For approval

SHUSA Board of Directors
September 25, 2015

Risk Appetite Statement Proposal

Sponsor: Scott Powell, Chief Executive Officer SHUSA

Presenters: Scott Powell, CEO; Brian Gunn, Chief Risk Officer SHUSA

Author: Beatriz Shapiro, Director, Risk Appetite SHUSA

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Executive summary

- We have worked collaboratively across Risk teams (SHUSA, SBNA, SCUSA) and business partners to draft a set of aligned Risk Appetite Statements (RAS)
- We have followed a consistent process across all entities, including:
  - A common set of objectives and risk taxonomy
  - Parallel calibration of metrics to ensure alignment
- We calibrated limits utilizing a two-stage approach, taking into account profits / earnings as well as losses via linkages to target capital levels:
  - Development of a set of “anchor points” for calibration to ensure internal consistency using internal risk policies and analysis of internal and external data
  - Refinement by senior leadership to ensure limits reflect forward-looking strategic vision
- In today’s session we would like to present the SHUSA Risk Appetite metrics and limits for approval

Approach to Risk Appetite redevelopment

Risk Appetite redevelopment

Objectives	Risk taxonomy	Qualitative statements	Metrics / limits	Reporting
What are SHUSA's overarching objectives?	What risks could compromise SHUSA's ability to achieve its objectives?	What statements will guide how SHUSA manages its risks?	How will SHUSA assess whether it is within its risk appetite?	How will SHUSA report performance against risk appetite?

Where to find?

Objectives	Risk taxonomy	Qualitative statements	Metrics / limits	Reporting
Appendix	*Slide 3*	*SHUSA RAS Word document*	*Slide 5-9*	*Slide 4*

Risk taxonomy and metrics in the Risk Appetite Statement

* mandated by Santander Grupo

Risk taxonomy for the risk appetite

1. Capital adequacy
2. Credit risk
3. Residual value risk
4. Liquidity / funding risk
5. Interest rate risk
6. Mark-to-market portfolio risk
7. Strategic risk
8. Operational risk
9. Model risk
10. Compliance and reputational risk

Metrics in the SHUSA-level RAS

1	• * Common Equity Tier 1 Ratio • Tier 1 Risk-based Capital Ratio • Total Capital Ratio	• * Tier 1 Leverage Ratio • Tangible Common Equity Ratio For all: baseline and stress
2	• CCAR loss budget[1] • Net charge-off rate • % 60/61+ days past due	• * # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > $100MM[2] • Concentrations: * industry, * CRE, multifamily, * single obligor, * top 20 obligors
3	• Residual value deterioration[3]	• Net residual value exposure
4	• * Stressed Survival Period • * Liquidity Coverage Ratio • * Structural Funding Ratio	• Available committed liquidity / average projected net originations
5	• Net interest income sensitivity (+/- 100bps shock)	• Market value of equity sensitivity (+/- 200bps shock)
6	• Mark-to-market Value at Risk (VaR)	
7	• Pre-provisioned net revenue (PPNR) impairment • * Loss in stress[4]	• SCUSA subprime assets as % of SHUSA total credit exposure • SCUSA Total Risk Weighted Assets (RWAs)
8	• Gross operational risk losses / gross margin	• Frequency of events >$200K in losses
9	• Backlog of Tier 1 models not appropriately approved	
10	• # Matters Requiring Immediate Attention (MRIAs)	• Serviced for others monthly net charge-off rate

1. Projected 9Q cumulative losses by portfolio under the BHC Stress scenario
2. A Santander Risk Rating (internal rating scale) of 5.0 equates to a BB+ according to the S&P rating scale
3. Projected 9Q cumulative increase in Leased Vehicle Expense between BHC Stress and Baseline scenarios – assumes all attributed to SCUSA
4. Projected losses in stress over profit before tax

Metric status definitions and escalation processes

Metric status definitions

Green status
- Metrics have not breached the amber trigger or red limit
- Level of risk within range acceptable to organization

Amber trigger

Amber status ("trigger")
- Metrics have breached the amber trigger but not the red limit
- Level of risk in danger of exceeding acceptable range

Red limit

Red status ("limit breach")
- Metrics have breached both the amber trigger and red limit
- Level of risk within a range unacceptable to the organization

Escalation processes

Escalation procedures apply to all amber triggers and red breaches

SHUSA-level: Escalated to SHUSA CRO, with most review and approval by ERMC (amber) or RC (red)[1]

Subsidiary-only: Review and approval responsibility in subsidiary; SHUSA ERMC provides review and input to action plans

1. Escalation level of breach dependent on breach severity and discretion of CRO

1 Draft limits (1/5)

* mandated by Santander Grupo

Risk type	Entity	Metrics[1]	BHC Baseline scenario: Actual	BHC Baseline scenario: Amber trigger	BHC Baseline scenario: Red limit	BHC Stress scenario: Actual	BHC Stress scenario: Amber trigger	BHC Stress scenario: Red limit
Capital adequacy[1]	SHUSA	* Common Equity Tier 1 Ratio	11.4%	11.00%	10.50%	9.4%	7.50%	6.50%
		Tier 1 Risk-based Capital Ratio	12.4%	12.50%	12.00%	9.5%	9.00%	8.00%
		Total Capital Ratio	14.7%	14.50%	14.00%	11.8%	11.00%	10.00%
		* Tier 1 Leverage Ratio	11.9%	10.25%	9.75%	9.0%	7.00%	5.00%
		Tangible Common Equity Ratio	11.4%	10.50%	10.00%	10.5%	7.25%	6.25%
	SBNA	* Common Equity Tier 1 Ratio	12.7%	11.00%	10.75%	10.2%	7.55%	6.50%
		Tier 1 Risk-based Capital Ratio	12.7%	12.50%	12.25%	10.2%	9.05%	8.00%
		Total Capital Ratio	14.5%	14.30%	14.05%	12.5%	11.05%	10.00%
		* Tier 1 Leverage Ratio	11.7%	9.95%	9.70%	9.7%	7.05%	5.00%
		Tangible Common Equity Ratio	11.9%	9.90%	9.65%	11.7%	7.00%	6.00%
	SCUSA	* Common Equity Tier 1 Ratio	11.6%	10.00%[2]	8.75%	5.7%	6.25%	5.25%
		Tier 1 Risk-based Capital Ratio	11.6%	10.00%	8.75%	5.7%	6.25%	5.25%
		Tangible Common Equity Ratio	12.2%	10.50%	9.25%	6.0%	6.75%	5.75%

Set at capital policy's "use for capital expectations"

Set at internal business-as usual minimum

Set at internal post-stress minimum

Set at the "well capitalized" PCA level

Note: all actuals for capital adequacy are CCAR 2015 projected minimum over 9Q

1. Transitional as the regulatory requirements are a core RAS objective and will follow the glide-path. Will require reporting of fully loaded ratios to Spain
2. Change to 11% in Capital Policy to align with SBNA pending further review

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2 Draft limits (2/5)

Risk type	Metrics	Entity / portfolio	Actual	Amber trigger	Red limit
Credit risk	CCAR loss budget[1]	SCUSA Auto	$6,375MM[2]	$6,575MM	$7,000MM
		SCUSA Unsecured	$1,150MM[2]	$1,175MM	$1,250MM
		SBNA Retail	$650MM[2]	$675MM	$725MM
		SBNA Wholesale	$1,225MM[2]	$1,250MM	$1,350MM
		SBNA GBM	$350MM[2]	$375MM	$400MM
	Net charge-off rate[3]	SCUSA Auto[4]	6.63%	7.8%	8.5%
		SCUSA Unsecured	17.50%	18.0%	20.0%
		SBNA Retail	0.55%	1.0%	1.3%
		SBNA Small Business + Business Banking + Auto	0.58%	0.7%	0.9%
		SBNA C&I	0.08%	0.5%	0.7%
		SBNA CRE	0.03%	0.3%	0.5%
		SBNA GBM	0.00%	0.2%	0.4%
	% 61+ days past due	SCUSA Auto[4]	3.98%	4.4%	4.9%
		SCUSA Unsecured	6.62%	7.0%	8.0%
	% 60+ days past due	SBNA Retail	2.35%	5.0%	7.5%

Note: all actuals for credit risk are as of July 2015 unless otherwise noted

1. Projected 9Q cumulative losses by portfolio under the BHC Stress scenario
2. CCAR 2015 projected 9Q cumulative losses by portfolio under the BHC Stress scenario
3. Net charge-off rates are annualized
4. 12-month trailing average to account for seasonality of the SCUSA Auto portfolio

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Draft limits (3/5)

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Risk type	Metrics	Entity / portfolio	Actual	Amber trigger	Red limit
Credit risk	* # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > $100MM[1]	SHUSA	0	N/A	0
	* Industry exposure (by OCC group)	SHUSA / SBNA	*Varies by industry*	$4.5BN	$5.0BN[2]
	* CRE exposure (excl. Multifamily)	SHUSA / SBNA	$8.5BN	$10.0BN	$10.5BN[3]
	Multifamily exposure	SHUSA / SBNA	**$10.6BN**	$10.0BN	$10.5BN[3]
	* Single obligor exposure	SHUSA / SBNA	$500MM	N/A	$500MM
	* Top 20 obligors exposure	SHUSA / SBNA	$6.3BN	$7.0BN	$8.0BN
Residual value risk	Residual value deterioriation[4]	SHUSA / SCUSA	$475MM	$500MM	$525MM
	Net residual value exposure	SHUSA / SCUSA	1.1%	5.0%	9.0%
Liquidity / funding risk	* Stressed Survival Period[5]	SHUSA	**28 days[6]**	90 days	60 days
		SBNA	**19 days[6]**	90 days	60 days
	* Liquidity Coverage Ratio	SHUSA	252.8%	140%	125%
		SBNA	167.8%	120%	110%
	* Structural Funding Ratio	SHUSA	108.8%	105%	100%
		SCUSA	87%	75%	70%
		SBNA	121.6%	105%	100%
	Available SCUSA committed liquidity / average projected net originations	SHUSA / SCUSA	7.8 months[6]	6 months	5 months

Note: all actuals as of July 2015 unless otherwise noted

1. A Santander Risk Rating (internal rating scale) of 5.0 maps to a BB+ according to the S&P rating scale
2. Approximately 50% of CET1 + ACL
3. Approximately 100% of CET1 + ACL
4. Projected 9Q cumulative increase in Leased Vehicle Expense between BHC Stress and Baseline scenarios – assumes all attributed to SCUSA
5. Based on the worst of four different liquidity scenarios (Systemic Local, Idiosyncratic, Systemic Global, and Wholesale Funding Sources)
6. As of June 2015

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Draft limits (4/5)

* mandated by Santander Grupo

Risk type	Metrics	Entity / portfolio	Actual	Amber trigger	Red limit
Interest rate risk	Net interest income sensitivity (+/- 100bps shock)	SHUSA	($103)MM	($120)MM	($140)MM
		SCUSA	($40)MM	($75)MM	($100)MM
		SBNA	($89)MM	($150)MM	($200)MM
	Market value of equity sensitivity (+/- 200 bps shock)	SHUSA	($580)MM	($1,070)MM	($1,220)MM
		SCUSA	($219)MM	($240)MM	($300)MM
		SBNA	($531)MM	($650)MM	($1,100)MM
Mark-to-market portfolio risk	Mark-to-market Value at Risk (VaR)	SHUSA	$11.3MM	$24.4MM	$28MM
Strategic risk	Pre-provisioned net revenue (PPNR) impairment	SHUSA	$3,700MM	$3,825MM	$4,100MM
		SCUSA	$2,500MM	$2,575MM	$2,775MM
		SBNA	$1,200MM	$1,250MM	$1,350MM
	* Loss in stress[1]	SHUSA	138%	100%	150%
		SCUSA	TBD	100%	150%
		SBNA	TBD	100%	150%
	SCUSA subprime assets as % of SHUSA credit exposure[2]	SHUSA	20.5%	23%	25%

Note: all monthly actuals as of July 2015 unless otherwise noted
1. Projected losses in stress scenario aligning to Grupo framework (not CCAR) over profit before tax
2. Subprime is defined as FICO < 630 or no FICO score available (excluding Commercial Fleet Retail and Chrysler Commercial Fleet Lease)

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Draft limits (5/5)

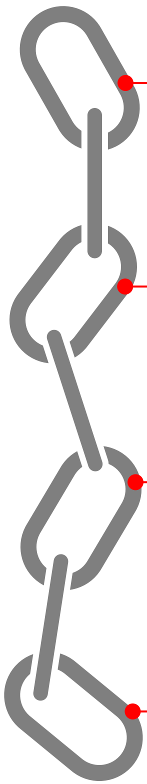
Risk type	Metrics	Entity / portfolio	Actual	Amber trigger	Red limit
Strategic risk	SCUSA Total Risk Weighted Assets (RWAs)	SHUSA / SCUSA	**$36.9BN**	Set as $2BN less than the red limit [$33.8BN]	Set so SCUSA CET1 is 11% based on prior month capital level [$35.8BN]
Operational risk[1]	Gross losses / gross margin	SHUSA	0.37%[2]	3.0%	5.0%
		SCUSA	0.07%[2]	3.0%	5.0%
		SBNA	1.19%[2]	3.0%	5.0%
	Frequency of events >$200K in losses	SHUSA	1[2]	9	16
		SCUSA	1[2]	3	6
		SBNA	0[2]	6	10
Model risk	Backlog of Tier 1 models not appropriately approved	SHUSA	134[3] • SHUSA – 25 • SCUSA – 24 • SBNA – 45 • Other entities – 40	N/A	• 4Q2015 – 102 • 2Q2016 – 90 • 4Q2016 – 60 • 2Q2017 – 30 • 4Q2017 – 0
Compliance and reputational risk	# Matters Requiring Immediate Attention (MRIAs)	SHUSA	**26**	N/A	0
	Serviced for others monthly net charge-off rate[4]	SHUSA / SCUSA	0.66%	1.5%	2%
	J.D. Power score	SBNA	**742**[5]	788	765

Note: all monthly actuals as of July 2015 unless otherwise noted

1. Operational risk metric limits are set per quarter (quarterly gross losses / gross margin and frequency of events >$200K in losses per quarter)
2. Actuals as of Q2 2015
3. As of August 17, 2015
4. For those portfolios exposing SCUSA to Reputational risk
5. As of Q1 2015

Appendix

Risk Appetite Statement is anchored in specific objectives for risk taking



	Objectives	Manifestation in RAS
A	**Meet regulatory constraints**	• ***Capital***: Ensure post-loss capital ratios in CCAR analysis are at or above limits • ***Liquidity***: Ensure cash flow profile keeps LCR at or above limits
B	**Sustain confidence of external stakeholders (e.g., rating agencies)**	• Ensure characteristics of the balance sheet, earnings and business profile (e.g., asset quality, liquidity, concentrations) are consistent with stakeholder expectations for prudent risk management
C	**Minimize risks that do not generate incremental earnings**	• Establish Board-level expectations for processes and controls in place for non-financial risks
D	**Comply with Group-level Risk Appetite expectations**	• Include metrics and adhere to limits agreed with Group, as applicable to SHUSA's business

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

Approach to calibration: credit risk example

A	**Describe and quantify RAS objectives**	• SHUSA must quantitatively pass CCAR; it must have **sufficient capital plus earnings to withstand elevated losses** – Current capital position and credit portfolio composition imply a ceiling to stress losses, which serve as an anchor point for risk appetite limits • Other objectives, e.g. earnings, will also have bearing on risk appetite limits
B	**Link to additional metrics**	• Beyond the primary risk appetite objectives, **other limits will need to be set in a consistent fashion** (e.g. net-charge offs, % delinquent, etc.) • For credit losses, simple historical analyses can be used to inform a consistent limit: – Internal credit performance over time (e.g. charge-offs), as available – External peer credit performance over time, to supplement internal – Budget/baseline expected credit losses
C	**Apply management adjustment**	• Analysis described above serves as an “anchor point” for limit setting in a way that ensures internal consistency of limits • Input from Senior Executives and other experts is essential for finalizing limits, in order to reflect the strategic vision and true risk appetite of SHUSA’s leadership

Calibration of capital adequacy, CCAR loss budget, net charge-off rate, and delinquency limits

Sequence of calibration by metric type

Covered on the following pages (steps 2–3)

1 Capital adequacy ratios

- Based limits on SHUSA's Capital Policy
- Set stressed red limit based on the Basel "Well Capitalized" Prompt Corrective Action (PCA)

2 CCAR loss budgets

- Quantified capital surplus between CCAR 2015 9Q minimum capital level under BHC Stress and amber / red limits
- Distributed capital surplus proportionally across portfolios on top of CCAR 2015 9Q cumulative losses to derive CCAR loss budgets

3 Net charge-off rate

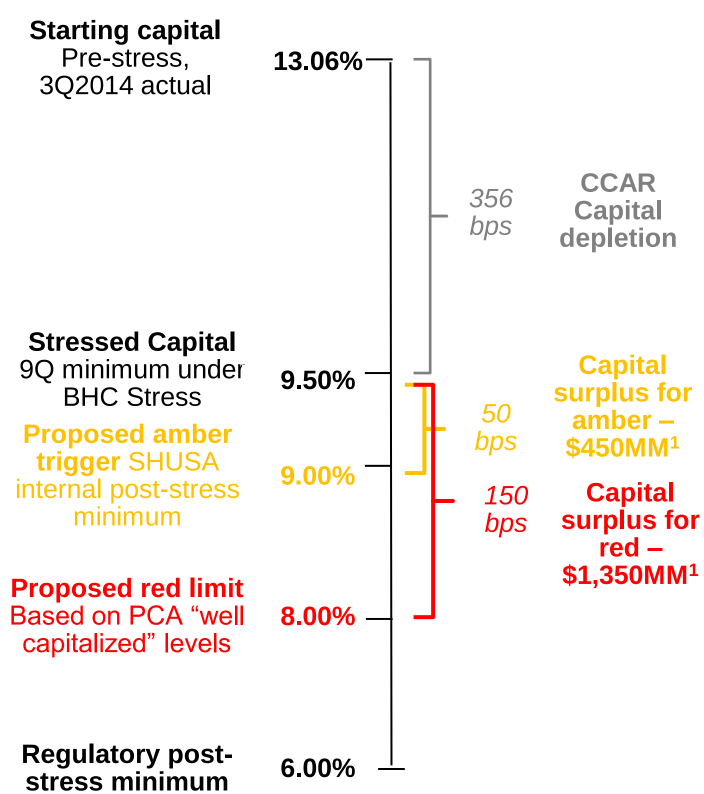
- Established historical relativities between baseline and stress by portfolio
- Used relativities to convert CCAR loss budgets to baseline net charge-off rates
- Back-tested derived net charge-off rate anchors
- Applied management adjustments, as necessary

4 Delinquency rate (for retail portfolios)

- Calculated historical relationship between NCOs and 60+ DPD rates
- Applied to proposed red/amber net charge-off rate limits to derive proposed delinquency limits
- Back-tested derived % 60/61+ DPD limits
- Applied management adjustments, as necessary

Quantifying the boundaries around credit losses and PPNR impairment with the CCAR 2015 results and capital adequacy limits

Basel Tier 1 Risk-based Capital ratio
% under 2015 BHC Stress scenario



Credit losses and PPNR impairment & capital surplus allocation
9Q Cumulative CCAR 2015

Credit losses

	BHC Stress $9,750MM	Capital surplus allocation
SCUSA Auto[2]	$6,375MM	45.5%
SCUSA Unsecured	$1,150MM	8.1%
SBNA Retail + Other	$650MM	4.7%
SBNA Wholesale	$1,225MM	8.7%
GBM	$350MM	2.5%

PPNR impairment

	BHC Base $9,950MM	-	BHC Stress $6,275MM	=	Impairment $3,675MM	Capital surplus allocation
Total Revenue	$22,025MM		$18,725MM		$3,300MM	23.5%
Expenses due to Op. risk[3]	$625MM		$1,125MM		$500MM	3.7%
Expenses due to RV[4]	$2,975MM		$3,450MM		$475MM	3.4%
Non-Interest Expense	$8,450MM		$7,875MM		$600MM	[Excluded]

Source: CCAR 2015 results – SHUSA Capital Aggregation Tool, all numbers are approximations
1. This number is scaled up by the stressed 9Q RWA used in calculating Tier 1 Risk-based Capital
2. SCUSA Auto includes 'fleet' loans (typically captured in SCUSA C&I)
3. Equals Operational Risk Expense
4. Equals Leased Vehicle Expense (pulled out of total Non-Interest Expense)

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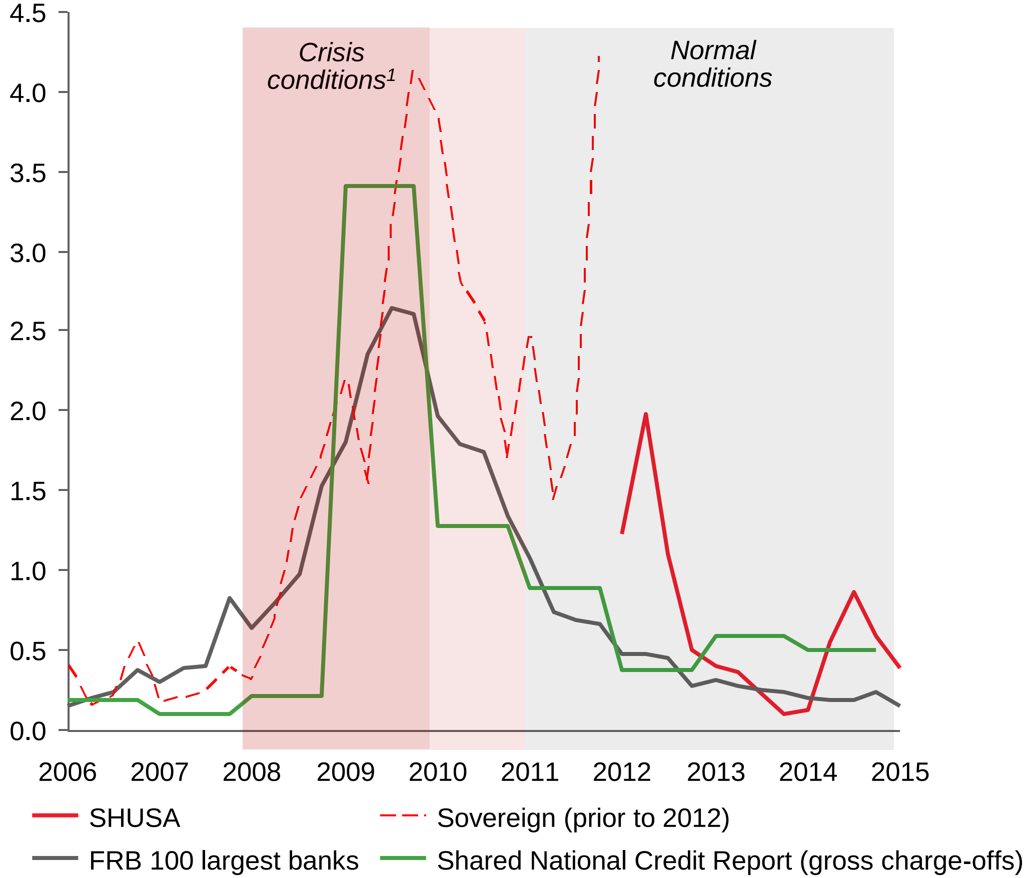
Deriving historical relativities between baseline and stress
Example: SBNA C&I

Net charge-off rate for C&I
%, 1Q2006 – 1Q2015



Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
SHUSA / Sovereign	1.08%	1.90%	**1.75**
FRB 100 largest banks	0.40%	1.67%	**4.14**
SNC Report	0.59%	1.81%	**3.10**
Crisis conditions = Q12008-Q42010			
SHUSA / Sovereign	1.08%	2.17%	**2.01**
FRB 100 largest banks	0.40%	1.68%	**4.17**
SNC Report	0.59%	1.63%	**2.79**

Scalar derived from CCAR 2015 stressed losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	$96 MM	$244 MM	**2.56**
BHC Stress	$96 MM	$286 MM	**2.99**

We have derived an overall stress scalar:

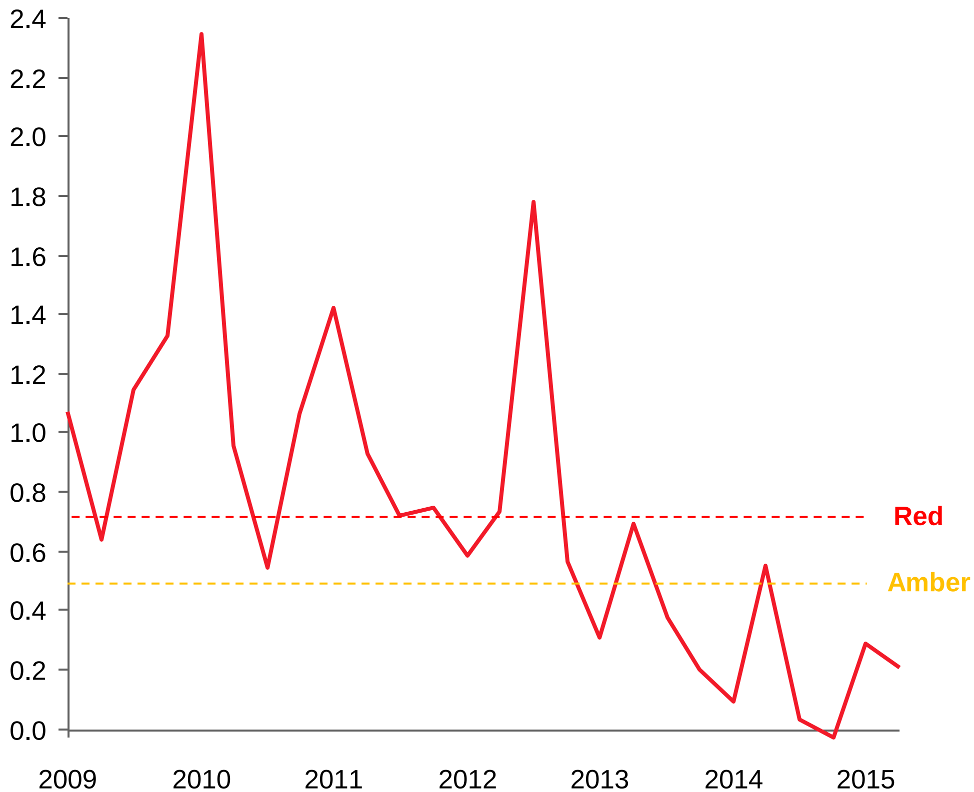
C&I	**~3X**

Note: ~$180MM of C&I in SHSUA time-series consists of SCUSA fleet auto loans, allocated to SCUSA Auto in the CCAR loss budget
Note: FRB SNC Report data is reported yearly so yearly values are repeated for each quarter of that year
Source: SNL Financial Regulated Depositories Bank Regulatory Financials database; Federal Reserve Board historical data: charge-off rates on loans and leases at 100 largest commercial banks, FRB 2014 Shared National Credit Report; CCAR 2015 Capital Aggregation Tool (CAT)
1.Crisis conditions defined as Q12008 (beginning of the recession as defined by NBER) through Q4 2009 or Q42010 (2 or 6 quarters after end of recession to allow for credit quality lag)

Calculating anchor points, backtesting, and applying management adjustment

Example: SBNA C&I

Net charge-off rate for C&I
%, 1Q2009 – 2Q2015



Methodology

	Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget	$295MM	$314MM
Annualized stressed losses	$131MM	$139MM
Stress scalar on NCO rates	**~3.0x**	
Stress scalar on balances	**~0.9x**	
Annualized baseline losses	$47MM	$50MM
Outstanding balances	$9.4BN	
Net charge-off rates	**0.51%**	**0.54%**

	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	0.5%	0.7%

Comparison between CCAR-derived metrics and loss in stress

	CCAR-derived metrics	Loss in stress
Purpose of exercise	• US supervisory requirement; toll-gate for capital actions • Meant to to ensure that SHUSA has sufficient capital to withstand a severely adverse macroeconomic scenario – Institutions are expected to deplete capital throughout the course of the stress	• Internally-defined risk-profile management tool for the Board • Meant to ensure that losses under an adverse, but plausible stress do not exceed 100% of PBT
Interpretation of results	• Results represent a hard binding constraint and serve as an indicator of what SHUSA can "afford to lose" in the US regulatory context • Breaches of individual capital/loss levels indicate heightened risk of quantitative failure	• Breaches signal the need for management discussions and potential action plans
Scenario	• For year-end exercise, a group of Fed-defined and BHC-defined scenarios, including a severely adverse scenario for each • Either FRB Severely Adverse or BHC Stress scenario is the appropriate level of severity	• ICAAP is generally used, Group expects an idiosyncratic, plausible stress (about 1:20) • FRB Adverse is the most comparable "off-the-shelf" scenario
Calculation details	• Scenario-consistent P&L and balance sheet simulation, covering losses and revenue	• Numerator based on strategic plan • Denominator based on losses (including provisions, concentration risk, market risk, ops risk) under above-defined scenario