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# **Risk Appetite Statement Proposal – IHC Entities**

## **SHUSA Board Risk Committee**

June 29, 2016

Sponsor: Scott Powell, Chief Executive Officer SHUSA

Presenter: Brian Gunn, Chief Risk Officer SHUSA

Author: Jennifer Keegan, Head of Risk Appetite SHUSA

Date Created: June 2016

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- This deck contains each ICH Entity Risk Appetite Statement Proposal

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# **Risk Appetite Statement Proposal**

## **SBNA Board Risk Committee**

June 29, 2016

Sponsor: Brian Gunn, Chief Risk Officer SHUSA

Presenters: John Hennessey, Chief Risk Officer SBNA Commercial Banking; Sarah Drwal, Chief Risk Officer SBNA Consumer and Business Banking

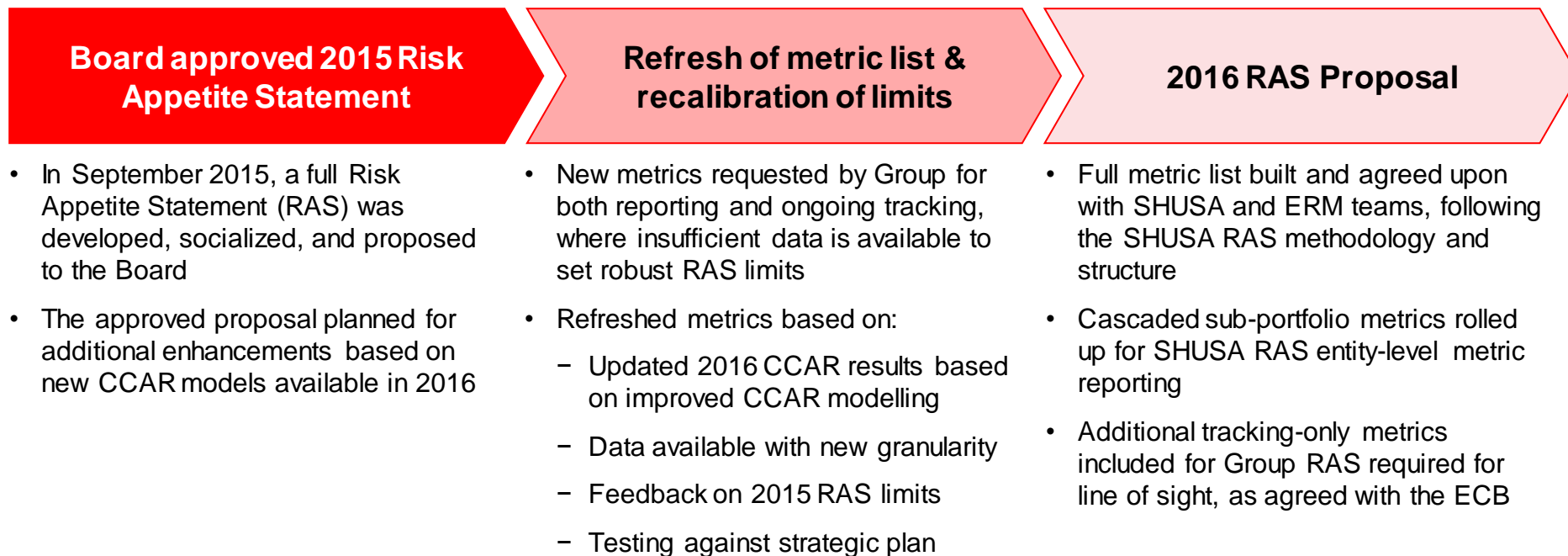
Author: Mike Carbone, Director of SBNA Enterprise Risk Management; James Vincent, Director of SBNA Risk Appetite

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# SBNA Risk Appetite Statement – 2016 refresh overview

- **Today's Objective:** review the 2016 RAS Proposal for SBNA Board approval
- **Planned Improvements:** Enhancements to be made during July and throughout 2016 such as:
  - Inclusion of the Operational Risk KRI's such as fraud metrics, IT incidents and hacking vulnerabilities (see page 18 for potential metrics to be included)
  - Splitting of metrics for better alignment with organizational structure (i.e. Multifamily limit includes both CBB and Commercial portfolios)

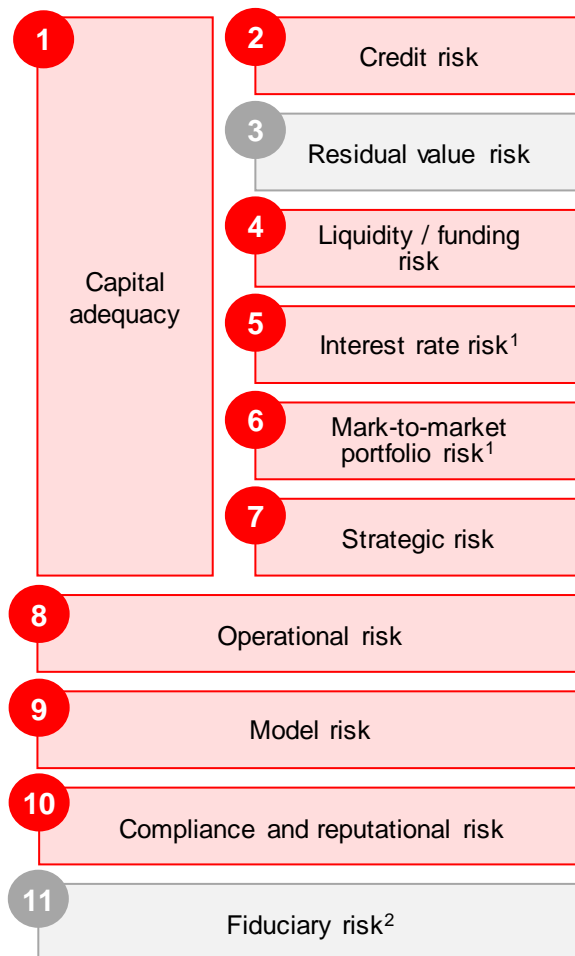


# Progress on feedback and requests from existing RAS

Feedback on 2015 RAS	Changes incorporated in 2016	Ongoing improvements
<b>Strategic metrics</b> included in category did not all reflect strategic risks	<ul style="list-style-type: none"> <li>Assessed monthly against qualitative statements and implications of limit breaches across risk types for SHUSA's strategic plan</li> <li>2015 metrics re-categorized to new risk types</li> </ul>	Additional metrics under evaluation
<b>Compliance risk</b> and <b>Model risk</b> metrics insufficient for range of risks faced	<ul style="list-style-type: none"> <li>New metrics added at entity-level to capture entity-specific risks</li> </ul>	Compliance, Model, and Operational metrics (including Fraud and Anti-Money Laundering) are insufficient. Proposed new metrics require further evaluation and improved data/tracking before formal inclusion in RAS
<b>Operational risk</b> metric limits set too high in comparison to industry peers, with insufficient visibility into risk drivers	<ul style="list-style-type: none"> <li>2015 limits recalibrated conservatively</li> <li>New 'additional' metrics (tracking only) created for specific Op Risk event types</li> </ul>	Compliance, Model, and Operational metrics (including Fraud and Anti-Money Laundering) are insufficient. Proposed new metrics require further evaluation and improved data/tracking before formal inclusion in RAS
<b>New metrics</b> required to <ul style="list-style-type: none"> <li>Meet <b>Group requirements</b> from ECB</li> <li>Address concerns from 2015 <b>Board review</b></li> </ul>	<ul style="list-style-type: none"> <li>Metrics added for both SHUSA and entity-level RAS</li> <li>Expanded sub-portfolio granularity for entity-level metrics</li> </ul>	Tracking additional metrics and other potential new metrics to better understand behavior, manage data quality, and calibrate future limits

# Risk taxonomy and applied metrics

## Risk taxonomy



## Metrics in the SBNA RAS

\* SHUSA metric reported in Santander Group RAS

<b>1</b>	<ul style="list-style-type: none"> <li>*Tier 1 Capital Ratio</li> <li>*Tier 1 Leverage Ratio</li> <li>PPNR Impairment</li> </ul>	<ul style="list-style-type: none"> <li>*Total Risk-based Capital Ratio</li> <li>*Common Equity Tier 1 Ratio</li> </ul>
<b>2</b>	<ul style="list-style-type: none"> <li>Total Credit Losses</li> <li>Net Charge-off Rate</li> </ul>	<ul style="list-style-type: none"> <li>60/61+ DPD</li> <li>*Concentration exposures</li> </ul>
<b>3</b>	<i>No residual value risk metrics included – no material operating lease portfolios in SBNA</i>	
<b>4</b>	<ul style="list-style-type: none"> <li>*Stressed Survival Period</li> <li>*Liquidity Coverage Ratio (US Modified)</li> <li>Loan to Deposit Ratio</li> </ul>	<ul style="list-style-type: none"> <li>*Structural Funding Ratio</li> <li>*Asset Encumbrance (%)</li> </ul>
<b>5</b>	<ul style="list-style-type: none"> <li>*Net Interest Income Sensitivity (+/- 100bps shock)</li> <li>*Market Value of Equity Sensitivity (+/- 100bps shock)</li> </ul>	
<b>6</b>	<ul style="list-style-type: none"> <li>Mark-to-Market Value at Risk (VaR)</li> </ul>	
<b>7</b>	<i>Evaluated against all RAS metrics</i>	
<b>8</b>	<ul style="list-style-type: none"> <li>*Gross Op. Risk Losses / Gross Margin (Net Revenue)</li> <li>Material Operational Risk Events</li> </ul>	
<b>9</b>	<ul style="list-style-type: none"> <li>Legacy Tier 1 Models In Production w/o Appropriate Approval</li> </ul>	
<b>10</b>	<ul style="list-style-type: none"> <li>Federal Regulator Complaints (CFPB)</li> <li>High Risk Customers as % of Total Customers</li> </ul>	<ul style="list-style-type: none"> <li>Open MRIAs and other equivalent matters (OCC Enforcement Actions)</li> </ul>
<b>11</b>	<i>No fiduciary risk metrics included – BSI Miami only</i>	

Santander Holdings USA

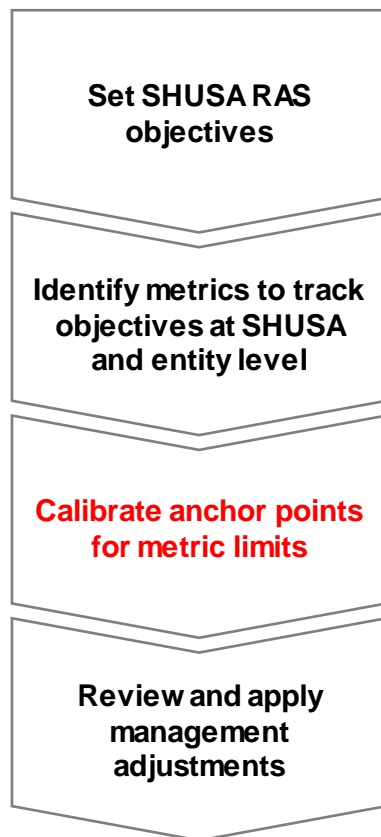
- Interest rate risk and Mark-to-market portfolio risk included Market Risk within the ERM Risk Taxonomy
- Fiduciary risk included in Compliance Risk within the ERM Risk Taxonomy



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# Risk taxonomy calibration approaches linked to risk objectives

## Limit calibration process



## Anchor calibration approaches

Anchor	Calibration approach	Applicable risk taxonomy
<b>Existing management limits</b>	Align anchor to other limits codified in policies or management practices to ensure consistency across the organization	<ul style="list-style-type: none"> <li>• Capital adequacy (ratios)</li> <li>• Compliance risk (MRIAs)</li> <li>• Model risk</li> </ul>
<b>Model projections</b>	Set anchors based on outputs of CCAR and other business models, applying adjustments based on management review	<ul style="list-style-type: none"> <li>• Capital adequacy (other)</li> <li>• Credit risk (losses)</li> </ul>
<b>Historical benchmarks</b>	Leverage management expertise, supported by comparison to internal and external data, where available	<ul style="list-style-type: none"> <li>• Credit risk (concentration) <sup>1</sup></li> <li>• Liquidity risk</li> <li>• Interest rate risk</li> <li>• Mark-to-market risk</li> <li>• Operational risk</li> <li>• Compliance risk (Other)</li> </ul>

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# Proposed 2016 RAS



## 2016 SBNA RAS – Proposed metric limits (1/3)

Risk type	Ratio	Frequency	Mar 16	Baseline scenario			BHC Stress scenario		
				Base	Amber trigger	Red limit	BHC Stress	Amber trigger	Red limit
Capital adequacy (ratio)	*Common Equity Tier 1	Monthly	13.87%	13.74%	<=11.00%	<=10.50%	11.61%	<=7.15%	<=6.65%
	*Total Risk-based Capital	Monthly	15.31%	14.69%	<=14.25%	<=14.00%	12.87%	<=10.65%	<=10.40%
	*Tier 1 Leverage	Monthly	11.25%	10.83%	<=10.25%	<=10.00%	9.41%	<=6.65%	<=6.40%
	*Tier 1 Risk-based Capital	Monthly	13.87%	13.74%	<=12.50%	<=12.00%	11.61%	<=8.75%	<=8.25%

**Legend** New metric or definition \* Reported in Santander Group RAS Updated limit from 2015 (see appendix for comparison)

Santander Holdings USA

See Metric Glossary in appendix for metric definitions  
Source: SHUSA RAS March Monthly Report - April



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## 2016 SBNA RAS – Proposed metric limits (2/3)

Risk type	Metric	Frequency	Portfolio	Mar 16	Amber trigger	Red limit
Capital adequacy (other)	Impairment to Pre-Provision Net Revenue (PPNR)	Annual (CCAR 9Q)	SBNA	\$1,069M	>=\$1,722M	>=\$1,795M
Credit risk (losses)	Total Credit Losses	Annual (CCAR 9Q)	SBNA	\$1,263M	>=\$2,034M	>=\$2,120M
	Net Charge-off Rate	Monthly (trailing 12m)	Retail	0.53%	>=0.7%	>=0.9%
			BB	0.50%	>=1.3%	>=1.5%
			C&I	0.10%	>=0.5%	>=0.7%
			CRE	0.09%	>=0.3%	>=0.5%
			GCB	0.28%	>=0.2%	>=0.4%
	60+ DPD	Monthly	Retail	2.06%	>=2.84%	>=3.10%
Credit risk (concentration)	*Single Obligor Exposure (Corporates & FIs)	Monthly	SBNA	\$500M	N/A	>\$500M
	*Top 20 Corporates Exposure	Monthly	SBNA	\$6.17B	>=\$7.0B	>=\$8.0B
	Obligor Rating Exposure <sup>1</sup>	Monthly	SBNA	10	N/A	>0
	*Industry Exposure <sup>2</sup>	Monthly	SBNA	\$4.8B	>=\$4.5B	>=\$5.0B
	*Financial & Insurance Exposure	Monthly	SBNA	\$5.1B	>=\$5.5B	>=\$6.25B
	*Utilities	Monthly	SBNA	\$4.8B	>=\$5.0B	>=\$5.5B
	*CRE Exposure <sup>3</sup>	Monthly	SBNA	\$9.1B	>=\$10.1B	>=\$10.6B
	*Project Finance Exposure	Monthly	SBNA	\$2.9B	>=\$3.75B	>=\$4.25B
	*Multifamily Exposure	Monthly	SBNA	\$10.5B	>=\$10.6B	>=\$11.1B

Legend New metric or definition \* Reported in Santander Group RAS Updated limit from 2015 (see appendix for comparison)

Santander Holdings USA

See Metric Glossary in appendix for metric definitions

1. Number of single obligor counterparties with exposure >\$100M: Santander Risk Rating (internal) < 5.0

2. By OCC group

3. Excluding Multifamily



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## 2016 SBNA RAS – Proposed metric limits (3/3)

Risk type	Metric	Frequency	Portfolio	Mar 16	Amber trigger	Red limit
Liquidity / funding risk	*Stressed Survival Period (days)	Monthly	SBNA	120 days <sup>3</sup>	<=75	<=45
	*Liquidity Coverage Ratio (%; US Modified)	Monthly	SBNA	154%	<=105%	<=100%
	*Structural Funding Ratio (%)	Monthly	SBNA	124%	<=103%	<=100%
	*Asset Encumbrance (%)	Monthly	SBNA	31.5%	>=35%	>=40%
	Loan to Deposit Ratio (%)	Monthly	SBNA	94%	>=97.5%	>=100%
Interest rate risk	*NII <sup>1</sup> Sensitivity(+/- 100bps)	Monthly	SBNA	-5.76%	<=-10.0%	<=-11.0%
	*MVE <sup>2</sup> Sensitivity(+/- 100bps)	Monthly	SBNA	-7.74%	<=-9.0%	<=-10.0%
MTM risk	Mark-to-Market Value at Risk (VaR)	Monthly	SBNA	\$2.6M	>=\$5.4M	>=\$7.0M
Operational risk	*Gross Operational Risk Losses / Gross Margin (Net Revenue)	Quarterly (trailing 12m)	SBNA	1.92%	>=1.5%	>=2.0%
	Material Operational Risk Events	Quarterly	SBNA	4	>3	>4
Model risk	Legacy Tier 1 Models in Production w/o Appropriate Approval	Monthly	SBNA	27	N/A	1Q2016 – 47 2Q2016 – 36 3Q2016 – 33 4Q2016 – 15 1Q2017 – 0
Compliance risk	Open MRIs and other equivalent matters (OCC Enforcement Actions)	Monthly	SBNA	3	N/A	>0
	Federal Regulator Complaints (CFPB)	Monthly	SBNA	30	>=35	>=40
	High risk customers as % of total customers	Monthly	SBNA	1.1%	>=2.0%	>=3.0%

**Legend** New metric or definition \* Reported in Santander Group RAS Updated limit from 2015 (see appendix for comparison)

**Santander Holdings USA**

See Metric Glossary in appendix for metric definitions

1. NII: Net Interest Income

2. MVE: Market Value of Equity

3. As of February 2016



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# Appendix

## Appendix contents

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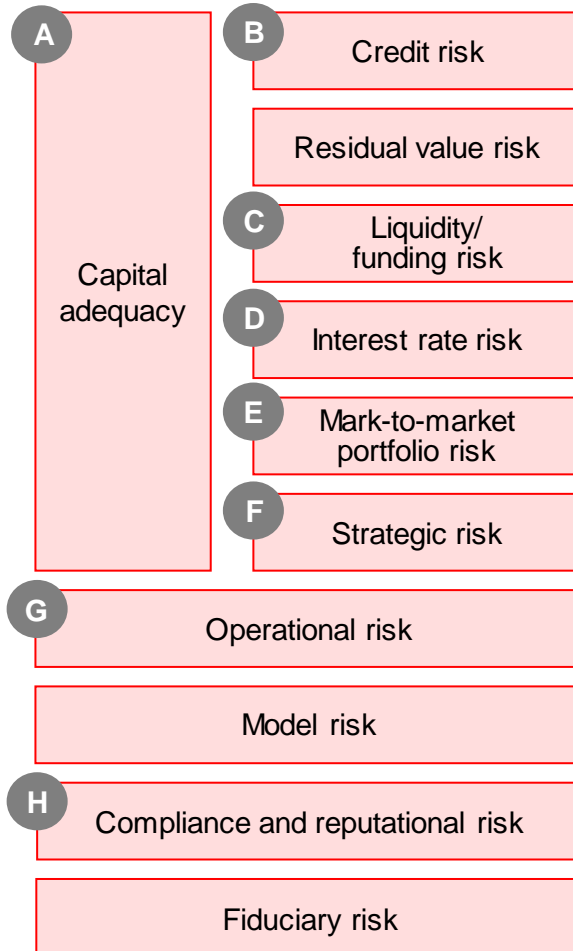
- A. Changes from 2015
- B. Additional metrics
- C. Qualitative statements
- D. Glossary

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# Appendix A – Changes from 2015

# 2016 SBNA RAS – Changes from 2015

## RAS risk taxonomy



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## Metric specific changes

- A** **Capital adequacy limits** aligned to the 2016 Capital Policy
- B** **Credit risk** concentration metrics broken down by material portfolio
- C** **Liquidity / funding risk** metric added as requested by Group
- D** **Interest rate risk** metric aligned with Group definition
- E** **Mark-to-market risk** metric added to track Value at Risk (VaR) based on Board request
- F** **Strategic risk** includes qualitative statements only
- G** **Operational risk** metrics recalibrated and shifted conservatively in line with supervisory feedback
- H** **Compliance risk** metric added to track high risk customers based on Board request

# 2016 SBNA RAS – Changes compared to 2015 RAS limits (1/2)

Risk types	Metric	Granularity	Justification	Mar 16	Amber trigger		Red limits	
					2016	2015	2016	2015
Capital adequacy	Common Equity Tier 1	SBNA	Aligned with 2016 Capital Policy	13.87%	11.00%	11.00%	10.50%	10.75%
	Total Risk-based Capital	SBNA		15.31%	14.25%	14.30%	14.00%	14.05%
	Tier 1 Leverage	SBNA		11.25%	10.25%	9.95%	10.00%	9.70%
	Tier 1 Risk-based Capital	SBNA		13.87%	12.50%	12.50%	12.00%	12.25%
	PPNR Impairment (CCAR 9Q)	SBNA	Changes driven by <b>2016 CCAR results for SBNA:</b>	\$1,069M	\$1,722M	\$1,250MM	\$1,795M	\$1,350MM
Credit risk (losses)	Total Credit Losses (CCAR 9Q)	SBNA	<ul style="list-style-type: none"> <li>Updated 2016 Capital Policy</li> <li>Increased macroeconomic sensitivity and granularity of CCAR models</li> </ul>	\$1,263M	\$2,034M	\$2,300M	\$2,120M	\$2,475M
	Net Charge-off Rate	Retail		0.53%	0.7%	1.0%	0.9%	1.3%
		BB		0.50%	1.3%	0.7%	1.5%	0.9%
	60+ DPD	Retail		2.06%	2.84%	5.0%	3.10%	7.0%
			<ul style="list-style-type: none"> <li>Designed idiosyncratic events focused on SC, reducing losses in SBNA CRE &amp; GCB</li> <li>Portfolio breakdown to align with business reporting</li> </ul>					
Credit risk (concentration)	CRE Exposure	SBNA	Updated based on calibration formula (% of CET1)	\$9.1B	\$10.1B	\$10.0B	\$10.6B	\$10.5B
	Multifamily Exposure	SBNA		\$10.5B	\$10.6B	\$10.5B	\$11.1B	\$11.0B
Operational risk	Gross OpRisk Losses / Gross Margin (Net Revenue)	SBNA	Supervisory feedback suggested last year's limits were too high compared to industry standard; new limits set conservatively vs historical performance	1.92%	1.5%	3.0%	2.0%	5.0%
	Material Operational Risk Events	SBNA		4	>3	6	>4	10



## 2016 SBNA RAS – Changes compared to 2015 RAS limits (2/2)

Risk types	Metric	Granularity	Justification	Mar 16	Amber trigger		Red limits	
					2016	2015	2016	2015
Compliance & Reputational risk	Federal Regulator Complaints (CFPB)	SBNA	Limits updated based on recent trend & industry benchmarks	30	35	36	40	41
Liquidity / funding risk	Stressed Survival Period (days)	SBNA	Recalibration based on historical data and management judgment	120 days <sup>1</sup>	70	90	45	60
	Structural Funding Ratio (%)	SBNA		124%	103%	105%	100%	100%
Interest rate risk	NII <sup>2</sup> Sensitivity(+/- 100bps)	SBNA		-5.76%	-10.0%	-\$150M	-11.0%	-\$200M [-10.5%]

## 2016 SBNA RAS – New metrics and revised definitions

Risk type	Metric	Justification
Credit risk (losses)	Net Charge-off Rate (GCB)	Split GCB limit by portfolio (Large Corporates vs MRG) based on difference in forward looking default expectations
Credit risk (concentration)	Single Obligor (Corporates & FIs)	Financial Institutions added for assessment of Single Obligor metric using the same limit as Corporates (requested by Group)
	Financial & Insurance Exposure	Growth above existing general industry exposure limits requires a separate limit
	Utilities	Growth above existing general industry exposure limits requires a separate limit
	Project Finance Exposure	Group requirement
Liquidity / funding risk	Liquidity Coverage Ratio (%)	Definition shifted from EUR Basel definition to US Modified
	Asset encumbrance	Group requirement
	Loan to Deposit ratio	Recommended by Market Risk team
MTM risk	Mark-to-Market Value at Risk (VaR)	Board request
Compliance risk	High risk customers as % of total customers	Board request
Operational risk	Material Operational Risk Events	Aligned with new SHUSA material event impact thresholds; Includes non-financially impacting material events (i.e. customer, regulatory, reputational)
Interest rate risk	MVE <sup>1</sup> Sensitivity(+/- 100bps)	Alignment with new SHUSA standard definition of shock (from 200 bps to 100 bps) and from dollar to percentage

Legend New metrics

## 2016 SBNA RAS – Metrics to be removed

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Risk type	Metric	Granularity	Rationale for removal
Capital adequacy	Tangible Common Equity Ratio	SBNA	Removed from Capital Policy

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## Appendix B – Additional metrics

## 2016 SBNA RAS – Additional Metrics required by Group

Risk type	Metric	Frequency	Portfolio	Mar 16	Additional metric threshold
Operational risk	Relevant OR Events R1 (number)	Quarterly	SBNA	TBD	TBD
	Credit Card \$ Fraud Ratio	Quarterly	SBNA	0.25%	TBD
	Debit Card \$ Fraud Ratio	Quarterly	SBNA	0.07%	TBD
	Credit Card # Fraud Ratio	Quarterly	SBNA	TBD	TBD
	Debit Card # Fraud Ratio	Quarterly	SBNA	TBD	TBD
	Online Banking Fraud	Quarterly	SBNA	0	TBD
	IT Relevant Incidents	Quarterly	SBNA	0	TBD
	IT Systems Availability (%)	Quarterly	SBNA	N/A	TBD
	Systems with Obsolete Operating Systems (%)	Quarterly	SBNA	20%	TBD
	Ethical Hacking Vulnerabilities	Quarterly	SBNA	0	TBD
	Servers with Security Compliant Operating Systems	Quarterly	SBNA	97%	TBD
Credit risk (losses)	Cost of Credit	Quarterly	SBNA	0.38%	>=0.5%
	NPL Entries (VMG)	Quarterly	SBNA	0.19%	>=0.25%
	NPL Coverage Ratio (%)	Quarterly	SBNA	91%	<=80%
Credit risk (concentration)	Top 20 Financial Institutions exposure	Quarterly	SBNA	8.9%	>7.0%
	Large exposures	Quarterly	SBNA	26.4%	N/A

# Operational Risk review and plan for 'additional' metrics

Metric	Comment
<b>Relevant OR events R1</b>	This metric suggests a high ratio will alert you to common problems across the entity but it could be the result of a small denominator of loss events. SHUSA OR will evaluate this metric vs. absolute number of material events >\$1M by 7/31.
<b>Credit Card \$ Fraud Ratio</b>	OR and Fraud Risk to confirm potential for RAS metric. By 7/31, review data quality and, if remediation plan needed, establish plan and timeline for completion.
<b>Debit Card \$ Fraud Ratio</b>	OR and Fraud Risk to confirm potential for RAS metric. By 7/31, review data quality and, if remediation plan needed, establish plan and timeline for completion.
<b>Credit Card # Fraud Ratio</b>	OR and Fraud Risk to confirm potential for RAS metric. By 7/31, review data quality/availability and, if remediation plan needed, establish plan and timeline for completion.
<b>Debit Card # Fraud Ratio</b>	OR and Fraud Risk to confirm potential for RAS metric. By 7/31, review data quality/availability and, if remediation plan needed, establish plan and timeline for completion.
<b>Online Banking Fraud</b>	Only applicable in SBNA and BSPR with immaterial fraud cases. Seven cases over last 10 months with an average of 705K users. OR to confirm with CBB and Fraud Risk whether they agree with exclusion rationale. Any next steps to be determined by 7/31.
<b>IT Relevant Incidents</b>	OR believes this is a good metric. However, there is a data quality concern. By 7/31, OR and T&O to assess ability to remediate data quality issues and, if plan needed, establish plan and timeline for completion.
<b>IT Systems Availability (%)</b>	OR believes this is a good metric. However, there is a data quality concern. By 7/31, OR and T&O to assess ability to remediate data quality issues and, if plan needed, establish plan and timeline for completion.
<b>Systems with Obsolete Operating Systems (%)</b>	Considered to be a good metric. However, there is a data quality concern. By 7/31, OR and T&O to assess ability to remediate data quality issues and, if plan needed, establish plan and timeline for completion.
<b>Ethical Hacking Vulnerabilities</b>	Considered to be a good metric. However, the program is immature and not comprehensive enough to generate robust and reliable data that would represent an accurate depiction of the environment. OR to confirm potential as a RAS metric. By 7/31, OR and T&O to assess testing program status and path to maturity, including remediation plan if needed.
<b>Servers with Security Complaint Operating Systems</b>	Needs to be clearly defined and researched. OR to perform initial assessment by 7/31, and develop action plan, if needed.

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# Appendix C – Qualitative statements

## 2016 SBNA RAS – Qualitative statements (1/2)

Risk type	Qualitative statement
<b>Capital adequacy</b>	SBNA will hold sufficient capital to act as a source of strength, to satisfy current and future regulatory and internal capital requirements, to ensure continuous access to capital markets, and to withstand the impact of potential losses in an economic downturn.
<b>Credit risk</b>	<p>SBNA is willing to take credit risks that it understands and that fall within its risk appetite.</p> <p>SBNA will focus on lending products for which in-house knowledge and skills exist from a risk perspective and on which credit risk can be measured and managed.</p> <p>SBNA will monitor and manage portfolio quality and concentrations, including borrower and collateral quality, portfolio diversification across product, industry, geography, collateral type, and client segment.</p> <p>SBNA will ensure that the volume of realized and projected loan losses under both baseline and stress does not threaten its capital position and its ability to meet its regulatory requirements.</p>
<b>Liquidity/Funding risk</b>	<p>SBNA will ensure that it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.</p> <p>SBNA will diversify its funding sources and minimize its dependence on capital markets.</p>
<b>Interest Rate risk</b>	<p>SBNA will conservatively manage its Interest Rate Risk exposures, setting a maximum for the sensitivity of the net interest income and market value of equity to interest rates.</p> <p>To minimize its exposure to Interest Rate Risk, SBNA will hedge via instruments that it understands.</p>
<b>Mark-to-Market Portfolio risk</b>	SBNA will only participate in trading for purposes of client facilitation and will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements.
<b>Strategic risk</b>	<p>SBNA strives to deliver consistent performance through pragmatic risk-taking. SBNA will not place an undue amount of earnings or capital at risk for an entity of its size, complexity, and risk profile in any stress scenario.</p> <p>SBNA will ensure that adequate governance and oversight processes and controls are in place for all business activities, products, and services.</p> <p>SBNA's strategic planning process will both consider and work with the risk appetite setting, capital planning, and recovery and resolution planning processes.</p>



## 2016 SBNA RAS – Qualitative statements (2/2)

Risk type	Qualitative statement
<b>Operational risk</b>	SBNA has a risk-averse approach to operational risk but recognizes that it is inherent in all products, activities, processes, and systems and must be adequately managed to meet business objectives.
	SBNA has a risk-averse approach to operational risk but recognizes that it is inherent in all products, activities, processes, and systems and must be adequately managed to meet business objectives.
<b>Model risk</b>	SBNA will enforce model monitoring standards in line with industry practices and regulatory requirements.
	SBNA will allocate more resources to those models with the highest risk level (Tier 1).
	SBNA will ensure no new models are used or put into production without the appropriate approval.
<b>Compliance &amp; Reputational risk</b>	SBNA aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.
	SBNA will treat its customers fairly, abide by consumer protection laws and regulations and will not pursue any business or maintain any practices that may damage its reputation with customers, employees, or other stakeholders.
	SBNA will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.
	SBNA expects that its employees will act with the highest ethical standards at all times.

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# Appendix D – Glossary

# Glossary

<b>AuM</b>	Assets under Management	<b>NPL</b>	Non-performing Loan
<b>BHC</b>	Bank Holding Company	<b>P&amp;L</b>	Profit and Loss
<b>C&amp;I</b>	Commercial & Industrial	<b>PBT</b>	Profit before Tax
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>PCA</b>	Prompt Corrective Action
<b>CRO</b>	Chief Risk Officer	<b>PPNR</b>	Pre-Provision Net Revenue
<b>DPD</b>	Days Past Due	<b>RWA</b>	Risk Weighted Assets
<b>ERMC</b>	Executive Risk Management Committee	<b>SDART</b>	Santander Drive Auto Receivables Trust
<b>FRB / Fed</b>	Federal Reserve Bank	<b>TBD</b>	To be defined
<b>GBM</b>	Global Banking and Markets	<b>14As</b>	CCAR output report
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process	<b>424B3</b>	SDART regulatory filing report
<b>LCR</b>	Liquidity Coverage Ratio	<b>9Q</b>	9 Quarters
<b>NCO</b>	Net Charge Off		

## Metrics Glossary (1/6)

Risk type	Metric	Definition
Capital adequacy	Impairment to Pre-Provision Net Revenue (PPNR)	The projected 9Q cumulative increase in PPNR impairment between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
	Loss in Stress	The impact to Profit before Tax (“PBT”) that SHUSA is willing and able to assume – expressed as the percentage of the annual PBT that would be at risk, based on an adverse stressed scenario affecting the relevant risks
	Common Equity Tier 1 (CET1) Ratio	The minimum ratio of CET1 to Total Risk-Weighted Assets (RWAs) required under BHC Baseline and Stressed conditions
	Tier 1 Leverage (T1L) Ratio	The minimum ratio of T1L to Adjusted Average Assets under Baseline and Stressed conditions
	Tier 1 Risk-based Capital (T1RBC) Ratio	The minimum ratio of T1RBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions
	Total Risk-based Capital (TRBC) Ratio	The minimum ratio of TRBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions

## Metrics Glossary (2/6)

Risk type	Metric	Definition
<b>Credit risk (losses)</b>	60/61+ DPD Rate	The percentage of total outstanding balances 60+ / 61+ days delinquent. SBNA and BSPR track delinquencies at 60+ days; SC tracks delinquency at 61+ days
	Net Charge-off Rate	12-month trailing net charge-offs (NCOs) as a percentage of 12-month trailing average outstanding balances
	Total Credit Losses	9Q stressed cumulative credit losses and any available capital surplus under the CCAR BHC Stress scenario
<b>Credit risk (concentration)</b>	CRE Exposure	The total dollar value of Commercial Real Estate exposure, excluding the exposure to Multifamily real estate
	Financial & Insurance Exposure	The total dollar value exposure for all counterparties within Financial and Insurance industries
	Utilities	The total dollar value exposure for all counterparties within Utilities industries
	Industry Exposure (by OCC Group)	The total dollar value exposure for all counterparties within one industry type, according to the OCC industry classification. Sectors / Industries are defined at the highest aggregation level for OCC industry codes
	Large Exposures	Weight on the Bank's equity of the aggregate exposure with customers and counterparties rated as "large exposures" (excludes public sector exposures)
	Multifamily Exposure	The total dollar value of Multifamily real estate exposure

## Metrics Glossary (3/6)

Risk type	Metric	Definition
<b>Credit risk (concentration)</b>	Obligor Rating Exposure	The total number of individual obligor counterparties of lower credit quality (defined as internal Santander Risk Rating < 5.0) with exposure > \$100M
	Project Finance Exposure	Measures the maximum exposure with specialized lending portfolios relative to CET1 plus ACL
	Single Obligor (Corp. and IFIs) Exposure	The dollar value of total exposure to any individual customer (or aggregated to guarantor) in Financial Institutions, Insurers, Global Corporate Banking, Middle Market, Auto or Specialty Lending
	Top 20 Financial Institutions Exposure	The sum of the value of total exposure to any individual customer (or aggregated to guarantor) of a Financial Institution (excludes mortgage clearing houses) relative to equity, defined as CET1 plus ACL
	Top 20 Corporates Exposure	The sum of the dollar value of total exposure to any individual customer (or aggregated to guarantor) in Global Corporate Banking, Middle Market, Auto or Specialty Lending

## Metrics Glossary (4/6)

Risk type	Metric	Definition
<b>Liquidity / funding risk</b>	Asset Encumbrance (%)	Assets encumbered by guarantees contributed in mid- and long-term financing operations in order to finance balance sheet commercial activity (covered bonds, securitizations and TLTRO) as a percentage of total assets
	Liquidity Coverage Ratio (%; US Modified)	A measurement of the resilience of a firm to a short term (30 days) liquidity crisis, on the basis of its High Quality Liquid Assets
	Loan to Deposit Ratio	Measures the level of loans funded by total deposits to ensure that a minimum amount of the loan portfolio is funded by the deposits of the Bank. Equal to Total Loans over Total Deposits
	Stressed Survival Period (days)	The amount of days remaining until SHUSA and its subsidiaries will have a cash shortfall under stressed conditions
	Structural funding ratio (%)	The percentage of structural assets that are funded with medium and long term liabilities
<b>Interest rate risk metrics</b>	Net Interest Income (NII) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of earnings at risk (NII) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift
	Market Value of Equity (MVE) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of the market value of equity (MVE) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift. MVE measures the difference between the current fair value of an asset and the current fair value of liabilities; it serves as a proxy to the market value of SHUSA's balance sheet

## Metrics Glossary (5/6)

Risk type	Metric	Definition
<b>Mark-to-market portfolio risk</b>	MTM Value at Risk (VaR)	The MTM VaR metric covers the market risk in all material trading portfolios
<b>Operational risk</b>	Credit/Debit Card # Fraud Ratio	The total number of credit/ debit card fraud cases as a percent of the total number of active credit/ debit cards
	Credit/Debit Card \$ Fraud Ratio	The total amount (\$) of credit/ debit card fraud as a percent of the total amount (\$) of credit/ debit card sales
	Ethical Hacking Vulnerabilities	The number of high-risk vulnerabilities detected in the tests conducted by the Ethical Hacking service that have not been corrected for more than three months
	Material Operational Risk events	Aligned with new SHUSA material event impact thresholds; Includes non financially impacting material events (i.e. customer, regulatory, reputation)
	Gross operational risk losses / gross margin	Gross operational risk losses as a percentage of gross margin within the same period
	IT Relevant Incidents	The number of infrastructure and software incidents classified as P1 and P2 in the month
	IT Systems Availability (%)	The availability of critical systems during the month
	Online Banking Fraud	The number of fraud cases in Online Banking as a percentage of the total users of Online Banking
	Relevant OR events R1 (number)	Measures the concentration of significant events on a trailing 12 month basis; proportion of events exceeding extreme losses (as defined by SHUSA) to events exceeding significant losses (as defined by SHUSA)
	Servers with Security Compliant Operating Systems	Number of operating systems that are compliant with the security policy
	Systems with Obsolete Operating Systems (%)	The percentage of servers currently working with obsolete operating systems



## Metrics Glossary (6/6)

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Risk type	Metric	Definition
Model risk	Legacy Tier 1 Models in Production w/o Appropriate Approval	The number of legacy Tier 1 models used in production without appropriate approvals
Compliance risk	Federal Regulator Complaints (CFPB)	For SBNA, the CFPB provides consumers the ability to share their complaints with financial companies. CFPB provides access to all complaint data on its website. Consumer complaints include bank account, credit card, credit reporting, debt collection, money transfer, and mortgage complaints
	High Risk Customers as % of Total New Customers	The number of customers classified as “high risk” (based on internal policies) as a percentage of the total number of new customers
	Open MRIAs and other equivalent matters (OCC Enforcement Actions)	The total number of open MRIAs issued by the Federal Reserve to all Santander entities operating in the US and over which the FRB has jurisdiction or other equivalent regulatory matters requiring immediate attention. For SBNA, this will be largely OCC Enforcement Actions.

# **SC Risk Committee**

## **Risk Appetite Statement Proposal**

June 17, 2016

Presenter: Tali Ploetz, SVP, ERM

# Agenda

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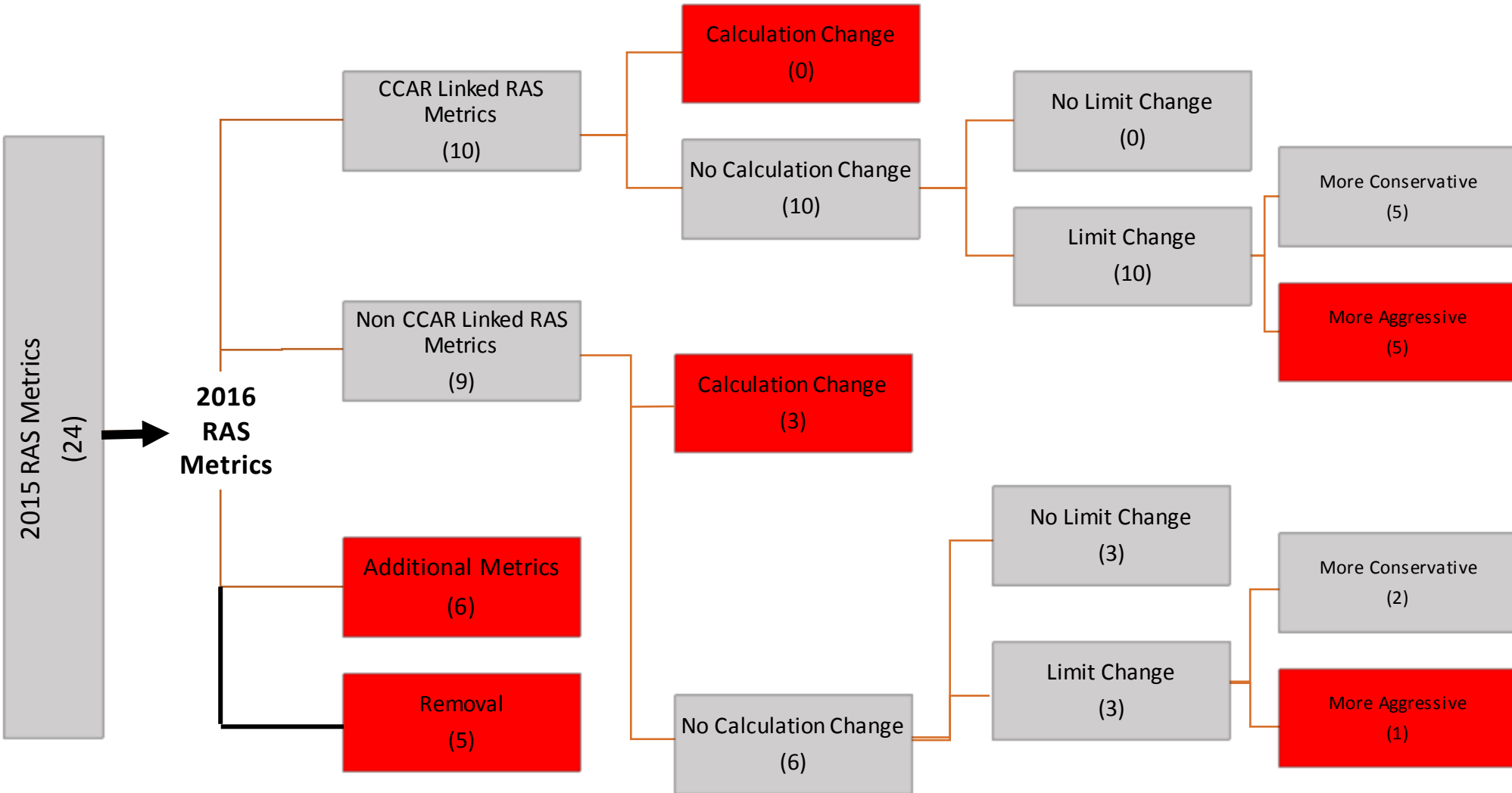
- 1 2016 RAS Metric Breakdown
- 2 2016 Proposed RAS Changes: Summary
- 3 Part 1: Proposed Metric Additions and Removals
- 4 Part 2: Current CCAR metrics - Proposed Limit and calculation changes
- 5 Part 3: Non-CCAR metrics – Proposed Limit and calculation changes
- 6 Appendix

# Executive Summary

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<b>Document Purpose:</b>	Approval of the 2016 Risk Appetite Metrics.
<b>Key Messages and Governance:</b>	Risk Appetite Statement proposal defines the 2016 changes to the level of risk acceptable within SC.
<b>Major areas of significance or concern:</b>	<p>2016 Risk Appetite Statement contains the following updates from 2015.</p> <ul style="list-style-type: none"><li>• 6 New metrics</li><li>• 5 Removed metrics</li><li>• 10 CCAR Metrics with limit changes</li><li>• 6 Non-CCAR Metrics with limit changes</li><li>• 3 Non-CCAR Metrics calculation changes</li></ul>
<b>Significant Anticipated Future Changes (impact on next quarter):</b>	Once 2016 Risk Appetite Statement is approved, implementation will take effect immediately with the production of the July RAS Dashboard.
<b>Next steps for the Committee/Board:</b>	Approval of the 2016 Risk Appetite Metrics.

# 2016 RAS Metric Breakdown



# 2016 Proposed RAS Changes: Summary

## Monthly RAS Metrics

Line	New Metric	Frequency	Mar'16 Actual	Amber Limit	Red Limit	Limit Type	Action
1	Common Equity Tier 1 Ratio - Base	Monthly	11.38%	11.00%	9.45%	Floor	Limit change
2	Tier 1 Risk Based Capital Ratio - Base	Monthly	11.38%	10.00%	8.75%	Floor	Removed
3	Tier 1 Leverage Ratio - Base	Monthly	12.04%	11.60%	10.35%	Floor	Added
4	Tangible Common Equity Ratio - Base	Monthly	11.88%	11.50%	10.25%	Floor	Limit change
5	Total Capital Ratio - Base	Monthly	12.73%	12.50%	11.25%	Floor	Added
6	Total Risk Weighted Assets Total Risk Weighted Assets without Personal Lending	Monthly	\$38.9bn <sup>3</sup> \$37.5bn <sup>3</sup>	Red Limit less \$2bn	Prior Month CET1\$/11%	Ceiling	No action
7	SC Subprime Assets as % SHUSA Credit Exposure	Monthly	20%	23.00%	25.00%	Ceiling	No action
8	Net Charge-Off – Auto – Full Portfolio	Monthly	7.67%	9.30%	9.60%	Ceiling	Limit change
9	Net Charge - Off Unsecured	Monthly	27.34%	30.00%	35.00%	Ceiling	Removed
10	61+ DPD Auto	Monthly	4.02%	5.10%	5.30%	Ceiling	Limit change
11	61+ DPD Unsecured	Monthly	10.74%	12.50%	13.50%	Ceiling	Removed
12	SC Services for Others Monthly Net Charge-Off Rate	Monthly	0.84%	1.50%	2.00%	Ceiling	No action
13	Net Residual Risk / CRLIT	Monthly	2.26%	(3.00)%	(5.00)%	Floor	Limit change
14	Available Committed Liquidity	Monthly	4.4 months <sup>2</sup>	4	3	Floor	Limit & calc. change
15	Structural Funding Ratio	Monthly	86.32%	75.00%	70.00%	Floor	Removed
16	NII Sensitivity (+/- 100 bps)	Monthly	(1.40)%	(2.00)%	(2.50)%	Floor	Limit change
17	MVE Sensitivity (+/-100 bps)	Monthly	(2.38)%	(3.00)%	(4.00)%	Floor	Limit change
18	Open Matters Requiring Immediate Attention (MRIAs)	Monthly	5	N/A	0	Ceiling	Added

## Quarterly RAS Metrics

Line	New Metric	Frequency	Mar'16 Actual	Amber Limit	Red Limit	Limit Type	Action
19	Gross Operational Risk Losses / Gross Margin	Quarterly	0.53%	1.50%	2.00%	Ceiling	Limit change
20	Material Operational Events	Quarterly	6	5	7	Ceiling	Limit & calc. change
21	Validation of Legacy Tier 1 Models	Quarterly	21	N/A	2016 Q1: >25 Q2: >18 Q3: >13 Q4: > 8	Ceiling	Added

## Annual RAS Metrics

Line	New Metric	Frequency	Mar'16 Actual	Amber Limit	Red Limit	Limit Type	Action
22	Common Equity Tier 1 Ratio - Stressed	Annual	8.37% <sup>1</sup>	7.80%	6.25%	Floor	Limit change
23	Tier 1 Risk Based Capital Ratio – Stressed	Annual	8.37% <sup>1</sup>	6.25%	5.25%	Floor	Removed
24	Tier 1 Leverage Ratio - Stressed	Annual	8.53% <sup>1</sup>	8.00%	6.75%	Floor	Added
25	Tangible Common Equity Ratio - Stressed	Annual	8.97% <sup>1</sup>	8.00%	6.75%	Floor	Limit change
26	Total Capital Ratio - Stressed	Annual	9.73% <sup>1</sup>	9.00%	7.75%	Floor	Added
27	Total Credit Losses - Auto	Annual	\$8,439MM <sup>1</sup>	\$8,790MM	\$9,038MM	Ceiling	Limit change
28	Total Credit Losses - Unsecured	Annual	\$849MM <sup>1</sup>	\$859MM	\$883MM	Ceiling	Limit change
29	Residual Value Deterioration	Annual	\$219MM	\$222MM	\$228MM	Ceiling	Limit change
30	Impairment to Pre-Provision Net Revenue (PPNR)	Annual	\$3,603MM <sup>1</sup>	\$3,646MM	\$3,749MM	Ceiling	Limit change

<sup>1</sup>For CCAR Annual metrics, the actuals are from the 2016 CCAR results.

<sup>2</sup>For Available Committed Liquidity, the actual is from the 2016 RAS proposed calculation.

<sup>3</sup>RWA received ERM and Capital Committee approval to use a risk weighting of 20% for restricted cash. The revised risk weighting will be used on a go forward basis, starting in Apr'16.

# Part 1: Proposed Metric Additions and Removals

## New Metrics

Line	New Metric	Rationale for Inclusion	Definition/Calculation	Mar'16 Actual	Amber Limit	Red Limit	Rationale for Limit
1	Total Capital Ratio - Base	Regulatory ratio proposed by group.	$\frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Total Risk Weighted Assets}}$	12.73%	12.50%	11.25%	To align with SC Capital Policy.
2	Total Capital Ratio - Stressed	Regulatory ratio proposed by group.	$\frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Total Risk Weighted Assets}}$	9.73% <sup>1</sup>	9.00%	7.75%	To align with SC Capital Policy.
3	Tier 1 Leverage Ratio - Base	Regulatory ratio proposed by group.	$\frac{\text{Tier 1 Risk Based Capital}}{\text{Average Adjusted Assets}}$	12.04%	11.60%	10.35%	To align with SC Capital Policy.
4	Tier 1 Leverage Ratio - Stressed	Regulatory ratio proposed by group.	$\frac{\text{Tier 1 Risk Based Capital}}{\text{Average Adjusted Assets}}$	8.53% <sup>1</sup>	8.00%	6.75%	To align with SC Capital Policy.
5	Validation of Legacy Tier 1 Models	Regulatory requirement. Aligns with SHUSA RAS. Also in response to SHUSA MRA.	Number of SC Tier 1 Legacy models in production without validation less than or equal to threshold at the end of Quarter.	21	N/A	2016 Q1: >25 Q2: >18 Q3: >13 Q4: > 8	Current approved model validation timeline.
6	Open MRIs	Progress against policy reported monthly in SHUSA RAS	Open FRB MRIs.	5	N/A	0	SHUSA zero-tolerance policy.

## Removed Metrics

Line	Removed Metric	Rationale for Removal	Amber Limit	Red Limit
7	Tier 1 Risk Based Capital Ratio - Base	SC's T1RBC and CET1 ratio results are the same as SC doesn't have noncumulative perpetual preferred stock.	10.00%	8.75%
8	Tier 1 Risk Based Capital Ratio - Stressed	SC's T1RBC and CET1 ratio results are the same as SC doesn't have noncumulative perpetual preferred stock.	6.25%	5.25%
9	Net Charge - Off Unsecured	Unsecured portfolio is HFS. Will be sold in July.	30.00%	35.00%
10	61+ DPD Unsecured	Unsecured portfolio is HFS. Will be sold in July.	12.50%	13.50%
11	Structural Funding Ratio	SC does not rely on Deposit funding or non-contractual liabilities.	75.00%	70.00%

<sup>1</sup>For CCAR Annual metrics, the actuals are from the 2016 CCAR results.

<sup>2</sup>Repeat milestones are defined as milestones closed out and reopened by anyone, including internal audit during validation process.

# Part 2: Current CCAR metrics – Proposed Limit and calculation changes

## CCAR Metric Limit Changes

Line	Metric	Reporting Frequency	March-16 Actual	2015 Amber	2015 Red	2016 Amber	2016 Red	Rationale for Limit Change
1	Common Equity Tier 1 Ratio - Base	Monthly	11.38%	10.00%	8.75%	11.00%	9.45%	<p>Changes driven by 2016 CCAR results for SC:</p> <ul style="list-style-type: none"> <li>Updated 2016 Capital Policy.</li> <li>Increased macro-economic sensitivity and granularity of CCAR models.</li> <li>Increased CCAR losses driven by a focus of the HC Stress scenario on SC Auto.</li> </ul>
2	Common Equity Tier 1 Ratio - Stressed	Annual	8.37% <sup>1</sup>	6.25%	5.25%	7.80%	6.25%	
3	Tangible Common Equity Ratio - Base	Monthly	11.88%	10.50%	9.25%	11.50%	10.25%	
4	Tangible Common Equity Ratio - Stressed	Annual	8.97% <sup>1</sup>	6.75%	5.75%	8.00%	6.75%	
5	Residual Value Deterioration	Annual	\$219MM <sup>1</sup>	\$500MM	\$525MM	\$222MM	\$228MM	
6	61+ DPD Auto	Monthly	4.02%	4.40%	4.90%	5.10%	5.30%	
7	Net Charge-Off – Auto – Full Portfolio	Monthly	7.67%	7.90%	8.60%	9.30%	9.60%	
8	Impairment to Pre-Provision Net Revenue (PPNR)	Annual	\$3,603MM <sup>1</sup>	\$2,575MM	\$2,775MM	\$3,646MM	\$3,749MM	
9	Total Credit Losses - Auto	Annual	\$8,439MM <sup>1</sup>	\$6,575MM	\$7,000MM	\$8,790MM	\$9,038MM	
10	Total Credit Losses - Unsecured	Annual	\$849MM <sup>1</sup>	\$1,175MM	\$1,250MM	\$859MM	\$883MM	

## CCAR Metric Calculation Changes

- There are no calculation changes for the CCAR metrics.

<sup>1</sup>For CCAR Annual metrics, the actuals are from the 2016 CCAR results.

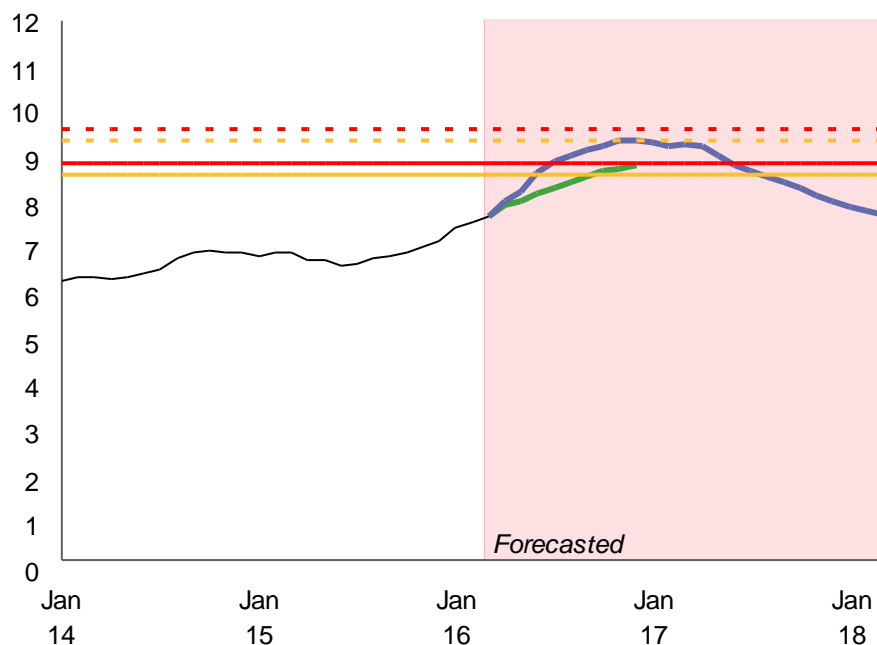


## Part 2: CCAR-based NCO limit - SC Auto NCO anchor point compared against strategic forecast

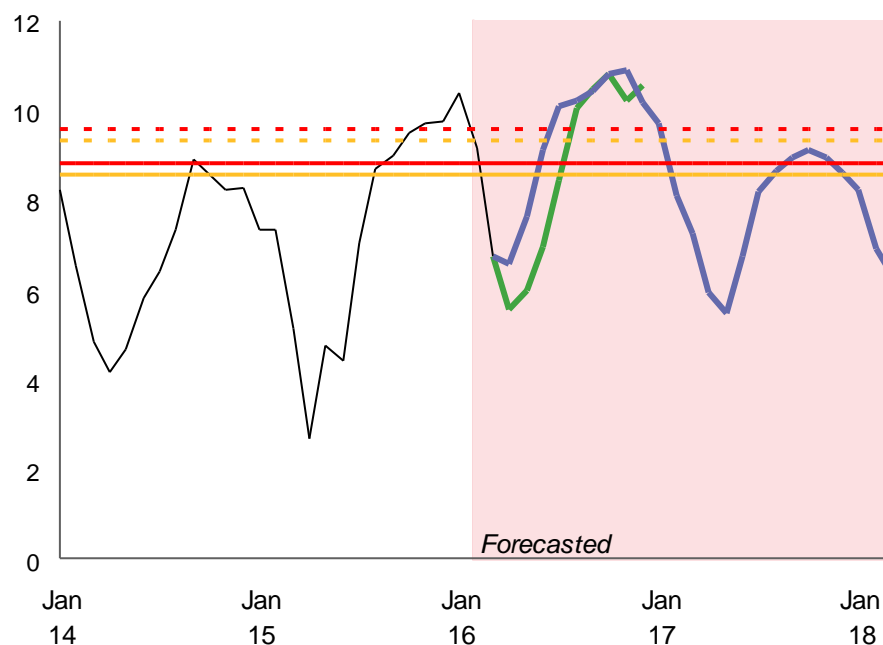
### Analysis

Due to an increase of high risk thin file/out of buy box loans from 2015 originations in SC's credit mix, charge-offs on the auto portfolio have risen and will continue to rise in 2016. Remediation actions including credit buy box actions were taken at the end of Mar'16 to address the credit mix change, however, the effects are not expected to be seen until 2017.

**Strategic forecast charge-off rates**  
%, 12m trailing loss rate vs 2016 NCO anchor points



**Strategic forecast charge-off rates**  
%, Monthly loss rate vs 2016 NCO anchor points



— Historic      — CCAR 2016 Base Strategic      — Red limit (w/ overlay)      — Red limit (w/o overlay)  
— forecast<sup>1</sup>      — Amber trigger (w/ overlay)      — Amber trigger (w/o overlay)

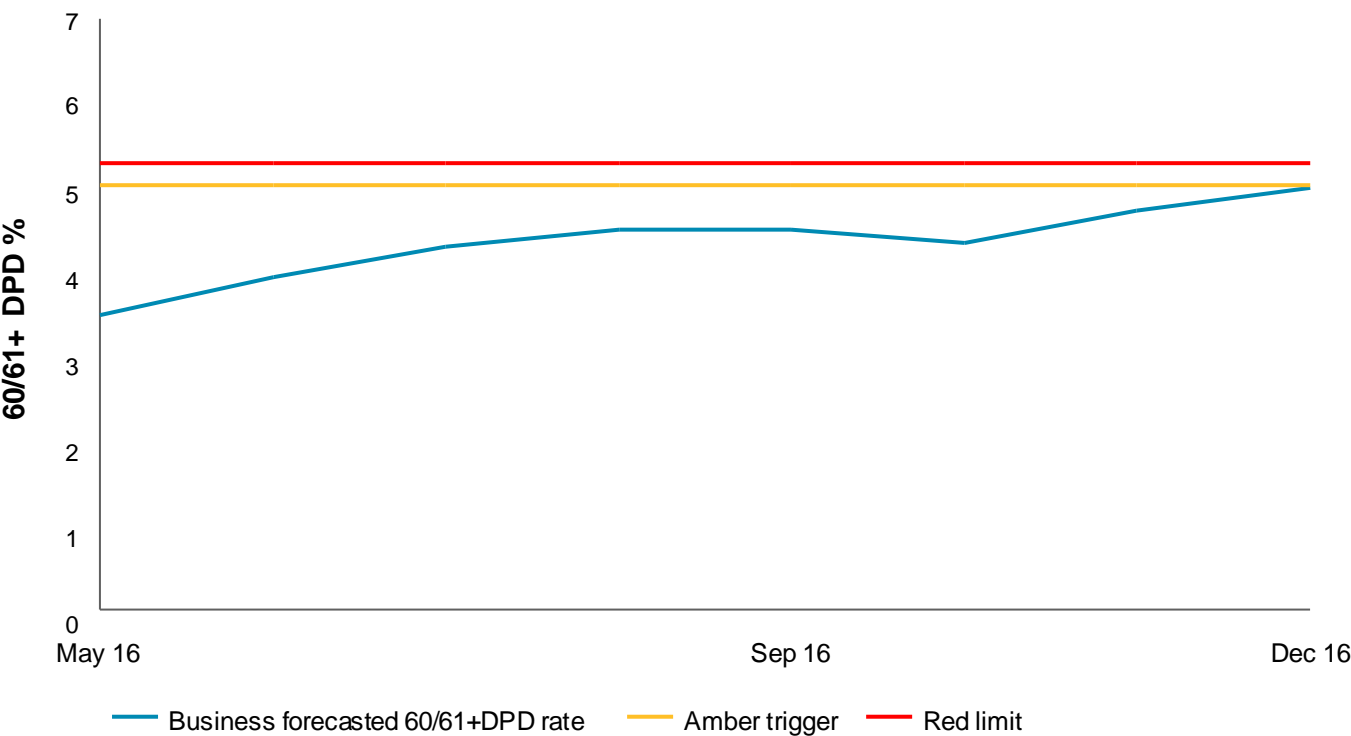
NCO anchor methodology	Amber trigger	Red limit
W/ overlay	8.6%	8.8%
W/o overlay	9.3%	9.6%

1. Calculated based on metric methodology outlined on slide

# Part 2: Auto existing portfolio - 60/61+ DPD limits vs business forecasts

**Auto 60/61+DPD – Comparison to business forecasts**  
%, Existing portfolio, Business forecasted loss rate vs 2016 DPD limits

**Proposed limits**



Limit	Value
Red limit	5.3%
Amber trigger	5.1%

## Part 2: CCAR-linked RAS recalibration: SC Auto follow-up

### SC Auto – NCO limits in BHC Stress vs BHC Stress without overlays

Portfolio	CCAR scalars		Anchors w/ overlay		Anchors w/o overlay	
	W/ overlay	W/o overlay	Amber	Red	Amber	Red
<b>Auto</b>	<b>1.7</b>	<b>1.5</b>	<b>8.6%</b>	<b>8.8%</b>	<b>9.3%</b>	<b>9.6%</b>
Core	1.6	1.5	8.5%	8.7%	9.2%	9.5%
FICO <640	1.7	1.5	8.6%	8.9%	9.4%	9.6%
FICO >640	1.5	1.4	6.5%	6.7%	7.0%	7.2%
Chrysler	1.9	1.6	9.5%	9.8%	10.3%	10.6%
Eligible	2.1	1.7	2.9%	3.0%	3.2%	3.3%
Ineligible	2	1.7	10.6%	10.9%	11.5%	11.8%
Other	1.9	1.6	2.8%	2.9%	3.1%	3.15%

*Overlay = management adjustments + uncertainty + idiosyncratic adjustments*

NCO limits were calibrated based on CCAR results with and without conservative adjustments and idiosyncratic stress applied to model outputs

## Part 2: Auto CCAR-linked 60/61+ DPD limits

### Delinquency scalars and range of delinquency limits

Scaled from 2016 NCO limits using 2016 CCAR DPD/NCO relationship

Sub-portfolio	60/61+ DPD / NCO CCAR scalar	60/61+ DPD limits		CCAR trailing 12m forecasts	
		Amber trigger	Red limit	Avg. in Base	Max. in Base
<b>Auto – existing portfolio</b>	<b>0.55</b>	<b>5.1%</b>	<b>5.3%</b>	<b>4.8%</b>	<b>5.0%</b>
Core	0.58	5.3%	5.5%	5.0%	5.2%
FICO <640	0.57	5.3%	5.5%	4.9%	5.1%
FICO >640	0.80	5.6%	5.8%	5.1%	5.3%
Chrysler <sup>1</sup>	0.48	4.9%	5.0%	4.7%	5.0%
Eligible	0.38	1.2%	1.3%	1.2%	1.2%
Ineligible	0.48	5.5%	5.7%	5.3%	5.6%
Other	0.96	2.9%	3.0%	2.6%	2.7%
<b>Auto – new originations</b>	<b>0.55</b>	<b>4.5%</b>	<b>5.0%</b>		

Comparing a flow (annual NCO) vs stock (monthly DPD) metric creates a scalar representing the speed of accounts moving through delinquency stages to charge-off

1. Eligible Chrysler loans include borrowers with new cars and FICOs > 640 vs Ineligible loans for borrowers with used cars and/or FICOs < 640

# Part 3: Non-CCAR metrics – Proposed Limit and calculation changes

## Non-CCAR Metric Limit Changes

Line		Metric	Reporting Frequency	March-16 Actual	2015 Amber	2015 Red	2016 Amber	2016 Red	Rationale for Limit Change
1	Same	Total Risk Weighted Assets	Monthly	\$38.9bn <sup>3</sup>	Red Limit less \$2bn <sup>2</sup>	Prior Month CET1\$/11% <sup>2</sup>	Same as 2015 RAS Limits	Same as 2015 RAS Limits	N/A
2		Total Risk Weighted Assets without Personal Lending	Monthly	\$37.5bn <sup>3</sup>					
3		SC Subprime Assets as % SHUSA Credit Exposure	Monthly	20%	23.00%	25.00%			
3		SC Services for Others Monthly Net Charge-Off Rate	Monthly	0.84%	1.50%	2.00%			
4	More Conservative	Net Residual Risk / CRLIT	Monthly	2.26%	(5.00)%	(9.00)%	(3.00)%	(5.00)%	More conservative as the change puts the limit closer to an implied ROA of 2.5%.
5		MVE Sensitivity (+/-100 bps)	Monthly	(2.38)%	\$(240MM)	\$(300MM)	(3.00)%	(4.00)%	The limit has been changed to a percentage amount to give management better insight into how much interest rate risk SC is taking against the relevant financial indicator.
6		Gross Operational Risk Losses / Gross Margin	Quarterly	0.53%	3.00%	5.00%	1.50%	2.00%	To more accurately reflect Gross Loss and Gross Margin trends.
7		Available Committed Liquidity	Monthly	4.4 <sup>1</sup> months	6	5	4	3	The change is a better reflection of our liquidity planning and more suited to a consumer finance company without deposit funding. Corresponds to FRB Liquidity Stress Testing requirement of 90 days Liquidity Buffer.
8	More Aggressive	NII Sensitivity (+/- 100 bps)	Monthly	(1.40)%	\$(75MM)	\$(100MM)	(2.00)%	(2.50)%	The limits have been changed to a percentage amount to give management better insight into how much interest rate risk SC is taking against the relevant financial indicator.
9		Material Operational Risk Events	Quarterly	6	3	6	5	7	Limits will change based upon the new SHUSA Operational Risk Event Escalation thresholds approved 4/20/2016. The metric moves from only recording events based on Gross Loss, to also include events that meet escalation thresholds for customer impact, potential regulatory and reputational impact.

## Non-CCAR Metric Calculation Changes

Line	Metric	2015 Calculation	2016 Calculation	Rationale for Calculation Change
10	Gross Operational Risk Losses / Gross Margin	Aggregated gross operational risk losses Aggregated gross margin	12 month trailing aggregated gross operational risk losses 12 month trailing aggregated gross margin	Provides more consistent reporting over time and across SHUSA entities.
11	Material Operational Risk Events	The total number of material operational risk events that have > \$200K in gross losses in the quarter	Number of operational risk events escalated as 'material'. Note: The dollar threshold increased from \$200K to \$500K and additional events are now in scope including events tied to customer, reputational, and regulatory impacts.	Alignment with new SHUSA material event impact thresholds definition of material events; Includes non financially impacting material events (i.e. customer, regulatory, reputation).
12	Available Committed Liquidity	Available warehouse capacity (+) BSNY capacity Avg. 6 mo. forecasted monthly gross originations (-) principal paydowns (-) subvention/discount (-) flow agreements	Available warehouse capacity (+) BSNY capacity Avg. 6 mo. forecasted monthly gross originations (-) principal paydowns (-) subvention/discount (-) flow agreements (+) remove term financing paydowns (-) net interest income (+) operating expenses (-) servicing/fees/commissions (+) income taxes	Enhanced ACL calculation demonstrates adequate historical liquidity. Calculation is on cash basis and based on future cash needs.

<sup>1</sup>For Available Committed Liquidity, the actual is based from the 2016 RAS proposed calculation.

<sup>2</sup>March 2016 limits for RWA were the following: Amber Trigger = \$37.1bn, Red Limit = \$39.1bn.

<sup>3</sup>RWA received ERM and Capital Committee approval to use a risk weighting of 20% for restricted cash. The revised risk weighting will be used on a go forward basis, starting in Apr'16.

# Appendix

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1 Appendix A: 2016 Proposed Metric Graphs

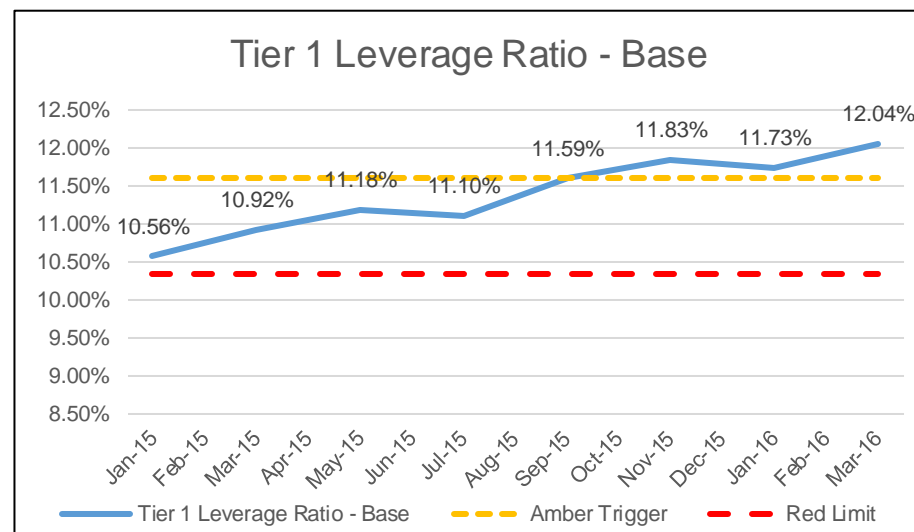
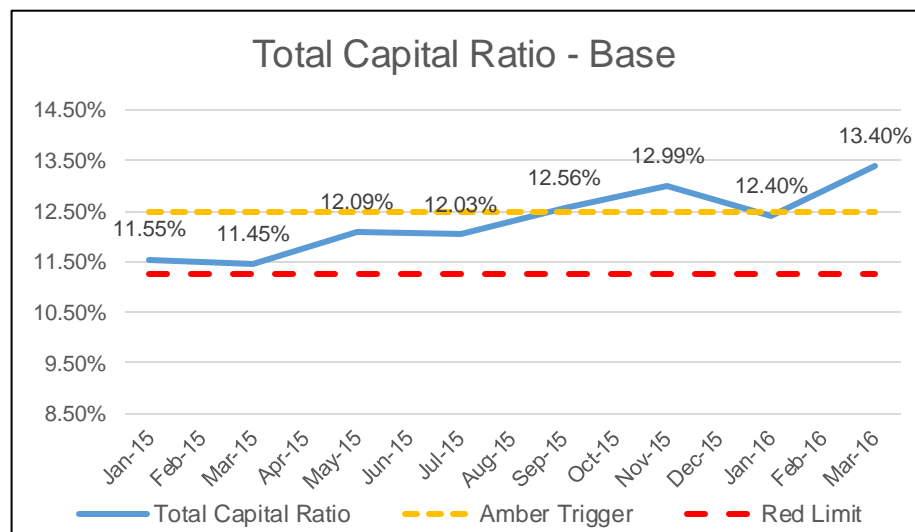
2 Appendix B: 2016 Qualitative Statements

3 Appendix C: Additional Metrics

4 Appendix D: Glossary

## **APPENDIX A: 2016 Proposed Metric Graphs**

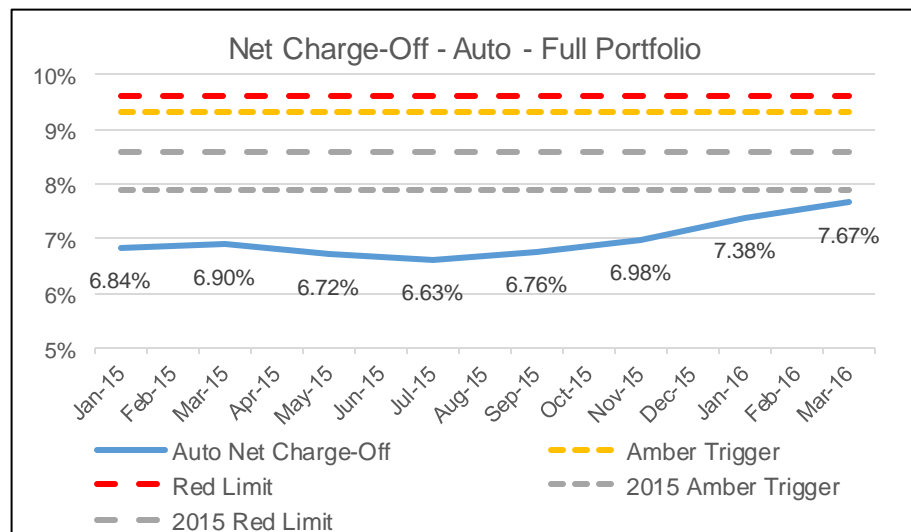
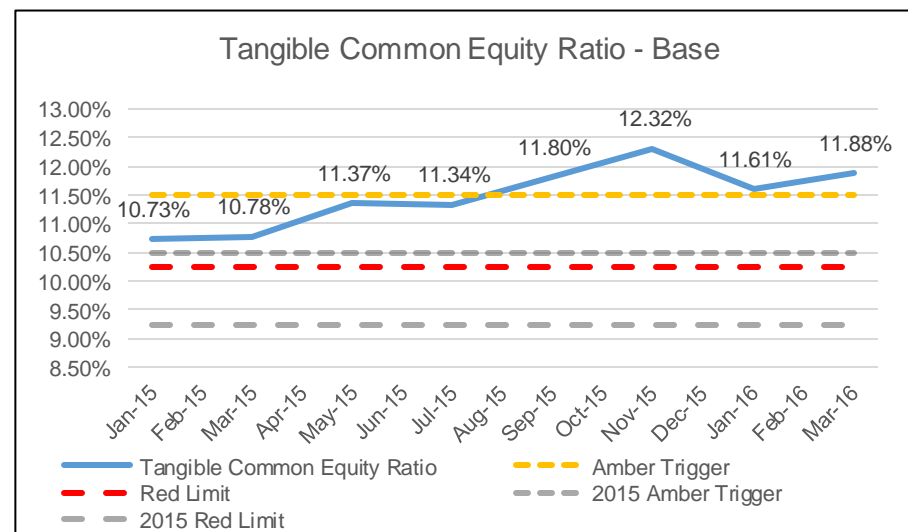
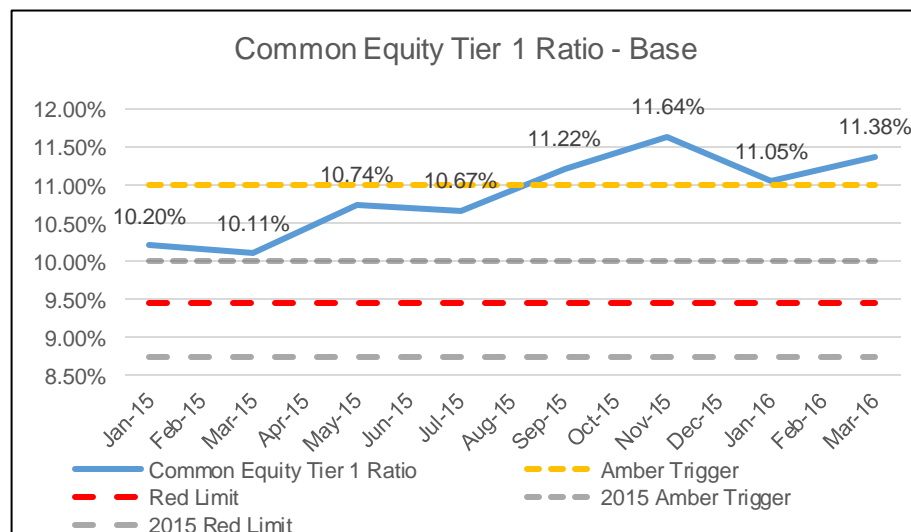
# 2016 Proposed New Metrics



**Note:** Graphs for the following metrics are not shown due to the lack of historical data: Total Capital Ratio – Stressed, Tier 1 Leverage Ratio – Stressed, Open MRIs, & Legacy Tier 1 models in production w/o appropriate approval.



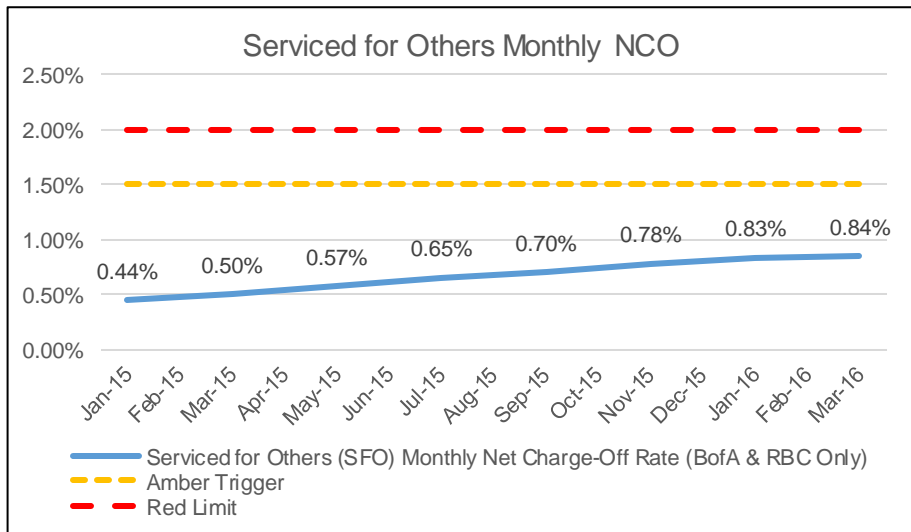
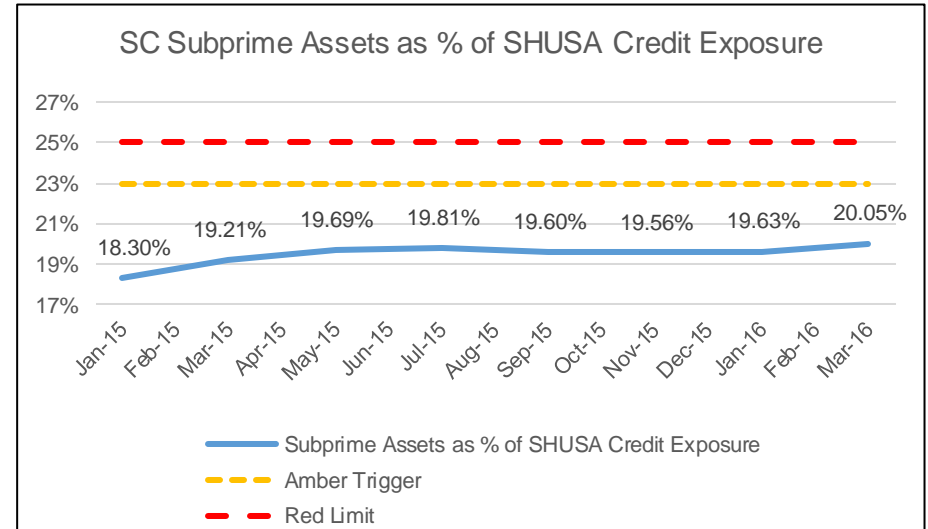
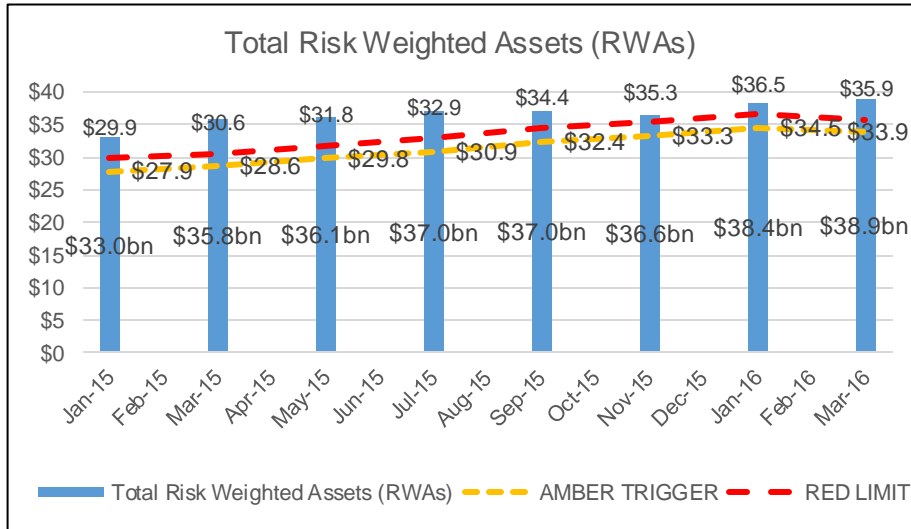
# 2016 Proposed CCAR Metric Graphs



Metric	2015 Amber	2015 Red	2016 Amber	2016 Red
Common Equity Tier 1 Ratio - Base	10.00%	8.75%	11.00%	9.45%
Tangible Common Equity Ratio - Base	10.50%	9.25%	11.50%	10.25%
Net Charge-Off – Auto – Full Portfolio	7.90%	8.60%	9.30%	9.60%

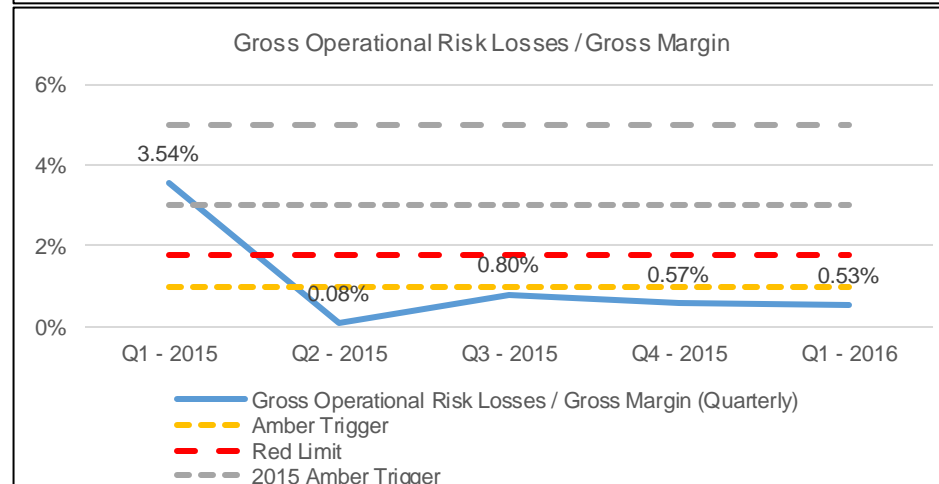
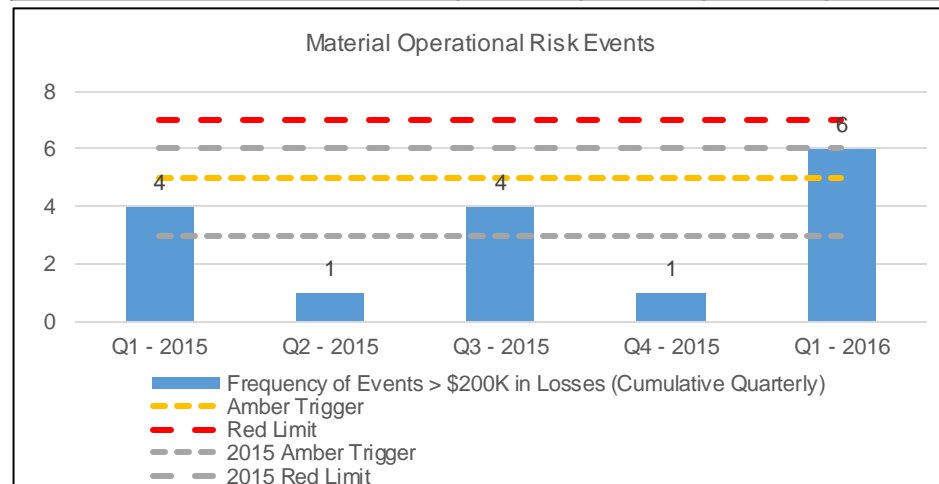
**Note:** Graphs for the following metrics are not shown due to the lack of historical data: Common Equity Tier 1 Ratio – Stressed, Tangible Common Equity Ratio – Stressed, Residual Value Deterioration, Impairment to Pre-Provision Net Revenue (PPNR), Total Credit Losses – Auto, & Total Credit Losses - Unsecured

# 2016 Proposed Non-CCAR Metric Graphs (Same)

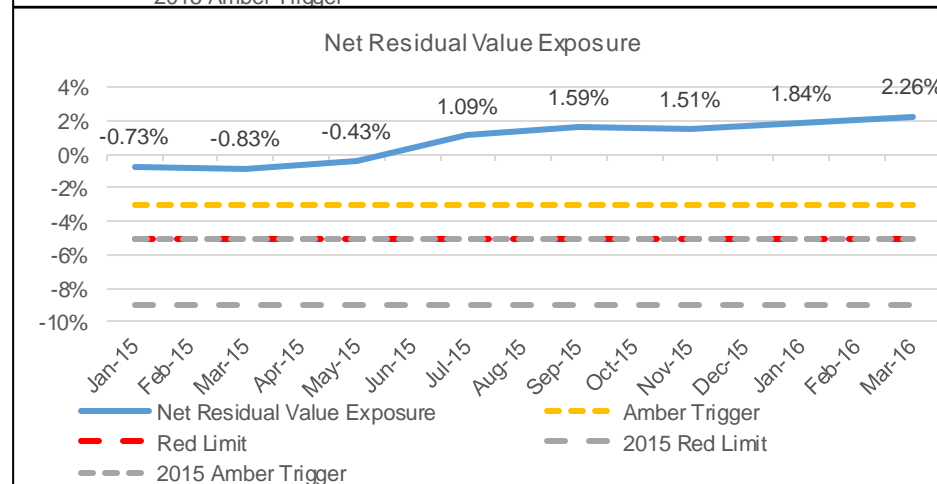
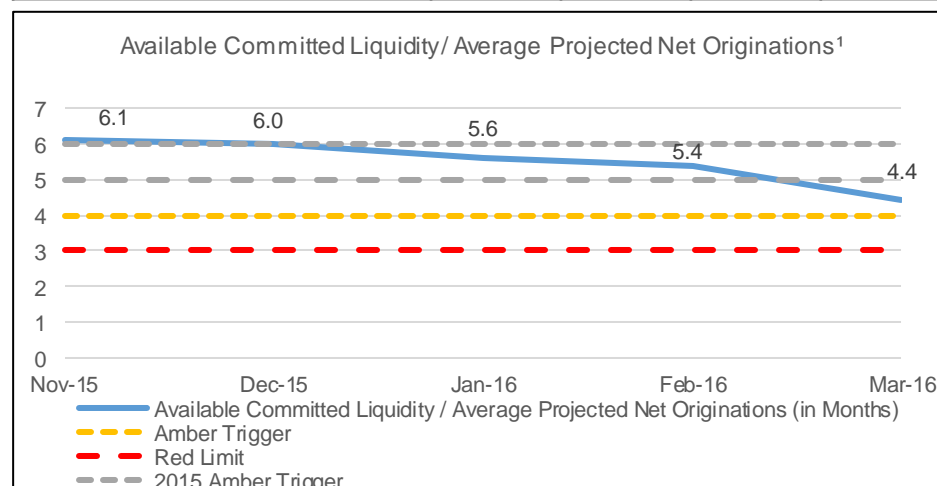


# 2016 Proposed Non-CCAR Metric Graphs (Changes)

Metric	2015 Amber	2015 Red	2016 Amber	2016 Red
Material Operational Risk Events	3	6	5	7
Gross Operational Risk Losses / Gross Margin	3.00%	5.00%	1.00%	1.75%



Metric	2015 Amber	2015 Red	2016 Amber	2016 Red
Available Committed Liquidity	6	5	4	3
Net Residual Risk / CRLIT	(5.00)%	(9.00)%	(3.00)%	(5.00)%



**Note:** Graphs for the following metrics are not shown due to the lack of historical data: NII Sensitivity (+/- 100 bps) & MVE Sensitivity (+/- 100 bps)

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<sup>1</sup>For Available Committed Liquidity, the actual is based from the 2016 RAS proposed calculation

## **APPENDIX B: 2016 Qualitative Statements**

# 2016 Qualitative statements (1/2)

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<b>Risk type</b>	<b>Qualitative statement</b>
<b>Capital adequacy</b>	SC will hold sufficient capital to satisfy current and future regulatory and internal capital requirements, to ensure continuous access to capital markets and to withstand the impact of potential losses in an economic downturn.
<b>Credit risk</b>	<p>SC is willing to take credit risks that it understands and that fall within its risk appetite.</p> <p>SC will focus on lending products for which in-house knowledge and skills exist from a risk perspective and on which credit risk can be measured and managed.</p> <p>SC will monitor and manage portfolio quality and concentrations, including borrower and collateral quality, portfolio diversification across product, geography, collateral type, and client segment.</p> <p>SC will carefully monitor and manage the size of its subprime portfolio.</p> <p>SC will ensure that the volume of realized and projected loan losses under both baseline and stress does not threaten its capital position and its ability to meet its regulatory requirements.</p>
<b>Residual Value risk</b>	SC will ensure that losses from residual value risk due to adverse market movements impacting the value of vehicles or from the mispricing of vehicle leases do not threaten its capital strength under baseline or stress.
<b>Liquidity / Funding risk</b>	<p>SC will ensure that it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.</p> <p>SC will diversify its funding sources and minimize its dependence on capital markets.</p>
<b>Interest Rate risk</b>	<p>SC will conservatively manage its Interest Rate Risk exposures, setting a maximum for the sensitivity of the net interest income and market value of equity to interest rates.</p> <p>To minimize its exposure to Interest Rate Risk, SC will hedge via instruments that it understands.</p>
<b>Mark-to-Market Portfolio risk</b>	SC will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements.

# 2016 Qualitative statements (2/2)

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Risk type	Qualitative statement
<b>Strategic risk</b>	SC strives to deliver consistent performance through pragmatic risk-taking. SC will not place an undue amount of earnings or capital at risk for an entity of its size, complexity, and risk profile in any stress scenario.
	SC will ensure that adequate governance and oversight processes and controls are in place for all business activities, products, and services.
	SC's strategic planning process will both consider and work with the risk appetite setting, capital planning, and recovery and resolution planning processes.
<b>Operational risk</b>	SC has a disciplined and systematic approach to operational risk but recognizes that it is inherent in all products, activities, processes and systems and must be managed to meet business objectives.
	SC is committed to implementing practices and controls that will minimize losses incurred from inadequate or failed internal processes, people, and systems or from external events.
<b>Model risk</b>	SC will enforce model monitoring standards in line with regulatory requirements.
	SC will allocate more resources to those models with the highest risk level (Tier 1).
	SC will ensure no new models are used or put into production without the appropriate approval.
<b>Compliance &amp; Reputational risk</b>	SC aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.
	SC will treat its customers fairly, abide by consumer protection laws and regulations and will not pursue any business or maintain any practices that may damage its reputation with shareholders.
	SC will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.
	SC expects that its employees will act with the highest ethical standards at all times.

## **APPENDIX C: Additional Metrics**

# Additional Metrics

## Additional metrics

Risk type	Metric	Frequency	Portfolio	Actual	Complementary Threshold
Credit risk (losses)	Cost of Credit	Quarterly	SC	10.06%	>=11%
	NPL Entries (VMG)	Quarterly	SC	-0.4%	>=0.6%
	NPL Coverage Ratio (%)	Quarterly	SC	398%	<=250%
Operational risk	Relevant OR Events R1 (number)	Quarterly	SC	0	TBD
	IT Relevant Incidents	Quarterly	SC	0	TBD
	IT Systems Availability (%)	Quarterly	SC	100%	TBD
	Systems with Obsolete Operating Systems (%)	Quarterly	SC	N/A	TBD
	Ethical Hacking Vulnerabilities	Quarterly	SC	3	TBD
	Servers with Security Compliant Operating Systems	Quarterly	SC	N/A	TBD

## Action Plans

Metric	Issue	Resolution Plan	Time to Resolution	Accountable T&O Executive
Systems with Obsolete Operating Systems (%)	SC T&O have tool in place but work is required to configure the reporting to address this.	Configuration of CMDB tool to capture population of data for reporting of obsolete operating systems. This will begin at end of Q2 2016.	6/30/16	Jim Brewster
Servers with Security Compliant Operating Systems	SC T&O does not currently have a solution in place to capture and monitor Compliance.	SC IT is implementing a configuration management compliance assessment solution. This solution is planned to be in production by end of Q3 2016. Reporting on compliance of production servers will commence in Q4 2016.	10/31/16	Steve Harvey

Note: These metrics are complementary to primary RAS metrics. These metrics are being formally reviewed to establish limits. Any meaningful breach of the threshold will be reported to the appropriate board(s) and Group."

See Metric Glossary in appendix for metric definitions



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## **APPENDIX D: Glossary**

# Metrics Glossary (1/3)

Risk type	Metric	Definition
Capital adequacy	Common Equity Tier 1 (CET1) Ratio	The minimum ratio of CET1 to Total Risk-Weighted Assets (RWAs) required under BHC Baseline and Stressed conditions
	Impairment to Pre-Provision Net Revenue (PPNR)	The projected 9Q cumulative increase in PPNR impairment between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
	Total Risk Weighted Assets (RWA)	The total value of SC Risk Weighted Assets (RWA)
	Tangible Common Equity (TCE) Ratio	The minimum ratio of TCE to Total Tangible Assets under Baseline and Stressed conditions
	Tier 1 Leverage (T1L) Ratio	The minimum ratio of T1L to Adjusted Average Assets under Baseline and Stressed conditions
	Total Risk-based Capital (TRBC) Ratio	The minimum ratio of TRBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions
Credit risk (losses)	60/61+ DPD Rate	The percentage of total outstanding balances 60+ / 61+ days delinquent. SBNA and BSPR track delinquencies at 60+ days; SC tracks delinquency at 61+ days
	Cost of Credit	Net credit provisions incurred on a trailing 12 month basis as a percentage of the trailing 12 month average loan portfolio
	Net Charge-off Rate	12-month trailing net charge-offs (NCOs) as a percentage of 12-month trailing average outstanding balances
	NPL Coverage ratio (%)	Measures the level of coverage of non-performing loans (NPLs) by provision reserves (provision stock) by calculating provision reserves as a percentage of NPLs
	NPL Entries (VMG)	Measures the credit quality of the portfolio by calculating the volume of net non-performing loans (NPLs) entries as a percentage of average credit exposure of the portfolio
	Total Credit Losses	9Q stressed cumulative credit losses and any available capital surplus under the CCAR BHC Stress scenario

# Metrics Glossary (2/3)

Risk type	Metric	Definition
<b>Credit risk (concentration)</b>	SC Subprime Assets as % SHUSA Credit Exposure	The concentration of SC sub-prime assets as a % of total SHUSA consolidated credit exposure
<b>Residual value risk</b>	Residual Value Deterioration	The projected 9Q cumulative increase in Leased Vehicle Expense between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
	Net Residual Risk / CRLIT	The implied profit or loss in the residual value of all leased vehicles at the point in time of calculation – the difference between the Forecasted Residual Value (3-month smoothed average) and the Contract Residual less Incentives & Tax (CRLIT) as a proportion of total CRLIT
<b>Liquidity / funding risk</b>	Available Committed Liquidity (months)	A measurement of the committed liquidity available to SC against projected net originations
<b>Interest rate risk metrics</b>	Net Interest Income (NII) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of earnings at risk (NII) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift
	Market Value of Equity (MVE) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of the market value of equity (MVE) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift. MVE measures the difference between the current fair value of an asset and the current fair value of liabilities; it serves as a proxy to the market value of SHUSA's balance sheet

# Metrics Glossary (3/3)

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Risk type	Metric	Definition
Operational risk	Ethical Hacking Vulnerabilities	The number of high-risk vulnerabilities detected in the tests conducted by the Ethical Hacking service that have not been corrected for more than three months
	Material Operational Risk Events	Alignment with new SHUSA material event impact thresholds. Includes non financially impacting material events (i.e. customer, regulatory, reputation)
	Gross operational risk losses / gross margin	Gross operational risk losses as a percentage of gross margin within the same period
	IT Relevant Incidents	The number of infrastructure and software incidents classified as P1 and P2 in the month
	IT Systems Availability (%)	The availability of critical systems during the month
	Relevant OR events R1 (number)	Measures the concentration of significant events on a trailing 12 month basis; proportion of events exceeding extreme losses (as defined by SHUSA) to events exceeding significant losses (as defined by SHUSA)
	Systems with Obsolete Operating Systems (%)	The percentage of servers currently working with obsolete operating systems
Model risk	Legacy Tier 1 Models in Production w/o Appropriate Approval	The number of legacy Tier 1 models used in production without appropriate approvals
Compliance risk	Open MRIs and other equivalent matters requiring immediate attention	The total number of open MRIs issued by the Federal Reserve to all Santander entities operating in the US and over which the FRB has jurisdiction or other equivalent regulatory matters requiring immediate attention (SC – FRB and CFPB)
	Serviced for Others Monthly Net Charge-off Rate	Average monthly net charge-off rate for 12 trailing months for the SC serviced portfolios that management deems to exposure SC to reputational risk

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# **Risk Appetite Statement Proposal**

## **BSI Board of Directors**

June 16, 2016

Sponsor: Brian Gunn, Chief Risk Officer SHUSA

Presenter: Alfredo Aguila, Chief Risk Officer BSI

Authors: Jose Etchegoyen, Director of Enterprise Risk Management BSI; Jennifer Keegan, Head of Risk Appetite SHUSA

Date Created: June 2016

Version: Template

# BSI Risk Appetite Statement

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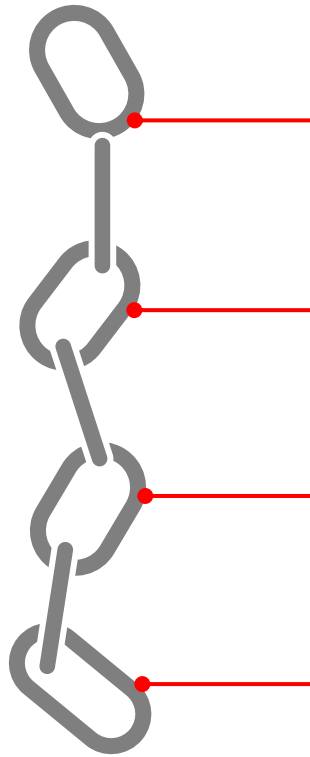
## 2016 RAS development process

- Based on guidance from Group, SHUSA has established a standard **Risk Appetite Statement (RAS)**, which includes a set of **qualitative statements and quantitative limits** used to monitor the key risks
- **BSI Miami, in coordination with SHUSA, has developed a BSI RAS**, ensuring a common set of objectives, standard taxonomy and methodology, and internally consistent reporting limits
- **31 applicable metrics** across all relevant risk types were calibrated based on historical data, CCAR outputs, and management judgment
- All RAS metrics have been **reviewed with risk teams and business owners**

## Next steps

- Final **BSI Miami Board review and approval**
- Ongoing monthly reporting will start in **July 2016**

# The RAS is anchored in specific objectives for risk taking

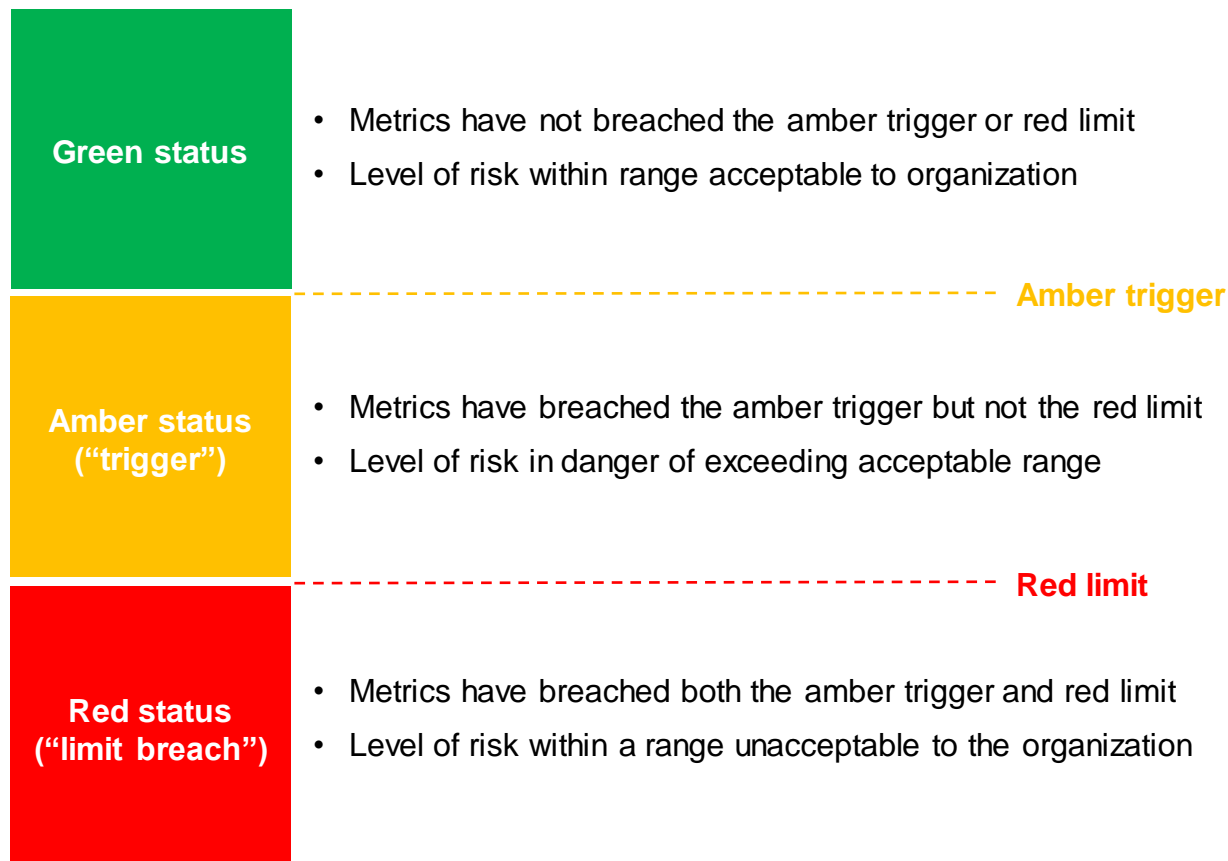


SHUSA Objectives	Manifestation in BSI RAS
<b>A</b> Meet regulatory constraints	<ul style="list-style-type: none"> <li>• <b>Capital:</b> Ensure post-loss capital ratios in CCAR analysis are at or above limits</li> <li>• <b>Liquidity:</b> Ensure cash flow profile keeps the entity within both internally and externally-defined limits</li> </ul>
<b>B</b> Sustain confidence of external stakeholders (e.g., rating agencies)	<ul style="list-style-type: none"> <li>• Ensure characteristics of the balance sheet, earnings and business profile (e.g., asset quality, liquidity, concentrations) are consistent with stakeholder expectations for prudent risk management</li> </ul>
<b>C</b> Minimize risks that do not generate incremental earnings	<ul style="list-style-type: none"> <li>• Establish Board-level expectations for processes and controls in place for non-financial risks</li> </ul>
<b>D</b> Comply with Group-level Risk Appetite expectations	<ul style="list-style-type: none"> <li>• Include metrics and adhere to limits agreed with Group, as applicable to SHUSA's business</li> </ul>

The statements, metrics and limits in the RAS will enable the Board to ensure these overarching objectives are upheld

# Metric status definitions and escalation process

## Metric status definitions



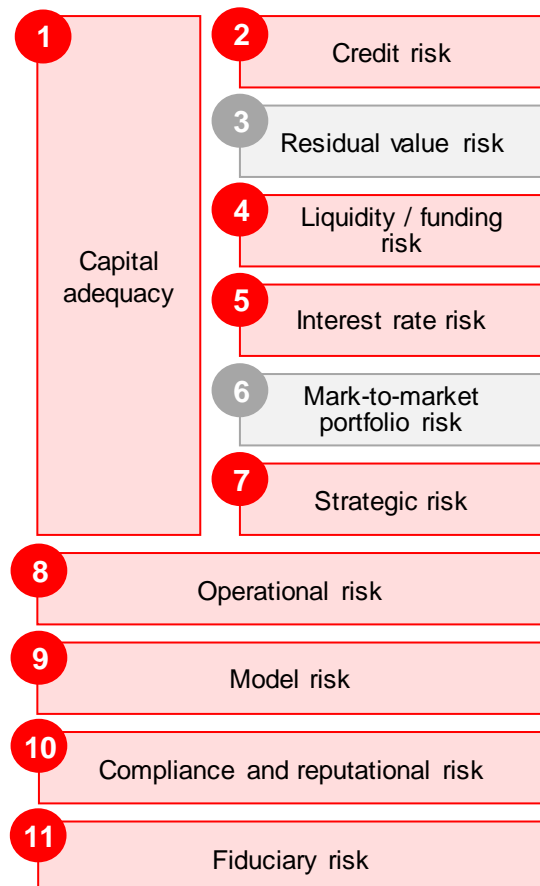
## Escalation processes

- Escalation procedures apply to all amber triggers and red breaches
- **SHUSA-level:** Escalated to SHUSA CRO, with most review and approval by ERM (amber) or RC (red)<sup>1</sup>
- **Subsidiary-only:** Review and approval responsibility in subsidiary; SHUSA ERM provides review and input to action plans



# Risk taxonomy and applied metrics

## Risk taxonomy



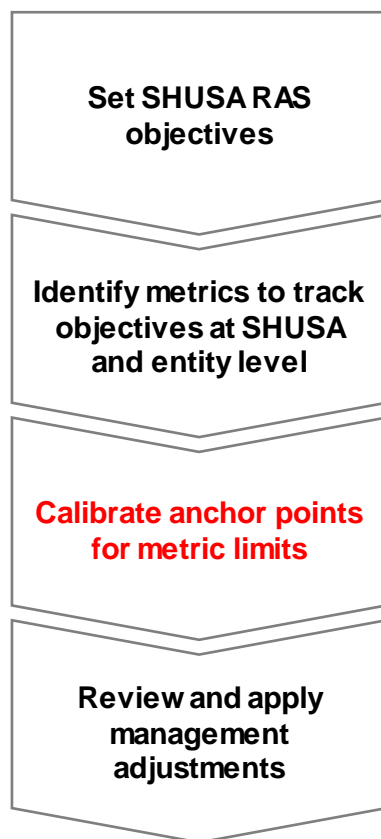
## Metrics in the BSI Miami RAS

\* SHUSA metric reported in Santander Group RAS

1	<ul style="list-style-type: none"> <li>*Tier 1 Capital Ratio</li> <li>*Tier 1 Leverage Ratio</li> </ul>	<ul style="list-style-type: none"> <li>*Common Equity Tier 1 Ratio</li> <li>*Total Risk-based Capital Ratio</li> <li>PPNR impairment</li> </ul>
2	<ul style="list-style-type: none"> <li>*Concentration exposures</li> </ul>	<ul style="list-style-type: none"> <li>Secured Lending Value Exception</li> </ul>
3	No residual value risk metrics included – BSI does not have operating lease expenses	
4	<ul style="list-style-type: none"> <li>*Stressed Survival Period</li> <li>*Structural Funding Ratio</li> </ul>	<ul style="list-style-type: none"> <li>*Liquidity Coverage Ratio (LCR) – US Modified</li> </ul>
5	<ul style="list-style-type: none"> <li>*Net Interest Income Sensitivity (+/- 100bps shock)</li> <li>*Market Value of Equity Sensitivity (+/- 100bps shock)</li> </ul>	
6	No MTM portfolio risk metrics included – BSI does not engage in principal trading of securities	
7	Evaluated against all RAS metrics	
8	<ul style="list-style-type: none"> <li>*Gross Op. Risk Losses / Gross Margin</li> <li>Material Operational Risk Events (w/ financial threshold &gt; \$50K)</li> </ul>	
9	<ul style="list-style-type: none"> <li>Legacy Tier 1 Models not submitted for validation</li> </ul>	
10	<ul style="list-style-type: none"> <li>Open MRIAs and equivalent matters</li> <li>Total Customer Complaints Received</li> <li>Past Due Reg. Monitoring CAPs</li> <li>Repeat violation of Code of Conduct and Ethics</li> </ul>	<ul style="list-style-type: none"> <li>AML Alerts Pending &gt; 60 days</li> <li>KYC Updates overdue &gt; 90 days</li> <li>High Risk Customers % of Total Customers</li> <li>Politically Exposed Persons % of Total Customers</li> <li>OFAC violations</li> <li>OFAC blocked or rejected transactions</li> </ul>
11	<ul style="list-style-type: none"> <li>Clients with Missing Profiles</li> <li>Exceeded Client Investment Profiles</li> <li>Regulation R Bank-wide “chiefly-compensated” test</li> </ul>	<ul style="list-style-type: none"> <li>Pending Purchase Order Documentation</li> <li>Discretionary Mandates: Aging of Expenses</li> </ul>

# RAS metric anchor calibration approach

## Limit calibration process



## Anchor calibration approaches

Anchor	Calibration approach	Applicable risk taxonomy
<b>Existing management limits</b>	Align anchor to other limits codified in policies or management practices to ensure consistency across the organization	<ul style="list-style-type: none"> <li>• Capital adequacy (ratios)</li> <li>• Model risk</li> <li>• Open MRIs and other equivalent matters</li> </ul>
<b>Model projections</b>	Set anchors based on outputs of CCAR and other business models, applying adjustments based on management review	<ul style="list-style-type: none"> <li>• Capital adequacy (other)</li> </ul>
<b>Historical benchmarks</b>	Leverage management expertise, supported by comparison to internal and external data, where available	<ul style="list-style-type: none"> <li>• Credit risk (concentration)</li> <li>• Liquidity risk</li> <li>• Mark-to-market portfolio risk</li> <li>• Operational risk</li> <li>• Compliance risk</li> <li>• Fiduciary risk</li> </ul>

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# Proposed 2016 RAS

## 2016 BSI RAS – Proposed limits (1/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Ratio	Frequency	Mar 16	Baseline scenario			BHC Stress scenario		
				Base	Amber trigger	Red limit	BHC Stress	Amber trigger	Red limit
Capital adequacy (ratios)	*Common Equity Tier 1	Monthly	91.65%	78.86%	<=18.60%	<=16.60%	80.17%	<=13.60%	<=11.60%
	*Total Risk-based Capital	Monthly	95.83%	82.43%	<=20.10%	<=18.10%	83.74%	<=19.35%	<=17.35%
	*Tier 1 Leverage	Monthly	13.21%	13.48%	<=10.75%	<=8.75%	13.67%	<=9.75%	<=7.75%
	*Tier 1 Risk-based Capital	Monthly	93.07%	78.86%	<=24.35%	<=22.35%	80.17%	<=15.10%	<=13.10%

## 2016 BSI RAS – Proposed limits (2/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Portfolio	Mar 16	Amber trigger	Red limit
<b>Capital adequacy (other)</b>	Impairment to Pre-Provision Net Revenue (PPNR)	Annual (9Q CCAR 2016)	BSI Miami	\$42M	>=\$52M	>=\$58M
<b>Credit risk</b>	*Secured Lending Value Exceptions (%)	Quarterly	BSI Miami	1%	>=1.5%	>=2%
	Individual Obligor Exposure	Quarterly	BSI Miami	9.90%	>=12%	>=15%
	Top 10 Obligors Exposure	Quarterly	BSI Miami	49%	>=75%	>=90%
<b>Liquidity / funding risk</b>	*Stressed Survival Period (days)	Monthly	BSI Miami	>90	<= 75 days	<= 45 days
	*Liquidity Coverage Ratio (US)	Monthly	BSI Miami	TBD	<= 110%	<= 100%
	*Structural Funding Ratio (%)	Monthly	BSI Miami	168.35%	<=121%	<=100%
<b>Interest rate risk</b>	*NII <sup>2</sup> Sensitivity(+/- 100bps)	Monthly	BSI Miami	-9.46%	<=-21%	<=-27%
	*MVE <sup>3</sup> Sensitivity(+/- 100bps)	Monthly	BSI Miami	-1.65%	<=-3%	<=-4%
<b>Operational risk</b>	*Gross Operational Risk Losses / Gross Margin	Quarterly (trailing 12m)	BSI Miami	0.09%	>=1.25%	>=2%
	Material Operational Risk Events (financial threshold >50K)	Quarterly	BSI Miami	1	>=3	>=5
<b>Model risk</b>	Legacy Tier 1 Models not submitted for validation	Monthly	BSI Miami	0	2016 - 2 2017 - 0	2016 - 3 2017 - 0

## 2016 BSI RAS – Proposed limits (3/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Portfolio	Mar 16	Amber trigger	Red limit
<b>Compliance &amp; Reputational risk</b>	Open MRIs and other alike matters requiring immediate attention	Monthly	BSI Miami	0	N/A	>0
	Total Customer Complaints Received	Annual <sup>3</sup>	BSI Miami	0	>=25	>=35
	Past Due Compliance Monitoring CAPS	Monthly	BSI Miami	0	N/A	>0
	Violations of Code of Conduct and Ethics	Monthly	BSI Miami	0	>0 violation warnings	>0 repeat violations
	High Risk Customers as % of Total Customers	Monthly	BSI Miami	10.08%	>=13%	>=15%
	<b>Politically Exposed Clients % Total</b>	<b>Monthly</b>	<b>BSI Miami</b>	<b>5.09%</b>	<b>&gt;=5.25%</b>	<b>&gt;=5.5%</b>
	<b>KYC Updates overdue &gt; 90 days</b>	<b>Monthly</b>	<b>BSI Miami</b>	<b>1.9996%</b>	<b>&gt;=2%</b>	<b>&gt;=3%</b>
	<b>AML Transaction Monitoring alerts awaiting clarification &gt; 60 days</b>	<b>Monthly</b>	<b>BSI Miami</b>	<b>13</b>	<b>&gt;=20</b>	<b>&gt;=30</b>
	<b>OFAC Violations</b>	<b>Quarterly</b>	<b>BSI Miami</b>	<b>0</b>	<b>N/A</b>	<b>&gt;0</b>
	<b>OFAC Blocked or rejected transactions</b>	<b>Quarterly</b>	<b>BSI Miami</b>	<b>1</b>	<b>&gt;=1</b>	<b>&gt;=2</b>
<b>Fiduciary risk</b>	Clients with Missing Profiles (%)	Annual <sup>3</sup>	BSI Miami	2.6%	>=6%	>=8%
	Exceeded Client Investment Profiles (%)	Annual <sup>3</sup>	BSI Miami	13.2%	>=16%	>=20%
	Pending Purchase Order Documentation (%)	Annual <sup>3</sup>	BSI Miami	4.11%	>=10%	>=13%
	Discretionary Mandates: Aging of Excesses (days)	Annual <sup>3</sup>	BSI Miami	0	>=60 days	>=90 days
	Regulation R Bank-wide “chiefly-compensated” test	Annual <sup>3</sup>	BSI Miami	76%	<=74%	<=72%

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# Appendix – Supporting RAS detail

## Additional metrics required by Group (tracking only)

Risk type	Metric	Frequency	Portfolio	Mar 16	Additional metric threshold
Operational risk	Relevant OR Events R1 (number)	Quarterly	BSI Miami	0	TBD
	IT Relevant Incidents	Quarterly	BSI Miami	0	TBD
	% IT Systems Availability	Quarterly	BSI Miami	99.8%	TBD
	% Systems with Obsolete Operating Systems	Quarterly	BSI Miami	7%	TBD
	Ethical Hacking Vulnerabilities	Quarterly	BSI Miami	0	TBD
	Servers with Security Compliant Operating Systems	Quarterly	BSI Miami	TBD	TBD



# Operational Risk review and plan for complementary metrics

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Metric	Comment
Relevant OR events R1	Recommended as complementary metrics for tracking only given applicability and materiality for BSI
IT Relevant Incidents	
IT Systems Availability (%)	
Systems with Obsolete Operating Systems (%)	
Ethical Hacking Vulnerabilities	
Servers with Security Complaint Operating Systems	Aiming to acquire a tool capable of measuring security compliance in operating systems by end of year; will start to measure in 2017 and calibrate the threshold accordingly

## 2016 Qualitative statements (1/2)

<b>Risk type</b>	<b>Qualitative statement</b>
<b>Capital adequacy</b>	BSI will hold capital sufficiently above regulatory requirements under both normal and stressed conditions.
<b>Credit risk</b>	<p>BSI is willing to take credit risks that it understands and that fall within its risk appetite.</p> <p>BSI will focus on lending products for which in-house knowledge and skills exist from a risk perspective and on which credit risk can be measured and managed.</p> <p>BSI will monitor and manage portfolio quality and concentrations, including diversification across client segments and geographies, and collateral instruments.</p> <p>BSI will ensure that the volume of realized and projected loan losses under both baseline and stress does not threaten its capital position and its ability to meet its regulatory obligations.</p>
<b>Liquidity / Funding risk</b>	BSI will ensure that it maintains sufficient liquidity to meet its obligations under both business-as-usual and stressed conditions.
<b>Interest Rate risk</b>	BSI ensures that the projected impact to earnings and capital from a change in interest rates is maintained at prudent levels.
<b>Mark-to-Market Portfolio risk</b>	BSI does not engage in principal trading of securities.
<b>Strategic risk</b>	<p>BSI will not place an undue amount of earnings or capital at risk for an entity of its size, complexity, and risk profile in any stress scenario.</p> <p>BSI will ensure that adequate governance and oversight processes and controls are in place for all new business activities, products and services.</p> <p>BSI's strategic planning process will both consider and work with the risk appetite setting, capital planning and recovery and resolution planning processes.</p>

## 2016 Qualitative statements (2/2)

Risk type	Qualitative statement
<b>Operational risk</b>	BSI has a risk-averse approach to operational risk but recognizes that it is inherent in all products, activities, processes and systems and must be adequately managed to meet business objectives.
	BSI is committed to implementing practices and controls that will minimize losses incurred from inadequate or failed internal processes, people, and systems or from external events.
<b>Model risk</b>	BSI will enforce model monitoring standards in line with industry practices and regulatory requirements.
	BSI will allocate more resources to those models with the highest risk level (Tier 1).
	BSI will ensure no new models are used or put into production without the appropriate approval.
<b>Compliance &amp; Reputational risk</b>	BSI aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.
	BSI will treat its customers fairly, abide by consumer protection laws and regulations and will not pursue any business or maintain any practices that may damage its reputation with customers, employees, or other stakeholders.
	BSI will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.
	BSI expects that its employees will act with the highest ethical standards at all times.
	BSI's reputation is one of its most critical assets, and as such the organization has low tolerance for any incidents, events or practices which can threaten the reputation of the organization.
	BSI will monitor events or issues that affect the company by generating widespread negative media coverage, or demonstrably impact by generating complaints from a significant portion of the customer base.
<b>Fiduciary risk</b>	BSI as a fiduciary is committed to serve the best interests of its clients, including an obligation not to subordinate clients' interests to its own.
	BSI is under a duty to its clients to act with the care, skill and diligence of a prudent expert acting within the customer's risk and return objectives; and to provide full and fair disclosure of material facts and conflicts of interest.

# Acronym Glossary

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<b>AuM</b>	Assets under Management	<b>NCO</b>	Net Charge Off
<b>BHC</b>	Bank Holding Company	<b>NPL</b>	Non-performing Loan
<b>C&amp;I</b>	Commercial & Industrial	<b>OR</b>	Operational Risk
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>P&amp;L</b>	Profit and Loss
<b>CRO</b>	Chief Risk Officer	<b>PBT</b>	Profit before Tax
<b>DPD</b>	Days Past Due	<b>PCA</b>	Prompt Corrective Action
<b>EM</b>	Emerging Markets	<b>PPNR</b>	Pre-Provision Net Revenue
<b>ERMC</b>	Executive Risk Management Committee	<b>REQ</b>	Level of Equivalent Risk
<b>FRB / Fed</b>	Federal Reserve Bank	<b>RWA</b>	Risk Weighted Assets
<b>GBM</b>	Global Banking and Markets	<b>SDART</b>	Santander Drive Auto Receivables Trust
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process	<b>TBD</b>	To be defined
<b>KYC</b>	Know Your Customer	<b>14As</b>	CCAR output report
<b>LCR</b>	Liquidity Coverage Ratio	<b>424B3</b>	SDART regulatory filing report
<b>MVE</b>	Market Value of Equity	<b>9Q</b>	9 Quarters
<b>NII</b>	Net Interest Income		

# Metrics Glossary (1/4)

Risk type	Metric	Definition
Capital adequacy	Common Equity Tier 1 (CET1) Ratio	The minimum ratio of CET1 to Total Risk-Weighted Assets (RWAs) required under BHC Baseline and Stressed conditions
	Tier 1 Leverage (T1L) Ratio	The minimum ratio of T1L to Adjusted Average Assets under Baseline and Stressed conditions
	Tier 1 Risk-based Capital (T1RBC) Ratio	The minimum ratio of T1RBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions
	Total Risk-based Capital (TRBC) Ratio	The minimum ratio of TRBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions
	Impairment to Pre-Provision Net Revenue (PPNR)	The projected 9Q cumulative increase in PPNR impairment between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
Credit risk (concentration)	*Secured Lending Value Exceptions (%)	Loss Given Default of <b>Total Value of Exceptions</b> (the total amount of credit exposure that can be approved as an exception, i.e. that has an LTV higher than the approved LTV on the assets pledged as collateral calculated by the Secured Lending Model) / Common Tier 1 Equity
	Individual Obligor Exposure	Maximum regulatory Exposure over Tier 1 Capital for a single borrower, where regulatory exposure = gross credit exposure – qualified assets (cash + US treasuries)
	Top 10 Obligors Exposure	Sum of the Top 10 borrowers' Regulatory Exposure over Tier 1 Capital, where regulatory exposure = gross credit exposure – qualified assets (cash + US treasuries)
Liquidity / funding risk	Liquidity Coverage Ratio (%)	A measurement of the resilience of a firm to a short term (30 days) liquidity crisis, on the basis of its High Quality Liquid Assets
	Stressed Survival Period (days)	The amount of days remaining until SHUSA and its subsidiaries will have a cash shortfall under stressed conditions
	Structural funding ratio (%)	The percentage of structural assets that are funded with medium and long term liabilities

## Metrics Glossary (2/4)

Risk type	Metric	Definition
Interest rate risk metrics	Net Interest Income (NII) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of earnings at risk (NII) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift
	Market Value of Equity (MVE) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of the market value of equity (MVE) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift. MVE measures the difference between the current fair value of an asset and the current fair value of liabilities; it serves as a proxy to the market value of SHUSA's balance sheet
Operational risk	Ethical Hacking Vulnerabilities	The number of high-risk vulnerabilities detected in the tests conducted by the Ethical Hacking service that have not been corrected for more than three months
	Material Operational Risk events	Aligned with new SHUSA material event impact thresholds Includes non financially impacting material events (i.e. customer, regulatory, reputation). Threshold of financial materiality reduced to > \$50K in losses for BSI Miami
	Gross operational risk losses / gross margin	Gross operational risk losses as a percentage of gross margin within the same period
	IT Relevant Incidents	The number of infrastructure and software incidents classified as P1 and P2 in the month
	IT Systems Availability (%)	The availability of critical systems during the month
	Relevant OR events R1 (number)	Measures the concentration of significant events on a trailing 12 month basis; proportion of events exceeding €1 MM (extreme) to events exceeding €20 K (significant)
	Servers with Security Compliant Operating Systems	Number of operating systems that are compliant with the security policy
	Systems with Obsolete Operating Systems (%)	The percentage of servers currently working with obsolete operating systems

## Metrics Glossary (3/4)

Risk type	Metric	Definition
<b>Model risk</b>	Legacy Tier 1 Models not submitted for validation	The number of legacy Tier 1 models used in production without appropriate approvals
<b>Compliance risk</b>		
<i>AML/BSA</i>	High Risk Customers as % of Total Customers	The number of customers classified as “high risk” (based on internal policies) as a percentage of the total number of customers
	KYC Updates overdue > 90 days	Percent of total clients pending for Know Your Customer (KYC) updates for more than 90 days
	Politically Exposed Person Clients (% Total)	Percent of total clients who are Politically Exposed Persons (PEP)
	AML Transaction Monitoring alerts > 60 days	Pending AML alerts awaiting clarification for more than 60 days
	OFAC Violations	The total number of OFAC violations received in the latest rolling quarter
	OFAC blocked or rejected transactions	The total number of OFAC blocked or rejected transactions experienced in the latest rolling quarter
<i>Regulatory Compliance</i>	Open Matter Requiring Immediate Attention (MRIAs)	The total number of open MRIAs issued by the Federal Reserve to all Santander entities operating in the US and over which the FRB has jurisdiction
	Total customer complaints received	Total customer complaints received as a rolling 12-month cumulative number of complaints
	Past Due Compliance Monitoring CAPs	Correction Action Plans identified through the internal regulatory monitoring process and agreed by Management that are past their due date
	Violations of Code of Conduct and Ethics	Employees who has a conduct that is identified as a violation in the Bank’s Code of Conduct and Ethic policy

## Metrics Glossary (4/4)

Risk type	Metric	Definition
Fiduciary risk	Clients with missing profiles (%)	Proportion of clients with old or missing profiles relative to total clients with securities in portfolios
	Discretionary mandates: Aging of Excesses (days)	Aging of exceeded asset-type concentrations – composed of equity and emerging markets (EM) concentrations – within discretionary mandates (investment decisions made by BSI on behalf of clients)
	Exceeded client investment Profiles(%)	Proportion of clients (of total clients) with investment profiles exceeding agreed-upon level of risk based on the two limits that are part of the investment profile signed by the client: Level of Equivalent Risk (REQ) and Emerging Markets concentrations
	Pending Purchase Order Documentation (%)	Purchase investment orders (POs) pending client signatures as a percentage of total POs on a trailing 18 month basis
	Regulation R Bank-wide “chiefly-compensated” test	Monitoring of the level of the “chiefly compensated” test to ensure it remains above the 70 percent threshold of the exception set by Regulation R.



For approval

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# **Bancorp and BSPR Risk Appetite Statement Proposal**

## **Board of Directors**

June 22, 2016

Sponsor: Scott Powell, Chief Executive Officer SHUSA

Presenters: Angel Varés, Chief Risk Officer & Juan Jurado, Risk Architecture Director PR

Author: Jennifer Keegan, Head of Risk Appetite SHUSA

Date Created: June 2016

Version: Template

# Bancorp and BSPR Risk Appetite Statement (RAS)

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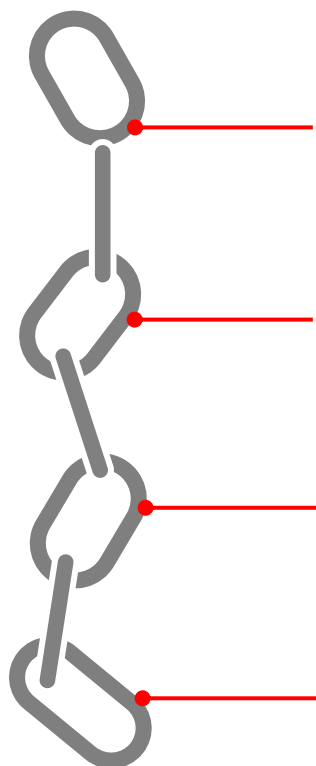
## 2016 RAS development process

- Based on guidance from Group, SHUSA has established a standard **Risk Appetite Statement (RAS)**, which includes a set of **qualitative statements and quantitative limits** used to monitor the key risks
- **Bancorp and BSPR, in coordination with SHUSA, has developed a Bancorp and BSPR RAS**, ensuring a common set of objectives, standard taxonomy and methodology, and internally consistent reporting limits
- **35 applicable metrics (for each RAS - Bancorp and BSPR)** were calibrated across risk types based on historical data, CCAR outputs, and management judgment
- All RAS metrics have been **reviewed with risk teams and business owners**

## Next steps

- Final **Entity Board review and approval**
- Ongoing monthly reporting will start in **July 2016**

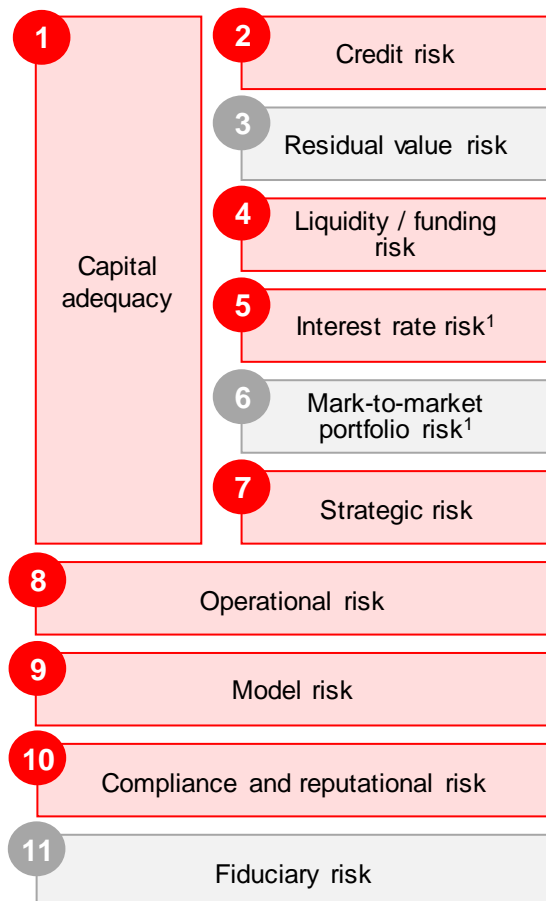
# The RAS is anchored in specific objectives for risk-taking

	SHUSA Objectives	Manifestation in BSPR RAS
	<b>Meet regulatory constraints</b>	<ul style="list-style-type: none"> <li>• <b>Capital:</b> Ensure post-loss capital ratios in CCAR analysis are at or above limits</li> </ul>
	<b>Sustain confidence of external stakeholders (e.g., rating agencies)</b>	<ul style="list-style-type: none"> <li>• <b>Liquidity:</b> Ensure cash flow profile keeps the entity within both internally and externally-defined limits</li> </ul>
	<b>Minimize risks that do not generate incremental earnings</b>	<ul style="list-style-type: none"> <li>• Ensure characteristics of the balance sheet, earnings and business profile (e.g., asset quality, liquidity, concentrations) are consistent with stakeholder expectations for prudent risk management</li> </ul>
	<b>Comply with Group-level Risk Appetite expectations</b>	<ul style="list-style-type: none"> <li>• Establish Board-level expectations for processes and controls in place for non-financial risks</li> </ul>
		<ul style="list-style-type: none"> <li>• Include metrics and adhere to limits agreed with Group, as applicable to SHUSA's business</li> </ul>

The statements, metrics and limits in the RAS will enable the Board to ensure these overarching objectives are upheld

# Risk taxonomy and applied metrics

## Risk taxonomy

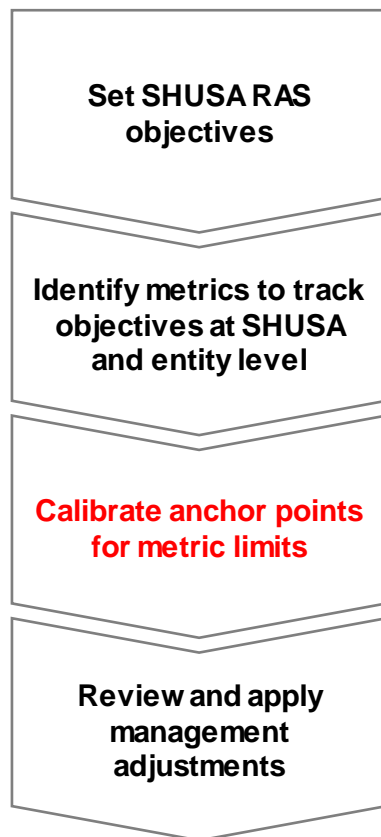


## Metrics in the Bancorp & BSPR RAS \* SHUSA metric reported in Santander Group RAS

<b>1</b>	<ul style="list-style-type: none"> <li>*Tier 1 Risk-based Capital Ratio (baseline &amp; stressed)</li> <li>*Tier 1 Leverage Ratio (baseline &amp; stressed)</li> <li>PPNR Impairment</li> </ul>	<ul style="list-style-type: none"> <li>*Total Capital Ratio (baseline &amp; stressed)</li> <li>*Common Equity Tier 1 Ratio (baseline &amp; stressed)</li> </ul>
<b>2</b>	<ul style="list-style-type: none"> <li>Total Credit Losses</li> <li>Net Charge-off Rate</li> <li>60+ DPD</li> <li>*# of counterparties with Santander Risk Rating (internal) &lt; 4.5 and exposure &gt; \$10MM</li> <li>*Top 20 Corporates Exposure</li> </ul>	<ul style="list-style-type: none"> <li>*Single Obligor (Corp. and IFIs) Exposure Without Guarantee</li> <li>*Industry Exposure (by OCC group)</li> <li>*CRE Exposure</li> <li>Public Sector Exposure</li> </ul>
<b>3</b>	<i>No residual value risk metrics included – no material operating lease portfolio</i>	
<b>4</b>	<ul style="list-style-type: none"> <li>*Stressed Survival Period</li> <li>*Liquidity Coverage Ratio (Modified US)</li> </ul>	<ul style="list-style-type: none"> <li>*Structural Funding Ratio</li> </ul>
<b>5</b>	<ul style="list-style-type: none"> <li>*Net Interest Income Sensitivity (+/- 100bps shock)</li> <li>*Market Value of Equity Sensitivity (+/- 100bps shock)</li> </ul>	
<b>6</b>	<i>No MTM portfolio risk metrics included - BSPR MTM VaR included in total SHUSA RAS VaR</i>	
<b>7</b>	Evaluated against all RAS metrics	
<b>8</b>	<ul style="list-style-type: none"> <li>*Gross Op. Risk Losses / Gross Margin</li> <li>Material Operational Risk Events</li> </ul>	
<b>9</b>	Legacy Tier 1 Models In Production w/o Appropriate Approval	
<b>10</b>	Open MRIs or equivalent regulatory matters Requiring Immediate Attention	
<b>11</b>	<i>No fiduciary risk metrics included – BSI Miami only</i>	

# Risk taxonomy calibration approaches linked to risk objectives

## RAS development process

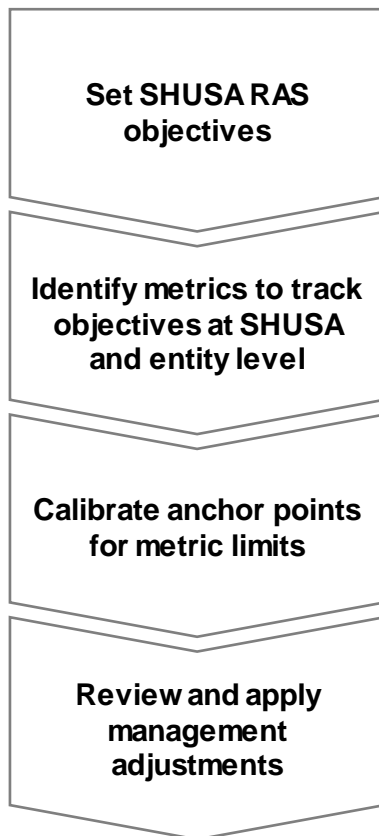


## Anchor calibration approaches

Anchor	Calibration approach	Applicable risk taxonomy
<b>Existing management limits</b>	Align anchor to other limits codified in policies or management practices to ensure consistency across the organization	<ul style="list-style-type: none"> <li>• Capital adequacy (ratios)</li> <li>• Compliance risk</li> <li>• Model risk</li> </ul>
<b>Model projections</b>	Set anchors based on outputs of CCAR and other business models, applying adjustments based on management review	<ul style="list-style-type: none"> <li>• Capital adequacy (other)</li> <li>• Credit risk (losses)</li> </ul>
<b>Historical benchmarks</b>	Leverage management expertise, supported by comparison to internal and external data, where available	<ul style="list-style-type: none"> <li>• Credit risk (concentration)</li> <li>• Operational risk</li> <li>• Liquidity risk</li> <li>• Interest rate risk</li> </ul>

# Credit metrics linked to CCAR objective

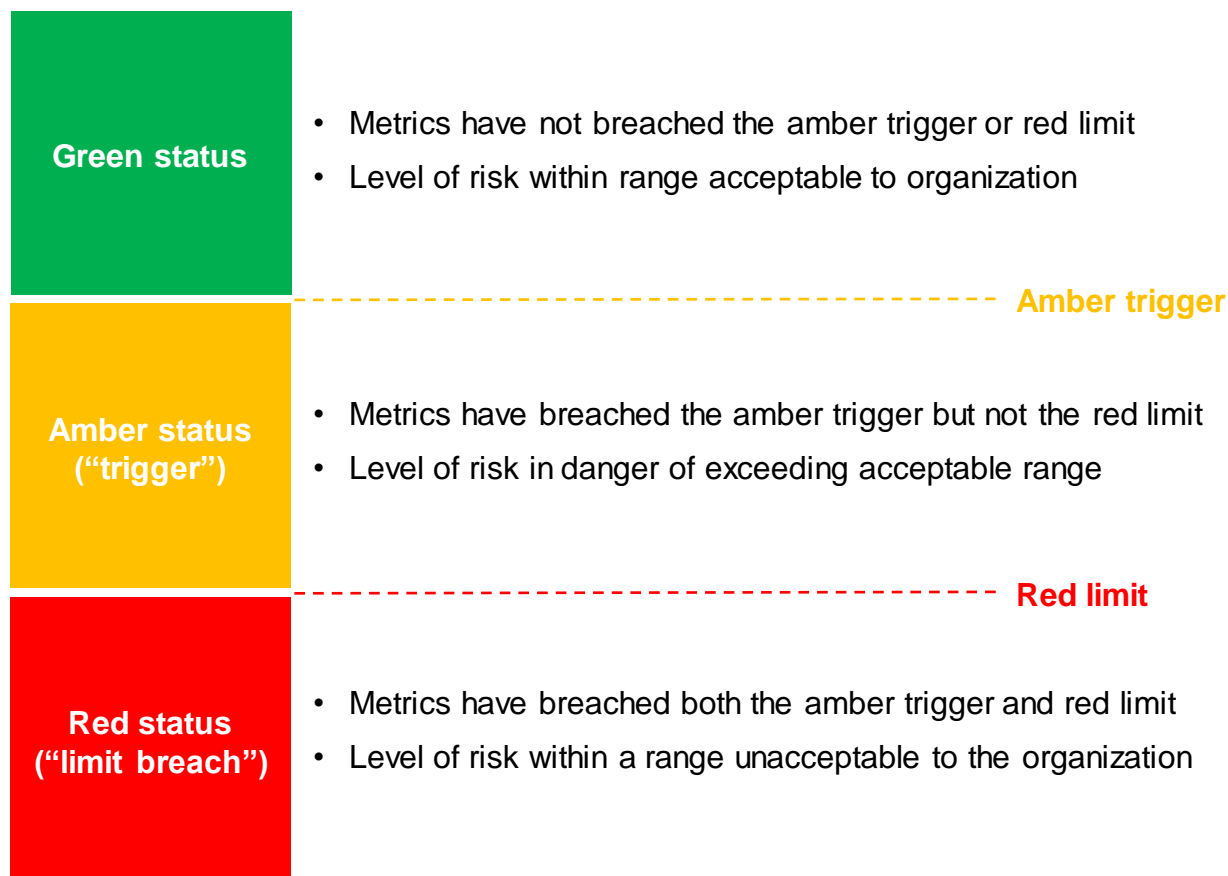
## RAS development process Example for credit loss metrics



- Methodology for calibrating limits for credit losses, NCOs, and delinquency rates starts with SHUSA's CCAR RAS objective to "ensure post-loss capital ratios in CCAR analysis are at or above limits"
- SHUSA must quantitatively pass CCAR; it must have **sufficient capital plus earnings to withstand elevated losses**
- Current capital position and credit portfolio composition provide a ceiling for stress losses, which serve as an anchor point for risk appetite limits
- **For credit losses**, CCAR projections and historical analyses can be used to create internally consistent limits:
  - CCAR base vs stress expected credit losses
  - Historical relationship between net losses and delinquency rates
- Analysis described above serves as an "anchor point" for limit setting in a way that ensures internal consistency of limits
- Input from Senior Executives and other experts is essential for finalizing limits, in order to reflect the strategic vision and true risk appetite of SHUSA's leadership

# Metric status definitions and escalation processes

## Metric status definitions



## Escalation processes

- Escalation procedures apply to all amber triggers and red breaches
- **SHUSA-level:** Escalated to SHUSA CRO, with most review and approval by ERM (amber) or RC (red)<sup>1</sup>
- **Subsidiary-only:** Review and approval responsibility in subsidiary; SHUSA ERM provides review and input to action plans

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# Proposed 2016 RAS



# Proposed BSPR metric limits (1/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Ratio	Frequency	Baseline scenario				BHC Stress scenario		
			Apr 16	Base	Amber trigger	Red limit	BHC Stress	Amber trigger	Red limit
Capital adequacy (ratios)	*Common Equity Tier 1	Monthly	24.61%	23.73%	<=13.01%	<=11.01%	17.53%	<=11.01%	<=9.30%
	*Total Risk-based Capital	Monthly	25.65%	23.73%	<=17.83%	<=15.83%	17.53%	<=14.15%	<=12.15%
	*Tier 1 Leverage	Monthly	16.16%	16.62%	<=10.80%	<=8.80%	12.51%	<=8.80%	<=6.80%
	*Tier 1 Risk-based Capital	Monthly	24.61%	23.73%	<=15.82%	<=13.82%	17.53%	<=12.75%	<=10.75%

# Proposed BSPR metric limits (2/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Portfolio	Apr 16	Amber trigger	Red limit
Credit risk (losses)	Net Charge-off Rate	Monthly (trailing 12m)	BSPR	1.4%	>=1.7%	>=1.9%
			Mortgages	1.6%	>=1.8%	>=2.0%
			Commercial Banking	0.36%	>=0.56%	>=0.60%
			Personal Loans	4.6%	>=6.1%	>=6.5%
			Credit Cards	6.1%	>=7.3%	>=7.8%
	60+ DPD	Monthly	BSPR	4.3%	>=6.6%	>=7.1%
			Mortgages	8.6%	>=11.7%	>=12.7%
			Commercial	2.1%	>=4.3%	>=4.7%
			Personal Loans	1.4%	>=1.7%	>=1.9%
			Credit Cards	2.4%	>=2.6%	>=2.8%
Credit risk (concentration)	*Single Obligor Exposure	Monthly	BSPR	\$40MM	>=\$55.8MM	>=\$69.6MM
	*Top 20 Corporates Exposure	Monthly	BSPR	\$648MM	>=\$828MM	>=\$993MM
	*# of counterparties with Santander Risk Rating (internal) < 4.5 and exposure>\$10MM	Monthly	BSPR	3	>=5	>=6
	*Industry Exposure <sup>1</sup>	Monthly	BSPR	N/Avail	>=\$311MM	>=\$388MM
	*CRE Exposure	Monthly	BSPR	\$506MM	>=\$870MM	>=\$1,086MM
	Public Sector Exposure	Monthly	BSPR	\$347MM	>=\$436MM	>=\$543MM

## Proposed BSPR metric limits (3/3)

\* SHUSA metric reported in Santander Group RAS

\*\* Preliminary data & calibration considering change in definition

Risk type	Metric	Frequency	Portfolio	Apr 16	Amber trigger	Red limit
Liquidity / funding risk	*Stressed Survival Period	Monthly	BSPR	>90 days	<=75 days	<=45 days
	*Structural Funding Ratio (%)	Monthly	BSPR	108%	<= 104%	<= 102%
	*Liquidity Coverage Ratio (US)	Monthly	BSPR	151%	<= 110%	<= 100%
Interest rate risk	*NII <sup>1</sup> Sensitivity (+/- 100bps)	Monthly	BSPR	1.69%	<= -4.0%	<= -5.0%
	*MVE <sup>2</sup> Sensitivity (+/- 100bps)	Monthly	BSPR	-1.92%	<= -5.4%	<= -6.0%
Operational risk	*Gross Op. Risk Losses / Gross Margin	Quarterly (trailing 12m)	BSPR	0.54%	>=0.71%	>=0.88%
	**Material Operational Risk Events	Quarterly	BSPR	0	N/A	>0
Model risk	Legacy Tier 1 Models in Production w/o Appropriate Approval	Monthly	BSPR	2	N/A	Until Q1 2017 >2 +Q1 2017 >0
Compliance risk	Open MRIsAs or equivalent regulatory matters requiring immediate attention	Monthly	BSPR	0	N/A	>0

### Annually monitored CCAR outputs

Risk type	Annual CCAR metric	Frequency	Portfolio	Annual (Mar 16)	Amber trigger	Red limit
Capital adequacy	Impairment to Pre-Provision Net Revenue (PPNR)	Annual	BSPR	\$255MM	>=\$298MM	>=\$323MM
Credit risk (losses)	Total Credit Losses	Annual	BSPR	\$239MM	>=\$318MM	>=\$344MM

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# Appendix

## Appendix contents

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- A. Bancorp RAS
- B. Qualitative statements
- C. Additional metrics
- D. Glossary

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# Appendix A – Bancorp RAS

# Proposed Bancorp metric limits (1/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Ratio	Frequency	Baseline scenario				BHC Stress scenario		
			Apr 16	Base	Amber trigger	Red limit	BHC Stress	Amber trigger	Red limit
Capital adequacy	*Common Equity Tier 1	Monthly	27.65%	30.54%	<=13.01%	<=11.01%	18.61%	<=11.01%	<=9.30%
	*Total Risk-based Capital	Monthly	28.91%	32.94%	<=17.83%	<=15.83%	22.82%	<=14.15%	<=12.15%
	*Tier 1 Leverage	Monthly	18.42%	19.98%	<=10.80%	<=8.80%	16.78%	<=8.80%	<=6.80%
	*Tier 1 Risk-based Capital	Monthly	27.65%	30.56%	<=15.82%	<=13.82%	18.61%	<=12.75%	<=10.75%

## Proposed Bancorp metric limits (2/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Portfolio	Apr 16	Amber trigger	Red limit
Credit risk (losses)	Net Charge-off Rate	Monthly (12m trailing)	Bancorp	1.3%	>=1.7%	>=1.9%
			Mortgages	1.6%	>=1.8%	>=2.0%
			Commercial Banking	0.35%	>=0.56%	>=0.60%
			Personal Loans	4.6%	>=6.1%	>=6.5%
			Credit Cards	6.1%	>=7.3%	>=7.8%
	60+ DPD	Monthly	Bancorp	4.1%	>=6.6%	>=7.1%
			Mortgages	8.5%	>=11.7%	>=12.7%
			Commercial	2.0%	>=4.3%	>=4.7%
			Personal Loans	1.4%	>=1.7%	>=1.9%
			Credit Cards	2.4%	>=2.6%	>=2.8%
Credit risk (concentration)	*Single Obligor Exposure	Monthly	Bancorp	\$40MM	>=\$55.8MM	>=\$69.6MM
	*Top 20 Corporates Exposure	Monthly	Bancorp	\$648MM	>=\$828MM	>=\$993MM
	*# of counterparties with Santander Risk Rating (internal) < 4.5 and exposure>\$10MM	Monthly	Bancorp	3	>=5	>=6
	*Industry Exposure <sup>1</sup>	Monthly	Bancorp	N/Avail	>=\$321MM	>=\$400MM
	*CRE Exposure	Monthly	Bancorp	\$506MM	>=\$898MM	>=\$1,121MM
	Public Sector Exposure	Monthly	Bancorp	\$347MM	>=\$449MM	>=\$561MM



## Proposed Bancorp metric limits (3/3)

\* SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Portfolio	Apr 16	Amber trigger	Red limit
Liquidity / funding risk	*Stressed Survival Period	Monthly	Bancorp	N/Avail	<=75 days	<=45 days
	*Structural Funding Ratio (%)	Monthly	Bancorp	109%	<= 104%	<= 102%
	*Liquidity Coverage Ratio	Monthly	Bancorp	152%	<= 110%	<= 100%
Interest rate risk	*NII <sup>1</sup> Sensitivity (+/- 100bps)	Monthly	Bancorp	1.63%	<= -4.0%	<= -5.0%
	*MVE <sup>2</sup> Sensitivity (+/- 100bps)	Monthly	Bancorp	-1.93%	<= -5.4%	<= -6.0%
Operational risk	*Gross Op. Risk Losses / Gross Margin	Quarterly (12m trailing)	Bancorp	0.54%	>=0.71%	>=0.88%
	Material Operational Risk Events	Quarterly	Bancorp	0	N/A	>0
Model risk	Legacy Tier 1 Models in Production w/o Appropriate Approval	Monthly	Bancorp	2	N/A	Until Q1 2017 >2 +Q1 2017 >0
Compliance risk	Open MRIAs or equivalent regulatory matters requiring immediate attention	Monthly	Bancorp	0	N/A	>0

### Annually monitored CCAR outputs

Risk type	Annual CCAR metric	Frequency	Portfolio	Annual (Mar 16)	Amber trigger	Red limit
Capital adequacy	Impairment to Pre-Provision Net Revenue (PPNR)	Annual	Bancorp	\$255MM	>=\$298MM	>=\$323MM
Credit risk (losses)	Total Credit Losses	Annual	Bancorp	\$239MM	>=\$318MM	>=\$344MM

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# Appendix B – Qualitative statements

## 2016 BSPR Qualitative statements (1/2)

Risk type	Qualitative statement
<b>Capital adequacy</b>	BSPR will hold sufficient capital to satisfy current and future regulatory and internal capital requirements, to ensure continuous access to capital markets and to withstand the impact of potential losses in an economic downturn.
<b>Credit risk</b>	<p>BSPR is willing to take credit risks that it understands and that fall within its risk appetite.</p> <p>BSPR will focus on lending products for which in-house knowledge and skills exist from a risk perspective and on which credit risk can be measured and managed.</p> <p>BSPR will monitor and manage portfolio quality and concentrations, including borrower and collateral quality, portfolio diversification across product, industry, geography, collateral type, and client segment.</p> <p>BSPR will ensure that the volume of realized and projected loan losses under both baseline and stress does not threaten its capital position and its ability to meet its regulatory requirements.</p>
<b>Liquidity / Funding risk</b>	<p>BSPR will ensure that it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.</p> <p>BSPR will diversify its funding sources and minimize its dependence on capital markets.</p>
<b>Interest Rate risk</b>	<p>BSPR will conservatively manage its Interest Rate Risk exposures, setting a maximum for the sensitivity of the net interest income and market value of equity to interest rates.</p> <p>To minimize its exposure to Interest Rate Risk, BSPR will hedge via instruments that it understands.</p>
<b>Mark-to-Market Portfolio risk</b>	BSPR will only participate in trading for purposes of client facilitation and will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements
<b>Strategic risk</b>	<p>BSPR strives to deliver consistent performance through pragmatic risk-taking. BSPR will not place an undue amount of earnings or capital at risk for an entity of its size, complexity, and risk profile in any stress scenario.</p> <p>BSPR will ensure that adequate governance and oversight processes and controls are in place for all business activities, products, and services.</p> <p>BSPR's strategic planning process will both consider and work with the risk appetite setting and capital planning processes.</p>

## 2016 BSPR Qualitative statements (2/2)

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Risk type	Qualitative statement
<b>Operational risk</b>	<p>BSPR has a risk-averse approach to operational risk but recognizes that it is inherent in all products, activities, processes, and systems and must be adequately managed to meet business objectives.</p> <p>BSPR is committed to implementing practices and controls that will minimize losses incurred from inadequate or failed internal processes, people, and systems or from external events.</p>
<b>Model risk</b>	<p>BSPR will enforce model monitoring standards in line with industry practices and regulatory requirements.</p> <p>BSPR will allocate more resources to those models with the highest risk level (Tier 1).</p> <p>BSPR will ensure no new models are used or put into production without the appropriate approval.</p>
<b>Compliance &amp; Reputational risk</b>	<p>BSPR aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.</p> <p>BSPR will treat its customers fairly, abide by consumer protection laws and regulations and will not pursue any business or maintain any practices that may damage its reputation with customers, employees, or other stakeholders.</p> <p>BSPR will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.</p> <p>BSPR expects that its employees will act with the highest ethical standards at all times.</p>

## 2016 Bancorp Qualitative statements (1/2)

Risk type	Qualitative statement
<b>Capital adequacy</b>	Bancorp will hold sufficient capital to satisfy current and future regulatory and internal capital requirements, to ensure continuous access to capital markets and to withstand the impact of potential losses in an economic downturn.
<b>Credit risk</b>	<p>Bancorp is willing to take credit risks that it understands and that fall within its risk appetite.</p> <p>Bancorp will focus on lending products for which in-house knowledge and skills exist from a risk perspective and on which credit risk can be measured and managed.</p> <p>Bancorp will monitor and manage portfolio quality and concentrations, including borrower and collateral quality, portfolio diversification across product, industry, geography, collateral type, and client segment.</p> <p>Bancorp will ensure that the volume of realized and projected loan losses under both baseline and stress does not threaten its capital position and its ability to meet its regulatory requirements.</p>
<b>Liquidity / Funding risk</b>	<p>Bancorp will ensure that it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.</p> <p>Bancorp will diversify its funding sources and minimize its dependence on capital markets.</p>
<b>Interest Rate risk</b>	<p>Bancorp will conservatively manage its Interest Rate Risk exposures, setting a maximum for the sensitivity of the net interest income and market value of equity to interest rates.</p> <p>To minimize its exposure to Interest Rate Risk, Bancorp will hedge via instruments that it understands.</p>
<b>Mark-to-Market Portfolio risk</b>	Bancorp will only participate in trading for purposes of client facilitation and will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements
<b>Strategic risk</b>	<p>Bancorp strives to deliver consistent performance through pragmatic risk-taking. Bancorp will not place an undue amount of earnings or capital at risk for an entity of its size, complexity, and risk profile in any stress scenario.</p> <p>Bancorp will ensure that adequate governance and oversight processes and controls are in place for all business activities, products, and services.</p> <p>Bancorp's strategic planning process will both consider and work with the risk appetite setting and capital planning processes.</p>

## 2016 Bancorp Qualitative statements (2/2)

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Risk type	Qualitative statement
<b>Operational risk</b>	<p>Bancorp has a risk-averse approach to operational risk but recognizes that it is inherent in all products, activities, processes, and systems and must be adequately managed to meet business objectives.</p> <p>Bancorp is committed to implementing practices and controls that will minimize losses incurred from inadequate or failed internal processes, people, and systems or from external events.</p>
<b>Model risk</b>	<p>Bancorp will enforce model monitoring standards in line with industry practices and regulatory requirements.</p> <p>Bancorp will allocate more resources to those models with the highest risk level (Tier 1).</p> <p>Bancorp will ensure no new models are used or put into production without the appropriate approval.</p>
<b>Compliance &amp; Reputational risk</b>	<p>Bancorp aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.</p> <p>Bancorp will treat its customers fairly, abide by consumer protection laws and regulations and will not pursue any business or maintain any practices that may damage its reputation with customers, employees, or other stakeholders.</p> <p>Bancorp will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.</p> <p>Bancorp expects that its employees will act with the highest ethical standards at all times.</p>

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# Appendix C – Additional metrics

## Additional metrics required for Group reporting only (1/2)

Risk type	Metric	Frequency	Portfolio	Apr 16	Threshold
Operational risk	Relevant OR Events R1 (number)	Quarterly	BSPR	0	TBD
	Credit Card # Fraud Ratio	Quarterly	BSPR	0.1%	TBD
	Credit Card \$ Fraud Ratio	Quarterly	BSPR	0.3%	TBD
	Debit Card # Fraud Ratio	Quarterly	BSPR	0.2%	TBD
	Debit Card \$ Fraud Ratio	Quarterly	BSPR	0.1%	TBD
	Online Banking Fraud	Quarterly	BSPR	0.0%	TBD
	IT Relevant Incidents	Quarterly	BSPR	0	TBD
	IT Systems Availability (%)	Quarterly	BSPR	100%	TBD
	Systems with Obsolete Operating Systems (%)	Quarterly	BSPR	6.2%	TBD
	Ethical Hacking Vulnerabilities	Quarterly	BSPR	6	TBD
	Servers with Security Compliant Operating Systems	Quarterly	BSPR	83%	TBD
	Information Leakages	Quarterly	BSPR	0	TBD

Breaches will be reviewed by Entity and SHUSA ERM teams and escalated to Group where a breach represents a material concern



## Metrics required for Group reporting only (2/2)

Risk type	Metric	Frequency	Portfolio	Mar 16	Apr 16	Threshold
Credit risk (losses)	Cost of Credit	Quarterly	BSPR	1.76%	1.77%	$\geq 2.09\%$
	NPL Entries (VMG)	Quarterly	BSPR	6.1%	6.3%	$\geq 8.2\%$
	NPL Coverage Ratio (%)	Quarterly	BSPR	40.9%	N/Avail	Tracking Only

Breaches will be reviewed by Entity and SHUSA ERM teams and escalated to Group where a breach represents a material concern

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# Appendix D – Glossary

# Acronym Glossary

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<b>AuM</b>	Assets under Management	<b>NCO</b>	Net Charge Off
<b>BHC</b>	Bank Holding Company	<b>NPL</b>	Non-performing Loan
<b>C&amp;I</b>	Commercial & Industrial	<b>OCC</b>	Office of the Comptroller of the Currency
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>P&amp;L</b>	Profit and Loss
<b>CRLIT</b>	Contract Residual less Incentives & Tax	<b>PBT</b>	Profit before Tax
<b>CRO</b>	Chief Risk Officer	<b>PCA</b>	Prompt Corrective Action
<b>DPD</b>	Days Past Due	<b>PPNR</b>	Pre-Provision Net Revenue
<b>ERMC</b>	Enterprise Risk Management Committee	<b>RWA</b>	Risk Weighted Assets
<b>FRB / Fed</b>	Federal Reserve Bank	<b>SDART</b>	Santander Drive Auto Receivables Trust
<b>GBM</b>	Global Banking and Markets	<b>TBD</b>	To be defined
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process	<b>14As</b>	CCAR output report
<b>LCR</b>	Liquidity Coverage Ratio	<b>424B3</b>	SDART regulatory filing report
<b>N/A</b>	Not Applicable	<b>9Q</b>	9 Quarters

# Metrics Glossary (1/4)

Risk type	Metric	Definition
Capital adequacy	Common Equity Tier 1 (CET1) Ratio	The minimum ratio of CET1 to Total Risk-Weighted Assets (RWAs) required under BHC Baseline and Stressed conditions
	Impairment to Pre-Provision Net Revenue (PPNR)	The projected 9Q cumulative increase in PPNR impairment between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
	Tier 1 Leverage (T1L) Ratio	The minimum ratio of T1L to Adjusted Average Assets under Baseline and Stressed conditions
	Tier 1 Risk-based Capital (T1RBC) Ratio	The minimum ratio of T1RBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions
	Total Risk-based Capital (TRBC) Ratio	The minimum ratio of TRBC to Total Risk-Weighted Assets (RWAs) under Baseline and Stressed conditions
Credit risk (losses)	60+ DPD Rate	The percentage of total outstanding balances 60+ days delinquent
	Cost of Credit	Net credit provisions incurred on a trailing 12 month basis as a percentage of the trailing 12 month average loan portfolio
	Net Charge-off Rate	12-month trailing net charge-offs (NCOs) as a percentage of 12-month trailing average outstanding balances
	NPL Coverage ratio (%)	Measures the level of coverage of non-performing loans (NPLs) by provision reserves (provision stock) by calculating provision reserves as a percentage of NPLs
	NPL Entries (VMG)	Measures the credit quality of the portfolio by calculating the volume of net non-performing loans (NPLs) entries as a percentage of average credit exposure of the portfolio
	Total Credit Losses	9Q stressed cumulative credit losses and any available capital surplus under the CCAR BHC Stress scenario

## Metrics Glossary (2/4)

Risk type	Metric	Definition
Credit risk (concentration)	CRE Exposure	The total dollar value of Commercial Real Estate exposure
	Industry Exposure (by OCC Group)	The total dollar value exposure for all counterparties within one industry type, according to the OCC industry classification. Sectors / Industries are defined at the highest aggregation level for OCC industry codes. For Bancorp and BSPR, the CRE and Public Sector Exposures are excluded from this metric considering there are separate metrics to monitor those exposures.
	# of counterparties with Santander Risk Rating (internal) < 4.5 and exposure > \$10MM	The total number of individual counterparties of lower credit quality (defined as internal risk rating of < 5.0 (4.5 for Bancorp & BSPR) with exposure > \$100MM (\$10 MM for Bancorp & BSPR)
	Public Sector Exposure	The total dollar value of Public Sector exposure
	Single Obligor (Corp. and IFIs) Exposure	The dollar value of total exposure to any individual customer (or aggregated to guarantor) in Financial Institutions, Insurers, Global Corporate Banking, Middle Market or Specialty Lending without Guarantee.
	Top 20 Corporates Exposure	The sum of the dollar value of total exposure to any individual customer (or aggregated to guarantor) in Global Corporate Banking, Middle Market or Specialty Lending

## Metrics Glossary (3/4)

Risk type	Metric	Definition
<b>Liquidity / funding risk</b>	Liquidity Coverage Ratio (%)	A measurement of the resilience of a firm to a short term (30 days) liquidity crisis, on the basis of its High Quality Liquid Assets
	Stressed Survival Period (days)	The amount of days remaining until SHUSA and its subsidiaries will have a cash shortfall under stressed conditions
	Structural funding ratio (%)	The percentage of structural assets that are funded with medium and long term liabilities
<b>Interest rate risk metrics</b>	Net Interest Income (NII) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of earnings at risk (NII) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift
	Market Value of Equity (MVE) Sensitivity (+/- 100bps)	A measurement of the directional sensitivity of the market value of equity (MVE) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift. MVE measures the difference between the current fair value of an asset and the current fair value of liabilities; it serves as a proxy to the market value of SHUSA's balance sheet
<b>Model risk</b>	Legacy Tier 1 Models in Production w/o Appropriate Approval	The number of legacy Tier 1 models used in production without appropriate approvals
<b>Compliance risk</b>	Open MRIs or equivalent regulatory matters Requiring Immediate Attention	The total number of open MRIs issued by the Federal Reserve to all Santander entities operating in the US and over which the FRB has jurisdiction or other equivalent regulatory matters requiring immediate attention (For Bancorp & BSPR: FDIC & CFPB)

## Metrics Glossary (4/4)

Risk type	Metric	Definition
Operational risk	Credit/Debit Card # Fraud Ratio	The total number of credit/ debit card fraud cases as a percent of the total number of active credit/ debit cards
	Credit/Debit Card \$ Fraud Ratio	The total amount (\$) of credit/ debit card fraud as a percent of the total amount (\$) of credit/ debit card sales
	Ethical Hacking Vulnerabilities	The number of high-risk vulnerabilities detected in the tests conducted by the Ethical Hacking service that have not been corrected for more than three months
	Material Operational Risk Events	Aligned with new SHUSA material event impact thresholds. Includes operational financial impact >\$200k and non-financially impacting material events (i.e. customer, regulatory, reputation).
	Gross Op. Risk Losses / Gross Margin	Gross operational risk losses as a percentage of gross margin within the same period
	IT Relevant Incidents	The number of infrastructure and software incidents classified as P1 and P2 in the month
	IT Systems Availability (%)	The availability of critical systems during the month
	Online Banking Fraud	The number of fraud cases in Online Banking as a percentage of the total users of Online Banking
	Relevant OR events R1 (number)	Measures the concentration of significant events on a trailing 12 month basis; proportion of events exceeding extreme losses (as defined by SHUSA) to events exceeding significant losses (as defined by SHUSA)
	Servers with Security Compliant Operating Systems	Number of operating systems that are compliant with the security policy
	Systems with Obsolete Operating Systems (%)	The percentage of servers currently working with obsolete operating systems
	Information Leakages	Number of security incidents with customer data leaks

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# **Risk Appetite Statement Proposal**

## **SSLLC Administration Committee**

June 6, 2016

Sponsor: Brian Gunn, Chief Risk Officer SHUSA

Presenters: Maura Almy, Chief Operating Officer Santander Securities LLC

Author: Jennifer Keegan, Head of Risk Appetite SHUSA

Date Created: June 2016

Version: Template



# SSLLC Risk Appetite Statement

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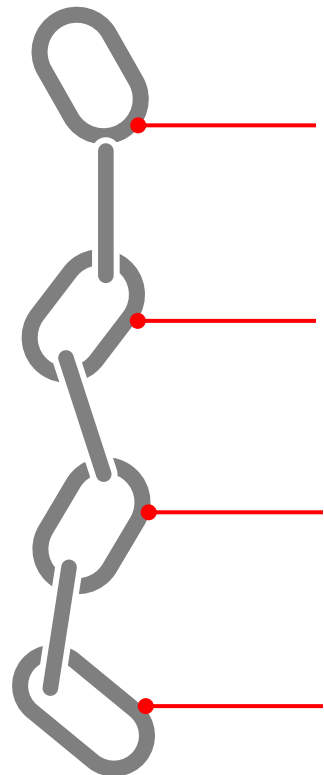
## 2016 RAS development process

- Based on guidance from Group, SHUSA has established a standard **Risk Appetite Statement (RAS)**, which includes a set of **qualitative statements and quantitative limits** used to monitor the key risks
- **SSLLC, in coordination with SHUSA, has developed a SSLLC RAS**, ensuring a common set of objectives, standard taxonomy and methodology, and internally consistent reporting limits
- **8 applicable metrics** were calibrated for capital adequacy, operational risk, and compliance/reputational risk based on historical data, CCAR outputs, and management judgment
- All RAS metrics have been **reviewed with risk teams and business owners**

## Next steps

- Final **SSLLC Administration Committee review and approval**
- Ongoing monthly reporting will start in **July 2016**

# The RAS is anchored in specific objectives for risk taking

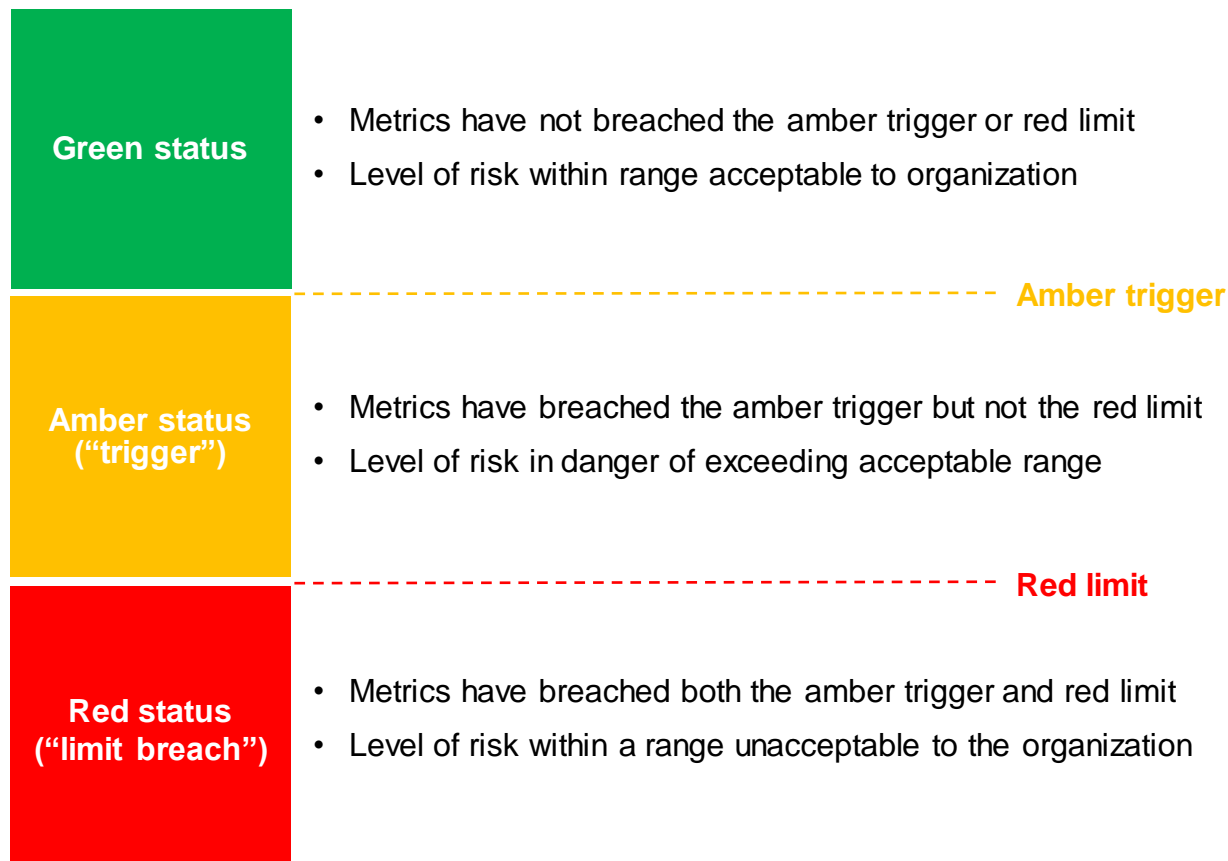


SHUSA Objectives	Manifestation in SLLC RAS
<b>Meet regulatory constraints</b>	<ul style="list-style-type: none"> <li>• <b>Capital:</b> Ensure post-loss capital ratios in CCAR analysis are at or above limits</li> </ul>
<b>Sustain confidence of external stakeholders (e.g., rating agencies)</b>	<ul style="list-style-type: none"> <li>• <b>Liquidity:</b> Ensure cash flow profile keeps the entity within both internally and externally-defined limits</li> </ul>
<b>Minimize risks that do not generate incremental earnings</b>	<ul style="list-style-type: none"> <li>• Ensure characteristics of the balance sheet, earnings and business profile (e.g., asset quality, liquidity, concentrations) are consistent with stakeholder expectations for prudent risk management</li> </ul>
<b>Comply with Group-level Risk Appetite expectations</b>	<ul style="list-style-type: none"> <li>• Establish Administration Committee-level expectations for processes and controls in place for non-financial risks</li> </ul>
	<ul style="list-style-type: none"> <li>• Include metrics and adhere to limits agreed with Group, as applicable to SHUSA's business</li> </ul>

The statements, metrics and limits in the SLLC RAS will enable the SHUSA Board to ensure these overarching objectives are upheld

# Metric status definitions and escalation process

## Metric status definitions

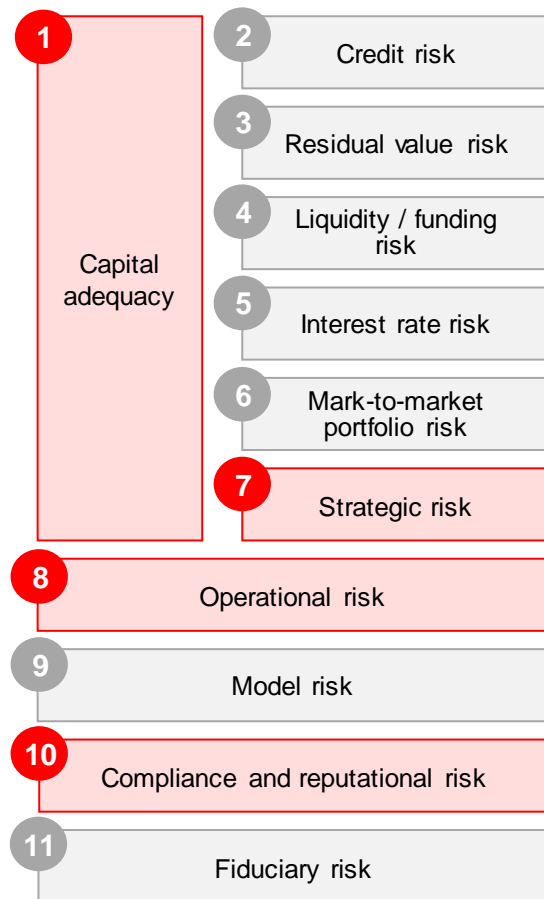


## Escalation processes

- Escalation procedures apply to all amber triggers and red breaches
- SHUSA-level:** Escalated to SHUSA CRO, with most review and approval by ERM (amber) or RC (red)<sup>1</sup>
- Subsidiary-only:** Review and approval responsibility in subsidiary; SHUSA ERM provides review and input to action plans

# Risk taxonomy and applied metrics

## Risk taxonomy



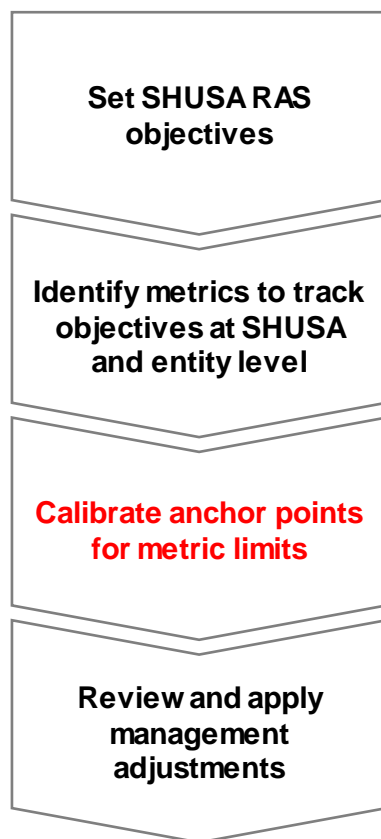
## Metrics in the SSLLC RAS

\* SHUSA metric reported in Santander Group RAS

1	• Excess Net Capital	• PPNR impairment
2	No credit risk metrics included – will not extend credit to any customer or counterparty	
3	No residual value risk metrics included – SSLLC has no operating lease expenses	
4	No liquidity / funding risk metrics included – assessed against qualitative statement	
5	No interest rate risk metrics included - SSLLC does not maintain securities in inventory	
6	No MTM portfolio risk metrics included - SSLLC does not engage in trading of securities	
7	Evaluated against all RAS metrics	
8	• *Gross Op. Risk Losses / Gross Margin	• Material Operational Risk Events
9	No model risk metrics included – SSLLC does not currently have models in use	
10	• Open MRIAs and other equivalent matters requiring immediate attention	• Total New Monthly Arbitrations and Court Proceedings
	• High Risk Customers as % of Total Customers	• Total Number of Sales Practice Complaints
11	No fiduciary risk metrics included – BSI Miami only	

# Risk taxonomy calibration approaches linked to risk objectives

## Limit calibration process



## Anchor calibration approaches

Anchor	Calibration approach	Applicable metrics
<b>Existing management limits</b>	Align anchor to other limits codified in policies or management practices to ensure consistency across the organization	<ul style="list-style-type: none"> <li>• Open MRIs and other equivalent matters requiring immediate attention</li> </ul>
<b>Model projections</b>	Set anchors based on outputs of CCAR and other business models, applying adjustments based on management review	<ul style="list-style-type: none"> <li>• PPNR impairment</li> </ul>
<b>Historical benchmarks</b>	Leverage management expertise, supported by comparison to internal and external data, where available	<ul style="list-style-type: none"> <li>• Excess Net Capital</li> <li>• Operational risk metrics</li> <li>• Compliance risk metrics</li> </ul>

## 2016 SSLC RAS – Proposed limits

Risk type	Metric	Frequency	March 16	Amber trigger	Red limit
Capital adequacy	Excess Net Capital	Monthly	\$6.27M	<=\$10M	<=\$5M
	Impairment to Pre-Provision Net Revenue (PPNR)	Annual (CCAR 9Q)	\$11M	>=\$14M	>=\$16M
Operational risk	*Gross Operational Risk Losses / Gross Margin	Quarterly (trailing 12m)	2%	>=1.5%	>=2.0%
	Material Operational Risk Events	Quarterly	2	>1	>2
Compliance & Reputational risk	Open MRIs and other equivalent matters requiring immediate attention	Monthly	0	N/A	>=0
	High Risk Customers as % of Total Customers	Monthly	<1%	>=2%	>=4%
	Total New Monthly Arbitrations and Court Proceedings	Monthly	3	>=1	>=2
	Total Number of Sales Practice Complaints	Monthly	14	>=15	>=20

\* SHUSA metric reported in Santander Group RAS

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# Appendix – Supporting RAS detail

## Additional metrics required by Group (tracking only)

Risk type	Metric	Frequency	Mar 16	Additional metric threshold
Operational risk	Relevant OR Events R1 (number)	Quarterly	0.6	TBD
	IT Relevant Incidents	Quarterly	0	TBD
	% IT Systems Availability	Quarterly	N/A - shared systems	
	% Systems with Obsolete Operating Systems	Quarterly		
	Ethical Hacking Vulnerabilities	Quarterly		
	Servers with Security Compliant Operating Systems	Quarterly		



# Operational Risk review and plan for complementary metrics

Metric	Comment
<b>Relevant OR events R1</b>	This metric suggests a high ratio will alert you to common problems across the entity, but it could be the result of a small denominator of loss events. SSLLC will evaluate this metric vs. absolute number of material events by 7/31.
<b>IT Relevant Incidents</b>	The data quality of this metric is a concern. By 7/31, SSLLC will assess the ability to remediate data quality issues and, if a plan is needed, establish plan and timeline for completion.
<b>IT Systems Availability (%)</b>	<p>By 7/31, SHUSA OR and T&amp;O to assess ability to remediate data quality issues and, if plan needed, establish plan and timeline for completion. SSLLC will provide additional clarification and support as needed by metric, including:</p> <ul style="list-style-type: none"> <li>IT systems availability %: IT systems infrastructure is provided by third party providers. SSLLC monitors through SLAs</li> <li>Servers with security compliant operating systems: Requires additional definition on compliance (i.e., Compliance with what oversight body?)</li> </ul>
<b>Systems with Obsolete Operating Systems (%)</b>	
<b>Ethical Hacking Vulnerabilities</b>	
<b>Servers with Security Complaint Operating Systems</b>	

## 2016 Qualitative statements (1/2)

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<b>Risk type</b>	<b>Qualitative statement</b>
<b>Capital adequacy</b>	SSLLC will hold sufficient capital to satisfy current and future regulatory requirements so that it can withstand the impact of potential losses in an economic downturn.
<b>Credit risk</b>	SSLLC will not extend credit to any customer or counterparty.
<b>Liquidity / Funding risk</b>	SSLLC will ensure that it holds sufficient liquid assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.
<b>Interest Rate risk</b>	SSLLC does not maintain securities in inventory.
<b>Mark-to-Market Portfolio risk</b>	SSLLC does not engage in principal trading of securities.
<b>Strategic risk</b>	SSLLC will allocate resources to ensure the achievement of its strategic and business objectives and will not place an undue amount of earnings or capital at risk under stressed conditions.
	SSLLC will allocate resources to ensure the achievement of its strategic and business objectives and will not place an undue amount of earnings or capital at risk under stressed conditions.
<b>Operational risk</b>	SSLLC has a risk-averse approach to operational risk but recognizes that it is inherent in all products, activities, processes, and systems and must be adequately managed to meet business objectives.
	SSLLC is committed to implementing practices and controls that will minimize losses incurred from inadequate or failed internal processes, people, and systems or from external events.

## 2016 Qualitative statements (2/2)

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Risk type	Qualitative statement
<b>Model risk</b>	SSLLC does not currently have models in use.
	SSLLC will monitor ongoing customer product offerings and internal business and management requirements to ensure that, should any model be required, any future model will be developed, validated and put into production with all appropriate approvals and controls.
<b>Compliance &amp; Reputational risk</b>	SSLLC aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.
	SSLLC will treat its customers fairly, abide by all securities and insurance rules and regulations, and will not pursue any business or maintain any practices that may damage its reputation with customers, employees, or other stakeholders.
	SSLLC policy requires that all its employees and registered persons comply with all its policies and procedures, act with the highest ethical standards, and fulfill their fiduciary obligations when applicable.
	SSLLC as an investment adviser is committed to act in the best interest of its customers and disclose/mitigate all conflicts of interests.
	It will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.
<b>Fiduciary risk</b>	SSLLC as an investment adviser is committed to serve the best interests of its clients, including an obligation not to subordinate clients' interests to its own.
	SSLLC is under a duty to provide its clients with full and fair disclosure of material facts and conflicts of interest.

# Acronym Glossary

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<b>AuM</b>	Assets under Management	<b>NPL</b>	Non-performing Loan
<b>BHC</b>	Bank Holding Company	<b>P&amp;L</b>	Profit and Loss
<b>C&amp;I</b>	Commercial & Industrial	<b>PBT</b>	Profit before Tax
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>PCA</b>	Prompt Corrective Action
<b>CRO</b>	Chief Risk Officer	<b>PPNR</b>	Pre-Provision Net Revenue
<b>DPD</b>	Days Past Due	<b>RWA</b>	Risk Weighted Assets
<b>ERMC</b>	Executive Risk Management Committee	<b>SDART</b>	Santander Drive Auto Receivables Trust
<b>FRB / Fed</b>	Federal Reserve Bank	<b>TBD</b>	To be defined
<b>GBM</b>	Global Banking and Markets	<b>14As</b>	CCAR output report
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process	<b>424B3</b>	SDART regulatory filing report
<b>LCR</b>	Liquidity Coverage Ratio	<b>9Q</b>	9 Quarters
<b>NCO</b>	Net Charge Off		

# Metrics Glossary (1/2)

Risk type	Metric	Definition
Capital adequacy	Excess Net Capital	As per SEC regulations, every broker-dealer must, at all times, have, and maintain, net capital no less than the required amount by the SEC for the broker-dealer. The excess is simply the amount above the minimum required. The excess amount is necessary for the broker-dealer to operate in several businesses
	Impairment to Pre-Provision Net Revenue (PPNR)	The projected 9Q cumulative increase in PPNR impairment between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
Compliance risk	Open MRIAs and other equivalent matters requiring immediate attention	The total number of open MRIAs issued by the Federal Reserve to all Santander entities operating in the US and over which the FRB has jurisdiction (SLLC – FINRA)
	High Risk Customers as % of Total New Customers	The number of customers classified as “high risk” (based on internal policies) as a percentage of the total number of new customers
	Total New Monthly Arbitrations and Court Proceedings	the number of arbitrations (FINRA) and legal proceedings SLLC has been named in during the preceding month.
	Total Number of Sales Practice Complaints (Monthly)	The number of written complaints received by SLLC during the preceding month related to the conduct of a Financial Consultant or the Firm which involved the offer, sale or purchase of a security or insurance product to a customer.

## Metrics Glossary (2/2)

<b>Risk type</b>	<b>Metric</b>	<b>Definition</b>
<b>Operational risk</b>	Ethical Hacking Vulnerabilities	The number of high-risk vulnerabilities detected in the tests conducted by the Ethical Hacking service that have not been corrected for more than three months
	Material Operational Risk Events	Aligned with new SHUSA material event impact thresholds Includes non financially impacting material events (i.e. customer, regulatory, reputation)
	Gross operational risk losses / gross margin	Gross operational risk losses as a percentage of gross margin within the same period
	IT Relevant Incidents	The number of infrastructure and software incidents classified as P1 and P2 in the month
	IT Systems Availability (%)	The availability of critical systems during the month
	Relevant OR events R1 (number)	Measures the concentration of significant events on a trailing 12 month basis; proportion of events exceeding €1 MM (extreme) to events exceeding €20 K (significant)
	Servers with Security Compliant Operating Systems	Number of operating systems that are compliant with the security policy
	Systems with Obsolete Operating Systems (%)	The percentage of servers currently working with obsolete operating systems

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# **Risk Appetite Statement Proposal**

## **SIS Board of Directors**

June 24, 2016

Sponsor: Brian Gunn, Chief Risk Officer SHUSA

Presenters: James Bathon, Managing Director SIS; Michelle Murphy, Senior Risk Manager SIS

Author: Jennifer Keegan, Head of Risk Appetite SHUSA

Date Created: June 2016

Version: Template

# SIS Risk Appetite Statement

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## 2016 RAS development process

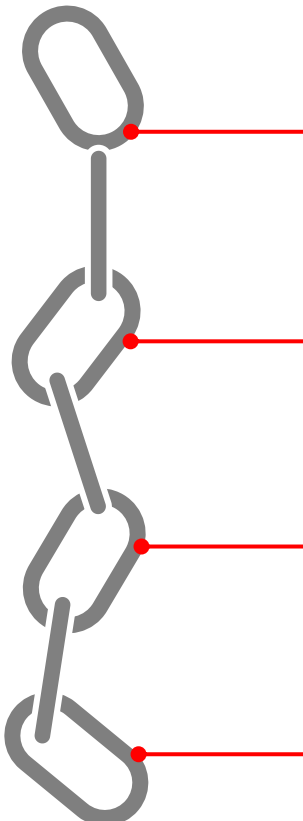
- Based on guidance from Group, SHUSA has established a standard **Risk Appetite Statement (RAS)**, which includes a set of **qualitative statements and quantitative limits** used to monitor the key risks
- **SIS, in coordination with SHUSA, has developed a SIS RAS**, ensuring a common set of objectives, standard taxonomy and methodology, and internally consistent reporting limits
- **14 applicable metrics** across seven key risk types were calibrated based on historical data, CCAR outputs, and management judgment
- All RAS metrics have been **reviewed with risk teams and business owners**

## Next steps

- Final **SIS Board review and approval**
- Ongoing monthly reporting will start in **July 2016**



# The RAS is anchored in specific objectives for risk taking

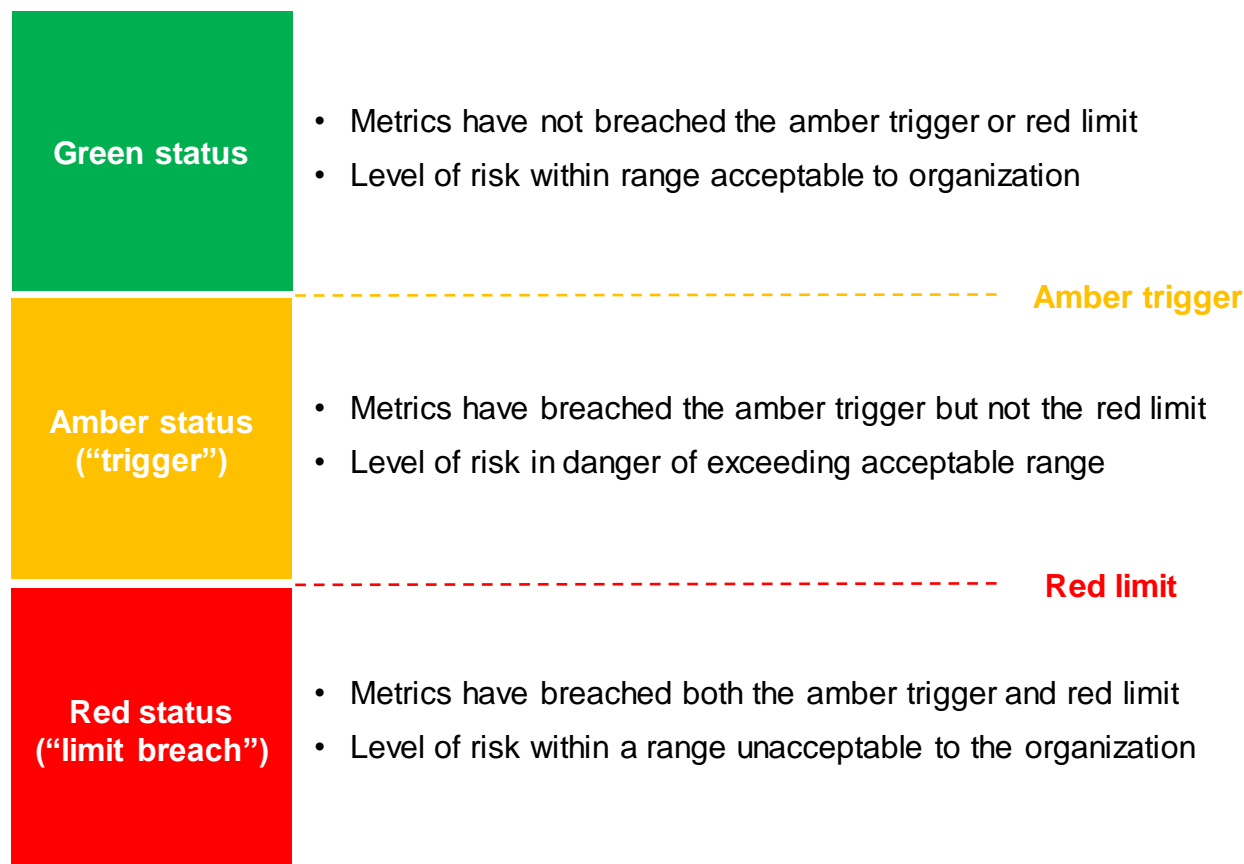


SHUSA Objectives	Manifestation in SIS RAS
<b>Meet regulatory constraints</b>	<ul style="list-style-type: none"> <li>• <b>Capital:</b> Ensure post-loss capital ratios in CCAR analysis are at or above limits</li> <li>• <b>Liquidity:</b> Ensure cash flow profile keeps the entity within both internally and externally-defined limits</li> </ul>
<b>Sustain confidence of external stakeholders (e.g., rating agencies)</b>	<ul style="list-style-type: none"> <li>• Ensure characteristics of the balance sheet, earnings and business profile (e.g., asset quality, liquidity, concentrations) are consistent with stakeholder expectations for prudent risk management</li> </ul>
<b>Minimize risks that do not generate incremental earnings</b>	<ul style="list-style-type: none"> <li>• Establish Board-level expectations for processes and controls in place for non-financial risks</li> </ul>
<b>Comply with Group-level Risk Appetite expectations</b>	<ul style="list-style-type: none"> <li>• Include metrics and adhere to limits agreed with Group, as applicable to SHUSA's business</li> </ul>

The statements, metrics and limits in the SIS RAS will enable the Board to ensure these overarching objectives are upheld

# Metric status definitions and escalation process

## Metric status definitions

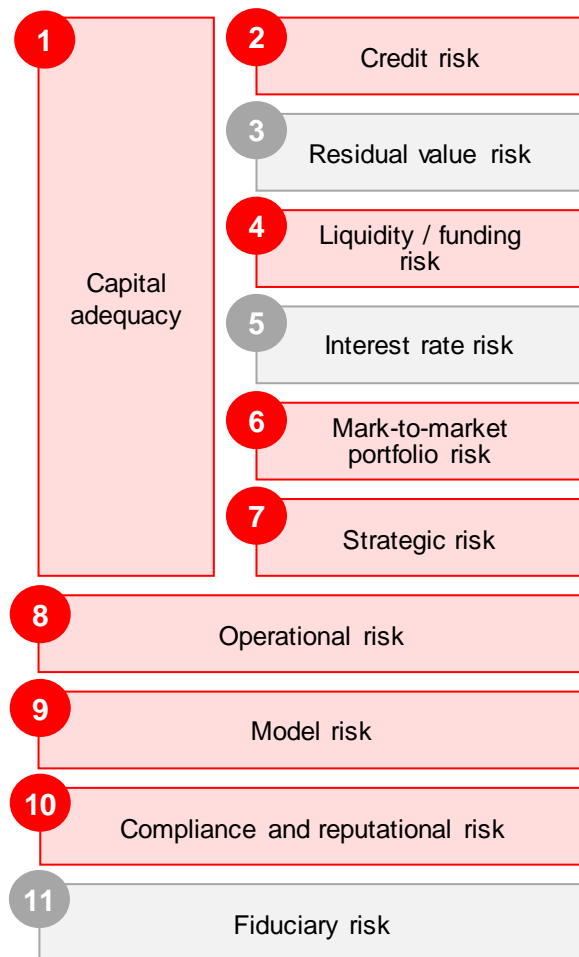


## Escalation processes

- Escalation procedures apply to all amber triggers and red breaches
- SHUSA-level:** Escalated to SHUSA CRO, with most review and approval by ERM (amber) or RC (red)<sup>1</sup>
- Subsidiary-only:** Review and approval responsibility in subsidiary; SHUSA ERM provides review and input to action plans

# Risk taxonomy and applied metrics

## Risk taxonomy



Santander Holdings USA

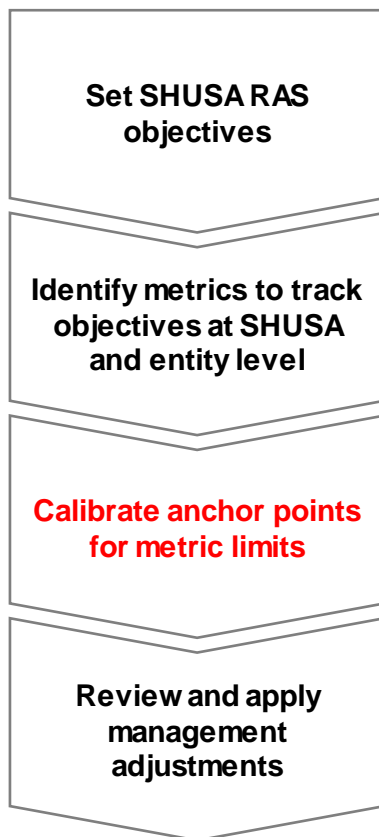
\* Equivalent SHUSA metric reported in Santander Group RAS

## Metrics in the SIS RAS

1	<ul style="list-style-type: none"> <li>Excess Net Capital</li> <li>PPNR Impairment</li> </ul>	<ul style="list-style-type: none"> <li>*Tier 1 Leverage Ratio</li> <li>Cost to Revenue Ratio</li> </ul>
2	Highest one day amount of total non-DVP related to counterparty settling	
3	<i>No residual value risk metrics included – SIS has no operating lease expenses</i>	
4	<ul style="list-style-type: none"> <li>*Stressed Survival Period</li> <li>Excess Margin Coverage of Customer Account</li> <li>Excess Margin Coverage of House Account</li> </ul>	
5	<i>No interest rate risk metrics included - assessed via qualitative statements</i>	
6	Mark-to-Market Value at Risk (VaR)	
7	Evaluated against all RAS metrics	
8	<ul style="list-style-type: none"> <li>*Gross Op. Risk Losses / Gross Margin</li> <li>Material Operational Risk Events</li> <li>Peak amount of failed trades (% of core equity)</li> </ul>	
9	Legacy Tier 1 Models In Production w/o Appropriate Approval	
10	Open MRIs and other equivalent matters requiring immediate attention	
11	<i>No fiduciary risk metrics included – BSI Miami only</i>	

# RAS metric anchor calibration approach

## Limit calibration process



## Anchor calibration approaches

Anchor	Calibration approach	Applicable risk taxonomy
Existing management limits	Align anchor to other limits codified in policies or management practices to ensure consistency across the organization	<ul style="list-style-type: none"> <li>• Stressed Survival Period</li> <li>• Mark-to-market VaR</li> <li>• Open MRIs and other equivalent matters</li> <li>• Legacy Tier 1 Models In Prod. w/o Appropriate Approval</li> </ul>
Model projections	Set anchors based on outputs of CCAR and other business models, applying adjustments based on management review	<ul style="list-style-type: none"> <li>• PPNR impairment</li> </ul>
Historical benchmarks	Leverage management expertise, supported by comparison to internal and external data, where available	<ul style="list-style-type: none"> <li>• Gross Op. Risk Losses / Gross Margin</li> <li>• Material Operational Risk Events</li> <li>• Excess Net Capital</li> </ul>

## 2016 SIS RAS – Proposed limits (1/2)

\* Equivalent SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Mar 16	Amber trigger	Red limit
Capital adequacy	Excess Net Capital	Monthly	\$111M	<=\$80M	<=\$50M
	Impairment to Pre-Provision Net Revenue (PPNR)	Annual (CCAR 9Q)	\$84M (CCAR 2016)	>=\$105M	>=\$115M
	*Tier 1 Leverage Ratio	Monthly	14.3%	<=10%	<=8%
	Cost to Revenue Ratio	Quarterly (YTD)	77%	>=90%	>=96%
Credit risk	Highest one day amount of total non-DVP related to counterparty settling	Monthly	\$17M	>=\$50M	>=\$55M
Liquidity / funding risk	Excess Margin Coverage for Customer Account	Monthly	\$311M	<=\$125M	<=\$100M
	Excess Margin Coverage for House Account	Monthly	\$459M	<=\$125M	<=\$100M
	*Stressed Survival Period (days)	Monthly	>60 days	< 35 days	<= 30 days
MTM risk	Mark-to-Market Value at Risk (VaR)	Monthly	\$0.14M	>=\$1M	>=\$1.25M

## 2016 SIS RAS – Proposed limits (2/2)

\* Equivalent SHUSA metric reported in Santander Group RAS

Risk type	Metric	Frequency	Mar 16	Amber trigger	Red limit
Operational risk	*Gross Operational Risk Losses / Gross Margin	Quarterly (trailing 12m)	0.19%	$\geq 1.5\%$	$\geq 2.0\%$
	Material Operational Risk Events	Quarterly	0	N/A	$> 0$
	Peak amount of failed trades (% of core equity)	Monthly	3.66%	$\geq 5\%$	$\geq 6\%$
Model risk	Legacy Tier 1 Models in Production w/o Appropriate Approval	Monthly	0	N/A	$> 0$
Compliance & Reputational risk	Open MRIs and other equivalent matters requiring immediate attention	Monthly	0	N/A	$> 0$

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# Appendix – Supporting RAS detail

## Additional metrics required by Group (tracking only)

Risk type	Metric	Frequency	Mar 16	Additional metric threshold	Current Control
Operational risk	Relevant OR Events R1 (number)	Quarterly	0	TBD	All operational losses are reviewed and commented regardless of amount. Any loss that exceeds \$65K is escalated to management and reported to the SIS Risk Committee.
	IT Relevant Incidents	Quarterly	0	TBD	On a monthly basis all incidents are reviewed from the corporate tool Remedy. Any P1 or P2, which is a corporate defined classification, is escalated to the SIS Risk Committee and SHUSA ORM.
	% IT Systems Availability	Quarterly	100%	TBD	Produban reports this Metric for SIS. A Microsoft tool scans the servers and reports availability. On a monthly basis the information is reviewed in the Technology and Operations Level of Service Committee and again by SIS ORM.
	% Systems with Obsolete Operating Systems	Quarterly	19.93%	TBD	As part of the monthly vulnerability scan Qualys identifies the obsolete operating systems.
	Ethical Hacking Vulnerabilities	Quarterly	1	TBD	SIS performs an ethical hack on an annual basis. Vulnerabilities are tracked and resolution plans are put in place.
	Servers with Security Compliant Operating Systems	Quarterly	100%	TBD	Have requested from SHUSA ORM for clarification on this metric.



## 2016 Qualitative statements (1/2)

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<b>Risk type</b>	<b>Qualitative statement</b>
<b>Capital adequacy</b>	SIS will maintain sufficient excess regulatory net capital at all times to meet the needs of its business as evidenced by the approved business plans and strategic objectives.
<b>Credit risk</b>	SIS has appetite for credit risk only to facilitate the settlement of equity transactions for long term institutional clients and brokers, where settlement is expected to be effected within the settlement period. SIS will not extend credit to a client to acquire, maintain, or carry securities positions. Credit extensions to facilitate equity transactions will require prior credit approval and the establishment of a limit.
<b>Liquidity / Funding risk</b>	SIS will ensure that it maintains sufficient high quality liquid assets to ensure sufficient liquidity to meet its funding obligations under stressed scenarios.
	SIS will maintain a contingency funding plan to withstand liquidity shortfalls in a severe stress scenario.
<b>Interest Rate risk</b>	SIS will ensure its investment portfolio has a near-zero interest-rate risk profile by limiting investments to treasury bills and readily marketable money market instruments.
<b>Mark-to-Market Portfolio risk</b>	SIS will maintain for its trading portfolio a low amount of market risk measured through value-at-risk.
<b>Strategic risk</b>	SIS will allocate resources to ensure the achievement of its strategic and business objectives and will not place an undue amount of earnings or capital at risk under stressed conditions.
	SIS will maintain strong governance, effective controls, and risk limits and metrics for all business activities.

## 2016 Qualitative statements (2/2)

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Risk type	Qualitative statement
<b>Operational risk</b>	<p>SIS has a risk-averse approach to operational risk but recognizes that it is inherent in all processes and systems and must be adequately managed to meet business objectives.</p> <hr/> <p>SIS is committed to implementing policies, procedures and controls that will minimize losses incurred from inadequate or failed internal processes, people, and systems or from external events.</p>
<b>Model risk</b>	<p>SIS will enforce model monitoring standards in line with industry practices and regulatory requirements.</p> <hr/> <p>SIS will allocate more resources to those models with the highest risk level (Tier 1).</p> <hr/> <p>SIS will ensure no new models are used or put into production without the appropriate approval.</p>
<b>Compliance &amp; Reputational risk</b>	<p>SIS aims to comply fully with the letter and spirit of all applicable laws and regulatory standards that apply to its operations and it will ensure the timely remediation of any regulatory finding.</p> <hr/> <p>SIS will treat its customers fairly, abide by all securities rules and regulations and will not pursue any business or maintain any practices that may damage its reputation with customers, employees, or other stakeholders.</p> <hr/> <p>SIS will not knowingly conduct business with individuals or entities it believes to be engaged in inappropriate behavior, money laundering, terrorist financing, corruption or other illicit financial activities.</p> <hr/> <p>SIS policy requires that all its employees and registered persons comply with all its policies and procedures, act with the highest ethical standards, and fulfill their fiduciary obligations when applicable.</p>

# Acronym Glossary

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<b>AuM</b>	Assets under Management	<b>NPL</b>	Non-performing Loan
<b>BHC</b>	Bank Holding Company	<b>P&amp;L</b>	Profit and Loss
<b>C&amp;I</b>	Commercial & Industrial	<b>PBT</b>	Profit before Tax
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>PCA</b>	Prompt Corrective Action
<b>CRO</b>	Chief Risk Officer	<b>PPNR</b>	Pre-Provision Net Revenue
<b>DPD</b>	Days Past Due	<b>RWA</b>	Risk Weighted Assets
<b>ERMC</b>	Executive Risk Management Committee	<b>SDART</b>	Santander Drive Auto Receivables Trust
<b>FRB / Fed</b>	Federal Reserve Bank	<b>TBD</b>	To be defined
<b>GBM</b>	Global Banking and Markets	<b>14As</b>	CCAR output report
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process	<b>424B3</b>	SDART regulatory filing report
<b>LCR</b>	Liquidity Coverage Ratio	<b>9Q</b>	9 Quarters
<b>NCO</b>	Net Charge Off		

# Metrics Glossary (1/2)

<b>Risk type</b>	<b>Metric</b>	<b>Definition</b>
<b>Capital adequacy</b>	Cost to Revenue Ratio	Total Costs over Total Revenue reported quarterly and should be aggregate year-to-date
	Excess Net Capital	As per SEC regulations, every broker-dealer must, at all times, have, and maintain, net capital no less than the required amount by the SEC for the broker-dealer. The excess is simply the amount above the minimum required. The excess amount is necessary for the broker-dealer to operate in several businesses
	Impairment to Pre-Provision Net Revenue (PPNR)	The projected 9Q cumulative increase in PPNR impairment between the CCAR BHC Stress and BHC Baseline scenarios and any available capital surplus under the CCAR BHC Stress scenario
<b>Credit risk</b>	Highest one day amount of total non-DVP related to counterparty settling	Highest One Day Amount of Total Non-DVP relating to clients, affiliated brokers, or non-affiliated brokers settling share purchases in one day
<b>Liquidity / funding risk</b>	Excess Margin Coverage for Customer Account	Excess Margin Coverage for Customer Account (Total Cash + Treasury Bills-Margin Requirement at CME)
	Excess Margin Coverage for House Account	Excess Margin Coverage for House Account (Total Cash + Treasury Bills-Margin Requirement at CME)
	Stressed Survival Period (days)	The amount of days remaining until SHUSA and its subsidiaries will have a cash shortfall under stressed conditions
<b>Mark-to-market portfolio risk</b>	MTM Value at Risk (VaR)	The MTM VaR metric covers the market risk in all material trading portfolios
<b>Model risk</b>	Legacy Tier 1 Models in Production w/o Appropriate Approval	The number of legacy Tier 1 models used in production without appropriate approvals
<b>Compliance risk</b>	Open MRIAs and other equivalent matters requiring immediate attention	The total number of open MRIAs issued by the Federal Reserve to all Santander entities operating in the US and over which the FRB has jurisdiction or other equivalent regulatory matters requiring immediate attention (SIS – FINRA)

## Metrics Glossary (2/2)

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	IT Systems Availability (%)	The availability of critical systems during the month
	Peak amount of failed trades (% of core equity)	Peak amount during the month for failed trades to total core-equity capital (value of failed trades divided by total core-equity capital)
	Relevant OR events R1 (number)	Measures the concentration of significant events on a trailing 12 month basis; proportion of events exceeding \$1 MM (extreme) to events exceeding \$20 K (significant)
	Servers with Security Compliant Operating Systems	Number of operating systems that are compliant with the security policy
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