**Appendix IV: Setting the Risk Appetite**

1. Losses

A Risk Appetite Statement for loss should be calculated for Credit, Market, Non-traded Market and Operational Risks. Any Conduct Risk related losses should be included in Operational Risk losses; management will monitor Conduct Risk and escalate any issues to the Board when considered appropriate.

The appetite for loss can be determined using a number of data sources such as:

* **Reverse stress test results**: The results of the reverse stress test are used to calculate the risk capacity. This sets the boundary within which the appetite can sit as appetite must always be less than capacity.
* **Historical loss data:** Historic loss data points will be used to show loss amounts in recent years at the Santander UK Group level and for individual risk types.
* **Stress test results:** The stress testing results serve to articulate the level of loss that the current business plans could potentially deliver under given scenarios.
* **Regulatory and rating agency expectations:** Reference should be made to the Santander UK Group Financial Strength Rating (BSFR) models used by the rating agencies to determine the credit rating of banks as an indication of the range in which losses would be considered acceptable and not have an adverse impact on the Santander UK Group’s rating.
* **Business Plans:** Losses should consider the commercial strategy of the Santander UK Group, set out in the three year plan.

These data sources allow senior management and the Board to reference stakeholder reactions (markets, regulators, rating agencies, etc.) to any event and understand whether that level of loss can be considered acceptable and within the appetite of the Santander UK Group. This will assist the determination of whether that level of loss would be accepted again in the future under stressed conditions.

1. Capital

The objective is to determine the level of capital that the Santander UK Group is willing to accept in the pursuit of its business objectives under stress conditions.

The appetite for capital metrics can be determined taking into consideration the following:

* **Minimum regulatory requirements:** the Santander UK Group should comply at all times with the minimum requirements form regulators and supervisors.
* **The Santander UK Group Capital Strategy:** The capital ratios should be in line with the capital level established in the Capital Strategy.
* **Rating agencies expectations:** The level of capital should be set according to the minimum rating that the Santander UK Group is willing to accept. Reference should be made to the Santander UK Group Financial Strength Rating (BSFR) models used by the Rating agencies to determine that rating.
* **Stress Test results:** The stress testing results serve to articulate the level of capital that the current business plans could potentially require under given scenarios.
* **Reverse Stress Test result:** The reverse stress test results are used to calculate the risk capacity. This sets the boundary within which the Risk Appetite can sit and the minimum capital required under that scenario.

1. Liquidity

The objective is to determine the level of liquidity that the Santander UK Group is willing to maintain to remain solvent with a resilient funding structure and to shape the liquidity profile of the balance sheet to be less likely to suffer a idiosyncratic liquidity crisis:

* **Regulatory and Group compliance:** comply with Grupo Santander S.A. liquidity standards and regulatory liquidity ratios at all times.
* **Rating agencies expectations:** The level of liquidity should be set according to the minimum rating that the Santander UK Group is willing to accept. Reference should be made to the Santander UK Group Financial Strength Rating (BSFR) models used by the Rating agencies to determine that rating.
* **Stress Test results**: The stress testing results serve to articulate the level of liquidity that the current business plans could potentially demand under given scenarios.
* **Reverse Stress Test results:** The reverse stress test results are used to calculate the risk capacity. This sets the boundary within which the Risk Appetite can sit and the required liquidity ratios under that scenario.