**Santander Holdings USA**

**(SHUSA)**



**RISK APPETITE STATEMENT**

ENTERPRISE

CREDIT POLICY

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# Introduction

* 1. Purpose of the document

The Santander Holdings USA, Inc. (“SHUSA”) Risk Appetite Statement (“RAS”) defines the types and, where appropriate, level of risk the Board of SHUSA is willing and able to accept in pursuit of its strategic objectives.

The RAS is a tool to help the Board monitor and control the key risks that SHUSA is exposed to, either directly through its activities or indirectly through the activities of its subsidiaries. The RAS, through a set of qualitative statements and quantitative limits that describe the level of risk that is acceptable to the enterprise, articulates the way in which SHUSA expects risk to be managed and controlled. Key risk limits quantify acceptable risk management boundaries where possible. Risk Appetite is consistent with, and incorporated into, the capital, strategic and resolution plans as part of the enterprise wide risk management program.

The RAS is articulated by the Chief Risk Officer (“CRO”) in consultation with the Chief Executive Officer (“CEO) and the Chief Financial Officer (“CFO”). It is proposed jointly by the CEO and the CRO to the Executive Risk Management Committee (“ERMC”), the Risk Committee (“RC”) and the Board.

The RAS must be read in conjunction with the SHUSA Risk Appetite Framework document (reviewed and approved by the Risk Committee) which sets forth the governance, core principles, and key requirements for developing and approving the SHUSA RAS and those of its subsidiaries.

* 1. Scope

This RAS applies to SHUSA and includes metrics and limits set either at the consolidated entity level or at the level of its subsidiaries.

* 1. Document approval and maintenance

The RAS document is owned by the CRO and is approved by the SHUSA Board of Directors.

The RAS is reviewed and approved by the Board at least annually or when material changes occur to SHUSA’s risk profile, strategy, or operating environment, to ensure that it remains applicable to SHUSA’s strategy and current and planned activities. Ad hoc RAS reviews can be performed at the discretion of the Board, CEO, or CRO. The RC and the ERMC may also initiate updates to the RAS in response to changing conditions. In any case, changes or updates must be approved by the Board.

# The SHUSA Risk Appetite Principles and Objectives

SHUSA’s RAS is underpinned by the principle that, as a holding company, SHUSA seeks to maintain a moderate risk profile, generate sustainable earnings, maintain strong capital levels and actively manage liquidity to remain solvent at all times, including through adverse or severe stress situations.

SHUSA and its subsidiaries will take the risks required to maintain and grow their businesses, but only if the risks are well understood and can be managed and controlled.

Within these principles, the RAS at SHUSA is further anchored in specific objectives for risk-taking.The boundaries established in SHUSA’s RAS are defined such that they allow SHUSA to achieve the following primary objectives:

* Limits in SHUSA’s RAS are designed to ensure that SHUSA meets regulatory constraints as an autonomous subsidiary. The Risk Appetite is set to ensure (i) SHUSA’s post-loss capital ratios in CCAR analysis are at or above internally-defined limits and (ii) SHUSA’s cash flow profile keeps its Liquidity Coverage Ratio (LCR) at or above limits.
* SHUSA’s Risk Appetite boundaries are defined to ensure that SHUSA’s balance sheet, earnings and business profile (e.g., asset quality, liquidity, and concentrations) are consistent with stakeholder expectations for prudent risk management.
* SHUSA’s RAS establishes Board-level expectations for processes and controls in place for non-financial risks (e.g., no tolerance for use of non-validated models, risk-averse approach to operational, conduct and regulatory risk).
* SHUSA’s RAS complies with Santander S.A.’s (or “Group”) consolidated risk appetite by including metrics that adhere to Group RAS principles, as applicable to SHUSA’s business.
* SHUSA and its subsidiaries will not pursue certain business, relationships, or industry sectors that do not align with its core values and strategic objectives or are prohibited by law. Other specific business, relationship, and industry restrictions are defined in relevant risk management policies.
* SHUSA seeks to balance the quantity of identified inherent risks with adequate controls to ensure that all risks are appropriately managed within the appetites set forth in this RAS. New or emerging risk exposures identified at SHUSA and its subsidiaries through the New Product and Business Activity process, the Material Risk Program, or any other change management process including the acquisition or divestment of businesses or portfolios will undergo a risk appetite review, and any risk types that are not already monitored in the RAS may require the addition of metrics and limits.

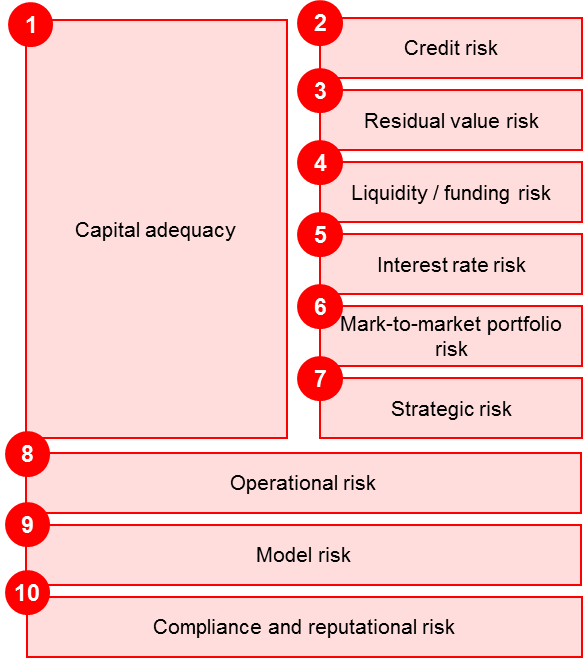
The Board of SHUSA is committed to establishing and maintaining a risk management culture that combines business strategy with prudent risk-taking, transparency, and ethical business practices. This includes fair and transparent business practices and a zero-appetite approach to willful noncompliance with all applicable laws, rules, and regulations. SHUSA’s remuneration and incentive programs support the wider risk management and risk appetite objectives.

# The SHUSA Risk Taxonomy

The SHUSA RAS establishes qualitative statements, metrics, and thresholds for the key risk types that are included in the SHUSA Enterprise Risk Management (ERM) Framework and, in addition, it addresses capital adequacy as the cornerstone of risk appetite.

SHUSA has defined its RAS in order to manage and control its financial risk profile and to minimize control-related risks. Financial risks include capital adequacy, credit risk, residual value risk, liquidity / funding risk, interest rate risk, mark-to-market portfolio risk, and strategic risk. Control-related risks include operational risk, model risk, compliance and reputational risk.

The SHUSA Risk Appetite Taxonomy is shown below:



1. Qualitative Statements and Quantitative Metrics by Risk Category

The RAS is organized by risk category and comprises qualitative statements and quantitative metrics.

The qualitative statements articulate SHUSA’s approach towards managing a given risk. The quantitative metrics set specific limits for defined risk metrics associated with the risk category. Together, these statements and limits express SHUSA’s appetite to risk exposure. These statements and metrics are found on the following pages[[1]](#footnote-1).

Each quantitative metric is assigned one of three status categories – green, amber, or red – based on performance against risk appetite limits.



Each limit and metric is owned by one or more front line executives that has day-to-day risk management and control responsibilities. Metrics with green status are within a range that SHUSA is willing to accept. Amber and red statuses, classified as “triggers” and “limit breaches” respectively, indicate that the risk level is in danger of exceeding (amber) or has exceeded (red) the amount of risk acceptable to SHUSA. Both triggers and limit breaches prompt an escalation and remediation process within SHUSA and its subsidiaries[[2]](#footnote-2).

Stressed appetite limits are set for select, market-driven risk types (namely capital adequacy, credit, liquidity, and market risk) whose exposure levels are directly affected by macroeconomic or idiosyncratic factors. Stressed appetite limits can be tested against current performance either through monthly metric calculations (e.g., market risk, liquidity risk, and certain credit risk metrics) or during SHUSA’s regularly scheduled stress tests.

Additionally this RAS provides authority to establish limits or metrics for specific risk types or subtypes that are not explicitly addressed by the metrics defined below.

|  |  |  |  |
| --- | --- | --- | --- |
| **1. Capital Adequacy** | | | |
| **1st Line of Defense Owner: SHUSA Chief Financial Officer**  **2nd Line of Defense Risk Management unit: SHUSA Chief Risk Officer** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA will hold sufficient capital to act as a source of strength for its subsidiaries, 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. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| **Baseline – SHUSA Consolidated** | | | |
| Common Equity Tier 1 Ratio | **11.00%** | **10.50%** | **Floor** |
| Tier 1 Risk-based Capital Ratio | **12.50%** | **12.00%** | **Floor** |
| Total Capital Ratio | **14.50%** | **14.00%** | **Floor** |
| Tier 1 Leverage Ratio | **10.25%** | **9.75%** | **Floor** |
| Tangible Common Equity Ratio | **10.50%** | **10.00%** | **Floor** |
| **Stress – SHUSA Consolidated** | | | |
| Common Equity Tier 1 Ratio | **7.50%** | **6.50%** | **Floor** |
| Tier 1 Risk-based Capital Ratio | **9.00%** | **8.00%** | **Floor** |
| Total Capital Ratio | **11.00%** | **10.00%** | **Floor** |
| Tier 1 Leverage Ratio | **7.00%** | **5.00%** | **Floor** |
| Tangible Common Equity Ratio | **7.25%** | **6.25%** | **Floor** |

|  |  |  |  |
| --- | --- | --- | --- |
| **2. Credit Risk (1/2)** | | | |
| **1st Line of Defense Owner: All business line executives**  **2nd Line of Defense Risk Management unit: SHUSA Credit Risk Management function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA is willing to take credit risks that it understands and that fall within its risk appetite:   * It 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; * It will monitor and manage portfolio quality and concentrations, including borrower and collateral quality, portfolio diversification across product, industry, geography, collateral type, and client segment; * It will carefully monitor and manage the size of its subprime portfolio; * It 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. | | | |
| **QUANTITATIVE METRICS** | | | |
| The quantitative credit risk metrics defined by the RAS are applied separately to each of SHUSA’s material portfolios. Material portfolios are defined as those having credit exposures of more than $5BN or representing a Business Line that is of key strategic importance.  These metrics fall into three categories:   * CCAR “loss budget”, i.e. the amount of stressed losses under SHUSA’s BHC scenario that can be absorbed without threatening the enterprise’s ability to remain above its internally-defined post-stress capital ratios; * Business-as-usual asset quality measures, i.e. net charge-off rate and delinquency; * Portfolio concentration measures. | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| **CCAR loss budget - Stressed** | | | |
| SCUSA Auto | **$6,575MM** | **$7,000MM** | **Ceiling** |
| SCUSA Unsecured | **$1,175MM** | **$1,250MM** | **Ceiling** |
| SBNA Retail | **$675MM** | **$725MM** | **Ceiling** |
| SBNA Wholesale | **$1,250MM** | **$1,350MM** | **Ceiling** |
| SBNA GBM | **$375MM** | **$400MM** | **Ceiling** |
| **Net charge-off rate - Actuals** | | | |
| SCUSA Auto | **7.8%** | **8.5%** | **Ceiling** |
| SCUSA Unsecured | **18.0%** | **20.0%** | **Ceiling** |
| SBNA Retail | **1.0%** | **1.3%** | **Ceiling** |
| SBNA Small Business Banking + Business Banking + Auto | **0.7%** | **0.9%** | **Ceiling** |
| **2. Credit Risk (2/2)** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| **Net charge-off rate – Actuals (continued)** | | | |
| SBNA C&I | **0.5%** | **0.7%** | **Ceiling** |
| SBNA CRE | **0.3%** | **0.5%** | **Ceiling** |
| SBNA GBM | **0.2%** | **0.4%** | **Ceiling** |
| **61+ days past due - Actuals** | | | |
| SCUSA Auto | **4.4%** | **4.9%** | **Ceiling** |
| SCUSA Unsecured | **7.0%** | **8.0%** | **Ceiling** |
| **60+ days past due - Actuals** | | | |
| SBNA Retail | **5.0%** | **7.5%** | **Ceiling** |
| **Portfolio concentration measures - Actuals** | | | |
| SBNA – # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > $100MM | **N/A** | **0** | **Ceiling** |
| SBNA – Industry exposure (by OCC group) | **$4.5BN** | **$5.0 BN** | **Ceiling** |
| SBNA – CRE exposure (excl. Multifamily) | **$10.5BN** | **$11.0BN** | **Ceiling** |
| SBNA – Multifamily exposure | **$10.0BN** | **$10.5BN** | **Ceiling** |
| SBNA – Single obligor exposure | **N/A** | **$500MM** | **Ceiling** |
| SBNA – Top 20 obligors exposure | **$7.0BN** | **$8.0BN** | **Ceiling** |

| **3. Residual Value Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owner: SCUSA CEO**  **2nd Line of Defense Risk Management unit: SHUSA Credit Risk Management function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA 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 subsidiaries’ capital strength under baseline or stress. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SCUSA – Residual value deterioration | **$500MM** | **$525MM** | **Ceiling** |
| SCUSA – Net residual value exposure | **5.0%** | **9.0%** | **Ceiling** |
| SCUSA – Stressed Residual Value Impact / Lifetime Profit | **TBD** | **TBD** | **Ceiling** |
| SCUSA – Stressed Residual Value Impact / CET1 | **TBD** | **TBD** | **Ceiling** |

| **4. Liquidity / Funding Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owner: SHUSA Chief Financial Officer**  **2nd Line of Defense Risk Management unit: SHUSA Liquidity Risk Management function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA will ensure that, together with its subsidiaries, it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.  SHUSA will diversify its funding sources and minimize its dependence on capital markets. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – Stressed Survival Period | **90 days** | **60 days** | **Floor** |
| SHUSA Consolidated – Liquidity Coverage Ratio | **140%** | **125%** | **Floor** |
| SHUSA Consolidated – Structural Funding Ratio | **105%** | **100%** | **Floor** |
| SCUSA – Available committed liquidity / average projected net originations | **< 6 months** | **< 5 months** | **Floor** |

| **5. Interest Rate Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owner: SHUSA Chief Financial Officer**  **2nd Line of Defense Risk Management unit: SHUSA Market Risk Management function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA 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.  To minimize its exposure to Interest Rate Risk, SHUSA will hedge via instruments that it understands. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – Net interest income sensitivity (+/- 100bps shock) | **($120)MM** | **($140)MM** | **Floor** |
| SHUSA Consolidated – Market value of equity sensitivity (+/- 200bps shock) | **($1,070)MM** | **($1,220)MM** | **Floor** |

| **6. Mark-to-market Porfolio Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owners: SBNA Global Banking and Markets Head of Trading, SCUSA and SBNA Chief Financial Officers**  **2nd Line of Defense Risk Management unit: SHUSA Market Risk Management function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA and its subsidiaries 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. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – Mark-to-market Value at Risk (VaR) | **$24.4MM** | **$28MM** | **Ceiling** |

| **7. Strategic Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owners: SHUSA Chief Executive Officer, Subsidiary Chief Executive Officers**  **2nd Line of Defense Risk Management unit: SHUSA Chief Risk Officer, Subsidiary Chief Risk Officers** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA strives to deliver consistent performance through pragmatic risk-taking. SHUSA 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.  It will ensure that adequate governance and oversight processes and controls are in place for all business activities, products, and services.  SHUSA’s strategic planning process will both consider and work with the risk appetite setting, capital planning, and recovery and resolution planning processes. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – Pre-provisioned net revenue (PPNR) impairment | **$3,825MM** | **$4,100MM** | **Ceiling** |
| SHUSA Consolidated – Loss in Stress | **100%** | **150%** | **Ceiling** |
| SCUSA subprime assets as a % of SHUSA total credit exposure | **TBD** | **25%** | **Ceiling** |
| SCUSA Total Risk Weighted Assets (RWAs) | **Set as $2BN less than the red limit [$34.4BN for July 2015]** | **Set so SCUSA CET1 is 11% based on prior month capital level [$36.4BN]** | **Ceiling** |

| **8. Operational Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owners: All employees of SHUSA and its Subsidiaries**  **2nd Line of Defense Risk Management unit: SHUSA Operational Risk function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA 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.  SHUSA 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. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **APPETITE TRIGGER** | **OUTER LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – Gross operational risk losses / gross margin | **3.0%** | **5.0%** | **Ceiling** |
| SHUSA Consolidated – Frequency of events >$200K in losses | **9** | **16** | **Ceiling** |

| **9. Model Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owners: All Model Owners, Model Developers and Model Users**  **2nd Line of Defense Risk Management unit: SHUSA Model Risk Management function** | | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA will enforce model monitoring standards in line with industry practices and regulatory requirements.  It will allocate more resources to those models with the highest risk level (Tier 1).  It will ensure no new models are used or put into production without the appropriate approval. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – Backlog of Tier 1 models not appropriately approved | **N/A** | **By end of:**   * **4Q2015: 102** * **2Q2016: 90** * **4Q2016: 60** * **2Q2017: 30** * **4Q2017: 0** | **Stair step ceiling** |

| **10. Compliance and Reputational Risk** | | | |
| --- | --- | --- | --- |
| **1st Line of Defense Owners: All Staff SHUSA and Subsidiaries**  **2nd Line of Defense Risk Management unit: SHUSA Compliance function** | | | |
| **QUALITATIVE STATEMENTS** | | | |
| SHUSA 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.  It 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.  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.  SHUSA expects that its employees will act with the highest ethical standards at all times. | | | |
| **QUANTITATIVE METRICS** | | | |
| **SHUSA RISK APPETITE METRICS** | **AMBER TRIGGER** | **RED LIMIT** | **LIMIT TYPE** |
| SHUSA Consolidated – # Matters Requiring Immediate Attention (MRIAs) | **N/A** | **0** | **Ceiling** |
| SCUSA serviced for others monthly net charge-off rate | **1.5%** | **2%** | **Ceiling** |

1. Appendices

Appendix A – Risk Type Glossary

| **Risk Type** | **Definition** |
| --- | --- |
| **Capital Adequacy** | Risk of having insufficient capital to sustain operations, leading to regulatory action, or ultimately failure, under stressed condition |
| **Credit Risk** | Risk of loss of principal due to a borrower's failure to repay a loan |
| **Residual Value Risk** | Risk that the value of a leased asset realizable on sale will be lower than the projected value used in establishing pricing |
| **Liquidity / Funding Risk** | Risk of insufficient funding to sustain operations or liquid assets to support liability outflows |
| **Interest Rate Risk** | Risk to the bank’s earnings, capital , and economic value arising from movement of interest rates, mismatch of asset and liability cash flows and investment of equity |
| **Mark-to-market Portfolio Risk** | Risk to the bank’s earnings and capital arising from changes in the value of portfolios of financial instruments (due to market-making, dealing, and position-taking activities) |
| **Strategic Risk** | Risk of loss or reduced earnings resulting from strategies or business decisions |
| **Operational Risk** | Risk resulting from breakdowns in internal processes, people, systems or from external events |
| **Model Risk** | Risk of improper development, validation, implementation, and use of models in production |
| **Compliance and Reputational Risk** | Risk of failing to comply with internal guidelines and external regulations and risk arising from negative perceptions on the part of external stakeholders (e.g., customers, counterparties, shareholders) |

Appendix B – Risk Appetite Escalation and Remediation Protocol

This section summarizes the process by which Risk Appetite Statement (“RAS”) triggers and breaches are escalated and remediated within SHUSA. It includes information on the metric monitoring process, the types of triggers and limit breaches that may occur, escalation timelines, and responsibilities for each step in the escalation and remediation process. This is a summary version of the full "Risk Appetite Monitoring and Escalation Procedure" which is approved by the Enterprise Risk Management Committee (“ERMC”).

**Risk Monitoring and Reporting**

Deep-dive reports, which include granular analysis on each metric, are presented to the ERMC monthly and the Board Risk Committee (“RC”) quarterly. Summary reports, which indicate the status of each metric, are sent to the ERMC, the RC, and the Board every month.

**Metric Status Definition and Resulting Action**

Metrics are assigned one of three status categories – green, amber, or red – based on performance against risk appetite triggers and limits.

**Exhibit 1: Metric status definitions**



Metrics with green status are within a range that SHUSA is willing to accept. Amber and red statuses, classified as “triggers” and “limit breaches” respectively, indicate that the risk level is in danger of exceeding (amber) or has exceeded (red) the amount of risk acceptable to SHUSA. Both triggers and limit breaches prompt an escalation and remediation process within SHUSA and its subsidiaries.

**Escalation and Remediation Process**

Initial responsibility for escalating SHUSA Risk Appetite metric triggers and limit breaches falls to the metric owner or the owner’s delegated representative. For those metrics where there is a defined relationship between the metric and a business line at a subsidiary (e.g., the SBNA Retail portfolio, SHUSA consolidated liquidity metrics), identified metric owners are the heads of the business line. Where a metric applies across multiple business lines, metric ownership is assigned to business line leadership at either SHUSA or the subsidiary affected by the trigger or breach. Where there is no clear metric owner in the business, the SHUSA CRO has the authority to select an owner or request that the risk type head fill role requirements.

Immediately after a trigger or limit breach is discovered, the metric owners, working with the SHUSA and subsidiary risk type heads, will notify the SHUSA CRO, who is responsible for determining the pathway and speed of further escalation. Many triggers or breaches will be escalated within SHUSA using the standard approval process described below, but the CRO may choose to adjust the process by including additional individuals, escalating immediately to the RC or the Board, or escalating to some or all committees through notification rather than presentation.

Under the standard escalation process, metric owners, with the assistance of the SHUSA risk type head, first develop a report to present to the ERMC. The report provides root cause information as well as a proposal for an action plan that includes milestones, responsible parties, and timelines for remediation. After the ERMC reviews the report and considers the appropriateness of the action plan, the metric owners may be requested to present the action plan to the RC, which is responsible for final approval. The Board is notified of all action plans, and it may be required to approve certain measures, including all adjustments to the SHUSA RAS.

The subsidiary ERMC and RC are responsible for approving action plans for triggers and limit breaches set at the subsidiary level, though the SHUSA ERMC retains the right to review the plans and recommend adjustments.

**Exhibit 2: SHUSA standard escalation process**



Once the action plan is approved, the risk type head is responsible for collaborating with and coordinating the relevant metric owners to ensure that the action steps are carried out according to plan. Risk and metric owners continue to monitor progress against the timelines within the action plan until the metric once again has a green status. In cases in which action plan milestones are not completed within agreed timelines, the issue is re-escalated to the parties cited in the action plan.

**Action Plan Options**

There are numerous types of actions that can be used to remediate a trigger or limit breach. The action plan selected depends on the business environment, macroeconomic factors, risk type, SHUSA’s strategic direction, and the ability of SHUSA business units to enact certain changes. Action plans can include, but are not limited to, immediate or time-lagged reduction of risk position, acceptance of a temporary exemption, or changes in RAS metric calibration.

1. **Document History and Version Control** 
   1. **Ownership and Authorship**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Version** | **Date** | **Author** | **Owner** | **Change** |
| 1.0 | 1/22/13 | CRO | Board of Directors | Replaced by version 2.0 |
| 2.0 | 7/25/14 | CRO | Board of Directors | Annual update and enhancements to adapt industry and regulatory best practices |
| 3.0 | September 2015 | CRO | Board of Directors | Change from “Risk Tolerance Statement” to “Risk Appetite Statement”  Update of methodology and limits to adapt to industry practice and regulatory best practices |

* 1. **Sign-Off**

|  |  |  |
| --- | --- | --- |
| **Approving Body** | **Governance Committee Approval or Endorsement** | **Final Approval Date** |
| SHUSA RC | SHUSA ERMC | 7/24/2014 |
| SHUSA Board | SHUSA RC | 7/25/2014 |
| SHUSA Board | SHUSA RC | September 2015 |

1. The SHUSA Risk Appetite Metrics Glossary document details each quantitative metric, its owner, the calculation process, and the frequency of reporting, [↑](#footnote-ref-1)
2. The Monitoring and Escalation Process document describes in detail limit monitoring and breach escalation procedures. A summary of the Process can be found in Section 5, Appendix B of this RAS. [↑](#footnote-ref-2)