

# **Santander Consumer USA (SCUSA)**



## **RISK APPETITE STATEMENT**

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## **1. Introduction**

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### **1.1 Purpose of the document**

The Santander Consumer USA, Inc. ("SCUSA") Risk Appetite Statement ("RAS") defines the types and, where appropriate, level of risk the Board of SCUSA 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 SCUSA is exposed to. 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 SCUSA 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 SCUSA Risk Appetite Framework document (reviewed and approved by SCUSA ERMC, the SCUSA RC, and the SCUSA Board) which sets forth the governance, core principles, and key requirements for developing and approving the SCUSA RAS.

### **1.2 Scope**

This RAS applies to SCUSA and includes metrics and limits set either at the consolidated SHUSA level or at the SCUSA level.

### **1.3 Document approval and maintenance**

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

The RAS is reviewed and approved by the Board at least annually or when material changes occur to SCUSA's risk profile, strategy, or operating environment, to ensure that it remains applicable to SCUSA'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, following the appropriate committee process.

## 2. The SCUSA Risk Appetite Principles and Objectives

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SCUSA's RAS is underpinned by the principle that SCUSA seeks to carefully manage its risk profile, generate sustainable earnings, maintain strong capital levels and actively managing liquidity to remain solvent at all times, including through adverse or severe stress situations.

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

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

- Limits in SCUSA's RAS are designed to ensure that SHUSA meets regulatory constraints on a consolidated level. The Risk Appetite is set to ensure SHUSA's post-loss capital ratios in CCAR analysis are at or above internally-defined limits.
- SCUSA's Risk Appetite boundaries are defined to ensure that SCUSA's balance sheet, earnings and business profile (e.g., asset quality, liquidity, and concentrations) are consistent with stakeholder expectations for prudent risk management.
- SCUSA'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).
- SCUSA'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 SCUSA's business.
- SCUSA 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.
- SCUSA 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 SCUSA 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.

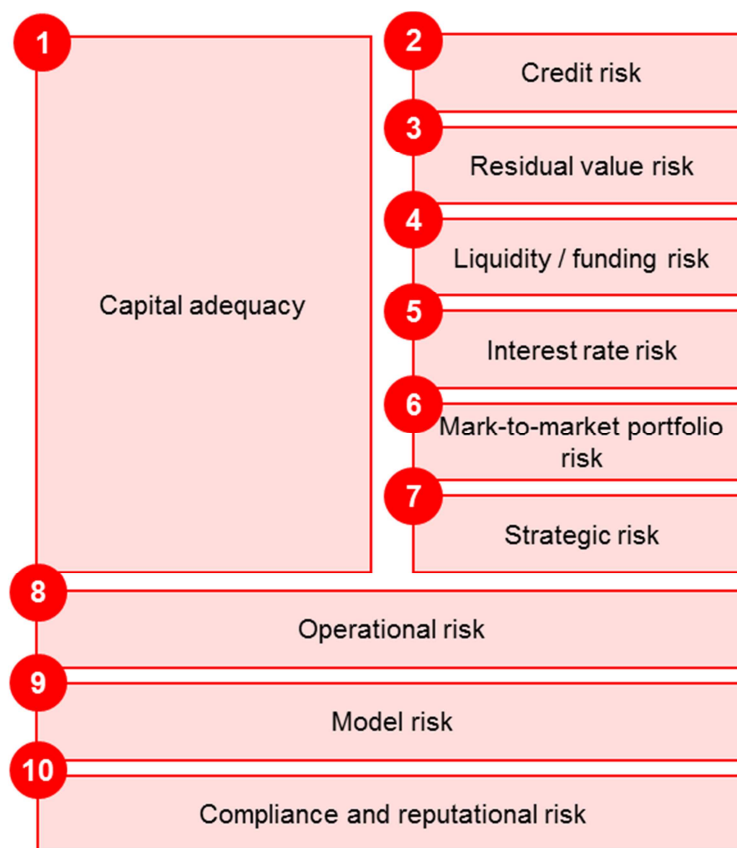
The Board of SCUSA is committed to establishing and maintaining a risk management culture that combines business strategy with prudent risk-taking, transparency, and ethical business practices. This includes fair and transparent business practices and a zero-appetite approach to willful noncompliance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

### 3. The SCUSA Risk Taxonomy

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

SCUSA 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 SCUSA Risk Appetite Taxonomy is shown below<sup>1</sup>:



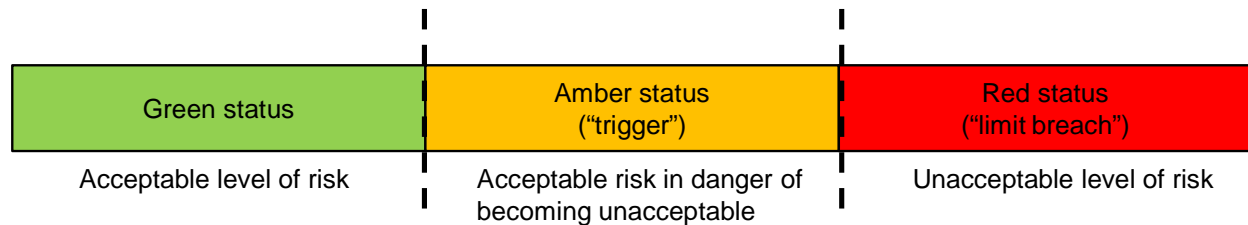
<sup>1</sup> The SCUSA Risk Appetite Taxonomy includes two risk categories to which SCUSA is exposed (mark-to-market portfolio risk and model risk), but this RAS does not include quantitative metrics for those risk categories as the metrics are tracked at SHUSA level

## 4. 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 SCUSA’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 SCUSA’s appetite to risk exposure. These statements and metrics are found on the following pages<sup>2</sup>.

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 SCUSA 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 SCUSA. Both triggers and limit breaches prompt an escalation and remediation process within SCUSA<sup>3</sup>.

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 SCUSA’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.

<sup>2</sup> The SCUSA Risk Appetite Metrics Glossary document details each quantitative metric, its owner, the calculation process, and the frequency of reporting,

<sup>3</sup> 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.

## 1. Capital Adequacy

**1<sup>st</sup> Line of Defense Owner: SCUSA Chief Financial Officer**

**2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Chief Risk Officer**

### QUALITATIVE STATEMENTS

SCUSA will hold sufficient capital 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

SCUSA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
<b>Baseline</b>			
Common Equity Tier 1 Ratio	10.00%	8.75%	Floor
Tier 1 Risk-based Capital Ratio	10.00%	8.75%	Floor
Tangible Common Equity Ratio	10.50%	9.25%	Floor
<b>Stress</b>			
Common Equity Tier 1 Ratio	6.25%	5.25%	Floor
Tier 1 Risk-based Capital Ratio	6.25%	5.25%	Floor
Tangible Common Equity Ratio	6.75%	5.75%	Floor

## 2. Credit Risk

**1<sup>st</sup> Line of Defense Owner: All business line executives**

**2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Credit Risk Management function**

### QUALITATIVE STATEMENTS

SCUSA 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, 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 SCUSA's material portfolios. Material portfolios are defined as those having credit exposures of more than \$5BNor 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.

SCUSA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
<b>CCAR loss budget - Stressed</b>			
SCUSA Auto	\$6,575MM	\$7,000MM	Ceiling
SCUSA Unsecured	\$1,175MM	\$1,250MM	Ceiling
<b>Net charge-off rate - Actuals</b>			
SCUSA Auto	7.8%	8.5%	Ceiling
SCUSA Unsecured	18.0%	20.0%	Ceiling
<b>61+ days past due - Actuals</b>			
SCUSA Auto	4.4%	4.9%	Ceiling
SCUSA Unsecured	7.0%	8.0%	Ceiling



### 3. Residual Value Risk

**1<sup>st</sup> Line of Defense Owner: SCUSA Chief Executive Officer**

**2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Credit Risk Management function**

#### QUALITATIVE STATEMENTS

SCUSA 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 capital strength under baseline or stress.

#### QUANTITATIVE METRICS

SCUSA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
Residual value deterioration	\$500MM	\$525MM	Ceiling
Net residual value exposure	5.0%	9.0%	Ceiling
Stressed Residual Value Impact / Lifetime Profit	TBD	TBD	Ceiling
Stressed Residual Value Impact / CET1	TBD	TBD	Ceiling

<b>4. Liquidity / Funding Risk</b>			
<b>1<sup>st</sup> Line of Defense Owner: SCUSA Chief Financial Officer</b>			
<b>2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Liquidity Risk Management function</b>			
<b>QUALITATIVE STATEMENTS</b>			
<p>SCUSA will ensure that it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario.</p> <p>SCUSA will diversify its funding sources and minimize its dependence on capital markets.</p>			
<b>QUANTITATIVE METRICS</b>			
<b>SCUSA RISK APPETITE METRICS</b>	<b>AMBER TRIGGER</b>	<b>RED LIMIT</b>	<b>LIMIT TYPE</b>
Structural Funding Ratio	<b>75%</b>	<b>70%</b>	<b>Floor</b>
Available SCUSA committed liquidity / average projected net originations	<b>6 months</b>	<b>5 months</b>	<b>Floor</b>

<b>5. Interest Rate Risk</b>			
<b>1<sup>st</sup> Line of Defense Owner: SCUSA Chief Financial Officer</b>			
<b>2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Market Risk Management Function</b>			
<b>QUALITATIVE STATEMENTS</b>			
<p>SCUSA 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.</p> <p>To minimize its exposure to Interest Rate Risk, SCUSA will hedge via instruments that it understands.</p>			
<b>QUANTITATIVE METRICS</b>			
<b>SCUSA RISK APPETITE METRICS</b>	<b>AMBER TRIGGER</b>	<b>RED LIMIT</b>	<b>LIMIT TYPE</b>
Net interest income sensitivity (+/- 100bps shock)	(\$75)MM	(\$100)MM	Floor
Market value of equity sensitivity (+/- 200bps shock)	(\$240)MM	(\$300)MM	Floor

<b>6. Mark-to-market Portfolio Risk<sup>4</sup></b>			
<b>1<sup>st</sup> Line of Defense Owners: SCUSA Chief Financial Officer</b>			
<b>2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Market Risk Management Function</b>			
<b>QUALITATIVE STATEMENTS</b>			
<p>SCUSA will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements.</p>			

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<sup>4</sup> Mark-to-market portfolio risk is included in the RAS as it is a risk to which SCUSA is exposed and must monitor and manage; this RAS does not include quantitative metrics for this risk category as the metrics are tracked at SHUSA level

## 7. Strategic Risk

**1<sup>st</sup> Line of Defense Owners: SCUSA Chief Executive Officer**

**2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Chief Risk Officer**

### QUALITATIVE STATEMENTS

SCUSA strives to deliver consistent performance through pragmatic risk-taking. SCUSA 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.

SCUSA's strategic planning process will both consider and work with the risk appetite setting, capital planning, and recovery and resolution planning processes.

### QUANTITATIVE METRICS

SCUSA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
Pre-provisioned net revenue (PPNR) impairment	\$2,575MM	\$2,775MM	Ceiling
Loss in Stress	100%	150%	Ceiling
SCUSA Total Risk Weighted Assets (RWAs)	Set as \$2BN less than the red limit [\$33.8BN for July 2015]	Set so SCUSA CET1 is 11% based on prior month capital level [\$35.8BN]	Ceiling

## 8. Operational Risk

**1<sup>st</sup> Line of Defense Owners: All employees of SCUSA**

**2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Operational Risk function**

### QUALITATIVE STATEMENTS

SCUSA 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. SCUSA 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

SCUSA RISK APPETITE METRICS	APPETITE TRIGGER	OUTER LIMIT	LIMIT TYPE
Gross operational risk losses / gross margin	<b>3.0%</b>	<b>5.0%</b>	<b>Ceiling</b>
Frequency of events >\$200K in losses	<b>3</b>	<b>6</b>	<b>Ceiling</b>

**9. Model Risk<sup>5</sup>****1<sup>st</sup> Line of Defense Owners: All Model Owners, Model Developers and Model Users****2<sup>nd</sup> Line of Defense Risk Management unit: SHUSA Model Risk Management function****QUALITATIVE STATEMENTS**

SCUSA 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.

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<sup>5</sup> Model risk is included in the RAS as it is a risk to which SCUSA is exposed and must monitor and manage; this RAS does not include quantitative metrics for this risk category as the metrics are tracked at SHUSA level

**10. Compliance and Reputational Risk****1<sup>st</sup> Line of Defense Owners: All employees of SCUSA****2<sup>nd</sup> Line of Defense Risk Management unit: SCUSA Compliance function****QUALITATIVE STATEMENTS**

SCUSA 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.

SCUSA expects that its employees will act with the highest ethical standards at all times.

**QUANTITATIVE METRICS**

SCUSA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
SCUSA serviced for others monthly net charge-off rate <sup>6</sup>	1.5%	2%	Ceiling

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<sup>6</sup> For those portfolios exposing SCUSA to Reputational risk

## 5. Appendices

### Appendix A – Risk Type Glossary<sup>7</sup>

Risk Type	Definition
<b>Capital Adequacy</b>	Risk of having insufficient capital to sustain operations, leading to regulatory action, or ultimately failure, under stressed condition
<b>Credit Risk</b>	Risk of loss of principal due to a borrower's failure to repay a loan
<b>Residual Value Risk</b>	Risk that the value of a leased asset realizable on sale will be lower than the projected value used in establishing pricing
<b>Liquidity / Funding Risk</b>	Risk of insufficient funding to sustain operations or liquid assets to support liability outflows
<b>Interest Rate Risk</b>	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
<b>Mark-to-market Portfolio Risk</b>	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)
<b>Strategic Risk</b>	Risk of loss or reduced earnings resulting from strategies or business decisions
<b>Operational Risk</b>	Risk resulting from breakdowns in internal processes, people, systems or from external events
<b>Model Risk</b>	Risk of improper development, validation, implementation, and use of models in production
<b>Compliance and Reputational Risk</b>	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 SCUSA. 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").

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<sup>7</sup> The SCUSA Risk Appetite Taxonomy includes two risk categories to which SCUSA is exposed (mark-to-market portfolio risk and model risk), but this RAS does not include quantitative metrics for this risk category as the metrics are tracked at SHUSA level



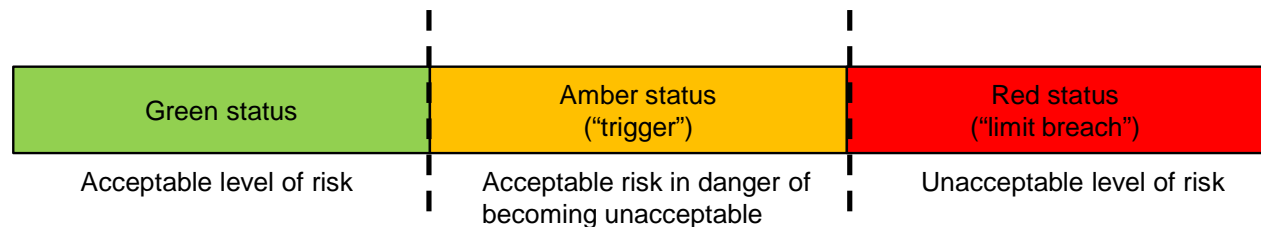
## Risk Monitoring and Reporting

Deep-dive reports, which include granular analysis on each metric, are presented to the ERM monthly and the Board Risk Committee (“RC”) quarterly. Summary reports, which indicate the status of each metric, are sent to the ERM, 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 SCUSA 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 SCUSA. Both triggers and limit breaches prompt an escalation and remediation process within SCUSA.

## SCUSA and SHUSA level triggers and breaches

SCUSA risk appetite triggers and breaches may be applicable solely at SCUSA, or to SHUSA overall, depending on metric definition and the scale of the breach. The SHUSA ERM and RC are responsible for approving action plans for triggers and limit breaches that reach the SHUSA level, but SCUSA-specific breaches are escalated and remediated within SCUSA. The following sections focus on escalation and remediation within SCUSA for triggers and breaches applicable only on the subsidiary level. For additional detail on escalation procedures for SHUSA level triggers and breaches, please refer to the SHUSA RAS.

## Escalation and Remediation Process

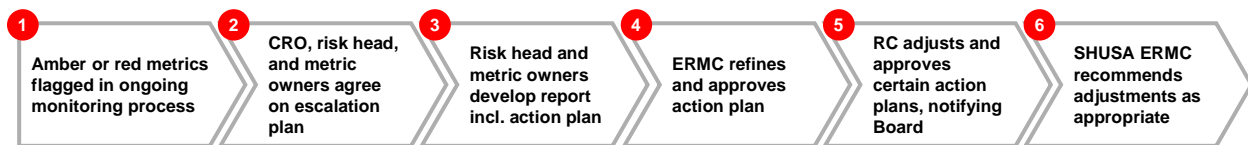
Initial responsibility for escalating SCUSA Risk Appetite metric triggers and limit breaches falls to the metric owner or the owner’s delegated representative. For those metrics where there is a defined relationship between the metric and a business line, identified metric owners are the heads of the business line. Where a metric applies across multiple business lines, metric ownership is assigned to business leadership at SCUSA or SHUSA. Where there is no clear metric owner in the business, the SCUSA 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 SCUSA risk type heads, will notify the SCUSA CRO, who is responsible for determining the pathway and speed of further escalation. Many triggers and breaches will be escalated within SCUSA 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 SCUSA risk type head, first develop a report to present to the ERM. 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 ERM 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 SCUSA RAS.

Although responsibility for escalating and remediating SCUSA-specific triggers and breaches resides within SCUSA, the SHUSA ERM retains the right to review and recommend adjustments to action plans. The subsidiary risk type heads will maintain direct communication with their SHUSA counterparts regarding escalation and remediation measures throughout the process, and the SHUSA CRO will be notified of all triggers and breaches both immediately after they are identified and when remediation plans receive final approval at SCUSA.

## Exhibit 2: SCUSA 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 the 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, SCUSA's strategic direction, and SCUSA's ability 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.

## 6. Document History and Version Control

### 6.1 Ownership and Authorship

Version	Date	Author	Owner	Reason for Change
1.0	04/2014	CCRO	SCUSA Board	New
2.0	07/2014	CRO	SCUSA Board	SCUSA Risk Appetite Framework was renamed and updated to align with SCUSA RTS
3.0	09/2014	CRO	SCUSA Board	Update Credit metrics 1.1 and 1.2 by adding (positive or negative), 3.6 and 3.7 for adjusted figures, change definition in 2.3 and make conforming/clarifying changes
4.0	September 2015	CRO	SCUSA Board	Change from "Risk Tolerance Statement" to "Risk Appetite Statement"  Update of methodology and limits to adapt to industry practice and regulatory best practices

### 6.2 Sign off

Approving Body	Governance Committee review	Final Approval Date
SCUSA Board	SCUSA ERM / SCUSA RC	September 2015