Santander Holdings USA, Inc.



Capital policy

Enterprise

|  |  |
| --- | --- |
| Santander Holdings USA, Inc. (“SHUSA”) believes that our success is grounded in our values, which are also shared by Banco Santander, S.A. and its subsidiaries (collectively with SHUSA, “Santander”). Santander’s commitment to treat customers, colleagues and stakeholders in a manner that is *Simple, Personal and Fair* means that every action undertaken by a SHUSA Team Member is founded on *Integrity, Customer Commitment, People, Teamwork, Ownership,* and *Innovation*. It is because of this commitment throughout the Santander organization that Santander’s customers, clients, and shareholders trust us to deliver world class products and services and select Santander. Safeguarding this trust – by always conducting business responsibly, with integrity and a disciplined approach to risk management – is a responsibility shared by each SHUSA Team Member. | Integrity  Customer Commitment  People  Teamwork  Ownership  Innovation    Simple  Personal  Fair    Risk Management |

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1. Introduction
   1. Executive Summary

Santander Holdings USA, Inc. (“SHUSA” or the “Company”) is a bank holding company (“BHC”) that is wholly-owned by Banco Santander, S.A. The SHUSA Enterprise Capital Policy (the “Policy”) is meant to guide management decisions on capital, including capital distributions, and to provide a framework for management’s capital adequacy process.

In addition to this Policy, which applies to SHUSA, significant subsidiaries have adopted capital polices that are consistent and tailored to each risk profile. See Appendix 12.1 for the capital goals and targets of Santander Bank, National Association (“SBNA” or the “Bank”) and Santander Consumer Holdings USA Inc. (“SC”).

SHUSA has also developed formal plans to absorb additional operating and non-operating subsidiaries in compliance with the intermediate holding company requirements (the “IHC Rule”). The following entities will be subject to the Policy upon consolidation and currently have their own capital policies.

* Banco Santander Puerto Rico (“BSPR”)
* Banco Santander International (“BSI”)
* Santander Investment Securities, Inc. (“SIS”)
  1. Purpose of the Document

The Policy outlines the consolidated capital governance structure and sets out the principles and guidelines for measuring, monitoring, managing and controlling SHUSA’s current and forward-looking capital position. The Policy requires formally documenting capital expectations, assessing capital quarterly, and monitoring it monthly using early warning indicators (“EWIs”), and applying capital contingency plans and other processes.

Aimed at maintaining adequate capitalization levels, the Policy outlines strategies to address capital shortfalls and ensure compliance with regulatory requirements. It also establishes minimum expectations for the materials and metrics to be reviewed and considered by decision-makers when approving proposed capital actions such as capital distributions.

* 1. Scope

This Policy shall be applicable to SHUSA. Full implementation of this Policy is required immediately upon review and approval by the Board of Directors (“Board”).

1. Policy
   1. Policy Statement

SHUSA is a bank holding company (“BHC”) regulated by the Federal Reserve Board (the “Federal Reserve”). SHUSA’s primary capital objective is to maintain sufficient capital at all times, including during periods of stress, so it can continue to operate as a financial intermediary and serve as a source of strength to its depository institution subsidiaries.

Executive management is required to assess capital adequacy according to the capital management framework (see Appendix 12.3), and adhere to the limits and requirements of each capital assessment level.

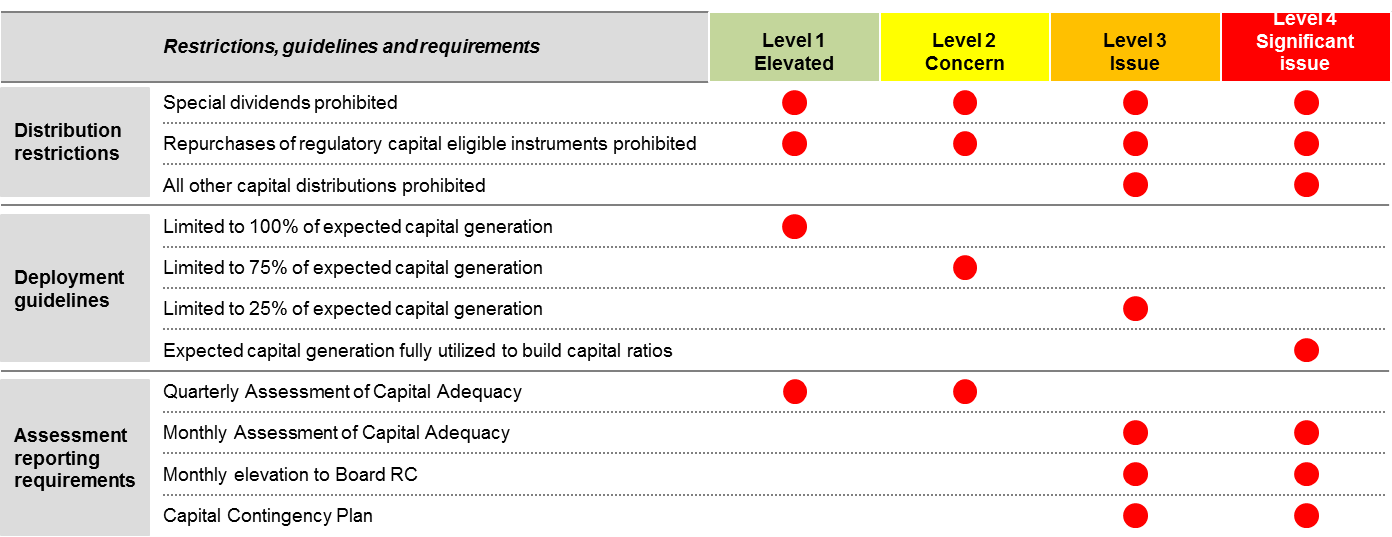
The capital management framework guides capital decisions by assessing SHUSA’s capital adequacy. In this framework, capital adequacy is primarily assessed by comparing current and forecast capital ratios (determined using stress testing analysis) to the Board-approved capital expectations. The framework also incorporates input from the Asset-Liability Committee (“ALCO”), risk and Treasury as well as metrics that are EWIs of changing conditions (e.g. change in charge-offs as a % of total loans at SC). As shown below, the framework determines SHUSA’s capital risk level based on the severity of different assessment criteria.

**Figure 1 – Summary of Capital Adequacy Framework**



Restrictions and requirements at each capital assessment level include reporting expectations, capital distribution limitations, governance expectations and requirements for the Capital Contingency Process (“CCP”). As shown below, the required actions become more severe as the risk assessment level increases.

**Figure 2 – Summary of Limitations and Requirements**



1. Capital Expectations
   1. Overview

The Policy and capital assessment process is built around capital expectations, both on a current or spot basis as well as projected under different scenarios. These expectations establish capitalization minimums against which management is required to manage. SHUSA maintains capital levels to ensure the safety and soundness of the institution, support its business plans, anticipate the impact of adverse economic conditions, and meet current and anticipated regulatory requirements. Capital expectations are set for capital ratios that are based on SHUSA’s risk-weighted assets and average assets. As part of the Policy, the capital expectation levels are reviewed at least once a year.

The Policy and the Risk Appetite Statement (“RAS”) are highly interrelated. Capital adequacy RAS triggers and limits are driven by Policy capital expectations, derived from stress testing results and tested against in stress testing results. (Please see the Enterprise Risk Management Framework for a discussion of the RAS.) Annual stress testing results inform both the RAS limit setting process for losses and impairments (Please see the SHUSA RAS Framework) and the capital expectations estimation process for the following year / policy update. For a detailed discussion of the capital expectations estimation process please see Appendix 12.4.

The capital expectations are illustrated in the Figure 3 below followed by a short discussion of the key components.

**Figure 3 – Summary of Capital Expectations**



* 1. Capital Expectations

SHUSA’s capital expectations include post-stress capital ‘goals’ and real-time targeted capital levels. SHUSA’s “Post-Stress Minimum” equates to the Federal Reserve’s definition of ‘capital goal’ and SHUSA’s “Planned Capital Hold” equates to the Federal Reserve’s concept of ”Capital Target”. SHUSA’s “Business-as-usual Minimum” represents the levels of capital SHUSA should hold in a normal environment. Further discussion of quantification and supporting analysis is included in Appendix 12.4. A brief discussion of the Post-Stress Minimum, Planned Capital Hold and the components of each is included below.

* 1. Post-Stress Minimum

The post-stress minimum for each relevant capital ratio represents a minimum after realization of severe stress or operational losses. It is meant to represent the level of capital that SHUSA must maintain to be able to access key funding sources following a period of stress. This level of capital is intended to align with future expectations of potential fixed-income investors, equity investors, depositors and other creditors of the Company in a stressful environment. It also incorporates rating agency criteria. The post-stress minimum includes an additional buffer to account for operating volatility given the criticality of having sufficient capital to maintain access to key funding sources.

* + 1. Market funding component

SHUSA estimates the market funding component of the capital expectations at a level that management believes will ensure SHUSA’s ability to maintain access to sufficient funding after a stressful event or conditions. For regulated entities, such as SHUSA, this component represents the amount of capital incremental to what has been defined by regulators as “Adequately Capitalized” under Prompt Corrective Action (“PCA”) regulations[[1]](#footnote-1).

* + 1. Operating volatility component

The operational volatility buffer is added to the market funding minimum in order to ensure that quarterly variability in capital ratios post-stress does not result in loss of access to key funding sources in a post-stress environment. This helps ensure even after stress SHUSA can continue to extend credit and can tolerate modest variability in capital ratios.

* 1. Business-as-usual minimum

The business-as-usual (“BAU”) minimum ratio represents the target amount of capital SHUSA should hold in advance of realizing severe stress or operational losses. It consists of the post-stress minimum ratio and the additional capital held for stress absorption. This is the capital level above which SHUSA should operate in a normal or non-stress environment.

* + 1. Stress absorption component

The stress absorption component represents capital held to absorb losses that are outside a normal operating environment. Stress absorption capital should be sufficient to absorb the impact of severe macroeconomic stress environments and large idiosyncratic operational loss events. The scenarios which drive the stress absorption estimation process must be more severe than the Federal Reserve’s Severely Adverse Comprehensive Capital Analysis and Review (“CCAR”) stress scenario. The scenario generation process and stress results drive the firm capital limits in RAS.

* 1. Planned capital hold

Planned capital hold refers to SHUSA’s operating capital target and consists of the BAU minimum ratio, any capital held for strategic purposes, and capital held for process weaknesses and uncertainty. Capitalization above this level is defined as an adequate level of capital and may be distributed in accordance with the Company’s policies and procedures.

* + 1. Strategic capital component

The impact and risk profile of activities included in the Company’s strategic plan are fully considered within the BAU minimum. However, management may wish to identify an amount of capital specifically for opportunistic strategic initiatives that may fall outside SHUSA’s strategic plan.

* + 1. Management adjustment component

The management adjustment component helps capture potential weaknesses and uncertainty in capital adequacy processes.

* 1. Current capital expectations

SHUSA’s current capital expectations and related components are identified below in Figure 4.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Figure 4: SHUSA 2016 Capital Expectations** | | | | |
| **Capital Component** | **CET1** | **Tier 1 Capital** | **Total Capital** | **Tier 1 Leverage** | |
| Adequately Capitalized PCA | 4.50% | 6.00% | 8.00% | 4.00% | |
| Market funding | 1.75% | 1.75% | 1.75% | 1.75% | |
| Operating volatility | 0.30% | 0.35% | 0.30% | 0.60% | |
| **Post-stress minimum** | **6.55%** | **8.10%** | **10.05%** | **6.35%** | |
| Stress absorption | 3.70% | 3.65% | 3.45% | 3.65% | |
| **BAU minimum** | **10.25%** | **11.75%** | **13.50%** | **10.00%** | |
| Strategic capital | 0.00% | 0.00% | 0.00% | 0.00% | |
| Management adjustment | 0.75% | 0.75% | 0.75% | 0.45% | |
| **Planned capital hold** | **11.00%** | **12.50%** | **14.25%** | **10.45%** | |

1. Capital Management Framework
   1. Framework

The capital management framework formalizes the processes that provide management and the Board with the necessary information to promote prudent and well-documented capital decisions.

Management is required to assess capital adequacy and determine the appropriate capital risk assessment level.

| **Figure 5: Capital Risk Assessment levels** | | |
| --- | --- | --- |
| **Level 0** | **Normal** | **Dark Green** |
| **Level 1** | **Elevated** | **Light Green** |
| **Level 2** | **Concern** | **Yellow** |
| **Level 3** | **Issue** | **Orange** |
| **Level 4** | **Significant Issue** | **Red** |
| **Level 5** | **Resolution Plan[[2]](#footnote-2)** | **Purple** |

The capital expectations quantified in Section 3.6 form the foundation of the capital assessment process. These expectations establish capitalization minimums against which management is required to manage pre- and post-stress. Actual and forecasted capital ratios in relation to capital expectation levels determine the minimum capital risk assessment level.

Factors other than capital ratios can result in an increase in the minimum capital risk assessment level. These factors include EWIs[[3]](#footnote-3) as well as analyses covering risk management, Treasury factors (liquidity, interest rates), economic conditions and peer performance. At each capital risk assessment level, a set of criteria is defined and can be used by management to further assess capital and determine whether the capital risk assessment level should be increased.

At each capital risk assessment level, there are defined reporting requirements as well as limitations on capital distributions and capital deployment. At certain capital risk assessment levels, the CCP is activated. (Please see Figures 8 through 10 for additional requirements by assessment level.)

The process for capital management is illustrated below in Figure 6:

|  |
| --- |
| **Figure 6: Capital Management Framework** |
| **Capital Levels**  Current and forecast ratios in Base and Stress scenarios vs. capital expectations  **Qualitative Assessment**  ALCO’s review of risk and economic information  **Early Warning Indicators**  Triggered early warning indicators  **Reporting Requirements**  A deteriorating assessment drives additional reporting requirements  **Distribution Restrictions**  A deteriorating assessment restricts common dividends and total capital deployment  **Capital Contingency Process**  Levels 2 through 4 require activation of the CCP  **Level 0 Normal**  **Level 1 Elevated**  **Level 2 Concern**  **Level 3 Issue**  **Level 4 Significant Issue**  **Level 5 Resolution Plan** |

* 1. Capital Levels[[4]](#footnote-4) in Relation to Assessment Level

Capital adequacy is primarily assessed by comparing current and forecast capital ratios (determined using stress testing analysis) to the Board-approved capital expectations. The capital assessment is made quarterly with monthly monitoring.

| **Figure 7: Minimum capital risk assessment levels with current and forecasted capital ratios** | | |
| --- | --- | --- |
| **Assessment Level** | **Current** | **Forecast** |
| **Normal**  **Dark Green** | * Current ratios are above “Planned” | * Baseline forecast remains above “Planned” * BHC Stress forecast and most recent Fed Severely Adverse forecast remain above “Post-Stress Minimum” |
| **Elevated**  **Light Green** | * Current ratios are above BAU | * Baseline forecast remains above BAU * BHC Stress forecast and most recent Fed Severely Adverse forecast remain above “Post-Stress Minimum” |
| **Concern**  **Yellow** | * Current ratios are above BAU | * Baseline forecast remains above BAU for at least 6 quarters of the forecast then may fall below * BHC Stress forecast or most recent Fed Severely Adverse forecast fall below “Post-Stress Minimum” |
| **Issue**  **Orange** | * Current ratios are below BAU * Current ratios are below the RAS limits | * Baseline forecast falls below BAU in the first 6 quarters of the forecast but remains above the “Post-Stress Minimum” * BHC Stress forecast or most recent Fed Severely Adverse forecast fall more than 50bps below the “Post-Stress Minimum” |
| **Significant Issue**  **Red** | * Any current ratio is below post-stress minimum | * Baseline forecast falls below the “Post-Stress Minimum” at any point |
| **Resolution Plan**  **Purple** | * Not driven by capital ratio forecasts | * Not driven by capital ratio forecasts |

* 1. Additional Assessment Level Criteria

The capital management framework includes additional assessment elements that must be considered by executive management when assessing capital adequacy. The intent of the assessment framework is to generate meaningful discussion and debate of capital and capital adequacy across internal functions. The factors that must be discussed include (please see “Appendix 12.3 - Figure 5: Assessment Levels aligned with EWI triggers and qualitative aspects” for more detail on these aspects):

* Number of EWIs current triggered (See Appendix 12.5 for EWIs and triggers)
* An assessment from risk management of current status vs. RAS thresholds (See Appendix 12.3 for specific metrics required.)
* An assessment from Treasury staff of current states vs. RAS thresholds (See Appendix 12.3 for specific metrics required.)
* Review of the current and prevailing forecast for the economic environment
* Discussion of current capital ratios in relation to peer group capital ratios (See Appendix 12.3 for specific metrics required.)
  1. Requirements & Limitations

The Policy is designed to enforce more restrictive limitations as the capital assessment level declines.

* + 1. Capital Distribution Limits and mitigating actions

| **Figure 8: Capital Distribution Restrictions** | |
| --- | --- |
| Level 0  **Normal** | * Ordinary dividends allowed up to 25% of trailing four quarter earnings * Special dividends allowed to 25% of trailing four quarter earnings (when combined with ordinary dividends allowed to 50% of trailing four quarter earnings) * Repurchases of regulatory capital eligible instruments allowed with appropriate supporting analysis |
| Level 1  **Elevated** | * Restrict ordinary dividends to 25% of trailing four quarter earnings * Special dividends prohibited * Repurchases of regulatory capital eligible instruments prohibited |
| Level 2  **Concern** | * Restrict ordinary dividends to 25% of trailing four quarter earnings * Special dividends prohibited * Repurchases of regulatory capital eligible instruments prohibited |
| Level 3  **Issue** | * Restrict all capital distributions |
| Level 4  **Significant Issue** | * Restrict all capital distributions |
| Level 5  **Resolution Plan** | * Restrict all capital distributions |

* + 1. Capital Deployment Guidelines

The framework is designed to curtail capital utilization at worse assessment levels. For example, at Level 2 “Concern” at least 25% of net income should go to building capital rather than capital distribution or balance sheet growth. Capital deployment limitations are guidelines rather than requirements and are not as restrictive as the requirements applied to reporting and capital distributions. Management should note in the quarterly capital assessment where planned or actual deployment exceeds guidelines.

| **Figure 9: Capital Deployment Guidelines** | |
| --- | --- |
| Level 0  **Normal** | * Planned capital deployment limited to 100% of expected capital generation, plus any strategic capital allocated for future capital deployment |
| Level 1  **Elevated** | * “Maintain capital” * Planned capital deployment limited to 100% of expected capital generation |
| Level 2  **Concern** | * “Constrain growth” - Build Capital with 25% of net income * Planned capital deployment limited to 75% of expected capital generation |
| Level 3  **Issue** | * “Constrain growth” - Build Capital with 75% of net income * Planned capital deployment limited to 25% of expected capital generation |
| Level 4  **Significant Issue** | * “Don’t grow” - Build Capital with 100% of net income * Expected capital generation fully utilized to build capital ratios |
| Level 5  **Resolution Plan** | * Not applicable |

* + 1. Capital Assessment Reporting Requirements

| **Figure 10: Capital Assessment Reporting Requirements** | |
| --- | --- |
| Level 0  **Normal** | * Quarterly assessment of capital adequacy * Elevated to ALCO |
| Level 1  **Elevated** | * Quarterly assessment of capital adequacy * Elevated to ALCO |
| Level 2  **Concern** | * Monthly assessment against key capital adequacy metrics * Quarterly assessment of capital adequacy * Quarterly elevation to Board Risk Committee (“RC”) * CCP Activated |
| Level 3  **Issue** | * Monthly Assessment of capital adequacy * Monthly elevation to RC * CCP Activated |
| Level 4  **Significant Issue** | * Monthly assessment of capital adequacy * Monthly elevation to RC * CCP activated |
| Level 5  **Resolution Plan** | * Ongoing as requested by Board RC |

Additional Policy reporting requirements are included in Appendix 12.7.

* 1. Other Factors that Require Action

The capital adequacy assessment report will go directly to the next scheduled ALCO meeting in the event of:

* Evidence suggesting capitalization measures have deteriorated by more than 50bp from the previous month results across any measure.
* The Capital Management Group (“CMG”) and the Enterprise Risk Management Committee (the “ERMC”) become aware of a significant impending loss or reputational event with the potential for a greater than 50bp impact to any capitalization measure.

The capital adequacy assessment report will go directly to a special session of the RC in the event:

* Evidence suggests capitalization measures have deteriorated by more than 75bp from the previous month results across any measure.
* The CMG and ERMC become aware of a significant impending loss or reputational event with the potential for a greater than 75bp impact to any capitalization measure.

1. Capital Distribution and Dividend Philosophy
   1. Capital distribution philosophy

SHUSA intends to distribute capital in a measured fashion subject to its capital expectations and regulatory limitations. SHUSA’s dividend goal is to return between 20% and 25% of post-tax earnings on a consistent quarterly basis, augmented by a year-end extraordinary dividend. SHUSA subsidiaries may have different distribution policies which are outlined in each subsidiary’s capital policy.

This distribution ‘pattern’ allows for ongoing dividends at a level that will not have a material negative impact on capital should SHUSA enter immediate or substantial stress and allow SHUSA to distribute excess capital already ‘earned’ through extraordinary dividends at year-end.

As defined in Section 4.4.1, SHUSA’s policy is to distribute no more than 50 percent of its post-tax earnings to its shareholder. The maximum amount of ordinary dividends is 25% of trailing four quarter post-tax earnings and the maximum amount of special dividends is also 25% of trailing four quarter post-tax earnings.

Distribution restrictions are based on the dollar amount of capital distributions as a percent of trailing earnings and dependent on the assessed capital level. Capital distribution restrictions can only be waived with the approval of the SHUSA Board.

To address the unique situation of SHUSA’s majority ownership in SC, only the portion of capital distributed ‘outside’ SHUSA is included in the calculation of capital distributions. For example, given SHUSA’s current [59%] ownership of SC[[5]](#footnote-5), a dividend of $100 would be categorized as follows:

|  |  |
| --- | --- |
| Total SC dividend: | $ 100 |
| Attributable to majority interest | 59 |
| Attributable to minority interest and amount considered as capital distribution by SHUSA | 41 |

* 1. Proposing capital distributions
     1. Proposing capital distributions in the Capital Plan

SHUSA and its subsidiaries are required to submit proposed capital actions and distributions as part of the annual capital planning process. The CMG is responsible for developing the SHUSA capital plan, and therefore aggregating the actions into a proposed capital actions list for review by SHUSA’s management and Board.

The proposed capital actions list is tested using Baseline and Stress scenarios. The capital plan reflects the results and identifies the sources of funds for proposed capital actions, along with current and projected financial information. The capital plan also includes an analysis that demonstrates that the proposed capital actions:

1. fully comply with the Capital Policy of the relevant subsidiary, if any, and the Policy, in each case as then in effect;
2. fully complies with the restrictions in 12 C.F.R. Section 225.8 and is fully consistent with the Federal Reserve’s Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323) (the “Policy Statement”) and, in the case of a capital action by SBNA, applicable regulations promulgated by the Office of the Comptroller of the Currency (together with the Policy Statement and 12 C.F.R. Section 225.8, the “Capital Regulations”);
3. adheres to safety and soundness and source of strength principles outlined in Federal Reserve Bank supervisory expectations; and
4. is otherwise advisable and in the best interests of SHUSA, any such subsidiary and its respective equity holders (the “Best Interests Determination”).
   1. Capital Distribution Procedures – proposing individual Capital distributions

On September 15, 2014, SHUSA entered into a written agreement with the Federal Reserve Bank of Boston (the “Written Agreement”). The Written Agreement describes in detail the necessary steps that must be taken to effect a capital distribution (Capital Distribution Procedures). The basic approval process for capital distributions as defined in the Written Agreement and related Capital Distribution Procedures is illustrated below, and the full documented procedures are in Appendix 12.2.

|  |
| --- |
| **Figure 11: Capital Distribution Procedures** |
|  |

* + 1. Capital Distribution – reconsidering capital distribution

The Policy includes specific circumstances that require the ALCO to reconsider any planned capital distribution included in SHUSA’s annual capital plan. These include but are not limited to:

* Management’s decision to lower the capital assessment to or below “Concern”
* The CMG and ERMC become aware of a significant impending loss or reputational event with the potential for a greater than 50bp impact on any capitalization measure
* More than 5 EWIs are triggered in the same time period
* Current capital ratios are below the BAU minimum at any subsidiary
* SHUSA’s cash flow coverage falls below 24 months
* SHUSA’s or a subsidiary’s debt rating is downgraded
* SHUSA’s parent debt rating is downgraded

This Policy also includes specific circumstances that require the ALCO to reconsider any capital distribution that has been approved but not yet executed. These include but are not limited to:

* Discovery of a material accounting error or restatement
* The CMG and ERMC become aware of a significant impending loss or reputational event with the potential for a greater than 50bp impact to any capitalization measure
* SHUSA’s cash flow coverage falls below 24 months
* SHUSA’s or the subsidiary’s debt rating is downgraded
* SHUSA’s parent debt rating is downgraded

1. Governance and accountability
   1. SHUSA Enterprise Capital Adequacy Process (“SHUSA ECAP”)

SHUSA is wholly-owned by Banco Santander, S.A. (“Banco Santander”). Under the Banco Santander model, each subsidiary manages its capital position locally. To that end, SHUSA manages its capital position locally under the principles and governance outlined in the SHUSA ECAP. While Banco Santander may stand as a potential source of capital, SHUSA maintains independent plans for capital adequacy that do not rely on Banco Santander.

The SHUSA ECAP sets the basic capital adequacy principals that this Policy implements. Under the SHUSA ECAP, each consolidated subsidiary is responsible for establishing a capital adequacy assessment process and policy that supports and is consistent with SHUSA’s capital planning processes.

| **Figure 12: Overview of SHUSA Structure and Related Capital Documentation** |
| --- |
| (1) The following legal entities will be required to develop capital policies under this framework (BSI, BSPR, SIS)  **SHUSA**   * SHUSA Capital Policy * SHUSA Capital Plan * Subsidiary Capital Expectations and Capital Actions approved by SHUSA   **SBNA**   * SBNA Capital Policy * SBNA Capital Plan * Alignment with SHUSA ECAP   **SC**   * SC Capital Policy * Alignment with SHUSA ECAP   **Any Future Subsidiaries (1)**   * Capital Policy * Alignment with SHUSA ECAP |

As outlined in the SHUSA ECAP and the Written Agreement, the Board is responsible for approving capital actions to which the consolidated entity is a party. The Board and senior management of SHUSA bear the primary responsibility for developing, implementing, and monitoring SHUSA’s capital planning strategies and capital assessment processes for both the consolidated entity and its consolidated subsidiaries.

* 1. Governance structure

Outlined below are the management and Board level governance committees responsible for capital and capital adequacy.

**Figure 13: Overview of Governance**



* 1. Policy Governance

The responsibilities of the management committees are defined in the respective charters of each.

Among other things, the SHUSA Board is responsible for and must:

* Review and approve the Policy

Among other things, the RC is responsible for and must:

* Review and recommend the Policy to the Board; oversee implementation of the Policy, and monitor compliance with the Policy

Among other things, the ALCO is responsible for and must:

* Review and recommend this Policy to the SHUSA RC for approval, and escalate and report key risks to the SHUSA Board and RC

The SHUSA Capital Committee is responsible for and must:

* Review and recommend the Policy to the ALCO

The Board and the RC oversee and are ultimately responsible for all aspects of capital management and planning processes. The Board has delegated to the ALCO the authority to implement capital management and planning as described in the Policy. Operational roles and responsibilities are defined in Section 7.

1. Roles and responsibilities
   1. Consolidated Capital Adequacy and Subsidiary Responsibilities

Per ECAP, each material subsidiary of SHUSA is required to:

* Develop a capital policy which follows this Policy in form and intent, including incorporation of capital expectations which support SHUSA’s processes for assessing capital adequacy at the consolidated level.
* Make an assessment of its capital adequacy on at least a quarterly basis.
* Obtain all necessary approvals at SHUSA and follow the Capital Distribution Procedures, making these procedures part of its Capital Policy.

Accountability for capital management at each subsidiary resides with its respective Board of Directors. Certain subsidiary management committees are responsible for ensuring that capital planning processes authorized by the Board of Directors are implemented appropriately.

| **Figure 14: Subsidiary Board of Directors and Management Committees’ Responsibilities** | |
| --- | --- |
| **Subsidiary Board of Directors** | * Challenge capital planning processes * Review and approve Capital Policy annually * Ensure firm follows SHUSA Capital Distribution Procedures |
| **Subsidiary Capital Function** | * Direct and oversee subsidiaries’ capital planning activities * Review and recommend to its Board the Capital Policy annually * Review and approve forecast results for CCAR and mid-cycle stress tests * Ensure proper measurement, management and monitoring processes for strategic capital goals * Determine recommended capital actions |

* 1. SHUSA Board of Directors and Board Committees

Ultimate authority for capital management at the consolidated enterprise resides with the Board and the RC. The Board has delegated authority to the RC to oversee or approve, as appropriate, the capital planning policies, practices, and processes listed below. Board and Board committee responsibilities are illustrated in Figure 15.

| **Figure 15: SHUSA Board of Directors and Board Committees’ responsibilities** | |
| --- | --- |
| **Board** | * Review and approve SHUSA Capital Policy annually * Review and approve SHUSA capital plan annually * Meet regularly to review SHUSA’s capital planning process and components, and review the ALCO Capital Committee’s decisions |
| **Board RC** | * Review and recommend for approval the SHUSA Capital Policy annually * Review and approve capital expectations of each significant subsidiary annually * Review and approve the CCAR stress scenarios for use in establishing capital expectations * Provide strategic oversight for capital planning to the ALCO * Respond to priority issues escalated from the ALCO * Review SHUSA’s process for assessing capital adequacy for SHUSA and its subsidiaries * Provide credible challenge to the capital planning processes, methodologies and results * Approve all capital actions included in the SHUSA Capital Contingency Plan * Monitor the activation, progression, and implementation of the CCP |

* 1. SHUSA Governance Committees

The ALCO and Capital Committee oversee capital management, and working groups support the capital management process. This hierarchy facilitates direct, two-way communication between experts and management.

| **Figure 16: SHUSA Governance Committee Responsibilities** | |
| --- | --- |
| **ALCO** | * Review and recommend capital-related policies and standards for which RC approval is required * Review and recommend the SHUSA Capital Policy and capital plan for Board approval * Monitoring adherence to capital, liquidity risk, asset/liability management (“ALM”) and other balance sheet-related policies for SHUSA and its operating entities * Review and approval Capital Policy exceptions * Monitor capital, liquidity and ALM RAS limits, and other management-level risk limits for SHUSA and its operating entities, and identify current or expected breaches of such limits * Oversee the execution of the capital planning process and reviewing/challenging important decisions (e.g., stress testing model landscape, scenarios, etc.) * Review and challenge the results of capital adequacy process and liquidity stress tests * Monitor and discuss changes in regulatory expectations in relation to capital, liquidity risk, or ALM (e.g., current matters requiring attention or changes in regulations) * Recommends capital actions and changes to capital actions to the Board * Approve subsidiary Capital Policies and recommend subsidiary Capital Expectations to Board RC * Oversee the CCP and maintain discretion to trigger CCP |
| **Capital Committee** | * Review and recommend for approval the Capital Policy and capital plan, CCAR results, and other capital related documents to be submitted to regulatory authorities * Review and recommend for approval capital metrics and related limits * Review and recommend for approval capital strategies such as capital optimization, capital allocations, and economic capital * Review and recommend for approval capital actions, including the payment of dividends, if appropriate * Oversee adherence to capital policies, targets and limits * Oversee CCAR project implementation and CCAR execution, including the execution of stress testing as prescribed by legislation * Review and challenge the scenarios used in capital stress testing * Review and challenge the results of the capital stress tests * Monitor the execution of capital strategies * Monitor capital metrics, related limits, and reporting controls * Monitor and discuss changes in regulatory expectations related to capital |
| **Scenario Generation Working Group** | * Develop and recommend to the RC stress scenarios for use in CCAR and mid-cycle stress tests and in quantifying capital expectations |
| **Pre-Provision Net Revenue (“PPNR”) Working Group** | * Oversee the development of PPNR models * Provide support and guidance to business areas contributing to PPNR and associated regulatory reports * Oversee the calculation of PPNR results |
| **Loss Estimation Working Group** | * Review, challenge and approve credit loss stress testing methodologies, controls and results * Oversee and monitor operational loss estimates |

* 1. Functional Areas

The functional areas’ roles and responsibilities reflect their position in the three lines of defense model.

| **Figure 17: Functional Areas Responsibilities** | |
| --- | --- |
| **CMG** | * Manage and coordinate SHUSA’s capital planning process and related stress testing programs * Monitor for events/triggers that would require a reconsideration of capital distributions and report these to the ALCO * Prepare the annual SHUSA capital plan for Board and senior management approval * Ensure robust review and challenge of forecast results * Submit the capital plan, supporting documentation and FR-Y14 forms to the Federal Reserve * Define key risk and performance indicators for the capital management function * Maintains and updates the Capital Policy and the Capital Contingency Plan * Coordinates activities related to the Capital Contingency Plan and provides continuous information and recommendations to the ALCO regarding capital metric projections and updates to the status and progress on each plan * Creates stress scenarios consistent with material risks * Review subsidiary Capital Policies and recommend subsidiary Capital Expectations to ALCO * First line of defense function |
| **ERMC** | * Complete risk identification, risk assessment, and risk materiality assessment processes * Maintains and monitors the SHUSA RAS * Oversees the risk management portion of the assessment framework * Contributes to the annual capital plan * Second line of defense function |
| **Model Risk Management** | * Validate models, maintain the model inventory, develop and maintain Model Risk Management policies and procedures * Contribute to the annual capital plan * Second line of defense function |
| **Solvency Risk** | * Calculate credit losses, non-performing loans, allowances and other credit metrics * Contribute to the annual capital plan * Second line of defense function |
| **Internal Control** | * Develop and implement the internal control framework for the SHUSA capital planning process * Contribute to the annual capital plan * Second line of defense function |
| **Internal Audit** | * Analyze the effectiveness of critical risk management functions for capital planning to build a comprehensive assessment of capital planning * Challenge management on the design and effectiveness of controls * Conduct an annual internal audit of key capital planning processes * Contribute to the annual capital plan * Third line of defense function |
| **Strategic Planning** | * Produce strategic plans for each business unit involved in the CCAR process * Present the capital impact of strategic plans and initiatives to the Board and executive management * Contribute to the annual capital plan * First line of defense function |
| **Accounting /Tax** | * Calculate legal reserve data, purchase accounting, projected taxes and deferred tax assets * Contribute to the annual capital plan * First line of defense function |
| **Regulatory Financial Reporting Department (“RFRD”)** | * Coordinate FR Y-14Q and FR Y-14M regulatory reporting submissions * Produce Y-9Cs and call reports * Produce monthly capital reporting source information * Monitor thresholds that may trigger changes in regulatory reporting and capital requirements * First line of defense function |
| **Business Unit Leadership** | * Review and challenge forecasts * Review and challenge forecasting methodologies * First line of defense function |
| **Treasury / ALM** | * Participate in the process to set annual capital expectations * Produce SHUSA’s funding plan * Review capital actions and their impact on the capital plan * Review capital distribution “Management Reports” * Formulate funding assumptions under Baseline and Stress scenarios * Contribute to the annual capital plan * First line of defense function |

* 1. Internal controls

Sound management of capital requires integration of internal controls into the capital planning process.

* + 1. Internal control framework

SHUSA applies a comprehensive framework to manage the internal control environment across its entities, and to offer a reasonable level of assurance that the following objectives will be achieved:

* Compliance with regulatory obligations surrounding the Capital Planning Process
* Comprehensive and informative risk ID and monitoring activities
* Comprehensive policies, procedures and documentation for capital planning
* Independent validation of models and independent verification of their implementation
* Independent review of estimation approaches, model and non-model, sufficiently documented
* Sound systems that can ensure integrity of data / accuracy of reports that are comprehensively reconciled
* Change control oversight specific to the policies, processes, systems, and methods used
* Internal Audit function that independently assesses the end to end process, including assessing review and challenge and the identification / tracking / escalation of deficiencies

Each business unit and corporate function is required at a minimum to adopt and implement the SHUSA CCAR internal control framework and its governing principles.

* + 1. End-to-End Process Documentation

An end-to-end process document and process maps are to be completed as part of internal control documentation for capital planning. Risk control matrices are to be produced for material processes, and a change control program should be administered. The quality of the internal control environment is to be considered in the annual capital plan.

* + 1. Model Risk Management

As managing model risk is key to establishing a strong control environment for the capital adequacy process, it is a shared responsibility of both the Model Risk Management team and model owners. The Model Risk Management team documents the policies and procedures for developing models and validating activities. The capital adequacy process adheres to the Model Governance Policy’s control procedures and tenets, including change control processes for models and vendor management process controls.

* + 1. Internal audit review

Internal Audit reviews the design of existing controls and tests the controls to determine if the design of the controls is deemed adequate. Internal Audit also reviews Capital Plan and the capital planning process to assess whether the Plan and the process are in compliance with relevant regulations or meet regulatory standards. Internal Audit makes an independent assessment of the capital planning process as the third line of defense. The scope of the assessment includes:

* The annual process for analyzing and setting capital expectations and components
* The annual update of contingent capital actions and their effectiveness in different financial environments
* The quarterly assessment process and documentation
* Weaknesses identified in the capital planning process
* The uncertainty framework and methodology
* The stress testing methodology and process, e.g., model validation, data quality, scenario designs and overall governance etc.
* The CCAR submission and mid-cycle DFAST submission
  1. Policies and Procedures

See Appendix 12.10 for related Policies, Processes, and Administrative Documents.

* 1. Policy Owner

The Director of Capital Policy & Reporting is the primary point of contact and owner of the Policy and is responsible for the accuracy and applicability of the Policy’s content. The specific responsibilities of the Policy Owner include:

* Developing procedures in compliance with the Policy;
* Identifying and implementing Policy changes;
* Driving applicable Policy review and approval processes;
* Communicating new policies and procedures and/or changes to existing policies and procedures to applicable parties;
* Interpreting specific Policy provisions;
* Monitoring Policy implementation and compliance; and
* Documenting, tracking, and reporting Policy exceptions.

1. Capital Plan requirements
   1. Objective

The capital plan presents a complete picture of current and forecasted capital adequacy, and the impact of capital actions (distributions and issuances) and capital deployment over the forecast horizon.

The capital plan incorporates SHUSA’s risk profile, unique vulnerabilities, strategic plans, internal control environment, and current and forecasted macroeconomic environments.

* 1. Contents of the plan

The Board approves the capital plan annually and considers the following:

* Detailed forecasts in Baseline and Stress economic conditions and the corresponding capital measures
* The details of proposed capital actions in the forecasted period for SHUSA and its subsidiaries
* Details of the weaknesses in the capital planning and capital adequacy processes
* The analyses and explanations of capital and loss absorbency for all forms of capital
* How strategic plans align with capital actions

The capital plan should address the seven basic principles expressed in the Federal Reserve’s capital plan rule:

1. Sound risk management infrastructure to identify and assess all material risks
2. Effective processes to translate identified risks into estimates of potential losses
3. Clear plans for available capital resources over the loss forecast horizon
4. Identify the impact of forecasted capital losses and resources on capital adequacy as defined by the Policy
5. Include clear action plans supported by the Policy to address capital needs
6. Robust internal controls governing all of the above components
7. Effective Board and senior management oversight
8. Policy Change Management
   1. Events that require review of the Policy

The Board and RC must review and approve the Policy on an annual basis. A material change to SHUSA’s risk profile requires an ad hoc review within two months of the event. Material changes include:

* A single acquisition or disposition that is equal to or greater than 10% of SHUSA’s total assets
* Aggregate acquisitions or dispositions that produce a 15% change in SHUSA’s total assets
* A new product that will account for more than 10% of SHUSA’s total revenue
* Significant changes in regulatory requirements
* ERMC decides that the RAS requires revision
* Significant changes in business activities that make measurements of capital expectations obsolete
* Significant changes to the organization or governance structure
* Policy exceptions approved by ALCO

The CMG or ERMC may independently propose changes to the Policy, which would require approvals identified in Section 6.

* 1. Document approval and maintenance

The Policy is updated annually unless an event requires earlier re-evaluation. The CMG is responsible for updating the Policy, and working with internal stakeholders to ensure alignment. The CMG’s approval path is as follows:

* SHUSA Capital Policy & Reporting Director – Policy Owner - This Policy shall be reviewed and updated annually[[6]](#footnote-6) by the Capital Management Group (“CMG”)
* CMG – Review
* ALCO Capital Committee - Review
* ALCO - Review
* RC – Recommend to Board
* Board – Approval on annual basis
  1. Document retention

The CMG is responsible for maintaining an up-to-date Capital Policy and posting it on a shared location in the SHUSA network.

1. Exceptions

SHUSA ALCO reviews and approves exceptions to this Policy. Exceptions to Capital Distribution Procedures must be approved by the Board prior to any action. The CMG is responsible for tracking and reporting on exceptions.

1. Document history and version control
   1. Ownership and authorship

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Version* | *Date* | *Author* | *Owner* | *Change* |
| *1.0* | *Oct. , 2014* | Director of Capital Policy & Reporting | Director of Capital Policy & Reporting | *Initial Version* |
| 2.0 | Dec. 2015 | Director of Capital Policy & Reporting | Director of Capital Policy & Reporting | *Rewrite to address FRS & internal feedback* |
| 2.0 | Dec 28, 2015 | Director of Capital Policy & Reporting | Director of Capital Policy & Reporting | *Revise to address feedback from CCAR Director* |

* 1. Sign-off

|  |  |  |  |
| --- | --- | --- | --- |
| *Approving Body* | | *Governance Committee Approval or Endorsement* | *Final Approval Date* |
| *SHUSA Board* | *SHUSA Capital Committee* | |  |
|  | *SHUSA ALCO & SHUSA RC - Review* | |  |
|  | *Policy Administration* | |  |

1. Appendices
   1. Capital Expectations at Significant Subsidiaries



* 1. Capital Distribution Procedures



The Capital Distribution Procedures are subject to formal FRS approval.  Upon FRS approval, SHUSA has 10 days to formally adopt the procedures.  As an interim conservative approach, SHUSA will follow the attached draft Capital Distribution Procedures until FRS approval and formal SHUSA adoption.

* 1. Capital Management Framework



* 1. Capital Expectations Estimation



* 1. Early Warning Indicators



* 1. Capital Contingency Process (“CCP”) and Contingency Plan Requirements



* 1. Detailed Reporting Expectations



* 1. Key Contacts

|  |  |  |
| --- | --- | --- |
| ***Title*** | ***Role*** | ***Name and Contact*** |
| *Director of CCAR* | *Process Owner* | *Brian Eller,* [*brian.eller@santander.us*](mailto:brian.eller@santander.us) |
| *Capital Policy & Reporting Director* | *Policy Owner* | *Bart Simon, [bart.simon@santander.us](mailto:bart.simon@santander.us)* |

* 1. Regulatory Obligations Addressed by this Policy

|  |  |  |
| --- | --- | --- |
| ***Regulatory Agency*** | ***Citation*** | ***Title*** |
| *FRB & OCC* | *12 CFR 225.8* | *Capital Planning Rule* |
| Basel Committee on Banking Supervision |  | *A Sound Capital Planning process: Fundamental Elements*, January 2014 |
| Board of Governors of the Federal Reserve System |  | *Capital Planning at Large Bank Holding Companies: Supervisory Expectations and Range of Current Practice,* March 27, 2014*.* |
| Board of Governors of the Federal Reserve System |  | *Banks’ Governance and Controls over Internal Capital Adequacy Processes* |
| Board of Governors of the Federal Reserve System |  | *CCAR and Stress Testing as Complementary Supervisory Tools,* March 27, 2014 |
| OCC | Bulletin 2012-16 | *Guidance for Evaluating Capital Planning and Adequacy*, June 7, 2012. |
| *FRB* | *SR 11-1* | [Impact of High-Cost Credit Protection Transactions on the Assessment of Capital Adequacy](http://www.federalreserve.gov/bankinforeg/srletters/sr1101.pdf) |

* 1. Related Policies and Processes, and Administrative Documents

The capital planning process is supported by various other SHUSA policies, including:

|  |
| --- |
| ***Document Title*** |
| *SBNA Capital Policy* |
| *SC Capital Policy* |
| *SHUSA Capital Distribution Procedures* |
| *BSI Capital Policy* |
| *BSPR Capital Policy* |
| *SIS Capital Policy* |
| *Basel III Implementation Guidance* |
| *CCAR Internal Control Framework* |
| *Enterprise Risk Management Framework* |
| *Enterprise Accounting Policy* |
| *Enterprise Credit Risk Management Policy* |
| *Data Management Policy* |
| *Enterprise Liquidity Risk Management Policy* |
| *Enterprise Operational Risk Management Policy* |
| *Enterprise Reputational Risk Policy* |
| *Enterprise Strategic Risk Policy* |
| *Finance Accounting & Financial Reporting Spreadsheet Policy* |
| *Information Risk Management Policy* |
| *Market and Interest Rate Risk Management Policy* |
| *Model Risk Management Enterprise Policy* |
| *External Reporting Accountability Enterprise Policy* |

* 1. Definitions

**Adjusted Average Assets** - Average total GAAP assets less intangible assets, disallowed deferred tax assets, and other adjustments prescribed by Regulators.

**Basel I -** The first capital accord reached by the Basel Committee on Banking Supervision (the “BCBS”) provided an international consensus framework for bank safety and soundness regulation.  Basel I was published in July 1988 and fully implemented in the United States by the end of 1992.

**Basel II** - Basel II was the second capital accord reached by the BCBS and was developed in response to perceived shortcomings in the method of risk-weighting assets under Basel I.   Basel III superseded Basel II in the United States prior to implementation of Basel II.

**Basel III** - The Basel III proposals were issued in a response to the financial crisis to reform Basel II by revising the definition of regulatory capital and further calibrating the asset risk-weighting methodology.  In December 2009, the BCBS issued the first proposed draft of Basel III which was subsequently approved by the 27-member jurisdictions, 44 central banks and supervisory authorities on September 12, 2010.   On July 7, 2013, Regulators issued a final rule to implement Basel III in the United States which is now applicable to the majority of U.S. banking institutions.

**Capital Action** – Any issuance or redemption of debt or equity capital instrument or any capital distribution.

**Capital Assessment Levels** – An internal assessment of the SHUSA’s capital position

**Capital Deployment Plan** – Internal plan for capital deployment (balance sheet growth, dividends, capital ratio build, other) based on expected capital generated.

**Capital Deployment** – Utilization of capital due to capital actions and growth plans (dividends, balance sheet growth, share repurchases, acquisitions) measured in basis points.

**Capital Distribution** – Common dividends to SHUSA.

**Capital Generation** – Benefit to capital ratio due to normal operations (earnings, declining balance sheet, decrease in the Deferred Tax Asset (“DTA”) measured in basis points.

**Common Equity Tier 1 Capital (“CET1”)** - A common equity regulatory measure was first introduced as part of the Federal Reserve Stress Tests in March 2009 and is formally introduced in regulatory capital as part of the Basel III Capital Regulations.  This measure of capital is intended to correspond to the TCE metric but adjusted for defined changes such as disallowed deferred taxes, certain components of accumulated other comprehensive income and other items specified by Regulators.

**Common Equity Tier 1 Capital Ratio (“CET1 Ratio”)** - CET1 divided by Risk-Weighted Assets

**Comprehensive Capital Analysis and Review (“CCAR”)** – an annual exercise conducted by the Federal Reserve to ensure that banks have robust, forward-looking capital planning processes that account for their unique risks and sufficient capital to continue operations throughout times of economic and financial stress.  It includes a supervisory stress test to support the Federal Reserve's analysis of the adequacy of the firms' capital.

**Early Warning Indicator** – A set of metrics intended to reflect early signs of deterioration in either the financial condition of SHUSA, the target economies in which they operate, or the perceived financial condition of SHUSA by market participants.

**Early Warning Trigger** – The pre-defined level at which an early warning indicator reflects early sign of deterioration.

**Prompt Corrective Action** - A framework created through the Federal Deposit Insurance Corporation Improvement Act of 1991 to provide the FDIC with the resources to resolve bank failures.  The PCA framework established capital ratio criteria for the five capital categories and set forth the mandatory and discretionary actions for Regulators to address problems of banks in each capital category.  The highest category that a bank can be classified in is “Well Capitalized” which entails no restrictions on activities.

**Regulators** - The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, or any other governmental entity that sets forth regulations governing banking entities in the United States.

**Risk-Weighted Assets** - Total on- and off-balance sheet assets weighted by Regulator assigned risk-weightings.  Risk-weightings are based on the inherent credit risk of the category.

**Tier 1 Leverage Ratio** - Tier 1 Capital divided by Adjusted Average Assets

**Tier 1 Risk-Based Capital** - Regulatory measure of capital defined as CET1 plus additional tier 1 capital components which are generally preferred instruments that are deemed to be “common-like”.  Tier 1 capital is defined in 12 CFR part 225, Appendix A.

**Tier 1 Risk-Based Capital Ratio** - Tier 1 Capital divided by Risk-Weighted Assets

**Total Risk-Based Capital** - A regulatory measure of capital that is equal to Tier 1 Capital plus general reserves, subordinated debt, and a certain amount of unrealized gains on available-for-sale securities.   Total capital is defined in 12 CFR part 225, Appendix A.

**Total Risk-Based Capital Ratio** - Total Capital divided by Risk-Weighted Assets

**Well Capitalized Minimum** - The highest capital category identified in the PCA requirements

* 1. Acronym Table

|  |  |
| --- | --- |
| **Acronym** | **Definition** |
| ALCO | SHUSA Asset Liability Committee |
| ALCO Capital Committee | Capital Committee of SHUSA ALCO |
| ALM | Asset Liability Management |
| BAU | Business-as-Usual Capital Expectation |
| BCBS | Basel Committee on Banking Supervision |
| BHC | Bank Holding Company |
| BSI | Banco Santander International |
| BSPR | Banco Santander Puerto Rico |
| CCAR | Comprehensive Capital Analysis and Review |
| CCP | Capital Contingency Process |
| CMG | Capital Management Group |
| DFAST | Dodd Frank Act Stress Testing |
| DTA | Deferred Tax Asset |
| ERMC | Enterprise Management Risk Committee |
| ERM | Enterprise Risk Management |
| EWI | Early Warning Indicators |
| FRS | Federal Reserve System |
| IHC | Intermediate Holding Company |
| OCC | Office of the Comptroller of Currency |
| PBT | Profit Before Tax |
| PCA | Prompt Corrective Action |
| PPNR | Pre-Provision Net Revenue |
| RAS | Risk Appetite Statement |
| RBC | Risk Based Capital |
| RC | SHUSA Board Risk Committee |
| RFRD | Regulatory Financial Reporting Department |
| SBNA | Santander Bank, National Association |
| SC | Santander Consumer USA, Inc |
| SHUSA ECAP | SHUSA Enterprise Capital Adequacy Process |
| SIS | Santander Investment Securities, Inc. |

1. Beginning in 2016 the capital conservation buffer is phased into minimum risk-based capital ratios for certain institutions. Failing to meet these can results in limitations on dividends and management bonuses. SHUSA’s current post stress minimum and the corresponding limitations should SHUSA breach this level are more restrictive than the requirements outlined as response the capital conservation buffer. [↑](#footnote-ref-1)
2. The Resolution and Recovery Plan is reviewed separately in an independent process. [↑](#footnote-ref-2)
3. EWIs are both macroeconomic and SHUSA performance metrics and thresholds and are discussed in greater detail in Appendix 12.5. [↑](#footnote-ref-3)
4. SHUSA completes this assessment using the Basel III definitions applicable; *i.e.,* with the benefit or penalty of transition provisions. [↑](#footnote-ref-4)
5. Will change once SC is allowed capital distributions and upon effecting other transactions (share repurchase of former Chief Executive Officer’s stake, for example). [↑](#footnote-ref-5)
6. All references to “annually” contained in this document mean not less than annually, but also as frequently as necessary to address changes to organizational structure, governance structure, business strategy, capital goals, the regulatory environment, risk appetite, or any other factors that could impact SHUSA’s capital adequacy. [↑](#footnote-ref-6)