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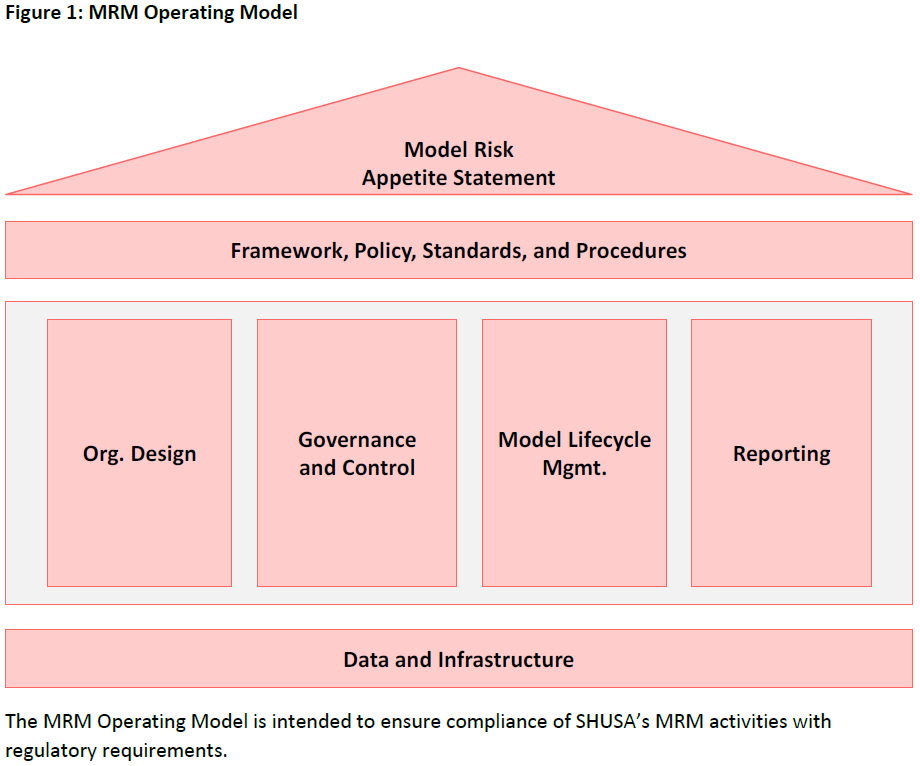
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# A. Model Risk Management Enterprise Policy-SHUSA (v2.0)

Date Last Approved: 09.25.2015

1. **Introduction**
   1. **Model Risk Management (“MRM”) Operating Model**

* **Organizational Design** – Defines the resource and capability needs for the MRM operating model, as well as the interactional model between the First and Second Lines of Defense



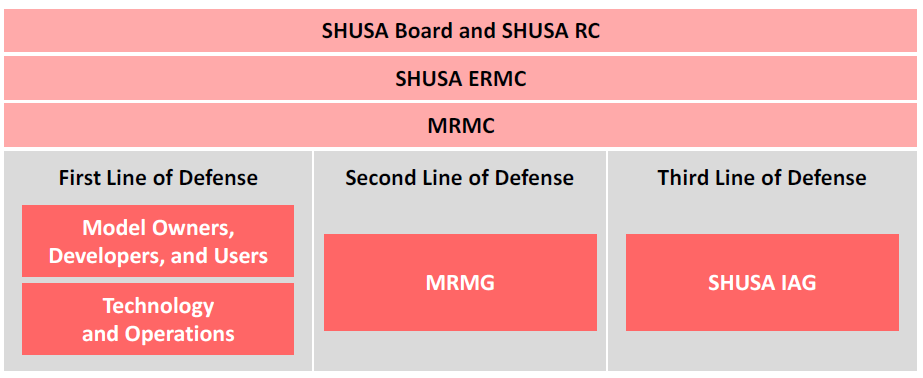
1. **Governance and Accountability**

SHUSA has established a clear governance structure in line with SHUSA Three Lines of Defense principles for risk management to manage model risk across SHUSA and provide adequate oversight across all MRM activities.

**2.1 SHUSA Governance**

Figure 2 below lays out SHUSA’s MRM Governance structure as defined in this document. The First Line of Defense3, comprised of Model Owners, Developers, Users, and Technology & Operations (“T&O”), jointly develops or acquires, implements, operates, and maintains models and manages model risk on a day-to-day basis according to the Policy and Standards. The Second Line of Defense, the centralized SHUSA Model Risk Management Group (“MRMG”), designs and implements the approach to model risk management. Finally, the Third Line of Defense, the SHUSA Internal Audit Group (“SHUSA IAG”), assesses the appropriateness and effectiveness of SHUSA’s approach to model risk management and reviews compliance of the First and Second Lines with the Policy and Standards. SHUSA Board and SHUSA RC are ultimately responsible for the oversight of model risk at SHUSA and may delegate responsibility to SHUSA ERMC and MRMC. All committee charters must reflect the committees’ MRM responsibilities.

**Figure 2: MRM Governance and Three Lines of Defense**



**4 Roles and Responsibilities**

The key roles and responsibilities for the execution of model risk management are defined below.

**Model Owner:** A sufficiently senior person assigned primary First Line of Defense responsibilities for managing model risk for a specific model or models. A given model must have only one designated Model Owner even when the model has multiple business uses. If, for example, a model has two uses, each with a separate Model Owner, these uses must be inventoried as two distinct models. Model Owners may be located in any U.S. OE of Banco Santander, S.A.

*Model Need and Identification*

• Identify needs for new model development and communicate them to the respective BAM

• Identify needs for model repurposing and communicate them to the respective BAM

• Create a business case for the model prior to initiating development of a new model or validation of an existing model for a new use

• Inform MRMG of the need for a new model, model repurposing, and model changes and submit the required model information for the inventory

• Define model business requirements prior to the development process

• Determine how to fulfill model need (internal, internal with third party assistance, global, vendor)

• Self-identify Model Owners for internal, vendor, and global models

• Certify that the model inventory information is accurate and up-to-date as part of the annual certification process

• Acknowledge agreement with assigned Risk Tiers

*Model Development*

• Secure adequate resources for model development

• Oversee and document the vendor model selection process, including testing to demonstrate the adequacy of the model for use

• Ensure adequate documentation for vendor models occurs

• Create a model implementation plan for a model that will be implemented on a platform or IT application other than that on which it was built and obtain T&O agreement as applicable

• Create a performance (where possible) and risk monitoring plan for all models

• Document the assumptions management and change management processes for all models

• Review each model, including its assumptions and conservatism, to ensure that it meets business requirements prior to validation

• Inform MRMG when development will be complete so MRMG can schedule the validation

*Model Validation*

• Submit complete validation request, including all required data, documentation, and other relevant materials

• Sign-off on validation results

• Create a remediation plan to remediate validation findings and submit it to MRMG for approval for models that receive a Pass with Findings validation outcome

• Execute the approved remediation plan

*Model Implementation*

• Secure adequate resources for and manage model implementation

• Request changes to the model implementation, if necessary

• Identify and implement robust operational controls prior to formal model use

• Review UAT and submit results to MRMG

• Maintain model implementation documentation

*Model Use*

• Review model limitations as detailed in the development documentation

• Identify approved Model Users and communicate to them the model’s limitations and intended uses

• Ensure model is used in line with intended purpose and approved uses

• Design and ensure adequacy of model output reports

*Ongoing Model Management*

• Execute ongoing performance and risk monitoring in line with approved performance and risk monitoring plans

• Report performance and risk monitoring results as well as any monitoring issues or shortcomings to all relevant stakeholders at the frequency defined in the approved performance and risk monitoring plans

• Request approval from MRMG of any model changes that were not pre-approved during validation, provide UAT results to MRMG for model changes, and communicate all changes to key stakeholders

• Categorize issues identified during the performance and risk monitoring process according to their level of severity

• Communicate model decommissioning and reactivation to MRMG

*Annual Review*

• Collect all required documentation and data for the annual review and submit it to MRMG

**Lead Model Developer:** A sufficiently senior person assigned responsibility for leading the effort to develop a model. Lead Model Developers may be located in any U.S. OE of Banco Santander, S.A.

*Model Need and Identification*

• Identify needs for new model development and communicate them to the respective BAM

• Identify needs for model repurposing and communicate them to the respective BAM and Model Owner

• Identify needs for model modification and communicate them to the respective Model Owner

*Model Development*

• Fulfill model development projects in accordance with this Policy, the project business requirements, SHUSA Model Development Standards, and generally-accepted mathematical modeling practices

• Prepare model development plans and documentation for review and challenge by applicable key stakeholders

• Document the operational controls that will be in place for a model implemented on the same platform or IT application on which it was built

• Maintain regular communication with the Model Owner, particularly with respect to the model’s methodology, limitations, and any associated risks

*Model Validation*

• Provide requisite information in support of model validation activities

• Execute the remediation plan for a model that receives a Pass with Findings validation outcome

*Model Implementation*

• Participate in functional testing

• Implement operational controls and create implementation documentation for a model implemented on the same platform or IT application on which it was built

**Model User:** The person assigned responsibility for the use of a model for a business purpose. Model Users may be located in any U.S. OE of Banco Santander, S.A.

*Model Need and Identification*

• Identify needs for new model development and communicate them to the respective BAM

• Identify needs for model repurposing and communicate them to the respective BAM and Model Owner

• Identify needs for model modification and communicate them to the respective Model Owner

*Model Use*

• Review model limitations, model restrictions, model issues, and approved model uses as listed in the development documentation and validation report prior to production or use

• Review model output reports to ensure accuracy before submitting to relevant stakeholders

• Use model in line with intended purpose and approved uses

**SHUSA Model Development and Risk Methodology:** The SHUSA unit responsible for supervising the model development program within SHUSA.

*Model Development*

• Formulate, promulgate, and maintain Model Development Standards, Procedures, and Templates

• Identify needs for new model development and communicate them to the respective BAM

• Identify needs for model repurposing and communicate them to the respective BAM and Model Owner

• Identify needs for model modification and communicate them to the respective Model Owner

**T&O**: The unit assigned responsibility for implementing models on platforms or IT applications other than those on which they were built

*Model Development*

• For models implemented on platforms or IT applications other than those on which they were built, review and agree on the implementation plan provided as part of the model documentation

*Model Implementation*

• For models implemented on platforms or IT applications other than those on which they were built: o Implement model and apply robust operational controls in accordance with the approved implementation plan

• Conduct model implementation testing

• Create implementation documentation

• Maintain Model Implementation Standards

**BAM**: A senior manager within each functional or business area assigned the MRM responsibilities listed below by MRMG. BAMs may be located in any U.S. OE of Banco Santander, S.A.

*Model Need and Identification*

• Provide ongoing oversight in the identification of new models and model uses

• Confirm the Model Owner for a new model or new model use

• Approve a business case for the model prior to the initiation of development of a new model or validation of an existing model for a new use

• Certify the completeness and accuracy of the model inventory for their business area as part of the annual certification process

**Business Control Officer (“BCO”)**: A sufficiently senior member within a business area who ensures risk management activities are carried out in a controlled manner across a business area. BCOs provide quality assurance for the First Line of Defense and act on its behalf to ensure compliance with the Policy and Standards. BCOs may be located in any U.S. OE of Banco Santander, S.A.

*Model Need and Identification*

• Execute testing program to ensure compliance with the Policy and Standards, including the correctness of the certification process

**MRMG**: The SHUSA unit assigned responsibility for designing and implementing the approach to model risk management

*Model Need and Identification*

• Identify the need for a new model, model repurposing, and model changes as a result of the annual review and ongoing model management processes

• Define inventory requirements and maintain a centralized inventory

• Oversee the annual inventory certification process

• Classify computational processes as models or non-models

• Assign and reassess Risk Tiers

• Maintain a sound Model Risk Tiering methodology

• Report significant changes to the overall model inventory distribution by Risk Tier to MRMC

• Maintain Model Identification Procedures

*Model Validation*

• Schedule validations and inform the Model Owner of the scheduled time

• Conduct independent validation of all models in accordance with the Model Validation Standards and determine a validation outcome

• Oversee and manage all validations conducted by external resources

• Ensure effective challenge of expert judgment models through oversight forums

• Document validation results

• Determine a model’s Residual Risk Rating for models that receive a validation outcome of Pass or Pass with Findings

• Review and challenge the results of existing validation efforts for global models

• Track the execution of remediation plans

• Maintain an approach to categorizing findings based on their severity

• Maintain Expert Judgment Model Standards

• Maintain Model Validation Standards and Model Validation and Annual Review Procedures

*Model Implementation*

• Review the results of UAT

*Model Use*

• Maintain Model Use Standards

*Ongoing Model Management*

• Receive and independently review performance and risk monitoring results

• Oversee the change management process, approving model changes and initiating change-based validation as necessary

• Aggregate model risk across all models in the model inventory and report to MRMC, SHUSA ERMC, and SHUSA RC

• Determine whether validation is necessary for reactivated models

• Maintain Ongoing Model Management Standards

*Annual Review*

• Perform review of Tier 1, 2, and 3 models and determine the scope of follow-up actions

• Notify Model Owner of annual review outcomes and any issues that are identified

• Document annual review process

**CMRO:** The individual with ownership of the Policy and responsibility for overseeing MRMG and the implementation of the approach to model risk management

*Model Validation*

• Approve models for use based on the outcome of the independent validation

• Approve remediation plans submitted by Model Owners

*Model Implementation*

• Determine if there is a need to withdraw the model’s approval based on MRMG’s review of the UAT

*Ongoing Model Management*

• Approve remediation plans to address issues identified during performance and risk monitoring

• Approve Model Owners’ requests to decommission models

*Annual Review*

• Approve the outcome of the annual review

**MRMC**: The committee responsible for providing oversight across all MRM activities and for serving as a point of escalation for MRM issues between the First and Second Lines of Defense

*Model Need and Identification*

• Approve Model Identification Procedures

• Approve the Risk Tiering methodology

*Model Development*

• Approve Model Development Standards

*Model Validation*

• Approve Expert Judgment Model Standards

• Approve Model Validation Standards

• Determine a validation outcome when the CMRO refers an outcome sign-off to MRMC

• Arbitrate disputes between Model Owners and MRMG over the validation outcome, the adequacy of a remediation plan, permission to decommission a model, the annual review outcome, and an assessment of compliance with the Policy

• Enforce the remediation timelines outlined in approved remediation plans

• Approve Provisional Approvals for non-CCAR models9

• Approve Revalidation Delays10

• Approve Policy Exceptions unrelated to validation

*Model Implementation*

• Approve Model Implementation Standards

*Model Use*

• Approve Model Use Standards

*Ongoing Model Management*

• Approve Ongoing Model Management Standards

• Provide effective challenge and governance based on regular risk reports provided by MRMG

**SHUSA ERMC**: The SHUSA committee responsible for supporting SHUSA RC by supervising all risk types across SHUSA, escalating material issues, and recommending certain foundational risk management documents to SHUSA Board

• Approve MRM Compliance Standards

*Model Validation*

• Approve Temporary Exceptions11

• Approve Provisional Approvals for CCAR models

• Inform SHUSA RC of the decision to approve Temporary Exceptions and Provisional Approvals for CCAR models

**SHUSA RC:** The SHUSA committee responsible for assisting SHUSA Board in its oversight responsibilities with respect to enterprise risk management activities and related compliance matters

• Provide oversight of model risk at SHUSA and delegate authority to SHUSA ERMC and MRMC

**SHUSA Board:** The appointed body of individuals responsible for establishing the culture, incentives, structure, and processes necessary to promote compliance with MRM principles and regulatory guidance across SHUSA

• Approve the Policy and all material updates to the Policy

**SHUSA IAG**: A unit that acts as the Third Line of Defense for model risk management

• Assess the appropriateness and effectiveness of SHUSA’s approach to model risk management

• Review compliance of the First and Second Lines with the Policy and Standards

# B. Market and Interest Rate Risk Management Policy-SHUSA (v1.0)

Date Last Approved: 06.26.2015

**6. Roles & Responsibilities**

**6.1 Three lines of defense**

A multilayered system of checks and balances is in place to effectively identify and manage risk. Reflecting leading industry practices, SHUSA and its operating entities have established a “three lines of defense” operating model to manage market and interest rate risks.

In accordance with this model, the roles and responsibilities of the critical parties involved in market risk management are as follows:

• Treasury acts as the first line of defense, and identifies, assesses, manages, reports and controls the risks associated with SHUSA’s market risk profile and market activities. They are responsible for executing the market risk mandate approved by the ALCO.

• Market Risk acts as the second line of defense, provides independent oversight of Treasury’s market risk measurement by:

• Monitoring, reviewing and challenging the Treasury’s assumptions, model output, and market risk analyses.

• Guaranteeing the integrity of the models approved by the Model Risk Management Committee (“MRMC”)

• Internal audit, acts as the third line of defense, assesses whether the first and second lines of defense are effectively meeting their responsibilities, as well as adhering to the risk management guidelines established by the Board and the laws and regulations governing SHUSA operations.

**6.2 Roles & Responsibilities**

|  |  |
| --- | --- |
| **1st Line**  **Asset Liability Committee**  **(ALCO)** | ALCO is responsible for ensuring that the balance sheet’s market risk is managed consistent with SHUSA’s financial performance and risk tolerances. Such activities include but not limited to:  - Establish and implement strategies, policies and procedures designed to effectively manage market risk and recommend them for approval to the Board;  - Determine at least quarterly whether the organization is operating in compliance with such policies and procedures ;  - Review and assess the management of market risk within the risk appetite and limits approved by the Board and review the Company’s compliance with those limits at least quarterly;  - Review SHUSA’s funding profile considering diversification, future funding needs, and market developments;  - Evaluate SHUSA’s risk profile considering collateral management, asset liability management (“ALM”) position, pricing of term funding, internal interest rate risk hedging strategies and costs, and the impact of customer behavior on market risk;  - Approve market and interest rate related stress testing practices, methodologies, and assumptions at least quarterly, and whenever SHUSA materially revises its stress testing practices, methodologies or assumptions. |
| **Treasury** | - Effectively manage the bank's risk exposure and properly manage interest rate and liquidity risk exposure under the policy guidelines.  - Propose and implement a remediation plan if it is needed to readapt the interest rate and/or liquidity risk exposure of the institution under the appropriate policy guidelines, in case of a limit overage exist.  - Propose investment, funding, and hedging strategies to ALCO for approval.  - Execute ALCO approved strategies.  - Rebalance and manage investment, funding, and hedge position as directed by ALCO.  - Report all investment, funding, and derivatives activities to ALCO on a monthly basis. |
| **Finance** | - Develop and maintain FTP process to transfer inherent business risk to Treasury.  - Maintaining accounting policies and procedures relating to financial instruments.  - Provide P&L calculations for investment security sales. |

The following is a summary of the roles and responsibilities of the Lines of Defense engaged in Market and Interest Rate Risk management. Further details can be found in the ERM Market & Liquidity Risk Framework.

|  |  |
| --- | --- |
| **2nd Line**  **SHUSA Chief Risk Officer**  **(CRO)** | - Oversee the establishment of market risk limits on an enterprise-wide basis and the monitoring of compliance with such limits.  - Oversee the implementation of and ongoing compliance with the market risk policies and procedures approved by the Board.  - Oversee the management of market risks and controls within the parameters of the company’s risk control framework, and monitoring and testing of the company’s controls market risks.  - Report market risk management deficiencies and emerging risks to the risk committee and resolving those deficiencies in a timely manner on not less than a quarterly basis. |
| **Chief Market Risk Officer (CMRO) – Owner of the Policy** | - Responsible for the day-to-day management of Market Risk, as well as for the coordination and supervision of Market Risk Management functions in the subsidiaries.  - The SHUSA CMRO, in agreement with the Subsidiary CRO, will participate in the decision to hire or dismiss Subsidiary CMROs, set goals and objectives for Subsidiary CMROs, contribute to the annual performance evaluations and participate in compensation decisions of Subsidiary CMROs.  - Leads the SHUSA ERM Market & Liquidity Risk program across subsidiaries, providing for effective supervision of all Market & Liquidity risks and operating independently from the Subsidiaries and their Business Lines.  - Ensures that SHUSA´s Market & Liquidity risk management committees are informed and are able to discharge their responsibilities according to their charters. |
| **Market Risk (MR)** | - Oversee the establishment of risk limits on an enterprise-wide basis.  - Control and monitor the compliance of policy guidelines and Risk Tolerance Statement.  - Oversee the implementation of and ongoing compliance with the policies and procedures approved by the Board.  - Oversee the management of risks and risk controls within the parameters of the Company’s risk control framework.  - Measure, report and monitor the market risk exposures of the Bank in fulfillment of its policies.  - Alert and escalate limit overage and potential risks that the organization can receive from new product or market conditions.  - Control and guarantee that all official metrics and model for interest rate and liquidity risk management purposes corresponds to the approved by Model Committee.  - Alert and escalate model weaknesses identified throughout Early Warning Indicators.  - Report risk-management deficiencies and emerging risks to the risk committee and resolving risk-management deficiencies in a timely manner on not less than a quarterly basis. |

* Define and implement on a consolidated level the **Enterprise Market Risk Management Framework** for SHUSA & ensure its alignment to Santander Group's Principles and Guidelines and to US Regulatory Framework. Ensure that the framework is approved, communicated and implemented by the Subsidiaries (Line 2 resp. / Potential Line 2 resp)
* Review, Test and monitor adherence to **Risk Frameworks** both at SHUSA and its Subsidiaries (Line 2 resp. / Potential Line 2 resp)
* Ensure a strong and consistent **control culture** through robust price certification, yield curve calibration, valuation and P&L reconciliation against the General Ledger with Business Lines and corporate functions. Ensure proper segregation of duties: pricing (Business Lines), valuation (Risk Management functions). Perform testing of the controls. (Line 2 resp./Potential Line 2 resp)
* Ensure **strong and common culture** of stress testing, scenario analysis, sensitivity analysis that encompasses all the relevant risk factors at the Subsidiary level. Review and challenge stress testing program standards (Line 2 resp. / Potential Line 2 resp)
* Ensure smooth functioning of the **escalation and breach communication** process. Ensure consistent aggregate reporting and escalate any breaches (Line 2 resp. / Potential Line 2 resp)
* Monitor effective resolution of overages and ensure a strong and **consistent limit breach escalation and resolution culture** for SHUSA Subsidiaries. Report Status of Resolution of Overages at Subsidiary and SHUSA consolidated level (Line 2 resp. / Potential Line 2 resp)

**No description for third line Internal Controls and Credit Risk Review :**

**Internal Controls**

* Ensure **sufficiency of resources** (HR and Systems) to manage risk (Line 1 resp. / Potential Line 1 resp)
* Ensure **risks are considered** in the development and maintenance of Operating Policies, Procedures, and Processes (Line 1 resp. / Potential Line 1 resp)
* Adhere to the **Risk Tolerance Statement** and ensure adequate governance and controls (Line 1 resp. / Potential Line 1 resp)
* Ensure **Reporting Plan** is in place (Indicators, KRIs, KPIs, Limits…) (Line 1 resp. / Potential Line 1 resp)
* Identify **Training Needs**, communicate to 2nd Line and support rollout of training programs (Line 1 resp. / Potential Line 1 resp)
* The Internal Audit function’s responsibilities with regards to **M&L risk** identification, assessment, control, monitoring, testing and reporting are reflected in the SHUSA ERM Risk Framework (Line 3 resp. / Potential Line 3 resp.) further detail required

**6.3 Independent Review**

As described in the three lines of defense model, Internal Audit is an independent function that evaluates the adequacy and effectiveness of the company’s market risk management processes, including stress test processes and assumptions, at least on an annual basis to evaluate SHUSA’s market risk management operations.

Develop and Execute the **Strategic Planning process** and Financial Planning according to predefined Top Down Risk Tolerance (Line 1 resp. / Potential Line 1 resp)

**Risk Identification and Assessment**

* Develop and execute the **Strategic Planning process** and **Financial Planning** according to predefined Top Down Risk Tolerance (Line 1 resp. / Potential Line 1 resp)
* Participate in **Risk Identification process** (e.g., in workshops as Business managers, subject matter experts…) along with 2nd Line (Line 1 resp. / Potential Line 1 resp)
* Perform **Risk Assessment** including evaluation of inherent risk, quality of risk management controls and residual risks (Line 1 resp. / Potential Line 1 resp)
* Define **Risk Materiality** for respective risk area (Line 1 resp. / Potential Line 1 resp)
* Prepare **Remediation Plans** and develop corrective actions (Line 1 resp. / Potential Line 1 resp)

# C. Enterprise Liquidity Risk Management Policy-SHUSA (v1.0)

Date Last Approved: 05.29.2015

**4. Roles and Responsibilities**

**4.1 Three Lines of Defense**

SHUSA and its subsidiaries have established a multilayered system of checks and balances to effectively identify and manage liquidity risk following a “three lines of defense” model**16**.

In accordance with this model, the roles and responsibilities of the critical parties involved in liquidity risk management are as follows:

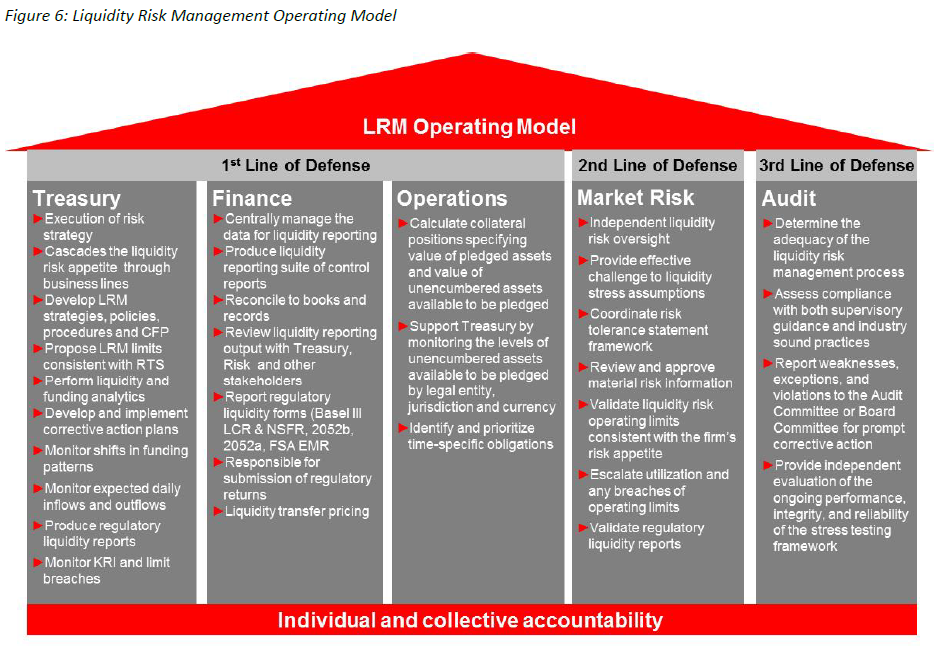
• *Treasury*: is the first line of defense by assessing and managing the risks associated with SHUSA’s liquidity profile and market activities. Treasury is responsible for developing the Enterprise Liquidity Risk Management Policy, operating policies and procedures that implement the requirements for effectively managing liquidity risk in business as usual and stressed conditions and executing the liquidity risk mandate approved by the Board.

• *Market Risk*: is the second line of defense by providing independent oversight of SHUSA’s liquidity risk management practices and lending activities, and challenging the Line of Business (“LOB”) assumptions and liquidity analyses. Market Risk is responsible for controlling and monitoring the compliance with the Enterprise Policy.

• *Internal Audit*: is the third line of defense by assessing whether the first and second lines of defense are effectively meeting their responsibilities and adhering to the risk management guidelines established by the Board, as well as the laws and regulations governing SHUSA operations.

**4.2 Liquidity Risk Management Operating Model**

The Operating Model in Figure 2 below lists some of the broad, functional roles and responsibilities of Treasury, Finance, Operations, Risk/Market Risk, and Internal Audit, with respect to Liquidity Risk Management acting as the three lines of defense.



**4.3 Responsibilities of Groups under the three Lines of Defense**

|  |  |
| --- | --- |
| **4.3.1 Treasury (under supervision of the Chief Financial Officer)**  **Treasury** | • Develop Liquidity Risk Management strategies, policies, procedures and the CFP  • Propose to ALCO investment, funding diversification and maturities, and hedging strategies for approval  • Execute ALCO-approved strategies  • Rebalance and manage investment, funding, and hedge position as directed by ALCO  • Report all investment, funding, and derivatives activities to ALCO on a monthly basis  • Perform liquidity and funding analytics  • Develop and implements corrective action plans  • Conduct Liquidity Stress Tests  • Connect stress test results to the CFP |
| **4.3.2 Finance (under supervision of the Chief Financial Officer)**  **Finance** | • Maintain accounting policies and procedures relating to financial instruments  • Provide P&L calculations for investment security sales  • Reconcile to books and records  • Centrally manage the data for liquidity reporting  • Produce regulatory liquidity reports (Basel III US LCR & NSFR, Fed 5G, FSA EMR)  • Produce liquidity reporting suite of control reports  • Review liquidity reporting output with Treasury and other stakeholders  • Responsible for submission of regulatory returns  • Develop and maintain Funds Transfer Pricing process (IRR vs. liquidity) to transfer inherent business risk to Treasury |
| **4.3.3 Operations (under supervision of the Head of Technology and Operations) Operations** | • Calculate collateral positions specifying value of pledged assets and value of unencumbered assets available to be pledged  • Monitor the levels of unencumbered assets available to be pledged by legal entity, jurisdiction and currency  • Monitor shifts in funding patterns between intraday, overnight and term pledging  • Monitor expected daily inflows and outflows  • Identify and prioritize time-specific obligations |
| **4.3.4 Market Risk (under supervision of the Chief Risk Officer17)**  **Market Risk** | • Oversee the establishment of risk limits on an enterprise-wide basis and the monitoring of compliance with such limits  • Oversee the implementation of and ongoing compliance with the policies and procedures approved by the Board  • Oversee the management of risks and risk controls within the parameters of SHUSA’s risk control framework, and monitoring and testing of SHUSA’s risk controls  • Provide effective challenge on the liquidity stress testing including cash flow projections, scenarios, assumptions, and test results  • Oversee Treasury Models are in compliance with Model Risk Management principles and guidelines  • Monitor and escalate KRI and limit breaches (delegated to Market Risk Officer for reporting to the CRO) |

|  |  |
| --- | --- |
| **4.3.5 Internal Audit (under supervision of the Audit Committee)**  **Internal Audit** | • Review liquidity risk management at a global level  • Validate alignment with the global liquidity risk framework and supervisory expectations  • Validate the effectiveness of liquidity risk measurement techniques used to monitor the firm’s liquidity risk profile  • Identify whether breaches in liquidity risk limits are being appropriately identified, escalated and reported  • Regulatory compliance and best practices |

**4.2 Responsibilities of Committees**

Below is a summary of the roles and responsibilities of the different Board and management committees which follow regulatory guidance and best practices. 18,19 Board and senior management committees consist of ALCO, BERC, and BCC. The primary roles of these committees are to ensure that liquidity risk management strategies, policies and procedures are adequate for SHUSA’s sophistication and complexity, and that these policies and procedures are appropriately executed on both a long-term and day-to-day basis, in accordance with Board delegations (see Section 5.3.1 for the SHUSA reporting structure).

|  |  |
| --- | --- |
| **4.2.1 Board of Directors**  **Board of Directors**  **(Board)** | • Ensure the liquidity risk tolerance is established and communicated in such a manner that all levels of management clearly understand SHUSA’s approach to managing the trade-offs between liquidity risk and short-term profits  • The Board, or its delegated committee of board members, must oversee the establishment and approval of liquidity management strategies, policies and procedures, and review them at least annually  • Approve the acceptable level of liquidity risk that SHUSA may assume in connection with its operating strategies (liquidity risk tolerance) at least annually  • Understand the nature of SHUSA’s liquidity risks and periodically review information necessary to maintain the information  • Establish executive-level lines of authority and responsibility for managing and executing SHUSA’s liquidity risk  • Enforce management’s duties to identify, measure, monitor, and control liquidity risk  • Review and approve SHUSA’s and its subsidiaries’ CFPs at least annually  • Understand the liquidity risk profile of SHUSA’s subsidiaries and affiliates as appropriate  • Review LST results at least quarterly, and scenarios and assumptions at least annually or when necessary changes occur |
| **4.2.2 Board Capital Committee**  **Board Capital**  **Committee (BCC)\*** | • The BCC reports directly to the SHUSA Board. The Board delegates oversight responsibilities for liquidity risk management activities to the BCC  • Review at least annually and recommend to the Board for approval SHUSA’s Enterprise Liquidity Risk Management Policy, operating policies and procedure documents  • Oversee the operation of the SHUSA’s liquidity risk management  • Oversee the development and implementation of liquidity risk measurement and reporting systems, as directed by the Board  • Approve any material revisions to the CFP prior to the implementation of such revisions  • Receive and review regular reports on not less than a quarterly basis from SHUSA’s ALCO  • Meet regularly, or at least quarterly, to review and discuss liquidity operations |
| **4.2.3 Asset/Liability Committee**  **Asset/Liability**  **Committee (ALCO)** | • Part of first line of defense and responsible for oversight of the financial resources of the company working closely with Treasury  • Establish and implement strategies, policies and procedures designed to effectively manage liquidity risk and recommend them to the BCC for approval  • Determine at least quarterly whether the organization is operating in accordance with liquidity risk policies and procedures  • Review and assess the management of funding and liquidity within the risk appetite and limits set by the Board and review SHUSA’s compliance with those limits at least quarterly  • Oversee the development and implementation of liquidity risk measurement and reporting systems  • Review and assess SHUSA’s funding profile considering diversification, future funding needs, and market developments  • Review and assess SHUSA’s liquidity profile considering capital position, collateral management, asset/liability management (“ALM”) position, pricing of term liquidity, internal risk rating hedging strategies and costs, and the impact of customer behavior on liquidity sources  • Review LST results at least monthly, and scenarios and assumptions at least annually or when necessary changes occur  • Approve and recommend to the BCC the size and composition of the liquidity buffer established  • Review the cash-flow projections at least quarterly or more often if there are material changes in market conditions or SHUSA’s liquidity profile to ensure that the liquidity risk is within the established liquidity risk tolerance  • Report to the Board regarding SHUSA’s liquidity risk profile and liquidity risk tolerance at least quarterly, or more often if there are material changes in market conditions or SHUSA’s liquidity profile  • Supply the Board and BCC with all necessary reports and analysis for the Board to execute its responsibilities outlined in section 4.2.2  Note: The Liquidity Risk Management Steering Committee (“Liquidity Risk Management Steering Committee”) reflected below in Figure 3 is the designated subcommittee of the ALCO. |
| **4.2.4 Board Enterprise Risk Committee Board Enterprise Risk Committee (BERC)** | • Reports directly to SHUSA’s Board. The Board delegates to the BERC, as the 2nd Line of Defense, oversight responsibilities for all risk-taking and risk management activities, including liquidity risk management  • Review at least annually and recommend to the Board for approval SHUSA’s Risk Management Framework, Risk Tolerance Statement and Enterprise Risk Management policies and oversee the operation of the risk management framework  • Review at least annually and approve the CFP; Approve any material revisions to the CFP prior to the implementation of such revisions  • The BERC receives and reviews regular reports on not less than a quarterly basis from SHUSA’s chief risk officer |
| **4.2.5 Enterprise Risk Management Committee**  **Enterprise Risk Management Committee**  **(ERMC)** | • Oversee the development and implementation of liquidity risk measurement and reporting systems as directed by the BERC as the second line of defense  • Meet regularly or at least on a quarterly basis to review and discuss liquidity operations  • Report to the BERC regarding SHUSA’s liquidity risk profile and liquidity risk tolerance at least quarterly or more often if there are material changes in market conditions or SHUSA’s liquidity profile |
| **4.2.6 New Products and Business Activities Committee (NPBA)**  **New Products and Business Activities Committee**  **(NPBA)** | • Ensure that new products have been adequately identified, with risks considered and informing appropriate levels of authority as needed  • Evaluate liquidity costs, benefits, and risks of each new business line, product, and liability that could have a significant effect on the SHUSA’s liquidity risk profile  • Ensure that liquidity risk of the new business line or product (under both current and stressed conditions) is within SHUSA’s established liquidity risk tolerance  • Review at least annually significant business lines and products to determine whether any line or product creates or has created any unanticipated liquidity risk, and to determine whether the liquidity risk of each strategy or product is within SHUSA’s established liquidity risk tolerance |

# D. Compliance Enterprise Policy-SHUSA (v2.0)

Date Last Approved: 09.25.2015

**4. Roles and Responsibilities**

**4.1 Three Lines of Defense**

As described in the ERM Framework, SHUSA has established a “three lines of defense” model to organize the roles and responsibilities for risk management in each of the Operating Entities.

SHUSA and each of the OEs manage risk in accordance with a “three lines of defense” model:

- The first line of defense consists of risk-taking functions (business activities) and corporate functions3 (e.g., the corporate center, finance, technology).

- The second line of defense consists of all risk functions, including Compliance.

- The third line of defense consists of Internal Audit.

Refer to the ERM Framework for a complete definition of the model, and the roles and responsibilities for each of the three lines of defense.

**4.2 Specific Roles and Responsibilities**

The table below summarizes the roles and responsibilities for SHUSA and OE committees and personnel under this Policy.

|  |  |  |
| --- | --- | --- |
| **Line of Defense** | **Party** | **Role/Responsibility** |
| Second | SHUSA Chief Compliance Officer (Policy Owner) and SHUSA Compliance Office (Administrator) | -Maintains Policy  -Recommends Policy modifications based on regulatory changes and guidance, feedback on Policy effectiveness, and supervisory and audit input  -Seeks approval of Policy at least annually from ERMC, Risk Committee, and Board  -Oversees Policy implementation by compliance directors |
| Second | OE Compliance Directors or Chief Compliance Officers | -Coordinate review, formal adoption, and implementation of Policy within the governance structures of their respective entities – tailoring to specific needs of their entities  -Coordinate development and approval of relevant compliance procedure |
| Second | SHUSA Legal | -Reviews Policy for consistency with other SHUSA policies |
| Third | SHUSA Internal Audit | -Independently validates the Policy and Bank compliance with Policy |

## I. Code of Conduct and Ethics-SHUSA (v2.0)

Date Last Approved: 07.30.2015

**4. Roles and Responsibilities**

**4.1 Three Lines of Defense**

As described in the ERM Framework, SHUSA has established a “three lines of defense” model to organize the roles and responsibilities for risk management in each of the Operating Entities.

SHUSA and each of the OEs manage risk in accordance with a “three lines of defense” model:

- The first line of defense consists of risk-taking functions (business activities) and corporate functions4 (e.g., the corporate center, finance, technology).

- The second line of defense consists of Risk Management.

- The third line of defense consists of Internal Audit.

Refer to the ERM Framework for a complete definition of the model, and the roles and responsibilities for each of the three lines of defense.

**4.2 Specific Roles and Responsibilities**

The table below summarizes the roles and responsibilities for SHUSA and OE committees and personnel under this Policy.

|  |  |  |
| --- | --- | --- |
| **Line of Defense** | **Party** | **Role/Responsibility** |
| First | OE Human Resources | - Notify Team Members of their obligation to follow the Code upon hire and through ongoing training (see Training, 3.9, above)  - Investigate and report violations of the Code |
| Second | SHUSA Chief Compliance Officer (Policy Owner) and SHUSA Compliance Office (Administrator) | - Maintains Policy  - Recommends Policy modifications based on regulatory changes and guidance, feedback on Policy effectiveness, and supervisory and audit input  - Seeks approval of Policy at least annually from ERMC, Risk Committee, and Board  - Oversees Policy implementation by compliance directors  - Report monthly to the SHUSA CC on the aggregation of reports from the OE Compliance Directors |
| Second | OE Compliance Directors | - Coordinate review, formal adoption, and implementation of Policy within the governance structures of their respective entities – tailoring to specific needs of their entities  - Update the Policy at least annually  - Coordinate development and approval of relevant compliance procedures  - Report monthly to the CCO on implementation of the Code |
| Second | Ethics Officer or Designee | -Notify Team Members of their obligation to follow the Code upon hire and through ongoing training (see Training, 3.9, above)  -Investigate and report violations of the Code |
| Second | SHUSA Legal | -Reviews Policy for consistency with other SHUSA policies |
| Third | OE Internal Audit | -Independently reviews and assesses the compliance, effectiveness, and efficiency of the internal control systems, as well as the reliability and quality of the accounting information and risk policies including identification, quantification and control of risks, including this Policy |

## II. Volcker Compliance Policy-SHUSA (v1.0)

Date Last Approved: 05.29.2015

**4. Roles and Responsibilities**

The Volcker Compliance process involves the participation of all lines of defense in SHUSA’s three lines of defense model, as described in Section 4.1 of the Policy. Each individual is responsible for understanding all roles and responsibilities when assigned a role within the Volcker Compliance process.

**4.1 Three Lines of Defense**

SHUSA has established a “three lines of defense” model to organize the roles and responsibilities for risk management across the banking entities. This model includes the following:

• **The first line of defense** consists of business functions (lines of business, Front Office and Middle Office) and corporate functions (or support units), such as Finance and IT.

o The first line of defense is responsible for defining and assessing the Volcker Rule and in determining any Proprietary Trading or Covered Funds activity, establishing the management framework, ensuring written procedures and policies addressing management of the activities performed under Volcker Rule are adhered to, and establishing the trading desk mandates.

• **The second line of defense** consists of Risk Management, Legal and Compliance.

o The second line of defense is responsible for periodically reviewing the Volcker compliance program to ensure compliance with the Volcker Rule. The second line of defense is also responsible for setting up a training program to train all relevant staff to effectively implement and enforce the compliance program.

• **The third line of defense** consists of Independent Testing and Internal Audit.

o The third line of defense and is responsible for assisting in performing tests of overall effectiveness of Volcker compliance program, and the testing of the internal controls.

**4.2 Functions within the Three Lines of Defense**

The chart11 below provides an overview of key roles that are accountable, responsible, consulted or informed throughout the Volcker Compliance process.

****

With respect to the Volcker Compliance:

The **Board of Directors** is responsible for:

• Reviewing and approving the Policy, and overseeing implementation of the Policy.

The **CEO** reports directly to the Board and is responsible for:

• Setting and communicating an appropriate culture of Volcker Compliance.

• Establishing appropriate incentives and adequate resources to support Compliance.

• Providing an annual attestation to the Volcker Compliance program.

**Senior Management** (including the Functional Committees, Corporate Compliance Committee and Business Committees) reports directly to the CEO and is responsible for:

• Senior Management within the first line of defense is responsible for defining and assessing the Volcker Rule and in determining any Proprietary Trading or Covered Funds activity, establishing the management framework, ensuring written procedures and policies addressing management of the activities performed under Volcker Rule are adhered to, and establishing the trading desk mandates, a control framework and recordkeeping procedures.

• Senior Management within the second line of defense is responsible for periodically reviewing the Volcker compliance program to ensure compliance with the elements of the Volcker Rule. The second line of defense is also responsible for setting up a training program to train all relevant staff to effectively implement and enforce the compliance program.

The **Volcker Steering Committee** reports directly to Senior Management and is responsible for:

• Supporting and advising Senior Management in defining and assessing the Volcker Rule and in determining any Proprietary Trading or Covered Funds activity.

• Ensuring written procedures and policies addressing management of the activities performed under Volcker Rule are adhered to.

• Ensuring the Volcker compliance program is reviewed periodically by Senior Management.

The **Volcker Compliance Officer** reports directly to the Volcker Steering Committee and is responsible for:

• The implementation of the organization’s compliance and Volcker regulatory objectives, including: o Trading and Investment activities – (Permitted, prohibited, and excluded activity)

o Limit breaches

o New Product/Business Approval

o Escalation

o Information barriers

• Each banking entity within the SHUSA Group is required to nominate a Volcker Compliance Officer.

**Internal Audit** is the third line of defense and is responsible for, on a periodic basis, assisting in performing tests of overall effectiveness of Volcker compliance program, and the testing of the internal controls.

# E. Ops Risk Management Enterprise Policy-SHUSA

1. **Enterprise Information Risk Management Policy-SHUSA October 2015 (v1.2)**

Date Last Approved: xx.xx.xxx

1. **Policy**

**3.2 Three Lines of Defense**

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

- **Line 1 (“First Line of Defense” or “1st LOD”) Risk Management – SHUSA, its Subsidiaries and their Lines of Business & Lines of 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 1 shall be responsible for identifying, assessing, mitigating, managing operational risk, including information risk, and ensuring compliance within its respective area(s).

-**Line 2 (“Second Line of Defense” or “2nd LOD”) ERM Function and Risk Management Functions** that are under the executive responsibility of the CEO but report to the CRO. 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.

Operational Risk Management is part of SHUSA’s independent Risk Management function, which includes Information Risk Management, that provides supervision of the operational risk management program and processes across SHUSA and its Subsidiaries.

- **Line 3 (“Third Line of Defense” or “3rd LOD”) Risk Assurance. Internal Audit** provides independent assurance and reports to the Board. It is a permanent corporate function, independent of any other function or unit in SHUSA or its operating subsidiaries, whose purpose shall provide assurance to the SHUSA Board and Senior Management, thus contributing to the protection of the organization and its reputation, by assessing the quality and effectiveness of the processes and systems of internal control, risk management and risk governance; compliance with applicable regulations; the reliability and integrity of financial and operational information including the integrity of the balance sheet of SHUSA.

Internal Audit conducts independent assessments of risk and compliance related procedures across SHUSA, including those concerning information risk.

1. **Roles and Responsibilities**

**4.1 SHUSA CISO (2nd Line):**

As the owner of this Policy, the SHUSA CISO authors, approves, trains, monitors and reviews the Policy. The CISO shall provide oversight and assurance that the SHUSA information risk management methodology adequately informs SHUSA policies and standards.

**4.2** **SHUSA Director, IT Risk and Security (1st line):**

The SHUSA Director, IT Risk and Security, as a 1st line function, shall establish a risk and compliance management methodology for ensuring all regulatory and internal mandates are implemented throughout SHUSA. The Director shall:

- ensure this and related policies adequately support the SHUSA Information Security Management Program;

- conduct periodic self-assessments to measure design adequacy and operating effectiveness of requirements;

- establish a process for escalation of issues and tracking of findings; and

- develop the necessary standards to implement these policies within the SHUSA entity.

**4.3** **SHUSA CIO (1st line):**

The SHUSA CIO shall provide pertinent information technology requirements for inclusion in this Policy and ensure IT process and functions implement this Policy (and supporting standards) through-out the IT organization.

**4.4** **SHUSA Chief Operational Risk Officer:**

Changes or updates to the Policy are developed in consultation with the CORO.

**4.5** **Internal Audit (3rd Line):**

In their role as Line 3, Internal Audit conducts independent assessments of compliance with this Policy and related procedures across SHUSA.

**4.6** **Board of Directors:**

The SHUSA Board shall be responsible for overseeing the development, implementation, and maintenance of SHUSA’s Information Risk Management Program. The SHUSA Board must ensure that this Policy is followed by all lines of business and corporate functions across SHUSA. The SHUSA Board must ensure necessary resources and funding are allocated to support the Policy.

**4.7** **Risk Committee:**

The SHUSA Risk Committee 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 regard to operational risk, the SHUSA Risk Committee reviews and approves the Information Risk Management Program and recommends to the SHUSA Board policies and/or procedures for the identification, measurement and control, of operational risk as well as decisions to reduce, increase, transfer and/or hedge, operational risks in each Subsidiary.

**4.8** **Enterprise Risk Management Committee:**

The SHUSA ERMC is established under the authority of the SHUSA Risk Committee and is chaired by the SHUSA CRO. SHUSA ERMC is responsible for the oversight and monitoring of all risk-taking and risk management activities across the enterprise. The SHUSA ERMC reviews the Information Risk Management Program and, if necessary or appropriate, recommends to the SHUSA Risk Committee for approval the SHUSA Enterprise Informations Risk Management Policy on an annual basis or on a frequency as otherwise mandated by this Policy.

**4.9** **SHUSA Operational Risk Management Committee:**

The SHUSA ERMC and CRO established the SHUSA ORMC to oversee operational risk. SHUSA ORMC has the primary responsibility to oversee and manage the identification and monitoring of operational risk in SHUSA and its Subsidiaries. The SHUSA ORMC advises the SHUSA ERMC and Subsidiary Board committees on the supervision, control and reporting of Operational Risks, including Information Risk, related to Subsidiary operations and activities. The ORMC oversees adherence to the Policy across the enterprise regarding Operational Risks, including Information Risk, and recommendations from internal audit, external audit, and regulators with regard to the Information Risk Management Program.

**4.10** **SHUSA Chief Risk Officer:**

Ad-hoc reviews of this Policy can be performed at the discretion of the SHUSA CRO.

1. **Enterprise Business Continuity and Disaster Recovery Policy-SHUSA November 2015 (v3.0)**

Date Last Approved: 11.17.2015

1. **Policy**

**3.2 Three Lines of Defense**

SHUSA and its subsidiaries will organize their roles and responsibilities for risk management into a “three lines of defense” model, with separately defined and segregated responsibilities consistent with applicable regulations and guidance:

• **Line 1 (“First Line of Defense” or “1st LOD”) Risk Management – SHUSA, its Subsidiaries and their Lines of Business & Lines of 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 Subsidiaries are responsible for executing a Business Impact Analyses (“BIA”), BC/DR planning, incident management, regular testing, maintenance, and ensuring compliance within their respective lines of business and corporate functions.

• **Line 2 (“Second Line of Defense” or “2nd LOD”) ERM Function and Risk Management Functions** that are under the executive responsibility of the CEO but report to the CRO. 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.

SHUSA and Subsidiary BCMP is part of SHUSA’s independent Operational Risk Management (“ORM”) function and provides overall oversight, guidance, and direction of the BCMP and processes across SHUSA, its Subsidiaries and TPSPs.

• **Line 2 Legal Function** that is under the executive responsibility of the CEO.

• **Line 3 (“Third Line of Defense” or “3rd LOD”) Risk Assurance - Internal Audit.** o **Internal Audit** provides independent assurance and reports to the Board. It is a permanent corporate function, independent of any other function or unit in SHUSA or its operating subsidiaries, whose purpose is to provide assurance to the SHUSA Board and Senior Management, thus contributing to the protection of the organization and its reputation, by assessing the quality and effectiveness of the processes and systems of internal control, risk management and risk governance; compliance with applicable regulations; the reliability and integrity of financial and operational information including the integrity of the balance sheet of SHUSA.

Internal Audit conducts independent assessments to ensure compliance with this Policy and related procedures across SHUSA.

1. **Roles and Responsibilities**

**4.1 Subsidiary Heads of Business Continuity Management (“Subsidiary Heads of BCM”)**

As part of the 2nd LOD, the Heads of BCM for SHUSA Subsidiaries own the BCMP for their organization. Duties include coordinating, maintaining, and performing regular review and testing of BIAs and BC/DR Plans. These teams and/or individuals are responsible for the governance of an effective BCMP, ensuring application and adherence to this Policy and the Subsidiary policy, and keeping the Subsidiary BCMP up-to-date to reflect the current operating environment.

**4.2 Subsidiary Business Continuity Coordinators (“Subsidiary BCCs”)**

As part of the 1st LOD, BCCs are appointed by their Lines of Business to serve as a liaison between the Subsidiary BCM and the business. BCCs coordinate, complete, maintain, and perform regular review and testing of their BIA(s) and BC/DR Plan(s). These individuals are responsible for management and execution of an effective BCMP, ensuring application and adherence to this Policy and keeping their BIA(s) and BC/DR Plan(s) up-to-date to reflect their current operating environment.

**4.3 Subsidiary Operational Risk Management (“Subsidiary ORM”)**

As part of the 2nd LOD, the Subsidiary BCM organization is directly accountable to the SHUSA Head of BCM for the governance, oversight, and training of BC/DR Policies and Standards and for operating in accordance with it. This includes, where applicable, reporting and event escalations from the Subsidiary operational risk officers to the SHUSA Head of BCM.

**4.4 SHUSA Chief Operational Risk Officer (“SHUSA CORO”)**

As part of the 2nd LOD, the SHUSA CORO is the overall owner of this Policy. Changes or updates to the Policy are developed in consultation with the CORO. The SHUSA CORO has delegated certain administrative responsibilities for this Policy to the SHUSA Head of BCM. Additionally, the SHUSA CORO is responsible for approving results of BIA and BC/DR reporting to the SHUSA ERMC.

**4.5 SHUSA Head of Business Continuity Management (“SHUSA Head of BCM”)**

As part of the 2nd LOD, the SHUSA Head of BCM is responsible for maintaining this Policy and for managing and tracking exceptions to this Policy. The SHUSA Head of BCM is responsible for developing all BCM elements across all of SHUSA.

**4.6 Internal Audit**

In their role as the 3rd LOD, Internal Audit conducts independent assessments of compliance with this Policy and related procedures across SHUSA.

**4.7 SHUSA Board of Directors (“SHUSA Board”)**

The SHUSA Board must ensure that this Policy is followed by all lines of business and corporate functions across SHUSA. The SHUSA Board must ensure necessary resources and funding are allocated to support the Policy.

**4.8 SHUSA Risk Committee (“SHUSA RC”)**

The SHUSA RC 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 regard to operational risk, the SHUSA RC reviews and approves the BCMP and recommends to the SHUSA Board key policies and/or procedures for the identification, measurement and control, of operational risk as well as decisions to reduce, increase, transfer and/or hedge, operational risks in each Subsidiary, including the review of BC/DR processes and procedures, as necessary.

**4.9 SHUSA Enterprise Risk Management Committee (“SHUSA ERMC”)**

The SHUSA ERMC is responsible for overseeing the development, implementation and maintenance of the SHUSA’s BCMP and is established under the authority of the SHUSA RC and is chaired by the SHUSA CRO. SHUSA ERMC is responsible for the oversight and monitoring of all risk-taking and risk management activities across the enterprise. The SHUSA ERMC reviews the BCMP for approval of the SHUSA BCMP on an annual basis or on a frequency as otherwise mandated by this Policy.

**4.10 SHUSA Operational Risk Committee (“SHUSA ORC”)**

The SHUSA ERMC and CRO established the SHUSA ORC to oversee operational risk. SHUSA ORC has the primary responsibility to oversee and manage the identification and monitoring of operational risk in SHUSA and its Subsidiaries. The SHUSA ORC through the SHUSA CORO advises the SHUSA ERMC and Subsidiary governance committees on the supervision, control and reporting of the BCM operational risks related to Subsidiary operations and activities. The ORC oversees adherence to the Policy across the enterprise regarding BCM operational risk and recommendations from internal audit, external audit, and regulators with regard to the BCMP.

**4.11 SHUSA Chief Risk Officer (“CRO”)**

Ad-hoc reviews of this Policy can be performed at the discretion of the SHUSA CRO.

**4.12 Human Resources (“HR”)**

HR is engaged during the Policy infraction process and when input is required on the appropriate decision for Policy violations.

**4.13 Learning & Development (“L&D”)**

Santander L&D provides SHUSA and its Subsidiaries access to tools and resources that enable team members to pursue functional knowledge, professional and leadership development needed to grow team members’ skills, and mitigate risk to their respective business units.

SHUSA BCM will work with the Subsidiary BCM to identify training needs and communicate to the SHUSA Head of BCM and Subsidiary Head of BCM (2nd LOD). The Subsidiary 2nd LOD will develop, deliver and provide ongoing BCM training and awareness to the Subsidiary 1st LOD.

1. **Enterprise Operational Risk Management Policy-SHUSA October 2015 (v2.0)**

Date Last Approved: xx.xx.xxxx

**4. Roles and Responsibilities**

**4.1 Three Lines of Defense**

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

- **Line 1 (“First Line of Defense” or “1st LOD”) Risk Management – SHUSA, its Subsidiaries and their Lines of Business & Lines of Business Support Units:** reporting to the Chief Executive Officer (“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 (“Second Line of Defense” or “2nd LOD”) ERM Function and Risk Management Functions** that are under the executive responsibility of the CEO but report to the CRO. 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.

- **Line 2 Legal Function** that is under the executive responsibility of the CEO and provides legal expertise and support when operational risk events have potential civil or criminal consequences including litigation.

- **Line 3 (“Third Line of Defense” or “3rd LOD”) Risk Assurance - Internal Audit**

**Internal Audit** provides independent assurance and reports to the Board. It is a permanent corporate function, independent of any other function or unit in SHUSA or its operating Subsidiaries, whose purpose is to provide assurance to the SHUSA Board and senior management, thus contributing to the protection of the organization and its reputation, by assessing the quality and effectiveness of the processes and systems of internal control, risk management and risk governance; compliance with applicable regulations; the reliability and integrity of financial and operational information including the integrity of the balance sheet of SHUSA.

**4.2 SHUSA Chief Operational Risk Officer**

As part of the 2nd LOD, the SHUSA CORO is the overall owner of this Policy. Changes or updates to the Policy are developed in consultation with the CORO. The SHUSA CORO is responsible for maintaining the Policy and managing and tracking exceptions to it.

**4.3 Internal Audit**

In their role as the 3rd LOD, Internal Audit conducts independent assessments of compliance with this Policy and related standards across SHUSA.

**4.4 SHUSA Board of Directors**

The SHUSA Board is responsible for overseeing the development, implementation, and maintenance of SHUSA’s ORM Program. The SHUSA Board must ensure that this Policy is followed by all lines of business and corporate functions across SHUSA and must review and approve the Policy annually. The SHUSA Board must ensure necessary resources and funding are allocated to support the Policy.

**4.5 SHUSA Risk Committee**

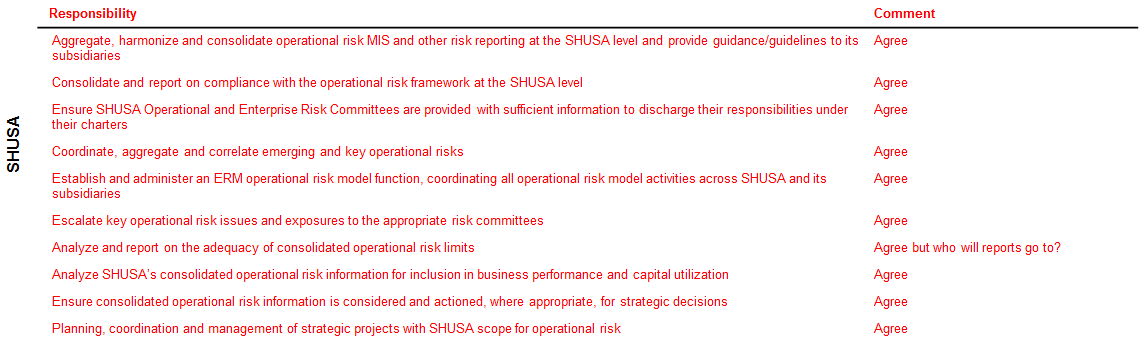
The SHUSA Risk Committee is appointed by the SHUSA Board to assist it in its oversight responsibilities with respect to Enterprise Risk Management activities and related compliance matters. In particular, and with regard to operational risk, the SHUSA Risk Committee reviews and recommends to the SHUSA Board policies and/or procedures for the identification, measurement and control, of operational risk as well as decisions to reduce, increase, transfer and/or hedge, operational risks in each Subsidiary.

**4.6 SHUSA Enterprise Risk Management Committee**

The ERMC is established under the authority of the SHUSA Risk Committee and is chaired by the SHUSA CRO. The ERMC is responsible for the oversight and monitoring of all risk-taking and risk management activities across the organization. The ERMC recommends this Policy to the SHUSA Risk Committee for approval on an annual basis or on a frequency as otherwise mandated by the Policy.

Contribute to promoting **a consistent and risk sensitive** **culture** across the enterprise (Line 2 resp. / Potential Line 2 resp. )

Line 2 – **Monitoring, Testing and Reporting** (more details in OW slides)



**4.7 SHUSA Operational Risk Management Committee**

The ERMC and CRO established the ORMC to oversee operational risk. The ORMC has the primary responsibility to oversee and manage the identification and monitoring of operational risk in SHUSA and its Subsidiaries. The ORMC advises the ERMC and Subsidiary Board committees on the supervision, control and reporting of operational risks related to Subsidiary operations and activities. The ORMC oversees adherence to the Policy across the organization.

Coordinate and ensure the **consistency of the ORM framework** across subsidiaries (Line 2 resp. / Potential Line 2 resp.)

Ensure that **operational risk decisions take into consideration** the necessary balance between risk and reward (Line 2 resp. / Potential Line 2 resp.)

**4.8 SHUSA Chief Risk Officer**

Ad-hoc reviews of this Policy can be performed at the discretion of the SHUSA CRO.

**Detailed Responsibility in Risk Identification and Assessment in OW slides (see below, seems irrelevant for policies)**

**Detailed Responsibility in Internal Controls in OW slides in OW slides (see below, seems irrelevant for policies)**



1. **Third Party Risk Policy-SHUSA October 2015 (vFinal)**

Date Last Approved: xx.xx.xxxx

**3. Policy**

**3.2 Three Lines of Defense**

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

- **Line 1 (“First Line of Defense” or “1st LOD”) Risk Management – SHUSA, its Subsidiaries and their Lines of Business & Lines of 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 1 shall be responsible for identifying, assessing, mitigating, managing operational risk, including Third Party risk, and ensuring compliance within its respective area(s).

- **Line 2 (“Second Line of Defense” or “2nd LOD”) ERM Function and Risk Management Functions** that are under the executive responsibility of the CEO but report to the CRO. 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.

Operational Risk Management is part of SHUSA’s independent Risk Management function, which includes Third Party Risk Management that provides supervision of the operational risk management program and processes across SHUSA and its Subsidiaries.

- **Line 2 Legal Function** that is under the executive responsibility of the CEO.

- **Line 3 (“Third Line of Defense” or “3rd LOD”) Risk Assurance - Internal Audit; Credit Risk Review Function.**

o **Internal Audit** provides independent assurance and reports to the Board. It is a permanent corporate function, independent of any other function or unit in SHUSA or its operating Subsidiaries, whose purpose shall provide assurance to the SHUSA Board and Senior Management, thus contributing to the protection of the organization and its reputation, by assessing the quality and effectiveness of the processes and systems of internal control, risk management and risk governance; compliance with applicable regulations; the reliability and integrity of financial and operational information including the integrity of the balance sheet of SHUSA.

Internal Audit conducts independent assessments of risk and compliance related procedures across SHUSA, including those concerning Third Party risk.

1. **Roles and Responsibilities**

**4.1 Third Party Relationship Owner**

A Third Party Relationship Owner is a SHUSA Business Unit executive level manager that has accountability for a Third Party relationship. The primary factor for determining who has accountability for a Third Party relationship is risk.

The risk is carried by the area of the organization that has made the determination to outsource an activity or to leverage a particular Third Party to provide a service. Accordingly, the area that owns the risk is generally the area that would be most impacted if the service were no longer available. This is the standard criteria for determining ownership of a Third Party.

Duties of the Third Party Relationship Owner include the following:

- Develop and retain key relationships with the Third Party

- Management of the aggregated risks associated with each of the services performed by the Third Party across the U.S. enterprise

- Periodic engagement with the service line Third Party Service Managers to gauge performance and significant changes to the Third Party’s risk exposure

- Act as primary point of contact for all escalations associated with the Third Party

- Ensure at a minimum an annual business review is performed for all services placed with the Third Party

- Engages with other internal stakeholders using the same Third Party to ensure that an enterprise lens is being applied to their ownership of the Third Party

There are situations where the line of business may bear the risk associated with a certain type of relationship; however, SHUSA has decided to centralize ownership of that relationship within a function outside of the line of business because these types of scenarios may account for large volumes of like services (e.g., technology service providers, law firms, and appraisers).

**4.2 Third Party Service Manager**

A Third Party Service Manager is a SHUSA Business Unit associate who has direct responsibility for performing the activities of managing the services and the associated risks of the service performed by the Third Party. A Third Party Service Manager is determined through one or more the following:

- Assignment by the Third Party Relationship Owner

- Direct alignment to the business line receiving services from a Third Party

**4.3 Procurement**

As part of Line 1, Procurement oversees the activities involved in the establishment of Business Units’ requirements for sourcing activities such as market research, request for proposals and Third Party evaluation and negotiation of contracts for the approved purchasing activities of goods and services for SHUSA Business Units.

**4.4 Legal and Contracts Management**

The Contracts team analyses the business terms and establishes request files for Legal and Risk. Legal negotiates with the Third Party to finalize the legal terms while working with the lines of business and Third Party Risk Management to raise any potential issues. Once Legal provides authorization, Contracts Management controls the signature process.

**4.5 SHUSA Chief Operational Risk Officer**

As part of Line 2, the SHUSA CORO is the owner of the SHUSA Enterprise Third Party Risk Management Policy. Changes or updates to the Policy are developed in consultation with the CORO. The SHUSA CORO has delegated certain administrative responsibilities for this Policy to the Head of TPRM. The Head of TPRM reviews this Policy annually or as required and obtains the necessary approvals whenever updates occur.

**4.6 Third Party Risk Management (“TPRM”)**

As part of Line 2, the TPRM Team is responsible for identifying, measuring, monitoring and reporting operational risk exposures related to Third Party services and operations.

**4.7 Internal Audit**

In their role as Line 3, Internal Audit conducts independent assessments of compliance with this Policy and related procedures across SHUSA.

**4.8 Board of Directors**

The SHUSA Board shall be responsible for overseeing the development, implementation, and maintenance of SHUSA’s TPRM Program. The SHUSA Board must ensure that this Policy is followed by all lines of business and corporate functions across SHUSA. The SHUSA Board must ensure necessary resources and funding are allocated to support the Policy.

**4.9 Risk Committee**

The SHUSA Risk Committee 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 regard to operational risk, the SHUSA Risk Committee reviews and approves the Third Party Risk Management Program and recommends to the SHUSA Board policies and/or procedures for the identification, measurement and control, of operational risk as well as decisions to reduce, increase, transfer and/or hedge, operational risks in each Subsidiary, including the review of TPRM processes and procedures.

**4.10 Enterprise Risk Management Committee**

The SHUSA ERMC is established under the authority of the SHUSA Risk Committee and is chaired by the SHUSA CRO. SHUSA ERMC is responsible for the oversight and monitoring of all risk-taking and risk management activities across the enterprise. The SHUSA ERMC reviews the TPRM Program and if necessary or appropriate, recommends to the SHUSA Risk Committee for approval the SHUSA Enterprise Third Party Risk Management Policy on an annual basis or on a frequency as otherwise mandated by this Policy.

**4.11 SHUSA Operational Risk Committee**

The SHUSA ERMC and CRO established the SHUSA ORC to oversee operational risk. SHUSA ORC has the primary responsibility to oversee and manage the identification and monitoring of operational risk in SHUSA and its Subsidiaries. The SHUSA ORC advises the SHUSA ERMC and Subsidiary Board committees on the supervision, control and reporting of the TPRM operational risks related to Subsidiary operations and activities. The ORC oversees adherence to the Policy across the enterprise regarding TPRM operational risk and recommendations from internal audit, external audit, and regulators with regard to the TPRM Program.

**4.12 SHUSA Chief Risk Officer**

Ad-hoc reviews of this Policy can be performed at the discretion of the SHUSA CRO.

**4.13 Learning & Development**

Santander Learning & Development provides access to tools and resources that enable team members to pursue functional knowledge, professional and leadership development needed to grow team members’ skills and mitigate risk to their respective Business Units, including third party risk management.

# F. Credit Risk Management Policy-SHUSA Nov. 2015 (v1.0)

Date Last Approved: xx.xx.xxxx

**8. Roles and Responsibilities**

**8.1 Three Lines of Defense**

SHUSA and its Subsidiaries have established a multilayered system of checks and balances to effectively identify and manage credit risk following a “Three Lines of Defense” model.

In accordance with this model, the roles and responsibilities of these three lines involved in credit risk management are as follows:

|  |  |
| --- | --- |
| **Line 1:**  **Risk Management – SHUSA’s Subsidiaries, 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 (Business origination, providing specialist advice, the development, marketing or distribution of products, client maintenance, or operational or technological processes supporting customer activity). Line 1 are accountable for self- identification of issues impacting credit risk, must be proactive in communicating with CRM on findings and thought process, and resolving credit risk management issues in a timely manner to ensure fewer repeat findings. |
| **Line 2:**  **Risk Management – Risk, Legal** | -ERM function at SHUSA and Subsidiaries under the executive responsibility of the CEOs and with accountability to the CROs. 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 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. |

**8.2 Roles and responsibilities of SHUSA’s Board, Risk Committees and CRM function**

Roles and responsibilities of the SHUSA Board, risk committees and CRM function are a key component of the SHUSA Credit Risk Management Framework. Each Subsidiary CCRO must develop roles and responsibilities applicable to credit risk in accordance to the Subsidiary’s size and complexity. These roles and responsibilities must be reviewed and approved at least annually by the Board of each Subsidiary.

**8.2.1 Board and Risk Committees**

**SHUSA Board of Directors**

With respect to this Policy, the SHUSA Board:

-Reviews and approves the Policy;

-Oversees implementation of this Policy;

-Monitors compliance with this Policy; and

-Monitors exceptions to the Policy.

As a BHC, SHUSA does not incur extensive credit exposure, however, the SHUSA Board is responsible for ensuring that proper and sufficient resources are available and deployed for effectively managing credit risk within SHUSA and its Subsidiaries. This includes hiring, training, and development of personnel, effectiveness of information systems to support each phase of the credit process, and adequate backup and recovery for contingency and stress conditions.

Contribute to promote a **consistent and risk oriented culture across the enterprise** (Agree)

**SHUSA Risk Committee (“RC”)**

The RC is appointed by the Board to assist it in its oversight responsibilities with respect to enterprise risk management activities and related compliance matters.

With regards to credit risk, the RC responsibilities include:

- Annual review of the SHUSA Credit Risk Management Policy, including recommendation for approval of the Policy by the Board.

- Review of 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 of 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 SHUSA’s financial and competitive position and strategic goals, including considering the adverse scenarios utilized in stress testing exercises.

- Review of stress-testing scenarios applied to the loan portfolios.

- Review of 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 SHUSA's risk profile.

- Review of loan losses and other credit quality statistics prior to the issuance of quarterly earnings reports.

- Review of real estate high loan-to-value reports.

- Review of new material exceptions to credit policies.

- Review general exposure limits and concentrations by industry or sector, including counterparty limits and Bank Owned Life Insurance (“BOLI”).

- Review of industry counterparty concentrations and the largest counterparty exposures through executive summaries.

- Review of negative trends and events as applicable to certain segments of the portfolio, based on geography, industry, product type, etc.

- Review and approval of the ALLL on a periodic basis, and approve the ALLL methodology.

Coordinate **the enterprise risk tolerance framework** implementation (Agree)

Define and maintain **the SHUSA committee structure**, ensuring alignment and harmonization across Subsidiaries (Agree)

**SHUSA Enterprise Risk Management Committee (“ERMC”)**

The ERMC is established under the authority of the RC and it is chaired by the SHUSA CRO. The ERMC 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:

- Annual review of the SHUSA Credit Risk Management Policy, including recommendation for approval of the Policy by the Board.

- Review and recommend to the RC for approval, subject to the concurrence of the CRC 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.

- 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 RC.

- 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.

- Review information from senior management of each Subsidiary and subcommittees of the Committee relating to identified credit risk issues. Review plans and progress of resources accountable to resolve such issues 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.

**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 recommend this Policy annually to the ERMC.

- Review and approve the charters of SHUSA’s Executive Credit and 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 policies and guidelines and any changes thereto; ensure consistency across Subsidiaries and compliance with SHUSA’s Enterprise Credit Risk Management 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.

- Adherence to applicable policies, protocols, systems, and internal controls for identifying, evaluating, and managing NPBA in accordance with sound risk management practices throughout each phase of the product lifecycle.

- 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.

**SHUSA Allowance for Loan and Lease Losses (“ALLL”) Committee**

The SHUSA ALLL Committee 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 to:

- 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.

- Report on and recommend to the SHUSA Board, or any designated Sub-Committee of the SHUSA Board, the above activity.

**8.2.2 SHUSA CRM Function didn’t specify LoD of each role**

**SHUSA Chief Risk Officer (CRO)**

- Oversees the establishment of credit risk limits on an enterprise-wide basis and the monitoring of compliance with such limits.

- Oversees the implementation of and ongoing compliance with the credit risk policies and procedures approved by the Board.

- Oversees the management of credit risks and controls within the parameters of the company’s risk control framework, and monitoring and testing of the company’s credit risk controls.

- Reports credit risk management deficiencies and emerging risks to the risk committee and resolving those deficiencies in a timely manner on not less than a quarterly basis

**SHUSA Chief Credit Risk Officer (CCRO)**

- 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.

- Participates in the decision to hire or dismiss Subsidiary CCROs.

- Sets goals and objectives for Subsidiary CCROs.

- Contributes to the annual performance evaluations of Subsidiary CCROs.

- Participates in compensation decisions regarding Subsidiary CCROs.

- Is assisted by CRM function management comprising the Director of Solvency, the Director of Portfolio Management, the Director of Policies, Reporting and Coordination and the Director of Risk Consolidation and Reporting.

Ensure that **credit risk decisions take into consideration** the necessary balance between risk and returns (Agree);

**Credit Risk Management**

- 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.

- Analyze and challenge the proposed Risk Tolerance Statements, identification and escalation of risk tolerance breaches and significant control gaps along with the recommendation of appropriate remediation plans.

- Supervise and monitor 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.

- Provide 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.

- Implement 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.

- Build 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.

- Oversee loss estimation for regulatory stress testing programs in coordination with Treasury, Capital Planning, Management Control, and Subsidiary Business Lines areas (e.g., CCAR/ DFAST/EBA stress test).

- Consolidate loan loss reserves of Subsidiaries and ensures that the appropriate accounting and regulatory guidance is applied to the reserve position of SHUSA.

Monitor **regulatory guidance and best practices** for necessary improvements to credit risk management (Agree)

- Apply SHUSA’s economic capital measurement for credit risk and works to integrate the results into SHUSA’s ongoing management processes.

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

- Supervise scenario analysis and stress and integration of capital in risk supervision models.

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

Aggregate, harmonize and consolidate **credit risk MIS and other risk reporting** at the SHUSA level and provide guidance/guidelines to its Subsidiaries

Facilitate and Aggregate the **enterprise-wide credit risk management** information and provide analysis on risks and emerging risks (e.g., dependencies, concentrations, correlations, etc.) (Agree)

1. **Credit Risk Review Policy-SHUSA (v2.0) review policy is brief**

Date Last Approved: Dec 11, 2015

**4. Roles and Responsibilities**

**4.1 Three Lines of Defense**

As described in the ERM Framework, SHUSA has established a “three lines of defense” model to organize the roles and responsibilities for credit risk management in each of the OEs.

SHUSA and each of the OEs manage credit risk in accordance with a “three lines of defense” model. For the purposes of Credit Risk, the three lines of defense are as follows:

- The first line of defense consists of risk-taking functions (business activities) and corporate functions (e.g., the corporate center, finance, technology).

- The second line of defense consists of Risk Management, which is overseen and administered by the Chief Risk Officer.

- The third line of defense for Credit Risk only consists of CRRVW. Internal Audit will perform periodic reviews of CRRVW and its adherence to its framework, policies and procedures.

Refer to the ERM Framework for a complete definition of the model, and the roles and responsibilities for each of the three lines of defense.

**4.2 Responsibilities of the Lines of Defense**

With regard to Credit Risk and CRRVW (acronym, unclear to reader), the responsibilities of the three lines of defense are as follows:

- The first line of defense is responsible for credit origination, including the credit analysis and admission process, credit approval (as delegated by the second line) and credit management and administration of existing credit relationships. In this role, the first line has primary responsibility for identification and communication of potential credit risk and weakness.

- The second line of defense is responsible for credit approval (beyond authorities delegated to the first line), portfolio management & analysis, credit risk monitoring and rating, collections and workout strategy, credit risk reporting, stress testing, and determination of the ALLL.

- The third line of defense (CRRVW) is responsible for independent review, assessment, and continuous monitoring of credit risk process, policy, procedure, and management.

With respect to CRRVW, the First and Second Lines of Defense, at SHUSA, at the OEs, and at the NY Branch, have the responsibility to fully cooperate with the CRRVW process and to fully disclose all information requested by CRRVW. This cooperation includes, but is not limited to:

- Providing unrestricted access to electronic and/or physical credit files, documentation files, loan systems, approval documents, Strategic Commercial Plans, risk assessments, budgets, organization chart, customer information, and any other relevant documentation needed to complete CRRVW functions

- Providing all MIS data requested by CRRVW in order to allow for CRRVW business analysis

- Allowing CRRVW representatives to attend and observe all credit approval, review, or other relevant committees or strategic meetings

- Maintaining frequent communication with CRRWV both during specific Reviews and for continuous monitoring purposes

# G. Enterprise Policy Administration Policy-SHUSA (v3.0)

Date Last Approved: 07.30.2015

**4. Roles and Responsibilities**

The key roles and responsibilities for the development, review and approval of policies are defined in the sections below:

**4.1 SHUSA Policy Administration**

The SHUSA Policy Administration function oversees the development of all SHUSA Enterprise and Operating Policies, as well as the Subsidiary Policy functions.

Oversight includes:

- Ensuring Subsidiary implementation of the Policy Administration Policy;

- Receiving reporting on policy inventories and policy exceptions; and

- Coordinating on the resolution of general policy-related issues.

Specific roles and responsibilities for the SHUSA Policy Administration function include:

Maintaining a Policy Inventory which serves as the system of record for all Enterprise and Operating Policies at SHUSA and the Subsidiaries, as applicable;

- Ensuring that policies, prior to formal approval, conform to the requirements and standards established in this Policy;

- Facilitating the policy approval and annual re-approval processes through:

o Maintaining a calendar to track policy approval timelines;

o Obtaining and reviewing annual Policy Certifications; and

o Ensuring that updates and changes to approved policies comply with the requirements of this Policy.

- Monitoring and reporting to the General Counsel and EMC on exceptions to this Policy; and

- Liaising with the SHUSA Legal Department and the regulatory change management function to notify policy owners of potential regulatory or legal developments that may impact policies.

**4.2 SHUSA Policy Administrator**

The SHUSA Policy Administrator heads the SHUSA Policy Administration function. Reporting to the Corporate Secretary within the Legal Department, the SHUSA Policy Administrator is responsible for the overall policy administration governance of the consolidated organization. Specific responsibilities of the SHUSA Policy Administrator include:

- Owning and authoring this Policy;

- Overseeing the implementation of this Policy at SHUSA and at the Subsidiaries;

- Monitoring and reporting on exceptions to this Policy;

- Managing and maintaining the Policy Inventory;

- Facilitating the SHUSA policy development, review and approval processes;

- Providing quality assurance on all SHUSA Enterprise and Operating Policies prior to submission for approval;

- Liaising with the General Counsel, regulatory change management and Policy Owners on issues which may impact their policies; and

- Acting as the central point of contact for all policy-related matters at SHUSA.

**4.3 Subsidiary Policy Administration**

Subsidiary Policy Administration functions are responsible for implementing this Policy at their respective entity, reporting functionally to the SHUSA Policy Administration function, and overseeing the development of applicable Subsidiary policies. Specific roles and responsibilities for the Subsidiary Policy Administration functions include:

- Maintaining a Policy Inventory which serves as the system of record, and providing those policies and updates to those policies to the SHUSA Policy Administration function, as appropriate;

- Ensuring that Subsidiary Enterprise and Operating Policies, prior to formal approval, conform to the requirements and standards established in this Policy;

- Facilitating the policy approval and annual re-approval processes by:

o Maintaining a calendar to track policy approval timelines;

o Obtaining annual Policy Certifications for review; and

o Ensuring that updates and changes to approved policies comply with the requirements of this Policy.

- Monitoring and reporting on exceptions to this Policy to the Subsidiary board and to the SHUSA Policy Administration function, as appropriate; and

- Liaising with the SHUSA Policy Administration function and the Subsidiary legal department and regulatory change management function to notify Policy Owners of potential regulatory or legal developments that may impact policies.

**4.4 Subsidiary Policy Administrator**

Each Subsidiary must designate an individual Policy Administrator to head the function. The Policy Administrator will have reporting responsibilities to the SHUSA Policy Administrator with respect to implementation of, and compliance with, this Policy, and report on Subsidiary exceptions to this Policy. Specific responsibilities of the Subsidiary Policy Administrator include:

- Overseeing Subsidiary implementation of this Policy;

Managing and maintaining the Subsidiary Policy Inventory;

- Monitoring the Subsidiary policy development, review and approval processes;

- Providing quality assurance on all Enterprise and Operating Policies prior to submission for approval;

- Ensuring that policies meet the standards set forth in this Policy;

- Liaising with the SHUSA Policy Administrator;

- Liaising with the Subsidiary regulatory change management function;

- Monitoring and reporting to the Subsidiary board and SHUSA Policy Administrator on exceptions to this Policy, as appropriate; and

- Interfacing with Subsidiary Policy Owners and acting as central point of contact for all policy-related matters.

**4.5 Policy Owners**

Each Enterprise and Operating Policy must designate an individual Policy Owner who serves as the primary point of contact for the policy and is responsible for the accuracy and applicability of the policy’s content. The Policy Owner is also accountable for the policy’s effective implementation. The specific responsibilities of the Policy Owner include:

- Developing policies in compliance with this Policy;

- Annual policy reviews and completion of the Policy Certification template;

- Identifying and implementing policy changes;

- Driving applicable policy review and approval processes;

- Communicating new policies and/or changes to existing policies to applicable parties;

- Interpreting specific policy provisions;

- Monitoring policy implementation and compliance; and

- Documenting, tracking, and reporting policy exceptions.

# H. New Products/Business Activities Policy-SHUSA (v2.0)

Date Last Approved: June 2015

**5. Roles and Responsibilities**

**5.1 Three Lines of Defense**

As described in the SHUSA ERM Framework, SHUSA has established a “three lines of defense” model to organize the roles and responsibilities of the critical parties involved in the identification, review, and approval of NPBAs. This model includes the following:

- The first line of defense consists of risk-taking functions (lines of business) and corporate functions (or support units), such as Finance and IT.

- The second line of defense consists of Risk Management, Risk Consolidation, and Compliance.

- The third line of defense consists of Internal Audit.

Refer to the SHUSA ERM Framework for a complete definition of the model and the roles and responsibilities for each of the three lines of defense.

**5.2 NPBA Roles and Responsibilities**

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| --- | --- |
| Outlined below are the responsibilities of the relevant parties involved in the management and oversight of the risks associated with the introduction of NPBAs.  **NPBA Roles and Responsibilities** | |
| Banco Santander Corporate Commercialization Committee | The Group CCC is responsible for reviewing all NPBAs proposed by SHUSA and its subsidiaries and providing their approval. The Group CCC reviews quarterly reports prepared by the SHUSA NPBA Committee with respect to the NPBA pipeline of its subsidiaries. |
| SHUSA Board of Directors | The SHUSA Board is responsible for reviewing and approving, or rejecting, all Proposals risk rated as “high” risk. The SHUSA Board is notified of all other Proposals. The SHUSA Board ensures SHUSA’s subsidiaries effectively adopt and implement the Policy and receives quarterly reports prepared by the SHUSA NPBA Committee. |
| SHUSA and subsidiary Board Risk Committees | The SHUSA and subsidiaries Board Risk Committees are responsible for reviewing and recommending approval or rejecting all Proposals risk rated as “elevated” risk. |
| SHUSA NPBA Committee | The SHUSA NPBA Committee is responsible for reviewing and recommending for approval, approving, or rejecting, proposed NPBAs to the Group CCC and overseeing the approval process, including post-launch monitoring, to ensure compliance with applicable regulatory guidance as well as enterprise-wide standards. The SHUSA NPBA Committee prepares quarterly reports on the subsidiary NPBA activities for distribution to the SHUSA Board, and the Group CCC. Approval for Proposals risk rated as “low”, “low-to moderate”, or “moderate” receive approval at the SHUSA NPBA Committee subject to CCC approval. |
| Subsidiary Board | The subsidiary board ensures the subsidiary effectively adopts and implements the NPBA Policy. The subsidiary board receives quarterly reports on its NPBA activities. |

|  |  |
| --- | --- |
| Subsidiary NPBA Committee | The subsidiary NPBA Committee is responsible for reviewing and recommending for approval, or rejecting, proposed NPBAs to the SHUSA NPBA Committee and overseeing the approval process, including post-launch monitoring, to ensure compliance with applicable regulatory guidance as well as enterprise-wide standards. |
| Subsidiary Executive Management Committee | The EMC is responsible for determining: (i) whether a proposed initiative meets the definition of “NPBA” set forth in this Policy; and, if so, (ii) which NPBAs should enter the NPBA review and approval process. |
| Chief Legal Officer | The SHUSA CLO is responsible for vice chairing the SHUSA NPBA Committee. |
| NPBA Coordinator | The NPBA Coordinator is responsible for owning, designing, and managing the SHUSA NPBA review and approval process. |
| Chief Risk Officer | The SHUSA CRO is responsible for chairing the SHUSA NPBA Committee and defining and overseeing the implementation of the process that will help the organization identify and assess the risks associated with the introduction of proposed NPBAs. |
| Risk Management and Compliance | The Risk Management function and the Compliance function are responsible for reviewing and challenging the risk assessment analysis prepared by the Proponent and ensuring that the Proponent has satisfied all applicable conditions and requirements before presentation to the subsidiary NPBA Committee. |
| Lines of Business | The lines of business are typically the Proponents of NPBA Proposals and are responsible for developing NPBA Proposals, seeking the required approvals, and satisfying applicable pre- and post-approval requirements, including requirements regarding performance monitoring, testing, and reporting. |

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| NPBA Development Team | The NPBA Development Teams are cross-functional teams including representatives from the applicable risk disciplines, including Compliance, and corporate functions (e.g., IT, Operations, Legal, Human Resources, Treasury, and Finance). The NPBA Development Teams are responsible for assisting the Proponent in developing the diligence materials and performing the risk assessment. |
| Internal Audit | Internal Audit is responsible for conducting independent reviews of the NPBA process, and performing product post-launch reviews, audits, and testing. Internal Audit participates in the NPBA process for purposes of providing robust analysis and challenge of due diligence and risk assessment processes. Internal Audit will attend the meetings of the NPBA Committee as an observer and will not approve or endorse the approval of any NPBA. |