**Santander Holdings USA**



**Risk Appetite metrics**

**Collection and Reporting process**

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1. Introduction
   1. Purpose of the document

The Risk Appetite (“RA”) Metric collection and reporting process document (“RA process”) details how Santander Holdings USA, Inc. (“SHUSA”) Risk Appetite Team (“RA team”) collects Risk Appetite metric data and supporting information for the monthly Risk Appetite report (“monthly RA report”) that includes RAS metrics from Santander Bank N.A. (“SBNA”) and Santander Consumer USA (“SC”).

* 1. Scope and Maintenance

This process applies to the SHUSA RA team and is owned and maintained by the SHUSA Director of Risk Appetite. This document should be updated as needed in the event of changes to the process listed out in this document or if there are any changes to the Risk Appetite Statement.

1. Monthly Process

The RA metrics are reported on a monthly basis via the monthly Risk Appetite report. The report is assembled by the RA team using information provided by SHUSA risk managers and the SBNA and SC RA teams. The process steps each month are:

1. SHUSA risk managers and SBNA and SC RA teams are to provide RA metric data to the SHUSA RA team by the dates specified in the tables below.
2. The information received is used to create the monthly RA report for the respective month along with additional information and commentary in the dashboard as needed.
3. The RA metric data is entered into the SHUSA\_Master\_RA which houses historical RA metric data. *\\corpormabop3\docs\EWRMG\Dept\SHUSA Risk Appetite Statement\2. Reporting\Master Data*
4. The monthly Report is sent out to the risk managers for review and approval around the 24th of each month.

*\\corpormabop3\docs\EWRMG\Dept\SHUSA Risk Appetite Statement\2. Reporting\RAS monthly reporting*

1. Once approval is obtained the final report is submitted to the Risk Aggregation Team (for inclusion in the Monthly Risk Report) and to SHUSA Treasury for ALCO.

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| **SHUSA METRICS** | | **SHUSA TEAM** | **Estimated Delivery Date** |
| Capital | Common Equity Tier 1 Ratio | SHUSA capital is found in the link[[1]](#footnote-1) of Regulatory Capital[[2]](#footnote-2) | Capital figures are available around the **23rd** of the month. |
| Tier 1 Risk-based Capital Ratio |
| Total Capital Ratio |
| Tier 1 Leverage Ratio |
| Tangible Common Equity Ratio |
| Liquidity/funding risk | Survival horizon under stress | Jorge Segura and Mengxi, Li | By the 26th or 27th of the month final numbers are available and sent.  **Survival Horizon under stress and SCUSA Available committed liquidity provided with a one month lag.** |
| Liquidity Coverage Ratio |
| Structural funding ratio |
| Available SC committed liquidity / average projected net originations |
| Available Committed Liquidity |
| Interest Rate Risk | ALM NII (+/-100bps) |
| ALM MVE (+/-200bps) |
| Mark to Market | Mark to Market Value at Risk (VaR) |
| Operational risk | Gross losses/gross margin | Brian McVane Katie Eckhoff | **Quarterly** metrics. Delivered around the **21st**  of the month |
| Frequency of events > 200k in losses |
| Model | Legacy Tier 1 models in production w/o appropriate approval (number of uses) | Devon Strobel –  Broken Down by entity | Provided for all entities the **2nd** working day of the month |
| Compliance | Open MRIAs Matters requiring immediate attention | Christine McManus | The **2nd** working day of the month |

* 1. Collection of data

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| **SBNA** | | **TEAM**: James Vincent , (Pong) Bunnalai Sivawong, Mario A. Gonzalez | **Estimated Delivery Date** |
| Capital | | Common Equity Tier 1 Ratio | SBNA Capital metrics are delivered around the **23rd** of the month.  They are also available in a link[[3]](#footnote-3) where all regulatory capital metrics can be found around the **18th** of the month. |
| Tier 1 Risk-based Capital Ratio |
| Total Capital Ratio |
| Tier 1 Leverage Ratio |
| Tangible Common Equity Ratio |
| Credit Risk | Net Charge Offs rate | SBNA Retail | Metrics are delivered no later than the **23rd** of the month.  \* Top 20 spreadsheet is provided by Brian Flatley |
| SBNA small business + business banking + Auto |
| SBNA C&I |
| SBNA CRE |
| SBNA GBM |
| %60+ days past due | SBNA Retail |
|  | # of counterparties with Santander < 5.0 and exposure>$100MM |
| Industry exposure (by OCC group) |
| CRE exposure (excl. Multifamily) |
| Multifamily exposure |
| Single obligor exposure |
| Top 20\* |
| Liquidity/Finding Risk[[4]](#footnote-4) | | Survival Horizon under stress | Preliminary figures are delivered no later than the **23rd** of the month and final figures on the **25th** of the month |
| Liquidity Coverage Ratio |
| Structural Funding Ratio |
| Interest Rate Risk | | Net interest income sensitivity (+/- 100bps shock) | Preliminary figures are delivered no later than the **23rd** of the month and final figures on the **25th** of the month |
| Market Value of Equity sensitivity (+/- 200 bps shock) |
| Operational risk | | Gross losses/gross margin | **Quarterly** metrics delivered no later than the **23rd** of the month. |
| Frequency of events > 200k in losses |
| Compliance and Reputational risk | | CFPB Complaints | Metrics no later than the **23rd** of the month |
| # of OCC enforcement actions |
| New High risk Customers as % of Total New Customers |

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| **SC** | | **TEAM**: Henry Martin III, David Bright and Tali Ploetz | | **Estimated Delivery Date** |
| Capital | | | Common Equity Tier 1 Ratio | Metrics delivered no later than the **23rd** of the month.  **SCUSA Available committed liquidity and interest Rate Risk metrics are provided with a one month lag for final values. Preliminary values will be produced for delivery by the 23rd of each month.** |
| Tier 1 Risk-based Capital Ratio |
| Tangible Common Equity Ratio |
| Credit | Net Charge Offs rate | | SC Auto |
| SC Unsecured |
| %61+ days past due | | SC Auto |
| SC Unsecured |
| Residual Risk | | | Net residual value exposure |
| Liquidity/funding risk | | | Structural Funding Ratio |
| Available SC committed liquidity / average projected net originations (6 months) |
| Interest Rate Risk | | | Net interest income sensitivity (+/- 100bps shock) |
| Market Value of Equity sensitivity (+/- 200 bps shock) |
| Strategic | | | SC subprime assets as % of SHUSA credit exposure**[[5]](#footnote-5)** | SC balances by FICO score and business lines received by the **20th** of the month. |
| Total Risk weighted Assets (RWA) | Delivered no later than the **23rd** of the month. |
| Operational risk | | | Gross losses/gross margin | **Quarterly** metrics received by the **23th** of the month after the Quarter end.  Monthly updates on events are provided along with other metrics **23rd** of the month. |
| Frequency of events > 200k in losses |
| Compliance / Reputational | | | Serviced for others monthly net charge off rate | No later than the **23rd** of the month. |

ADDITIONAL INFORMATION

CAPITAL METRICS

The SC RAS team provides the SHUSA RAS team with a SC Capital monthly report that then is provided to Scott Powell.



RWA METRIC

Risk Weighted Asset (RWA) limit (Red) based on a management ratio of Common Equity Tier One (CET1) /11% calculated using prior month CET1 Capital. The trigger (Amber) is proposed at $2BN below the Red limit.

* 1. Creating the report

All documents, emails and monthly reports are saved in the RAS monthly reporting folder[[6]](#footnote-6) in their respective reporting month. The folder holds the monthly report being worked on (during the month) or finalized (after collecting and approving metrics.) As well, there is a folder called “documents”, for every month, where all emails and documents are saved from the different RA teams to keep track of what they are submitting.

All documentation relating to triggers or breaches will be kept in a separate subfolder in the RAS monthly reporting folder.

* 1. Metric master

When receiving the data from the different Risk Appetite teams, it is stored in the SHUSA RAS Master database[[7]](#footnote-7). The spreadsheet is called SHUSA\_Master\_RA. This is where the historical data is stored so that it can be easily retrieved if needed for audit purposes or reviewing purposes. This “database” is split up by risk type in different tabs and has one tab dedicated to all of the Risk Appetite metrics together displaying its threshold color, green, amber or red.

* 1. Metric comparison for Group

Also stored in the master database is a tab for concentration metrics. This provides calculations for all concentration metrics based on Group or US calculation rules (e.g. over total portfolio exposure – for Group; or to compare CET1 versus Shareholder equity calculations to make sure they are not breaching any threshold)

This metric comparison tab must be kept up to date to inform the quarterly reporting to Santander Group.

* 1. **Recast**

In the event of a miss-calculation or any type of error for a metric value, a Recast of the data will be necessary. It is important to keep all historical data (old value and new updated value) for audit purposes in the master document. Therefore, we will add a new row with the old value(s) and update the historical numbers with the new values to continue with the graph trend of that metric. For aesthetic purposes we will hide the old row which will only contain the old number(s) that have been recasted.

The graph will automatically update with the new recasted numbers to show the most current trend of that metric.

* 1. Review of the report

Once the RA metric data is collected from the risk appetite teams, the monthly report is sent to the risk managers for review around the 25th of the month.

Risk managers provide feedback only if needed meaning that, if no issues are raised, values and explanations for that month are approved. If feedback is provided, it should take no longer than end of day of the 28th of the month to report any feedback.

The list of managers that will review the draft approval for the RAS are:

Hennessy, John <[john.hennessy@santander.us](mailto:john.hennessy@santander.us)>; Simon, Bart <[bart.simon@santander.us](mailto:bart.simon@santander.us)>; Watson, Jonathan <[jwatson2@santander.us](mailto:jwatson2@santander.us)>; Ameri, Massoud <[massoud.ameri@santander.us](mailto:massoud.ameri@santander.us)>; Gonzalo, David <[david.gonzalo@santander.us](mailto:david.gonzalo@santander.us)>; Segura, Jorge I <[jorge.segura@santander.us](mailto:jorge.segura@santander.us)>; Lasso, Manuel J <[mlasso@santander.us](mailto:mlasso@santander.us)>; McVane, Brian J <[bmcvane@santander.us](mailto:bmcvane@santander.us)>; Walsh, Peter <[peter.walsh@santander.us](mailto:peter.walsh@santander.us)>; Fahs, Rafic <[rafic.fahs@santander.us](mailto:rafic.fahs@santander.us)>; Alexakos, George <[george.alexakos@santander.us](mailto:george.alexakos@santander.us)>; Richard, Charles T [crichard@santander.us](mailto:crichard@santander.us) ; Cuervo, Carlos [ccuervo@santander.us](mailto:ccuervo@santander.us) ; Rodriguez San Pedro Gonzalez Manuel [manuelrodriguezs@gruposantander.com](mailto:manuelrodriguezs@gruposantander.com) Vincent, James <james.vincent@santander.us>; Tali Ploetz <NMPLOETZ@santanderconsumerusa.com>

* 1. Final report

When the review has been approved by the risk manager, the final report is sent to two teams:

* SHUSA Risk Consolidation and Aggregation: Mirchuk, Dmitriy G [dmitriy.mirchuk@santander.us](mailto:dmitriy.mirchuk@santander.us),

Taveras Soriano, Laura I [laura.taveras@santander.us](mailto:laura.taveras@santander.us), Gao, Yi [ygao@santander.us](mailto:ygao@santander.us) Coutinho, Paula [pcoutinh@santander.us](mailto:pcoutinh@santander.us)

* SHUSA Treasury for ALCO: Withers, Andrew W [awithers@santander.us](mailto:awithers@santander.us)

1. Document History and Version Control

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| --- | --- | --- | --- | --- |
| **Version** | **Date** | **Author** | **Owner** | **Change** |
| 1.0 | November 2015 | Risk Appetite Function | Director, Risk Appetite | First RAS Metrics Collection and Reporting document |
| 2.0 | December 2015 | Risk Appetite Function | Director Risk appetite | Clarifications from SCUSA |
| 3.0 | December 2015 | Risk Appetite Function | Director Risk appetite | SBNA clarifications |
| 4.0 | December 2015 | Risk Appetite | Director Risk appetite | SCUSA available liquidity one month lag |
| 5.0 | January 2016 | Risk Appetite | Director Risk appetite | Residual Value (take out annual metric) |
| 6.0 | January 2016 | Risk Appetite | Director Risk appetite | Recast paragraph |
| 7.0 | March 2016 | Risk Appetite | Director Risk appetite | Added SC delivery date later for remediation plan |

1. <http://webmossrfs.mx.sov.corp/Policies%20Procedures%20and%20Templates/Forms/AllItems.aspx?RootFolder=%2FPolicies%20Procedures%20and%20Templates%2FRegulatory%20Capital%2FCapital%20Trend%20Summary&FolderCTID=0x012000661B38C92AD17A448762D999E5E49578&View=%7b61C30055-D3FE-40BE-89E7-B855B2FB3005%7d> [↑](#footnote-ref-1)
2. The link provided in the SHUSA metric table is available only with access given by Opdyke, Nicholas F [nopdyke@santander.us](mailto:nopdyke@santander.us). At the moment James Martorell has access to this site to collect monthly Capital figures for SBNA and SHUSA. [↑](#footnote-ref-2)
3. <http://webmossrfs.mx.sov.corp/Policies%20Procedures%20and%20Templates/Forms/AllItems.aspx?RootFolder=%2FPolicies%20Procedures%20and%20Templates%2FRegulatory%20Capital%2FCapital%20Trend%20Summary&FolderCTID=0x012000661B38C92AD17A448762D999E5E49578&View=%7b61C30055-D3FE-40BE-89E7-B855B2FB3005%7d> [↑](#footnote-ref-3)
4. Liquidity and Interest Rate Risk are provided by the SHUSA Market/Liquidity team (Mengxi, Li) who aggregate the SHUSA, SBNA and SC market and liquidity metrics. The values are also received from the entities. It is important to verify that all values are identical. If not, we should contact Mengxi, Li and Jorge Segura informing them there is an inconsistency in the data provided. [↑](#footnote-ref-4)
5. **SC subprime assets as % of SHUSA credit exposure is calculated monthly:** (i) SHUSA total exposure and SHUSA leases for the month are provided by Brian Flatley and Paul Gianatassio of the SHUSA Solvency team; (ii) SC RAS team provides a spreadsheet with SC exposure broken down by FICO score and product lines; (iii) the metric is calculated with the excel spreadsheet located in the “SCUSA subprime” folder (\\corpormabop3\docs\EWRMG\Dept\Risk Tolerance Statement\SHUSA\RTS Changes\CART\Reporting and Escalation\SCUSA Subprime Metric).

   The value is sent back to the SC team for inclusion in their RAS reporting.

   \*The Estimated Delivery Dates are for RAS Dashboard / Metrics Only. The full RAS report due date is variable base on the possible need for remediation plans. Triggers exceeded (10 Days for remediation plan) and Breaches of Red limits (5 Days for remediation plan) are documented in the SCUSA RA Escalation and Remediation Procedures. [↑](#footnote-ref-5)
6. \\corpormabop3\docs\EWRMG\Dept\Risk Tolerance Statement\SHUSA\RTS Changes\CART\Reporting and Escalation\RAS monthly reporting [↑](#footnote-ref-6)
7. \\corpormabop3\docs\EWRMG\Dept\Risk Tolerance Statement\SHUSA\RTS Changes\CART\Reporting and Escalation\Master Data [↑](#footnote-ref-7)