrated by SHUSA establishing and maintaining an organizational culture that embraces by its actions prudent credit risk taking and integrates credit risk management processes within its day-to-day operations.

1.2 Scope

The Santander Holdings USA, Inc. ("SHUSA" or "the Company") ERM Credit Risk Management Framework ("CRMF") applies to SHUSA and its Subsidiaries. SHUSA is a U.S. Bank holding company with two Subsidiaries, Santander Bank, N.A. ("SBNA"), a national Bank, and Santander Consumer USA Inc. ("SCUSA"), a public, non-Bank consumer finance company that is majority-owned and controlled by SHUSA (together "Subsidiary" or "Subsidiaries").

This CRMF describes the principles for the management, control and oversight of credit risk across SHUSA and its Subsidiaries as U.S. regulated institutions.

The Company expects that managers at all levels will understand and embed within their organizations the prudent credit risk principles described in this Framework.

1.3 Purpose of the Credit Risk Management Framework

The board of SHUSA has approved an overarching ERM Framework that sets the principles of SHUSA's oversight of risks arising from its business activities and operations and governs its risk management activities. This CRMF must be read in conjunction with the SHUSA ERM Framework as its purpose is it to develop the ERM program in relation to credit risk, enabling the firm to achieve its strategic priorities, including its business plan, within its expressed credit risk tolerance.

SHUSA's Credit Risk ERM Program is designed to achieve effective risk management in a consistent fashion across the organization and is in compliance with all applicable rules, regulations and guidance. Moreover, it is designed to provide early recognition and effective management of risks emerging from changes in SHUSA´s risk profile or from external or systemic sources and for the Program to be refined as the risks and risk profile of SHUSA or its Subsidiaries changes.

This CRMF is aligned to the General Credit Risk Framework approved by the Board of Directors of Banco Santander S.A., and adopted by the SHUSA Board, that establishes the principles that must be followed by all Santander Group Subsidiaries when managing and controlling credit risks.

1.4 Document Ownership and Maintenance

As owner, the SHUSA Chief Risk Officer (CRO) is responsible for the development and maintenance of this CRMF. The Chief Credit Officer ("CCO") of SHUSA has primary responsibility for ensuring it is implemented and embedded on a day to day basis.

The CRMF is approved by the SHUSA Board Enterprise Risk Committee ("BERC") under recommendation from the SHUSA Enterprise Risk Management Committee ("ERMC") [1] and noting at the Executive Management Committee ("EMC").

The CRMF must be reviewed at least annually and updated as necessary in the event of material changes to the credit risk profile of SHUSA, be it directly or through a change in the risk profile of its Subsidiaries, including regulatory changes. Material changes, relating to the way risks need to be managed and controlled, will be approved by the BERC. Non-material changes, such as changes to committee names or clarifications to the Framework contents will be approved by the CRO and noted at ERMC and BERC.

[1] For additional information about these committees, refer to section 4.5 of this Framework

2. Credit Risk and Other Risk Types

2.1 Definition of Credit Risk

The SHUSA ERM Framework defines Credit Risk as: ***The risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the Bank or otherwise perform as agreed.*** Credit Risk sub-types that arise as a result of lending activities are:

Risk Sub-Type	Definition
Default Risk	The risk of financial loss should an obligor not be able or willing to fulfill its obligations to pay on the maturity date of the obligation. It is measured as the higher of the maximum gross exposure of the individual transaction (i.e. before application of collateral or credit risk mitigation). Examples of direct credit risk include: – Cash exposures (e.g. loans, bonds, overdrafts, asset finance, leases, preferred shares, equities). – Commitments (e.g. undrawn facilities, guarantees issued on behalf of an obligor). – Committed and uncommitted trade finance exposures – Contingent exposures (e.g. relating to 3rd party guarantors)
Counterparty Risk	The risk that the counterparty to a derivative transaction (e.g. broker / dealer; clearing counterparties; treasury market participants) defaults before the final settlement of the transaction's cash flows, and where the non-defaulting counterparty may incur losses through the need to replace transactions in the market at a rate less favorable than the original deal. Unlike default risk, the Bank is not exposed for the full capital amount of the transaction. Instead a Potential Future Exposure (PFE) is calculated. The overall quantum of the counterparty risk may be mitigated through netting agreements or the receipt of collateral (cash or securities).
Concentration Risk	Concentration risk (also referred to as Aggregation/Correlation risk) refers to an exposure with the potential to produce losses large enough to threaten a financial institution's health or ability to maintain its core operations. The loss may arise through exposures to: individual counterparties; groups of individual counterparties or related entities; counterparties in specific geographical locations; industry sectors; specific products; service providers (e.g. back office services); and natural disasters or catastrophes.
Settlement Risk	Settlement risk arises when the Bank pays away funds on behalf of a customer before the corresponding cleared funds have been received. Typical products giving rise to settlement risk include uncleared effects, derivatives settlement, cash transmission and payments through clearing houses.
Collateral Risk	Collateral risk is the risk that legally pledged collateral (e.g. real estate, business assets, underlying treasury instruments) will be insufficient to cover the customer's exposure upon liquidation.
Country Risk	The risk that funds held or controlled outside the US are unable to be repatriated in order to meet obligations as they fall due because: a) a sovereign state freezes foreign currency payments (transfer/conversion risk) or b) a sovereign state defaults on its obligations (sovereign risk).
Rating Migration	Risk of loss caused by the effect of changes in the credit quality of the issuer/borrower or on the valuation of financial assets.
Residual Value Risk	Residual Value (RV) risk is the risk of financial loss that may occur if, at the end of a lease contract, even if the obligor has complied fully with his financial obligations under the contract, the actual proceeds realized upon the sale of returned assets are lower than the projection of the expected value used in establishing the pricing at lease origination.

2.2 Other Risk Types

The SHUSA ERM Framework identifies other key risk types which arise directly from its business activities. These risks are: Market Risk, Liquidity Risk, Operational Risk, Compliance Risk, Model Risk, Strategic Risk, and Reputational Risk. Information on how these risks are managed and controlled can be found in their specific risk type frameworks or in the SHUSA ERM Framework.

3. ERM Credit Risk Management Principles

3.1 Risk Culture and Risk Management Accountability

A strong risk management culture supports SHUSA's long term success. Through its Values Statement and Code of Conduct the Board of SHUSA has communicated the values and behaviors it expects the staff of SHUSA and its Subsidiaries to adopt in their daily activities.

As reflected in the SHUSA ERM Risk Framework, risk management accountability will be incorporated into all Frameworks and Policies at SHUSA and its Subsidiaries. This accountability is evidenced through clear definitions of Roles and Responsibilities for risk management, the alignment of performance and compensation with risk management goals and the ongoing support that must be provided by senior management to ensure that sufficient and competent risk management resources are deployed throughout the organization and that appropriate risk training is provided to all staff as required.

3.2 Credit Risk Management Principles

The following are the credit risk management principles that are applicable to SHUSA and its Subsidiaries:

- **Integral Management of Credit Risk** – Through the effective implementation of the ERM Methodology[2] credit risk will be identified, measured, monitored and controlled in all products and business activities to ensure that credit risk policies are being implemented, that they remain effective and appropriate and that credit risk decisions are being made taking into consideration a balanced measurement of risk and reward.

- **Underwriting Standards, Credit Risk Policies and Annual Reviews** – Sound underwriting standards must be articulated through clear lending policies, and executed through rigorous credit risk analysis, the application of scorecards or of accurate and timely risk ratings, periodic reviews of existing transactions and the application of portfolio analysis techniques to identify new and emerging risks.

- **Know your customer** – Credit decisions must be based on a direct knowledge of the customer, the analysis of their credit-worthiness and an understanding of the credit risk inherent in the products being marketed.

- **Independent structure** – The SHUSA board and the Subsidiary boards will ensure the development and maintenance of independent credit risk management functions and credit risk governance structures that are communicated and understood throughout the organization.

[2] The ERM Methodology is described in Section 6 of this Framework

- **Defined authority** – The SHUSA board and the Subsidiary boards will ensure that the credit risk management teams establish separate and focused governance processes including committees and delegated authorities to oversee the operations of their function at the level of SHUSA and its Subsidiaries.

- **Delegation of Authorities** – The SHUSA Executive Credit Committee delegates credit authority to the Executive Credit Committees of the Subsidiaries. All credit approvals in excess of the Subsidiary's delegated authorities require approval of the SHUSA Executive Credit Committee.

- **Clear oversight and escalation processes** – Credit risk governance and escalation policies will ensure that responsibility for oversight and reporting of credit risk and the rules and processes for escalating issues are understood and followed throughout the organization. Any significant breach or weakness identified at any level of the Subsidiaries must be promptly escalated to the Subsidiaries' CCO and to the SHUSA CCO who will review and recommend actions to address the issues and emerging risks and ensure that the Subsidiaries implement the recommendations. Examples of issues that may be escalated include limit breaches, regulatory matters or internal audit recommendations. If the recommended actions are not followed, the SHUSA CCO will escalate the matter to the SHUSA CRO and the SHUSA Executive Credit Committee ("ECC").

- **Effective Challenge** – Effective management challenge processes are required to be established as part of the credit risk governance structures to ensure adequate oversight of credit risk-taking and credit risk management activities. Effective challenge includes dedicated oversight and review by an independent credit risk review function, the BERC and Board where applicable, and an internal audit function vested with appropriate stature and authority.

3.3 The SHUSA Credit Risk client classification

In order to ensure that each client is treated in a manner consistent with their risk profile and credit requirements, SHUSA and its subsidiaries classify customers into three distinct types:

- Retail clients (also referred to as Standardized clients, mainly individuals and small businesses)

- Commercial clients (also referred to as Non-standardized customers, mainly small corporate customers)

- Wholesale clients (Global Banking & Markets "GBM", mainly large corporates and multinationals and financial institutions)

The CCO function in the Subsidiaries will oversee that the necessary controls are in place to ensure clients are correctly classified and that each client is assigned to a single credit risk client classification.

The key elements of each credit risk client classification are:

Retail – Standardized customers

- Automatic credit assessment processes based on statistical scoring models developed in conjunction with the methodology function and calibrated to each type of business and market;
- Referral of transactions to an underwriter by exception as per credit lending policy;
- Underwriters are pooled and not directly assigned to a customer.

Commercial – Non-Standardized customers

- Customers are supported by a named commercial manager and are assigned to a credit analyst's portfolio;
- Customer management is shared between the commercial and the risk function and is based on an in-depth knowledge of the client through direct contact and visits;
- All customers are assigned an internal credit rating, based on expert scorecards developed with the Methodology team.

Wholesale – Global customers

- Closed list of customers, reviewed annually, with a named global relationship manager who is responsible for the customer worldwide;
- Centralized credit risk management, with a named global credit analyst, working closely with the relationship manager;
- In-depth knowledge of the customer and its industry sector. Continuous monitoring including, where relevant, site visits;
- Full consolidation of customer exposure and product offerings worldwide through the approval of pre-classified limits and a global business plan;
- Delegation of authorities to the relationship manager who can assign authorized limits to support the relationship as required;
- Advanced internal credit rating models, developed with global methodology and calibrated to international risk parameters.

3.4 Credit Risk Identification and Assessment

SHUSA manages its risks through the application and operationalization of the elements of risk management: **Risk Identification and Risk Assessment, Internal Controls, Monitoring, Testing, and**

Reporting. These integrated processes must be applied to credit risk and the SHUSA CCO will ensure that all Subsidiaries adopt and execute upon this program in a manner consistent with the nature and complexity of its credit risks and business activities. The principles that underpin the Credit Risk Identification and Assessment program are:

- **Credit Risk Identification** must be undertaken both at initiation of an activity and as an activity or the risks change with circumstances both internal and external to the organization.
- **Credit Risk Assessment** is the process by which all identified credit risks are measured for materiality. This process evaluates, pursuant to a common approach, the size and/or materiality of each risk.
- **Definition and Implementation of Controls** that can be applied to credit risk, where the design and implementation of these controls should be commensurate with the size of the credit risk being taken.
- **Residual Credit Risk** is the credit risk remaining in each business activity after considering the effectiveness of the internal controls. The residual credit risk is assessed by the risk owner to ensure that it corresponds with the overall strategy of SHUSA and is consistent with capital allocations.
- **Credit Risk Reporting** is the means by which the SHUSA board, its management committees and all other governance structures are informed of the credit risks and credit risk issues identified in the operations of the SHUSA Subsidiaries.

Credit Risk Identification and Assessment is the first phase of the Credit Risk Methodology cycle that is described in detail in Section 6 of this Framework.

3.5 The SHUSA Enterprise Risk Tolerance Statement (“RTS”)

The RTS is proposed by the CEO for approval by the SHUSA board. It defines, amongst other metrics, the aggregate levels and types of credit risk that SHUSA and its Subsidiaries are willing to accept in the pursuit of their strategic objectives. It is the overarching mandate governing all credit risk-taking activities across the organization and it is arrived at through a process that identifies risks and quantifies the amount of risk and the circumstances under which SHUSA is willing to accept those risks. The RTS defines the governance for its review, update, challenge and approval.

SHUSA Subsidiaries are responsible for developing and approving their own credit RTS with proper review and challenge according to their respective governance structures, and in consultation with the SHUSA CCO.

The Subsidiaries´ CCOs are accountable for ensuring that their credit RTS' are aligned to the SHUSA credit risk RTS limits. The Subsidiary-level credit risk RTS will be cascaded down through more detailed limits appropriate to each Business Line within the Subsidiaries.

The SHUSA CCO is responsible for overseeing the monitoring of compliance with the SHUSA credit risk RTS limits, ensuring consistency between tolerance, capital, limits and the Strategic Commercial Plans. Subsidiaries' CCOs are responsible for overseeing the monitoring of compliance with their respective credit risk RTS limits. Credit risk taking in excess of tolerances shall be escalated and monitored through the credit risk management committee governance process.

3.6 Strategic Commercial Plan ("SCP")

The SCP is a joint Business Line and Risk Management Function initiative that defines the Business Line's "playing field" for the achievement of the annual budget objectives. The SCP will include, but not be limited to, defining risk policies, RTS limits, liquidity or capital requirements, model development or any other resources that may be required across all functions including Business Support functions.

The SCP acts as a management tool for the Business Line and the Risk Management Function throughout the year, and requires review and approval by the SHUSA credit risk committees upon recommendation from the SHUSA CCO. The Subsidiary CCO must ensure that the credit risks proposed within the SCP are appropriate to the size and complexity of the Subsidiary and the Business Line, fall within the parameters of the Subsidiary's RTS, and are priced so as to provide an adequate return for the level of risk being taken.

With regards to credit risk, the SCP sets an integrated and coordinated program of work method based on the following principles:

- Strong alignment between the Business Lines and the credit risk teams.
- Holistic view by Business Line, integrating commercial plans and credit policies to assess the overall profitability.
- Structured process, focused on achieving expected results and improving the overall predictability of the Business Line.
- On-going self-assessment to identify and address emerging threats.

The SCP is to be reviewed, updated and approved as necessary, particularly if the SHUSA or Subsidiary risk profile or operating environment changes and deviates from the parameters originally approved.

3.7 Credit Risk Management Frameworks, Policies and Procedures

A comprehensive inventory of CRMFs, credit risk policies, and operating credit risk policies must be established and maintained by SHUSA and its Subsidiaries, to ensure that credit risk management and controls are executed in accordance with the ERM requirements prescribed in this Framework.

The SHUSA CRMF and Enterprise Credit Risk Policies are developed by the SHUSA CCO and reviewed and approved by the SHUSA ERMC and the SHUSA BERC as required. The Enterprise Credit Risk Policy is reviewed and/or approved at least annually to ensure they remain applicable to SHUSA' strategy, ongoing credit risks, and current and planned activities. As new credit risks emerge and the existing credit risk profiles change, the Enterprise Credit Risk Management Framework and Policies may be modified or developed.

Each Subsidiary will implement the enterprise-level policies taking into consideration risk profile of its Business Lines, and aligned with the requirements of the SHUSA Credit Risk Management Policies. These policies will be reviewed and approved by the Subsidiary credit risk management committees and their boards as required. Additional credit risk policies aligned to the specific credit profile of each Subsidiary or Business Line may be developed and approved as required.

All credit risk frameworks and policies for SHUSA and its Subsidiaries must comply with the SHUSA Enterprise Policy Administration policy principles that include content standards, review frequency, roles and responsibilities and administration requirements. The SHUSA CCO will be provided with a list of Subsidiary policies and will monitor their compliance, and report on their status to senior management and BERC. The SHUSA CCO will ensure that they are reviewed on an annual basis and updated and revised according to any changes in the credit risk profile, regulatory guidance or any for any other reason.

The necessary procedures will be developed by each Subsidiary to document the processes for executing credit risk policies. Procedures will be defined for each Business Line as appropriate. It is the responsibility of Subsidiary CCOs to periodically review Business Line procedures for adequacy and compliance with Subsidiary and Enterprise Credit Risk Policies. Any material changes to existing policies or any new policies developed by the Subsidiary must be reviewed and opined upon by the SHUSA CCO.

All employees are to be made aware of the documents relevant to them in their day to day activities.

3.8 Risk and compensation

The objective setting, performance management and compensation programs must be aligned to credit risk management objectives. To be considered properly functioning programs they must avoid incentivizing inappropriate credit risk taking activities. Performance against credit risk objectives must be appraised, documented and linked, where appropriate to quantitative measures.

4. SHUSA Credit Risk Management Roles and Responsibilities

4.1 SHUSA ownership structure

SHUSA is wholly owned by Banco Santander, S.A. ("Santander" or the "Group").

SHUSA is required to meet all its obligations as a U.S. Bank holding company, while also harmonizing its policies to the principles approved by the Santander Group Board. To support Santander S.A. in meeting its regulatory obligations, SHUSA will report on its credit risks and credit risk management activities to Santander S.A.

4.2 The SHUSA Board of Directors

The SHUSA Board is responsible for SHUSA's oversight.

With respect to governance, implementation, and monitoring of the CRMF the SHUSA Board has delegated its authority to the SHUSA BERC to review and approve the CRMF and any related Enterprise Credit Risk Policies, oversee implementation of the CRMF, and monitor compliance with the Policies.

These responsibilities will also be reflected in the charters of the BERCs of the SHUSA Subsidiaries.

4.3 The Chief Executive Officer ("CEO")

The Board delegates full responsibility to the CEO for the execution of business activities including the front line management of risks on a day-to-day basis.

The main responsibilities of the CEO are detailed in the SHUSA ERM Framework and they include, among others, the management of credit risk arising from the agreed strategy and business plan, proposing the credit risk tolerance statement, delegating authority to the Subsidiary CEOs, overseeing the establishment of appropriate systems and controls, reporting to the Board and ensuring an appropriate risk culture.

4.4 The Chief Risk Officer

The SHUSA CRO is an independent executive who reports to the SHUSA BERC and the SHUSA CEO.

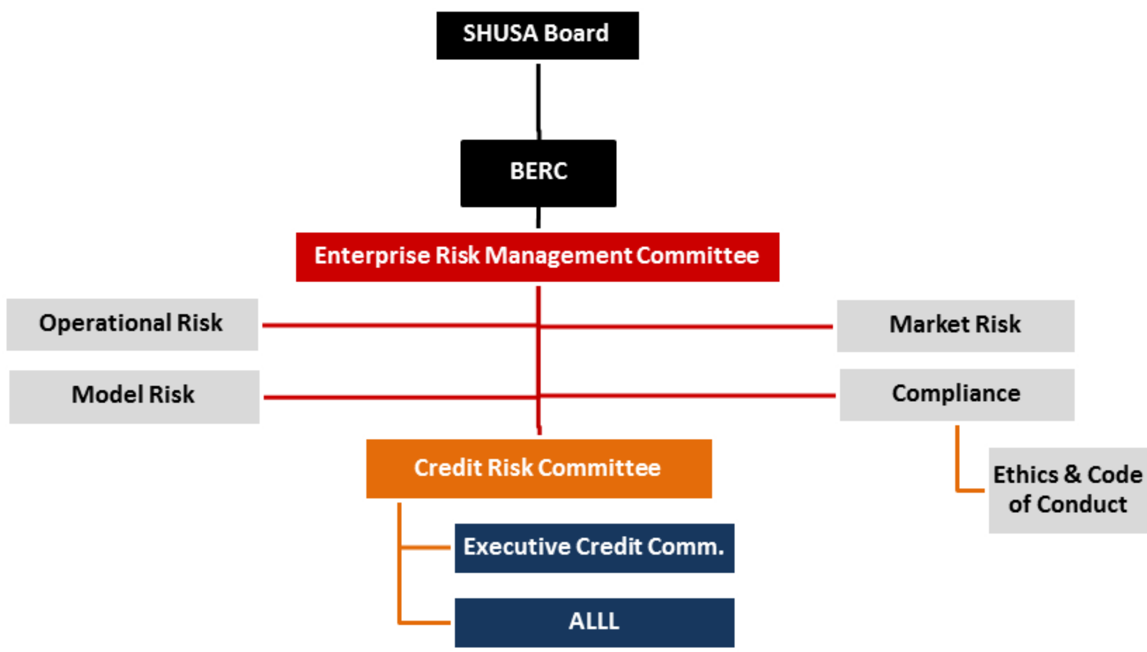
The CRO's responsibilities are detailed in the SHUSA ERM Framework and they include, among others, implementing the SHUSA ERM Program and overseeing the management and control of credit risk within the parameters of the ERM Program; reviewing, challenging and controlling the Credit Risk

Tolerance; reporting credit risk management deficiencies including escalation of breaches through the Committee process.

On a day to day basis, the CRO delegates his credit risk ERM responsibilities to the SHUSA Chief Credit Officer (CCO) whose responsibilities are detailed in Section 5.1 of this CRMF.

4.5 Key Credit Risk Management Committees

SHUSA implements its credit risk governance process through a hierarchy of board- and management-level committees with defined decision-making authorities detailed in their charters. These committees are responsible, along with management, for establishing and implementing risk type frameworks and ERM policies. The SHUSA credit risk committee structure is outlined below, and it expects its Subsidiaries to adopt and adapt this structure when establishing their independent governance and decision-making bodies and defining their charters.



4.5.1 The SHUSA Board Enterprise Risk Committee ("BERC")

The SHUSA BERC is appointed by the SHUSA Board to assist it in its oversight responsibilities with respect to enterprise risk management activities and related compliance matters. In particular, and with regards to Credit Risk, the BERC will:

- Review the Credit Policies/Credit Policy Manuals of SHUSA and its Subsidiaries to ensure that such policies are appropriate in light of general economic conditions, regulatory requirements and SHUSA's financial and competitive position and strategic goals, including considering the adverse scenarios utilized in stress testing exercises.

- Review exposure limits and credit risk quality metrics related to critical loan concentrations, as measured by industry, risk rating, etc., and review reports that measure and inform the Board of such concentrations; ensure such limits and metrics are appropriate in light of general economic conditions, regulatory requirements and the Company's financial and competitive position and strategic goals, including considering the adverse scenarios utilized in stress testing exercises.
- Review stress-testing scenarios applied to the loan portfolios.
- Review the largest borrowing relationships of SHUSA's Subsidiaries as well as any other material transactions, or groups of transactions, to assess if such transactions impact the Company's risk profile.
- Review loan losses and other credit quality statistics prior to the issuance of quarterly earnings reports.
- Review real estate high loan-to-value reports.
- Review new material exceptions to credit policy.
- Review general exposure limits and concentrations by industry or sector, including counterparty limits and Bank Owned Life Insurance ("BOLI").
- Review industry counterparty concentrations and the largest counterparty exposures through Executive Summaries.
- Review negative trends and events as applicable to certain segments of the portfolio, based on geography, industry, product type, etc.
- Review and approve the allowance for loan and lease losses (ALLL) on a periodic basis, and approve the ALLL methodology.

It is not the duty of the Committee to review and approve individual loans.

4.5.2 The SHUSA Enterprise Risk Management Committee ("ERMC")

The ERMC is established under the authority of the BERC and it is chaired by the SHUSA CRO. It is responsible for the oversight and monitoring of all risk-taking and risk management activities across the enterprise.

With regards to Credit Risk, the ERMC's core responsibilities include the following:

- Review and recommend to the BERC for approval, subject to the concurrence of the EMC, the SHUSA Credit Risk Management Framework and credit risk tolerance statement;
- Oversee SHUSA's credit risk governance structure, including the credit risk management framework, credit risk tolerance statement, and credit risk policies, procedures and practices within each Subsidiary;
- Review and, if necessary or appropriate, recommend to the BERC for approval the credit risk-related operating policies of the SHUSA Subsidiaries, on an annual basis or on a frequency as otherwise mandated by such policies;
- Assess, on an ongoing basis and based on information provided to the Committee by senior management of each Subsidiary and by subcommittees of the Committee, each Subsidiary's credit risk management framework, credit risk tolerance limits, and credit risk identification and assessment processes to ensure they are in compliance with the enterprise-wide standards and are accurately capturing the Subsidiary's level of risk, and report any issues or exceptions relating thereto to the BERC;
- Review and approve each Subsidiary's and Business Line key risk indicators (KRIs) and their associated limits (thresholds) to ensure they are consistent with SHUSA's established risk tolerance;
- Review management's assessment of each Subsidiary's credit risk profile, including trends and emerging risks, and monitor credit risk performance information from each Subsidiary and Business Line, in each case on an ongoing basis;
- Receive information from senior management of each Subsidiary and from subcommittees of the Committee relating to identified credit risk issues and shall review plans and progress of accountable managers to resolve such issues, in each case on an ongoing basis;
- Ensure that the credit risk management functions within each Subsidiary are adequately staffed and have access to sufficient credit risk data and systems.

4.5.3 The SHUSA Credit Risk Committee ("CRC")

The CRC is a management committee, the purpose of which is to advise the SHUSA ERMC and the SHUSA CRO with respect to the oversight of SHUSA's credit risk management functions, the oversight and management of the identification, monitoring and evaluation of credit risks in SHUSA's operations and those of its Subsidiaries, including the methodologies, calculations, reporting and controls with respect to key credit risk metrics.

The CRC´s core responsibilities are:

- Review and approve the charters of SHUSA's Executive Credit and Allowance for Loan and Lease Losses ("ALLL") Committees.
- Provide input on the design and oversee the implementation of credit related risk identification and assessment methods, as well as the credit risk framework; review, challenge and recommend actions regarding identified credit issues and emerging credit risks.
- Provide input on the design and oversee the application of the credit related risk tolerance limits, concentration limits, Strategic Commercial Plans and Risk Mandates and review and challenge adherence to key credit metrics.
- Monitor credit related limits, as established for SHUSA's Business Lines in accordance with applicable risk tolerance limits, and take corrective action for identified breaches.
- Review and challenge credit risk related assumptions/issues and forward-looking scenarios (both baseline and stress scenarios) raised within the capital planning process; request and review plans to address and/or mitigate the impact of economic events on credit risks and associated provisions, if necessary or appropriate.
- Review credit-related operating policies and guidelines and any changes thereto; ensure consistency across Subsidiaries and compliance with SHUSA's Enterprise Credit Risk Policy.
- Oversee adherence to applicable policies and internal controls across SHUSA and its Subsidiaries regarding credit risk and recommendations from internal audit, external audit, regulators and loan review.
- Monitor the implementation of processes governing credit matters, including but not limited to pre-screening, underwriting, decisioning, monitoring, workout and collections.
- Review credit risk quality indicators and performance metrics; monitor credit quality, as measured by delinquency, non-accrual, charge-offs, Watch list classifications (FEVE under its Spanish acronym), and any other measures for consistency with credit risk tolerance and performance expectations.

- Monitor credit exposure by types and concentrations of risk, such as industry sectors, loan type and geography for consistency with credit risk tolerance and performance expectations.
- Review credit risk exception reporting and monitor incidents and trends.
- Review and provide input on credit and valuation reserves; review, on an ongoing basis, the policies applied by SHUSA's ALLL Committee in performing its responsibilities.
- In coordination with the Model Risk Committee, review current and proposed methodologies for credit risk modeling and loan and lease loss provision modeling.
- In coordination with SHUSA's Technology & Operations Committee and other management committees, as applicable, monitor technological & other strategic initiatives at SHUSA that that may affect credit risk.
- Report to the ERMC aggregated information that is sufficient to understand the foregoing on an ongoing basis; escalate to the ERMC issues that may involve significant credit risk or may otherwise be material to SHUSA or any of its Subsidiaries, as necessary or appropriate.

4.5.4 SHUSA Executive Credit Committee (ECC):

The SHUSA Executive Credit Committee is a management committee established under the Charter of the SHUSA Credit Risk Committee.

The ECC´s core responsibilities are:

- Review and approve individual transactions in accordance with credit approval policies and the Credit Approval Delegated Authorities of SHUSA and its Subsidiaries;
- Review pre-classifications for Global Banking and Markets and Corporate and Commercial Banking clients;
- Review and approve leveraged buy-outs proposed by the Sponsor Finance Groups (Specialty Finance) in accordance with credit approval policies and the credit approval Delegated Authorities of each of the Business Lines;
- Review information regarding individual customers and specific transactions as deemed appropriate by committee members;
- Review and approve portfolio sales and portfolio purchases for SHUSA Subsidiaries and their Business Lines; and
- Review and approve Strategic Commercial Plans.

4.5.5 SHUSA Allowance for Loan Losses Committee (ALLL)

The SHUSA ALLL is a management committee established under the Charter of the SHUSA Credit Risk Committee. It oversees and ensures consistency and accuracy in the application of the methodology, calculation, monitoring, reporting and control of the loan and lease loss reserve processes at SHUSA and its Subsidiaries.

The core responsibilities of the ALLL Committee are:

- Oversee the activities and processes of the various workgroups engaged in making loss reserve forecasts;
- Ensure that SHUSA has controls in place to consistently determine the Allowance for Credit Loss in accordance with stated policies and procedures, "GAAP", and supervisory guidance;
- Review and approve the methodology, associated policies and procedures, and amounts reported each period for the loss reserve process, including provision and recommended loss reserve levels for the reserve process; and
- Report on and recommend to the SHUSA Board of Directors, or any designated Sub-Committee of the SHUSA Board, the above activity.

4.6 Three Lines of Defense

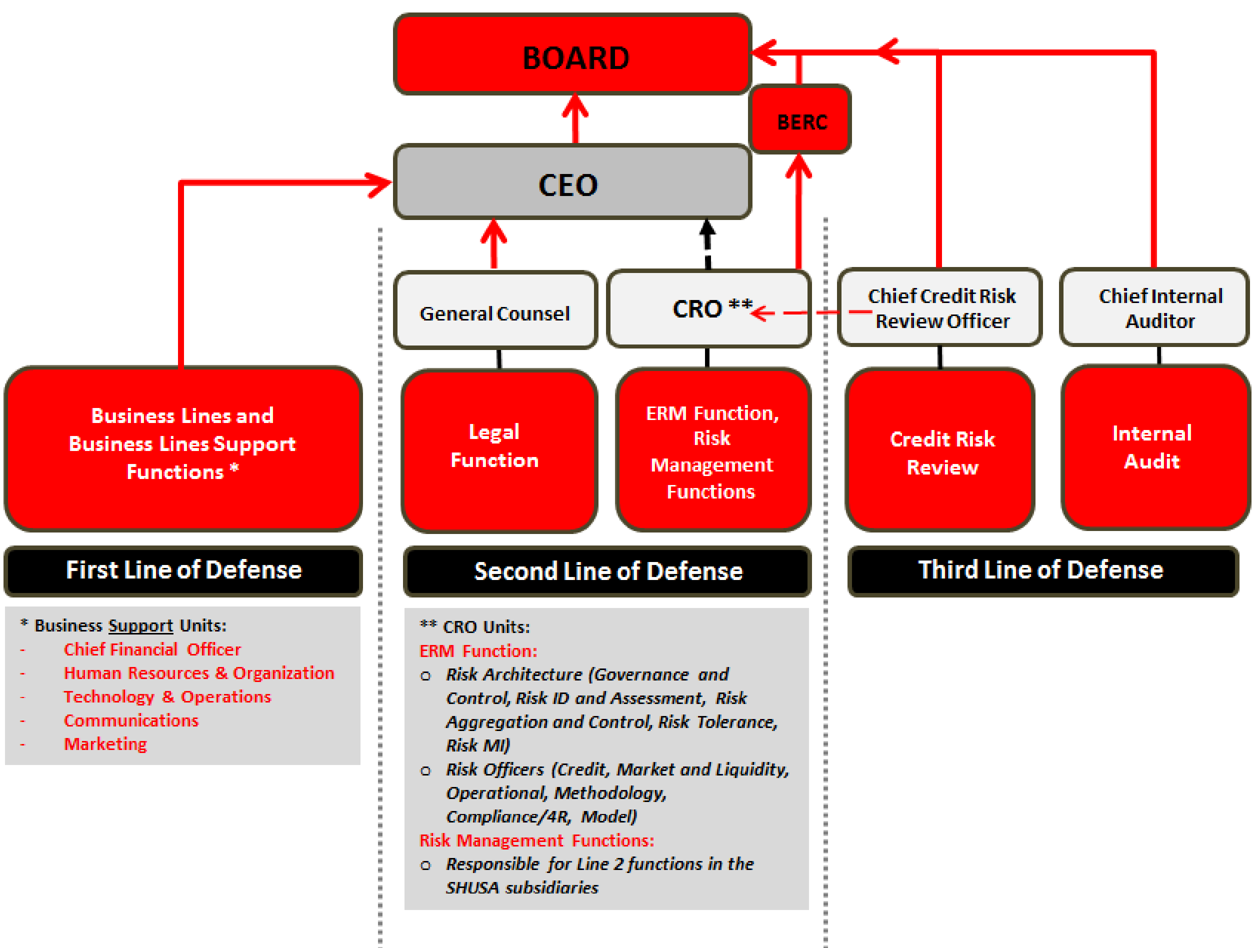
SHUSA and its Subsidiaries organize their roles and responsibilities for credit risk management into a "three lines of defense" model, with separately defined and segregated Roles and Responsibilities consistent with applicable regulations and guidance:

- **Line 1 Risk Management – SHUSA, its Subsidiaries and their Business Lines & Business Support Units:** reporting to the CEO, Line 1 units have responsibility for the primary management of the risks that emanate from their activities. Line 1 units own, identify, measure, control, monitor and report all risks that are originated through activities such as business origination, providing specialist advice, the development, marketing or distribution of products, client maintenance, or operational or technological processes supporting customer activity.
- **Line 2 Risk Management – Risk; Legal**
  - ***SHUSA´s ERM Risk Management function and its Subsidiaries' Risk Management Units*** *that are under the executive responsibility of the CEOs but report to the CROs. These Line 2 units manage and monitor risk exposures, define frameworks*, policies and comprehensive and appropriate controls, and ensure Line 1 units manage risk in line with the agreed frameworks and risk appetite levels.
  - ***Legal Function*** that is under the executive responsibility of the CEO.

- **Line 3 Risk Assurance - Internal Audit; Credit Risk Review Function.**
  - ***Internal Audit*** provides independent assurance and reports to the Board.
  - ***The Credit Risk Review Function*** reporting to the Board and administratively to the SHUSA CRO provides an independent assessment of SHUSA's credit risk and credit risk practices to the Board. The primary goal of Credit Risk Review is to ensure credit practices are consistent with SHUSA's desired risk profile and risk tolerance limits.

The responsibilities of all 3 Lines of Defense with regards to credit risk are organized into three sub-categories: **Identification and Assessment, Internal Controls and Monitoring, Testing, and Reporting** the main aspects of which are detailed in the sections below and must be further developed in Subsidiary frameworks and policies for credit risk.

A simplified 3 Lines of Defense model is depicted below:



4.7 Line 1 Units - SHUSA, its Subsidiaries and their Business Lines & Business Support Units:

Reporting to the CEO, Line 1 units have responsibility for the primary management of the risks that emanate from their activities. Line 1 units own, identify, measure, control, monitor and report all risks that are originated through activities such as business origination, providing specialist advice, the development, marketing or distribution of products, client maintenance, or operational or technological processes supporting customer activity.

SHUSA has defined four Business Lines across its Subsidiaries: Retail Banking, Auto Finance, Commercial Banking, and Global Banking & Markets (GBM) that are responsible for the primary management of credit risks that emanate from their activities.

- **Auto Finance:** through the origination or purchase of third party portfolios of automotive loans and leases to consumers or small businesses.
- **Retail Banking:** through the origination of home equity loans, mortgages, credit cards and personal loans with consumers or small businesses.
- **Commercial Banking:** through the origination of loans, credit facilities, cash management services or other Banking services to real estate investors, middle market companies and other specialist customers (e.g. municipalities).
- **Global Banking & Markets:** through the origination of loans, credit facilities, treasury markets products, cash management services or structured finance products to large corporates and multinational firms, institutional investors or financial institutions.

Based on the principles reflected in the SHUSA ERM Risk Management Framework, *the Credit Risk Management Framework of each Subsidiary will describe the roles and responsibilities of each Business Line and their business support units and how they will be responsible for ensuring compliance with the SHUSA ERM Program through a detailed program of identification, assessment, control, monitoring, testing and reporting.*

4.8 Line 2 - Credit Risk Roles & Responsibilities

Credit risk roles and responsibilities for Credit Risk are led by the SHUSA CCO and the Subsidiaries´ CCOs. Their responsibilities with regards to credit risk identification, assessment, control, monitoring, testing and reporting are as follows:

Credit Risk Identification and Assessment
SHUSA: • Coordinate and ensure the consistency of the ERM Credit Risk framework across Subsidiaries • Implement the ERM Methodology policy for risk identification across SHUSA and its Subsidiaries • Ensure that credit risk decisions take into consideration the necessary balance between risk and returns • Facilitate and Aggregate the enterprise-wide credit risk management information and provide analysis on risks and emerging risks (e.g., dependencies, concentrations, correlations, etc.) • Coordinate the consolidated credit risk management input into the strategic and ALLL measures • Coordinate and consolidate the analysis of stress testing results • Coordinate and review new product and new business activities • Monitor regulatory guidance and best practices for necessary improvements to credit risk management • Review risk rating and scoring models • Joint definition of objectives for credit risk management functions within the Subsidiaries and the assignment of functional responsibilities. **Subsidiaries:** • Support Line 1 implementation of the credit risk framework, policies and procedures • Ensure consistent credit risk identification and measurement processes • Complete credit risk assessments • Manage the customer segmentation according to the risk management client classification • Own credit risk analysis, including the implementation of internal models for risk ratings and scorings • Develop credit risk metrics for the respective Business Lines • Conduct new product and new business activities credit risk assessments. • Provide credit risk input to Business Lines across the organization • Ensure that credit risk decisions reflect a balanced view of risk and return • Participate in capital (CCAR), and strategic planning processes (risk input) • Implement and manage Watch list and debt recovery processes in line with internal policy and all applicable regulations • Manage credit loss forecasting processes and measurements and stress testing calculations • Monitor regulatory guidance and best practices for necessary improvements to credit risk management • Ensure the linkage between the Risk Assessments, Strategic Planning and Risk Tolerance

Internal Controls
SHUSA • Contribute to promote a consistent and risk oriented culture across the enterprise • Provide oversight to the Subsidiary credit risk committees • Oversee the credit risk training across the enterprise • Coordinate the enterprise risk tolerance framework implementation • Coordinate and consolidate the development of the SHUSA credit risk tolerance limits • Provide input, review and agree on credit risk tolerances and underlying metrics proposed by Subsidiaries • Deploy SHUSA credit risk tolerance statement • Provide credible and effective challenge to the Subsidiaries • Provide direct support to the Subsidiaries on both a routine and ad-hoc basis • Define and maintain the SHUSA committee structure, ensuring alignment and harmonization across Subsidiaries. **Subsidiaries:** • Establish and maintain credit risk policies aligned with SHUSA credit risk policies • Operate within the approved- delegated credit risk authorities • Establish and lead Credit Risk Committees and opine on credit risk related operating policies and procedures set by Line 1 • Develop and allocate credit risk tolerance limits based on SCPs for the respective Business Lines (Credit Risk Mandates) • Promote a culture of credit risk awareness • Develop and implement credit risk training programs. • Conduct independent verification of Line 1 compliance with the credit risk framework, policies and procedures • Provide credit risk performance input for compensation programs • Develop, share and propose to SHUSA Credit Risk the Strategic Commercial Plans and Budget.

Monitoring, Testing & Reporting
SHUSA • Aggregate, harmonize and consolidate credit risk MIS and other risk reporting at the SHUSA level and provide guidance/guidelines to its Subsidiaries • Report on compliance with the credit risk framework at by SHUSA Subsidiaries • Ensure SHUSA Credit Committees are provided with sufficient information to comply with the responsibilities described in the charters • Coordinate and aggregate emerging and key credit risks • Escalate key credit risk issues and exposures to the appropriate credit risk committees • Monitoring and Tracking of credit risk tolerance limits • Ensure consolidated credit risk information is considered and actioned, where appropriate, for strategic decisions • Approve and monitor SAN-US Strategic Commercial Plans • Planning, coordination and management of strategic projects with US scope for credit risk **Subsidiaries:** • Establish a credit risk reporting framework which enables effective monitoring and reporting on risks within the Business Lines • Design KRIs, KPIs and risk MIS for credit risk at the Subsidiary / Business Lines levels • Monitor and report on external emerging credit risks and potential threats • Monitor and aggregate reporting on concentrations, limits and tolerances for credit risk • Oversee credit risk issues and remediation tracking, monitoring and escalation across the Business Lines • Escalate material compliance and credit risk issues to SHUSA • In conjunction with the SHUSA CCO, Subsidiary CCOs determine the responsibilities and objectives of their Subsidiaries credit risk officers and the officers' direct reports •Develop reporting consistent with the standards defined by SHUSA • Notify SHUSA of any changes in laws, regulations, and supervisory guidance in terms of credit risk

4.9 The Third Line of Defense

Line 3 is composed of the Internal Audit function and the Credit Risk Review function.

Their responsibilities with regards to credit risk identification, assessment, control, monitoring, testing and reporting are reflected in the SHUSA ERM Risk Framework.

5. SHUSA´s Credit Risk Organization

5.1 The Chief Credit Officer

The SHUSA CCO reports to the SHUSA CRO. The CCO is responsible for the day to day management of Line 2 ERM responsibilities as described above, as well as for the coordination and supervision of the Line 2 Risk Management functions in the Subsidiaries.

The SHUSA CCO, in agreement with the Subsidiary CRO, will:

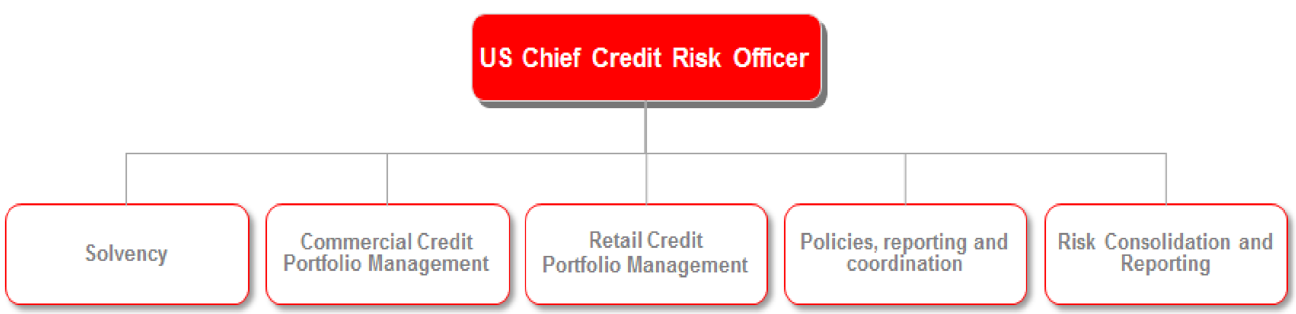
- Participate in the decision to hire or dismiss Subsidiary CCOs;
- Set goals and objectives for Subsidiary CCOs;
- Contribute to the annual performance evaluations of Subsidiary CCOs;
- Participate in compensation decisions regarding Subsidiary CCOs.

The SHUSA CCO:

- Leads the SHUSA ERM Credit Risk program across Subsidiaries, providing for effective supervision of all credit risks and operating independently from the Subsidiaries and their Business Lines;

5.2 The SHUSA ERM Credit Risk Function

The SHUSA CCO is assisted by specialist teams that are responsible for supervising the delivery of the ERM credit risk program by SHUSA´s Subsidiaries.



Their main responsibilities across SHUSA and its Subsidiaries are:

5.2.1 Solvency:

- Oversees loss estimation for regulatory stress testing programs and communicates results: CCAR/ DFAST/EBA in coordination with the Treasury, Capital Planning, Management Control, and Subsidiary Business Lines areas

- Consolidates loan loss reserves of subsidiaries and ensures that the appropriate accounting and regulatory guidance is applied to the reserve position of SHUSA. Oversight responsibilities include:

    - Ensure that the SHUSA Subsidiaries establish, monitor and calculate provisions and loan loss reserves in accordance with regulatory guidance and aligned to the SHUSA ERM policy and methodology;
    - Ensure that controls are in place to consistently determine the Allowance for Credit Loss in accordance with stated policies and procedures, GAAP, and supervisory guidance;
    - In coordination with the Methodology function, review the methodology, associated policies and procedures, and amounts reported each period for the loss reserve process, including provision and recommended loss reserve levels for the reserve process; and
    - Report and recommend provisions and reserves to the ALLL Committee/Audit Committee.

- Applies SHUSA's economic capital measurement for credit risk and works to integrate the results into SHUSA's ongoing management processes

- Supports scenario analysis in the management and execution of stress testing; identifying potential risks by stress test and through trends in scenarios employed by SHUSA

- Supervises scenario analysis and stress and integration of capital in risk supervision models maintains relationship and dialogue with supervisors, and implements monitoring supervisory initiatives

- Consolidates credit losses parameters (PD, LGD) for Supervisors (FRB, OCC, EBA, ECB, Bank of Spain)

5.2.2 Portfolio Management:

The Credit Risk Portfolio Management team (CRPM) provides oversight and supervision of the credit risk generated through the Subsidiaries' Business Lines activities. Responsibilities include:

- Identify, assess, measure, monitor, control, mitigate and report on retail and commercial credit risks in compliance with the parameters of the Enterprise & Credit Risk Management Framework and related policies and procedures;
- Review and analysis of retail and commercial credit risk issues and trends within the Business Lines, the Subsidiaries and at a consolidated level, challenging Line 1 and risk management functions and escalating issues, as appropriate;
- Analysis and challenge of the proposed Risk Tolerance Statements, identification and escalation of risk tolerance breaches and significant control gaps along with the recommendation of appropriate remediation plans;
- Supervision and monitoring of retail and commercial portfolios, through the approval and monitoring of Strategic Commercial Plans, ensuring consistency and harmonization with strategic metrics and limits, customer segmentation and credit risk client classification and identifying potential deviations and areas of concern to approved plans and ensuring appropriate corrective action plans are agreed and implemented;
- Providing senior management with the critical inputs needed to understand key performance indicators and emerging/evolving credit risks, as well as the underlying model methodologies and assumptions;
- Implementing consistent credit risk management practices throughout SHUSA and its Subsidiaries to meet existing and new regulatory standards. Building transparency and establishing open lines of communication with regulators to facilitate the efficient completion of regulatory examinations and audit reviews of retail and commercial credit risk activities, when required;
- Building and maintaining a strong relationship with Subsidiary Credit Retail and Commercial Risk teams, collaborating with them to recruit and set objectives for Credit Retail Risk Directors. Continuing to build capabilities (technical and soft skills) in the retail and commercial credit risk management functions to support the credit risk management frameworks.

5.2.3 Policies, Reporting and Coordination

The Policies, reporting and coordination function is responsible for:

- Defining and maintaining the CRMF, policies and processes
- Facilitating and monitoring the adoption and implementation of credit risk frameworks and policies at the Subsidiary level;
- Facilitating the alignment and harmonization of the organizational and committee structures across SHUSA and adapting and maintaining the Target Operating Model for credit risk and local governance
- Coordinating Risk ID and Assessment programs across the credit risk functions ensures the tracking and supervision of regulatory and audit requirements
- Reviewing and challenging all new policies, projects, processes and procedures for SHUSA and its Subsidiaries
- Coordinating strategic initiatives
- Reporting on operational performance (plans/budgets)

5.2.4 Risk Consolidation and Reporting

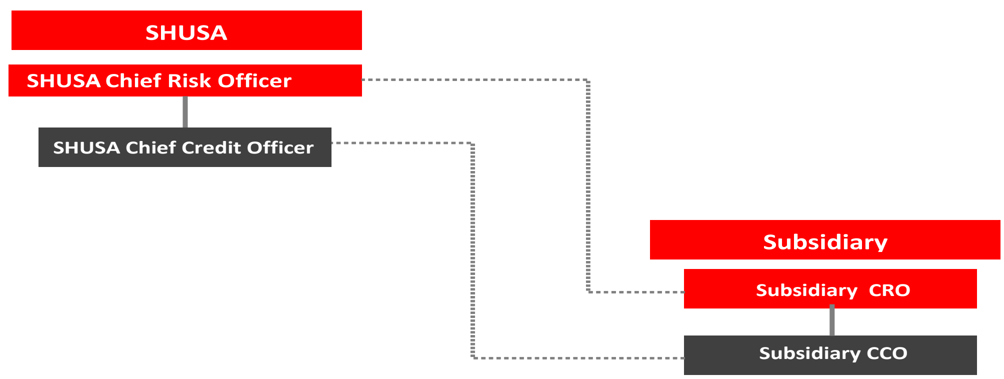
The Risk Consolidation and Reporting Team supports the SHUSA CCO with an independent and comprehensive view of credit risk exposures and profiles across SHUSA and its subsidiaries. The team:

- Defines the requirements for credit risk reporting and management information across the Subsidiaries
- Reviews and comments on the credit risk reports from Subsidiaries, analysing concentrations and current and potential credit risks
- Performs peer analysis for credit risk
- Reports on the status of implementation of the CRMF and related policies, RTS, risk profile, performance against risk plans/budgets, and asset quality across Subsidiaries

5.3 SHUSA and Subsidiary Credit Risk Management Organizations

Each SHUSA subsidiary will maintain its own credit risk management organization commensurate with its size and complexity. Each subsidiary CCO will report hierarchically to its respective CRO and indirectly to the SHUSA CCO.

The subsidiary credit risk management organizations are directly accountable to the SHUSA credit risk organization for the implementation of the ERM Framework and for operating in accordance with it. SHUSA's Credit Risk Management function can attend as an observer all of the Subsidiary's credit risk committees.



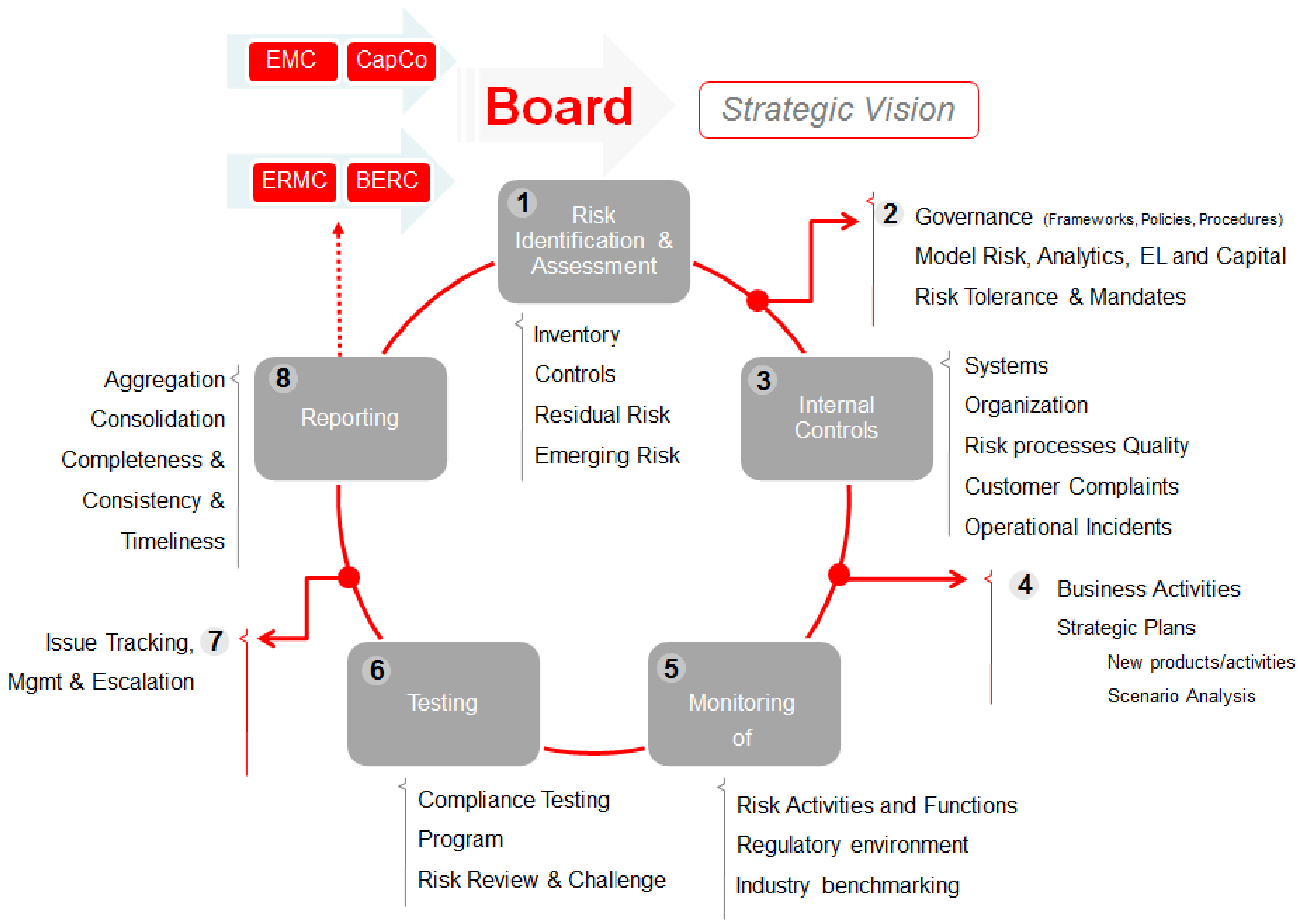
The credit risk management functions within each subsidiary will have a functional report to their respective counterparts within the SHUSA CCO structure. Through this defined reporting responsibility the SHUSA CCO organization has the authority to review, challenge and recommend actions regarding identified issues and emerging risks within the risk cycle and timeline related to credit risk within each Subsidiary. In this way SHUSA is able to provide general credit risk management oversight, ensure effective controls, and implement an integrated enterprise-wide risk framework through coordination with the risk officers within SHUSA and each subsidiary.

This structure maintains the integrity of SHUSA's individual subsidiaries, and the accountability of their boards of directors and of executive management for their performance.

6. ERM Credit Risk Methodology

The Credit Risk Methodology is based upon building blocks that, taken as a whole, ensure that an integrated set of processes are defined and implemented throughout the risk cycle[3]. All Frameworks and Policies must ensure that the ERM methodology is embedded across all credit risks and the entire organization.

The hallmark of the methodology is to continuously verify that the business model is sustainable, the credit risk identification, assessment, management and reporting is effective and consistent across all Business Lines, with back testing of models and outcomes embedded as part of the business cycle.



3 'Cycle' denotes a conceptual relationship and not necessarily a calendar-based sequence. Each element of the cycle may become a priority for attention at any time, depending on developments in the risk or control environments.

1 Risk ID and Assessment[4]
• Risk Identification:
    ○ Risk inventory
    ○ Risk measurement
    ○ Risk quantification
    ○ Risk controls and mitigants
• Risk response – accept/ mitigate/ reject.
• Risk Correlation
• Emerging Risks
	2 Governance
	• Governance of Risks (Risk Frameworks)
	• Policies
	• Procedures[5]
	• New Product Approval
	• Cost management and effectiveness of controls
	• Organization, Staffing and Training
	Model Risk and Model Usage,
	Risk Analytics and Capital Calculation
	• Risk Model development and validation
	• Risk Model User/ Owner governance and back testing
	• Loss identification and forecasting
	• ICAAP / CCAR
	• Liquidity stress testing
	Risk tolerance & Mandates
	• Risk Tolerance Limits & Metrics
	• Risk Scoring, Risk Approvals & Mandates

3 Internal Control
• Quality assurance and Control
    ○ Systems
    ○ Organization
• Risk processes quality
• Customer complaints
• Operational incidents
	4 Business Activities
	• Business plans[6]
	• Commercial strategy
	• New Products
	• Business plan scenario analysis

5 Monitoring • Regulatory, Policy and Business • Industry benchmarking • Risk Activities and functions • Risk Limits, KRIs, KPIs, Risk Tolerance Statement[7]	**6 Testing** • Compliance Testing Program • Risk Review & Challenge
7 Issue tracking and Escalation	**8 Reporting** • Risk Monitoring / Loan Quality • Risk Reporting • Risk Aggregation / Consolidation • Completeness, consistency & timelines • Regulatory Reporting

[4] For additional information about Risk ID and Assessment, please refer to section 3.4 of this Framework

[5] For additional information about Risk Frameworks, Policies and Procedures, please refer to section 3.7 of this Framework

[6] For additional information about Business Plans, please refer to section 3.6 of this Framework

[7] For additional information about the Risk Tolerance Statement, please refer to section 3.5 of this Framework

7. Regulatory references

This CRMF incorporates guidance from the Federal Reserve, the Office of the Comptroller of the Currency, and other regulators as follows:

- Enhanced Prudential Standards (EPS): Federal Reserve, Vol. 79, #59, subpart O, 252.155
- EPS: Federal Reserve 79, #59, subpart D, 252.33
- EPS: Federal Reserve, Vol. 79, #59, subpart O, 252.158
- SR 98-18 Lending Standards for Commercial Loans. 2 Pricing to Risk
- SR 95-51 Active Board and Senior Management Oversight
- SR 13-3 Stress Testing
- SR 12:17 Macro Prudential Supervisor Approaches to Address Risk to Financial Stability
- SR 95-51 Adequate Risk Monitoring and Information Risk Systems
- Consolidated Supervision Framework for Large Financial Institutions, Board of Governors of the Federal Reserve System, December 17, 2012. http://www.federalreserve.gov/Bankinforeg/srletters/sr1217.htm
- OCC Heightened Standards, Federal Register 179, 177, appendix D – Part 30

8. Document History and Version Control

8.1 Ownership and Authorship

Version	Date	Author	Owner	Change
1.0	2/9/2015	Credit Risk CCO	CCO	New Credit Risk Management Framework aligned to ERM Framework

8.2 Sign-Off

Version	Approving Body	Governance Committee Approval or Endorsement	Final Approval Date
1.0	N/A	Credit Risk Committee	2/24/2015
1.0	N/A	Enterprise Risk Management Committee	2/25/2015
1.0	SHUSA Board Enterprise Risk Committee	N/A	3/19/2015