

Santander Holdings USA



ENTERPRISE RISK APPETITE FRAMEWORK

Table of Contents

1. INTRODUCTION	- 3 -
1.1 BACKGROUND.....	- 3 -
1.2 SCOPE	- 3 -
1.3 PURPOSE OF THE RAF.....	- 3 -
1.4 DOCUMENT OWNERSHIP AND MAINTENANCE	- 4 -
2. COMPONENTS OF A RISK APPETITE FRAMEWORK.....	- 5 -
2.1 RISK APPETITE.....	- 5 -
2.2 RISK APPETITE MANAGEMENT	- 5 -
2.3 CONSISTENCY IN RISK APPETITE.....	- 6 -
2.4 COMMON RISK METHODOLOGY ACROSS SHUSA.....	- 6 -
3. RISK APPETITE PRINCIPLES	- 7 -
4. THE RISK APPETITE STATEMENT	- 9 -
4.1 PRINCIPLES FOR DEFINING RAS QUANTITATIVE METRICS AND QUALITATIVE STATEMENTS	- 9 -
4.2 REMUNERATION – LINKING RISK APPETITE TO BUSINESS PERFORMANCE	- 9 -
5. SHUSA RISK APPETITE ROLES AND RESPONSIBILITIES	- 10 -
5.1 THE SHUSA BOARD OF DIRECTORS (“BOARD”)	- 10 -
5.2 THE SHUSA RISK COMMITTEE (“RC”) OF THE BOARD OF DIRECTORS	- 10 -
5.3 THE SHUSA EXECUTIVE RISK COMMITTEE (“ERC”)	- 11 -
5.4 THE CHIEF EXECUTIVE OFFICER, CHIEF RISK OFFICER AND CHIEF FINANCIAL OFFICER	- 11 -
5.5 THREE LINES OF DEFENSE (“3 LOD”) RISK MANAGEMENT MODEL	- 11 -
5.6 1 ST LOD – SHUSA, ITS LEGAL ENTITIES, BUSINESS UNITS & SUPPORT UNITS	- 12 -
5.7 2 ND LOD – RISK CONTROL	- 13 -
5.8 3 RD LOD – RISK ASSURANCE	- 14 -
6. THE RISK APPETITE STATEMENT PROCESS	- 15 -
6.1 SETTING THE RAS	- 15 -
6.2 TESTING THE STRATEGIC AND FINANCIAL PLANS AGAINST THE RAS	- 16 -
6.3 MONITORING PERFORMANCE AGAINST RISK APPETITE	- 17 -
6.4 ESCALATING LIMIT BREACHES AND ESTABLISHING ACTION PLANS	- 17 -
6.5 RISK APPETITE POLICIES AND PROCEDURES	- 18 -
7. REGULATORY REFERENCES	- 19 -
8. DOCUMENT HISTORY AND VERSION CONTROL	- 20 -
8.1 OWNERSHIP AND AUTHORSHIP	- 20 -
8.2 SIGN-OFF.....	- 20 -

1. Introduction

1.1 Background

The identification, assessment, control, monitoring and reporting of risks across all risk types, together with the clear articulation and communication of risk appetite, provide the foundation for the Santander Holdings USA, Inc. (“SHUSA”) risk management program. This program is based upon successful implementation of a forward looking risk management discipline to strengthen SHUSA’s resilience to shocks, whether originating internally or externally, thereby providing a stable environment for business activities.

Risk Appetite, as a cornerstone of the enterprise wide risk management program, is an effective tool for SHUSA’s Board of Directors (“Board”) to ensure that enterprise-wide risk is aligned to the risk types and risk levels it is willing to accept in the pursuit of its business objectives, and that any changes identified in the risk profile of SHUSA or its Legal Entities (“Entities”) will be effectively reflected in the expression of risk appetite.

1.2 Scope

The SHUSA Risk Appetite Framework (“RAF”) applies to SHUSA and all of its current and future full or majority owned subsidiaries (the “Legal Entities” and together with SHUSA “Santander US”)¹. All Legal Entity boards are expected to adopt and adapt this Framework.

1.3 Purpose of the RAF

SHUSA’s Board has approved this Risk Appetite Framework which, together with its accompanying Risk Appetite Statement, the corporate governance principles and structures detailed in the SHUSA Board-approved Governance Framework, and the principles of SHUSA’s oversight of risks arising from its business activities and operations set forth in the Board-approved Enterprise Risk Management (“ERM”) Framework, provide the foundation of a risk management culture that embraces prudent risk taking and integrates risk management processes within its day-to-day operations.

This RAF must be read in conjunction with the SHUSA ERM Framework as its purpose is to comply with the ERM program in relation to the definition, setting, monitoring, control and governance of Risk Appetite. The RAF aligns with the Santander Group Risk Appetite Framework.

¹ Legal Entities: as of date of approval of this Governance Framework, SHUSA subsidiaries are: Santander Bank, N.A. (“SBNA”) and Santander Consumer USA Holdings Inc. (“SC”). As of 1st July 2016, the following additional entities will become SHUSA subsidiaries: Santander Bancorp (PR) and its subsidiaries Banco Santander Puerto Rico (“BSPR”) and Santander Insurance Agency Inc.; Santander Securities LLC (“SSLIC”) (PR); Banco Santander International (“BSI”) – Miami; Santander Investment Securities (“SIS”) (NY); Service & Promotions Delaware Corp. and its subsidiary Services and Promotions Miami LLC. As of 1st July 2017, Santander Financial Services (“SFS”) Inc (PR) will become a fully owned subsidiary of SHUSA.

1.4 Document Ownership and Maintenance

The SHUSA Chief Risk Officer (“CRO”) is the owner of, and is responsible for, the development and maintenance of the RAF. The SHUSA Director of Risk Appetite has primary responsibility for ensuring it is implemented and embedded on a day-to-day basis.

The RAF is approved by the SHUSA Board.

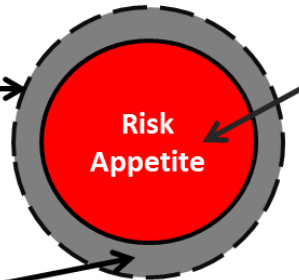
The RAF must be reviewed at least annually and updated as necessary in the event of material changes relating to the way risk appetite needs to be defined, managed and controlled. Material changes will be approved by the Board. Non-material changes, such as changes to committee names or clarifications to the RAF contents will be approved by the Director of Risk Appetite.

2. Components of a Risk Appetite Framework

2.1 Risk Appetite

Risk Appetite defines the types and, where appropriate, level of risk that SHUSA is willing and able to accept in pursuit of its strategic objectives. The elements of Risk Appetite are:

Risk Capacity: Maximum level of risk that SHUSA can assume without breaching regulatory obligations. It is determined by the level of capital and liquidity resources available..



Risk Appetite: The aggregate level and types of risk that the Board and Management are willing to assume, within the Risk Capacity, to achieve the enterprise strategic objectives.

Buffer: The amount of precautionary risk capacity the Board has reserved in excess of the risk appetite based on an evaluation of the sources of uncertainty when measuring risk and the sources of weaknesses that the organization may have.

2.2 Risk Appetite Management

A strong RAF is articulated through the following five pillars:

- This RAF that defines the principles, roles and responsibilities, controls, monitoring, reporting and governance of the risk appetite setting process;
- The Board-approved Risk Appetite Statement (“RAS”), that includes qualitative statements and quantitative metrics that cover the risks SHUSA is willing to accept;
- Risk policies that define the criteria that must be met in order to accept certain categories of risks;
- Lower level limits, thresholds and triggers developed by SHUSA and its Entities, in order to disaggregate the risk appetite metrics and adapt them to the types of business, their legal structure and their activities; and
- The Risk Appetite reporting that must be available to the Board and senior management, including the analysis of SHUSA’s risk profile used to inform decisions on risk appetite.

2.3 Consistency in Risk Appetite

The Risk Appetite of the Entities should be consistent with the Risk Appetite of SHUSA. The Risk Appetite is cascaded down to SHUSA's Entities and their Business Units and documented in their entity specific RAS.

Each Legal Entity shall send its risk appetite proposal, before it is approved, for the SHUSA Board to review, to ensure alignment with the SHUSA Risk Appetite. SHUSA may propose a more restrictive criterion in appetite to ensure that it fits in with the SHUSA appetite as a whole.

2.4 Common Risk Methodology across SHUSA

The SHUSA Enterprise Risk Management function establishes common guidelines for SHUSA and its Entities in order to enable risk appetite metrics aggregation and the adequate treatment of concentration and correlation of risks. Each Entity's risk appetite is structured in accordance with the aforementioned guidelines, including additional requirements as needed due to regulatory requirements or specific features of the business.

3. Risk Appetite Principles

The following are the SHUSA Risk Appetite principles, applicable to SHUSA and its Entities when reviewing Risk Appetite and setting the RAS and Limits:

- **Comprehensive coverage of risks** – Risk Appetite metrics should provide comprehensive coverage of all key risks identified by SHUSA as relevant to the pursuit of its business objectives.
- **Cascading effect of the Risk Appetite** – SHUSA risk appetite is established based on a thorough analysis of the risk profiles of the Entities and their business units. The result is a consolidated risk profile at the SHUSA level. SHUSA risk appetite is designed to manage the consolidated risk profile and risk taking activities of the Entities to align with the SHUSA risk appetite. The SHUSA risk appetite is cascaded to the Entities and documented in their entity specific RAS's.
- **Board approval and management engagement** – The RAS and RAF are reviewed by the SHUSA RC and is approved by the Board. It is driven by both top-down Board leadership and bottom-up involvement of management at all levels, and embedded and understood across SHUSA and its Entities. Each Entity RAS is submitted to the SHUSA RC and Board for review prior to approval.
- **Integration into the ERM program** – Risk Appetite is an integral component of the SHUSA ERM program defined in the SHUSA ERM Framework. Risk Appetite is consistent with, and incorporated into, the capital, strategic and resolution plans as part of the enterprise wide risk management program.
- **Connection to the strategic and financial plans** – SHUSA RAS limits determine the boundaries within which SHUSA strategic and financial plans are set. The Risk Appetite process promotes robust discussions on necessary risk taking activities and serves as a basis upon which the Board of SHUSA, the business managers, the risk management function, and the internal audit functions can effectively debate business recommendations and decisions.
- **Forward looking** – The Risk Appetite process is forward looking and it establishes expectations around SHUSA's consolidated risk profile in a variety of circumstances based on stress tests and/or scenario analysis.
- **Dynamic and ongoing** – The Risk Appetite process is dynamic and responsive to changes in the business environment and the business activities of SHUSA or its Entities. The assessment of the risk profile of SHUSA is ongoing and iterative.
- **Stress-testing the strategic and financial plans** – A key element of business planning is testing the enterprise's strategic and financial plans against plausible but stressed scenarios. The outputs of this testing exercise are used to assess if a current plans could breach the Board's defined Risk Appetite. Stress-testing allows the Board and senior management to understand the risks embedded in the business strategy, including any new or increasing risks identified

through the planning process, and SHUSA's resilience to withstand plausible stress scenarios. The outcomes of the plans stress testing may result in a modification of the plans to keep the risk profile within the risk appetite limits or may require a review and adjustment to the RAS to accommodate a new business strategy.

4. The Risk Appetite Statement

4.1 Principles for defining RAS quantitative metrics and qualitative statements

The following principles must be followed when defining metrics, in order to ensure that they effectively articulate risk appetite and support the management of risks across the organization:

- The set of metrics should reflect the risk exposure of SHUSA across all key risks, where possible;
- Metrics should be **SMART**; they should be **S**traight-forward, **M**easurable, and **A**ctionable. All metrics should be **R**isk-based and **T**ied to earnings, liquidity, capital, leverage, exposure concentration or asset quality;
- Metrics should be limited in number, allowing brief and concise communication;
- Each risk type should be accompanied by a clear statement, approved by the Board, to determine the maximum level of risk that SHUSA is willing to accept, thereby providing a reference point for self-imposed risk constraint;
- The SHUSA RAS is articulated around a set of core metrics that are applied at SHUSA and its Entities to facilitate an aggregated view of all risks on a consolidated basis;
- Entities may establish other metrics relevant to their activities;
- Metrics should enable allocation of risk appetite to risk types and be suitable for further cascading to Business Units and Line of Business as required;
- Metrics and limits should provide clear senior management accountability for risk at Business Unit level; and
- Metrics should consider all related regulation, assuring compliance with it and, in case of regulatory changes, they should be reviewed and adapted in a timely manner.

In addition to quantitative metrics and limits, the RAS includes qualitative statements that express the risk appetite for risks that do not lend themselves to expression through a metric. These statements are targeted at promoting a safe and sound risk culture, ethical conduct and business practices.

4.2 Remuneration – linking Risk Appetite to business performance

Risk Appetite needs to be included within employees' objective setting and performance management to ensure a balanced approach to risk taking at all levels of SHUSA and its Entities.

5. SHUSA Risk Appetite Roles and Responsibilities

5.1 The SHUSA Board of Directors (“Board”)

The Board is responsible for reviewing and approving the SHUSA RAS and associated limits incorporating Legal Entity and Business Unit inputs. Prior to SHUSA Board approval, the RAS is submitted for validation by Santander Group to ensure alignment with the overall consolidated Group RAS.

Legal Entity RAS and associated limits are subject to review by the SHUSA Board prior to approval by the Legal Entity Board.

The Board will ensure that the RAS remains aligned to SHUSA’s strategic plan and, to discharge this responsibility, the Board will receive regular and comprehensive information from the senior management of SHUSA.

In the event of a trigger or breach of a RAS limit, the Board will be required to approve action plans if the breach meets one or both of the following criteria:

- The CRO, with the sign-off of the RC, determines that the trigger or breach is severe enough to warrant Board approval;
- The proposed remediation plan involves either adjustment of a RAS metric calibration or a temporary acceptance of a breach of a trigger or limit.

5.2 The SHUSA Risk Committee (“RC”) of the Board of Directors

The RC is responsible for reviewing and recommending the SHUSA RAF and RAS to the Board for approval, including associated limits, thresholds, or triggers, and oversee the alignment of SHUSA’s Risk Appetite with such frameworks and SHUSA’s strategic and capital plans.

With the expectation set out below, the RC will review and approve the action plans submitted by RAS metric owners and the CRO in the event of a trigger or breach of a RAS limit. The RC will ensure that the Board is notified of its actions.²

The RC is also responsible for reviewing the Entity RAS’s and providing feedback prior to them being submitted through the governance of the Entity for approval.

² Refer to the SHUSA Risk Appetite metrics monitoring, reporting, breach escalation and remediation procedure

5.3 The SHUSA Executive Risk Committee (“ERC”)

The ERC approves risk limits across SHUSA and the Legal Entities up to the authority delegated to it by the Board. The ERC supports the RC in performing its responsibilities by reviewing and recommending the risk appetite statement proposed by the CEO. The ERC is chaired by the CEO; its membership includes the CRO, CFO and CLO.

5.4 The Chief Executive Officer, Chief Risk Officer and Chief Financial Officer

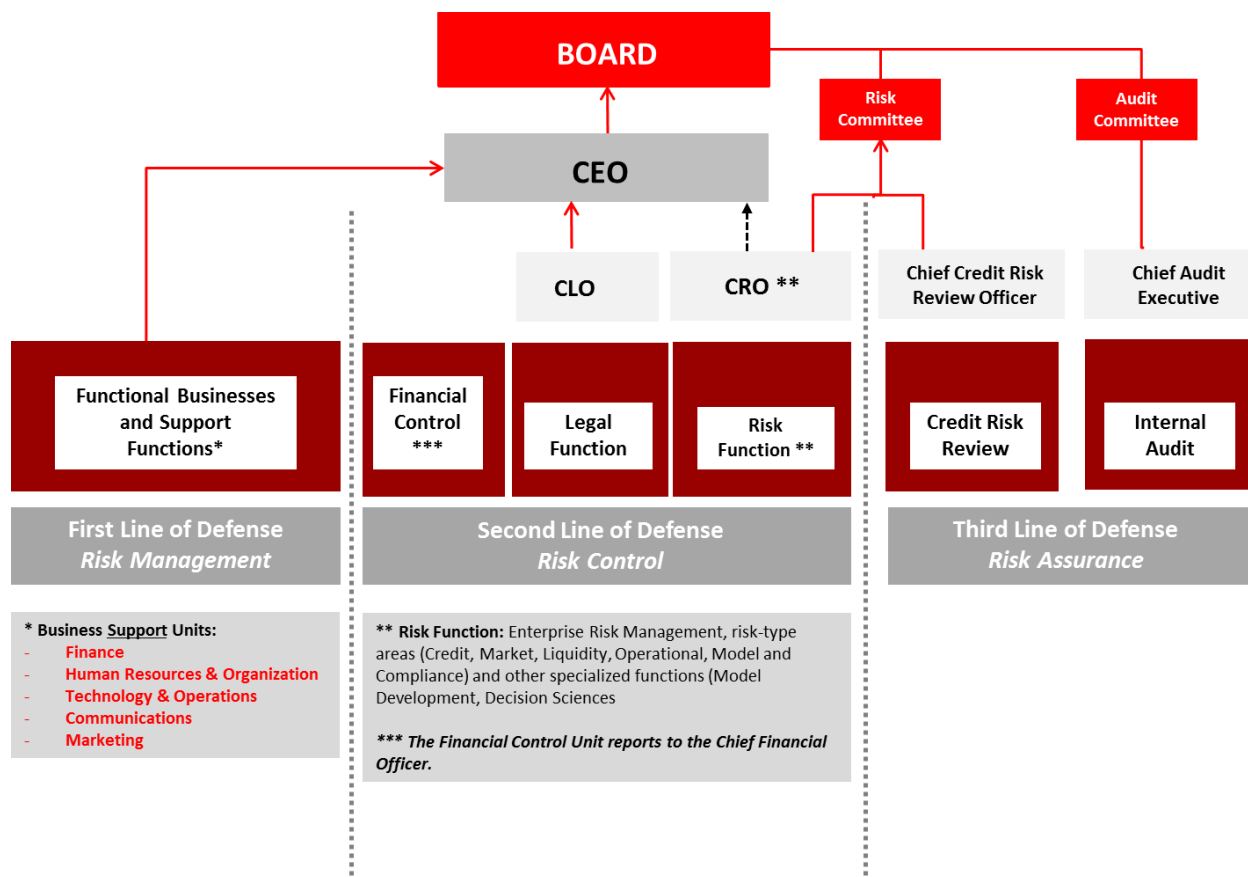
Risk Appetite management requires active participation of the Chief Executive Officer (“CEO”), the CRO and the Chief Financial Officer (“CFO”). Each of these roles is responsible for the following to take place as it relates to the RAS:

- The CEO will establish and propose a risk appetite which is appropriate for SHUSA and is consistent with the short and long term strategy, capital plan, liquidity and business plans, and is within the risk capacity as well as supervisory expectations;
- The CRO reviews and challenges the proposed RAS metrics from the 1st LoD;
- Monitor the cascading of Risk Appetite to business units which are consistent with SHUSA’s Board approved risk appetite; and
- Escalate RAS breaches to the Board, recommending remedial actions and ensuring that they are executed as approved by the Board.

The details of the processes can be found in the SHUSA Risk Appetite metrics monitoring, reporting, breach escalation and remediation procedure.

5.5 Three Lines of Defense (“3 LoD”) Risk management model

SHUSA and its Entities organize their roles and responsibilities for risk management into a “three lines of defense” model, with separately defined and segregated responsibilities consistent with applicable regulations and guidance as outlined in the ERM Framework.



5.6 1st LoD – SHUSA, its Legal Entities, Business Units & Support Units

The roles and responsibilities of the front line as they relate to Risk Appetite are as follows:

- The 1st LoD proposes the RAS metrics
- Develop the strategic and financial plans aligned to the approved Risk Appetite Statement limits;
- Propose any required changes to the RAS in order to align risk appetite to business plans and strategic initiatives;
- Ensure that all new business initiatives, including but not limited to new products, are tested against, and adhere to, the approved Risk Appetite. Propose new Risk Appetite limits if required;
- Propose the allocation of RAS limits into Entities and Business Unit limits, where necessary;
- Develop the necessary procedures to embed risk appetite limits into the day-to-day management of business activities;

- Manage risks in accordance with the Risk Appetite, acting in a timely manner to ensure effective management, and where necessary, mitigation of risk exposures, in particular those that have the potential to exceed the approved risk appetite and/or risk limits;
- Escalate with immediate effect any breaches of risk appetite limits or thresholds, in line with the Risk Appetite breach escalation procedure; propose management actions to address those breaches.

5.7 2nd LoD – Risk Control

Reporting to the SHUSA CRO, SHUSA Enterprise Risk Management and the SHUSA risk management officers along with the respective teams within the SHUSA Entities have the following responsibilities with regard to the RAS:

- Ensure that all Risk Appetite proposals are aligned to the risk profile, size and complexity of SHUSA;
- Review and challenge the business plan versus the RAS at each respective Entity; identify any impacts of the proposed business plan on the RAS;
- Ensure that the RAS proposal is aligned to the guidelines set out by Banco Santander S.A. and that it is approved through the proper corporate governance;
- Assist the CRO to discharge his responsibilities by providing independent advice on the Risk Appetite limits proposed by the Entities and the Business Units, ensuring that all material risks are covered by the RAS;
- Define and propose risk policies aligned to the approved risk appetite;
- Assist Business Units in the allocation and communication of lower level risk limits, thresholds and key risk indicators; and propose these limits for approval at the appropriate governance level;
- Ensure the Risk Appetite impact of a new product or product design changes are suitably understood, and incorporated into agreed product design. Provide formal sign-off including conditions as required;
- Conduct independent verification of compliance with the risk appetite limits;
- Monitor and aggregate reporting on limits for respective risk areas;
- Escalate limit breaches and ensure remediation plans are appropriate and effective;

- Provide risk performance input for compensation programs.

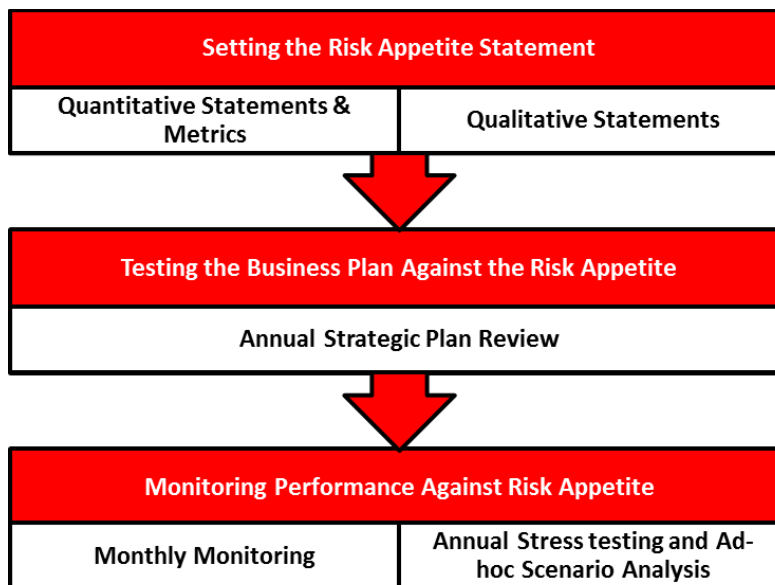
5.8 3rd LoD – Risk Assurance

The third line of defense provides independent assessment on all aspects of the RAF and the RAS. Their responsibilities include, but are not limited to:

- Review the RAS providing independent validation of the completeness of the RAS principles and its alignment to regulatory expectations;
- Review the effectiveness of the implementation of the RAF and the RAS, including linkage to strategic and business planning, compensation, and decision-making processes;
- Identify whether breaches in risk limits are being appropriately identified, escalated and reported, and on the effectiveness of remediation actions.

6. The Risk Appetite Statement Process

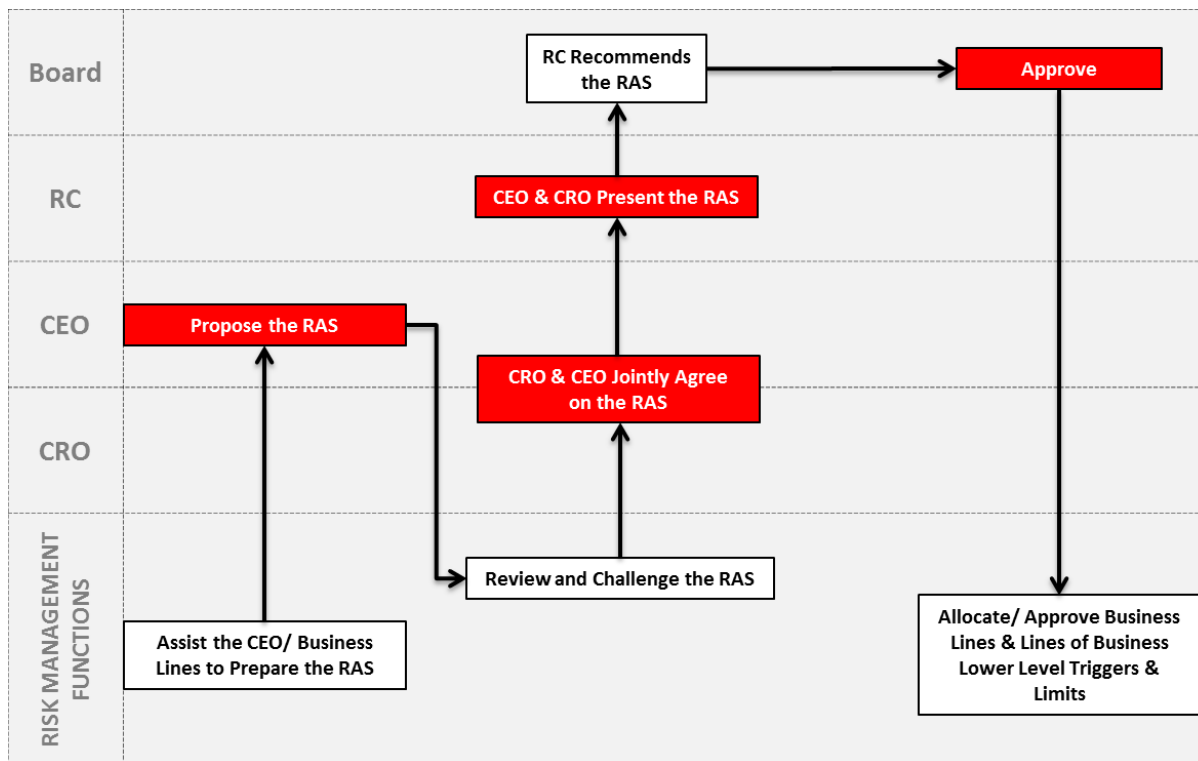
The process for setting the RAS can be divided into three stages:



6.1 Setting the RAS

Setting the RAS includes defining the qualitative statements and quantitative metrics, metric allocation by Entity and Business Unit where applicable, and aligning with Banco Santander S.A. It is at a minimum an annual process that evaluates the metrics and the levels in order to confirm the metrics continue to operate as designed. Evaluation confirms the RAS remains a comprehensive expression of material risks faced by SHUSA and its Entities, and reflects the level of risk the Board seeks to take.

This process must also be followed on an ad-hoc basis when the composition and the structure of SHUSA or its Entities, or their businesses, change in a significant manner (e.g., when an Entity is bought or sold, or there is a material change in the strategic plan, or a material deviation in the macro-economic outlook).

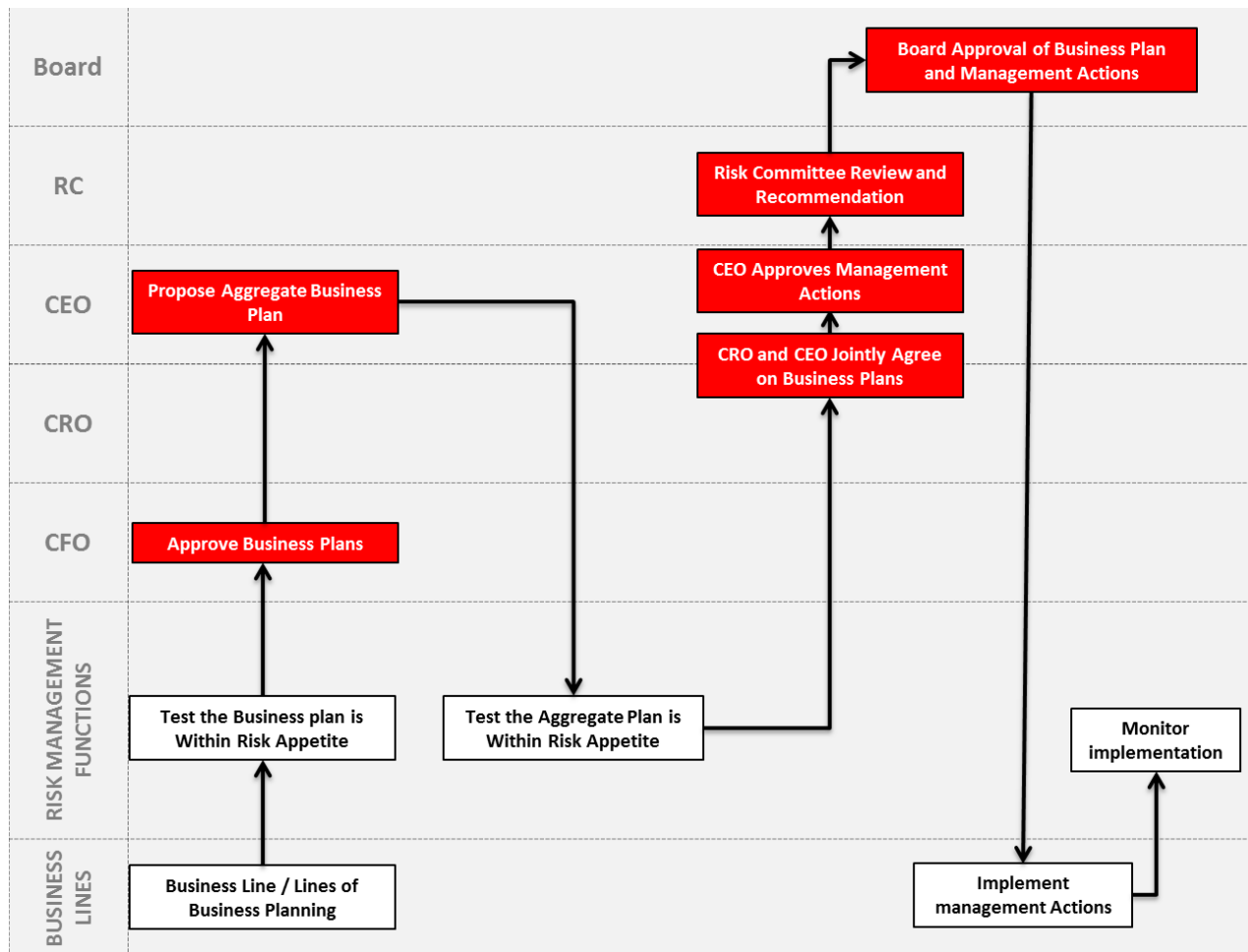


6.2 Testing the strategic and financial plans against the RAS

This is an annual process where the new strategic and financial plans and potential performance under stress scenarios are assessed against the stated and approved Risk Appetite. If there is any inconsistency between the proposed strategic and financial plans and the Risk Appetite, then two options are available:

- Revisit the plans so they are consistent with the approved Risk Appetite;
- Review the Risk Appetite to accommodate the plan's needs.

Key to this process is the integration of Risk Appetite into the Strategic Plan, the Capital plan and the Recovery and Resolution Plan, Talent and Compensation plans, and any other relevant enterprise-wide risk management programs.



6.3 Monitoring performance against Risk Appetite

A Monthly monitoring and control process is undertaken by Independent Risk Management that compares the actual values of the risk appetite metrics against established limits.

This process detects current or potential breaches of the risk appetite limits. In the case of a breach, the business unit owner of the metric is required to propose remedial actions for review by the Risk Management areas and escalation to senior management and governance body.

6.4 Escalating limit breaches and establishing action plans

In the context of Risk Appetite, a limit breach is when the actual measured performance of a Risk Appetite metric exceeds the Board-approved Appetite limit. Early warning indicators should be put in place to prevent and highlight movements and/or trends in the metrics that may indicate a potential future breach, thus enabling early management actions to avoid breaches.

6.5 Risk Appetite Policies and Procedures

SHUSA has drafted the “SHUSA Risk Appetite metrics monitoring, reporting, breach escalation and remediation procedure” (“Breach Procedure”) to govern the process by which Risk Appetite Breaches are managed. The Breach Procedure is owned by the CRO and approved at least annually by the ERM in accordance with the guidance therein.

7. Regulatory References

Financial Stability Board – Principles for an effective Risk Appetite Framework – November 2013

Federal Reserve System – Framework for Risk-Focused Supervision of Large Complex Institutions – sr9724a1 – August 8, 1997

Federal Reserve System – Consolidated Supervision Framework for Large Financial Institutions – sr12-17 – December 17, 2012

8. Document History and Version Control

8.1 Ownership and Authorship

Version	Date	Author	Owner	Change
1.0	May 2015	Director of Risk Appetite	CRO	Initial SHUSA Enterprise Risk Appetite Framework
1.1	October 2015	Director of Risk Appetite	CRO	Minor updates to align SHUSA and Entities
2.0	June 2016	Director of Risk Appetite	CRO	Annual update and alignment with Entities

8.2 Sign-Off

Approving Body	Governance Committee Approval or Endorsement	Final Approval Date
Enterprise Risk Management Committee	N/A	September 2015
Director of Risk Appetite	N/A	November 19, 2015
Enterprise Risk Management Committee	Risk Appetite Team	TBD
SHUSA RC	SHUSA ERM C	TBD
SHUSA Board	SHUSA RC	TBD