

# **Santander Bank N.A. (SBNA)**



## **RISK APPETITE STATEMENT**

## Table of Contents

---

<b>1. INTRODUCTION.....</b>	<b>2</b>
<b>1.1 PURPOSE OF THE DOCUMENT.....</b>	<b>2</b>
<b>1.2 SCOPE.....</b>	<b>2</b>
<b>1.3 DOCUMENT APPROVAL AND MAINTENANCE .....</b>	<b>2</b>
<b>2. THE SBNA RISK APPETITE PRINCIPLES AND OBJECTIVES .....</b>	<b>3</b>
<b>3. THE SBNA RISK TAXONOMY.....</b>	<b>4</b>
<b>4. QUALITATIVE STATEMENTS AND QUANTITATIVE METRICS BY RISK CATEGORY .....</b>	<b>5</b>
<b>5. APPENDICES.....</b>	<b>15</b>
APPENDIX A – RISK TYPE GLOSSARY .....	15
APPENDIX B – RISK APPETITE ESCALATION AND REMEDIATION PROTOCOL.....	15
<b>6. DOCUMENT HISTORY AND VERSION CONTROL.....</b>	<b>18</b>
<b>6.1 OWNERSHIP AND AUTHORSHIP.....</b>	<b>18</b>
<b>6.2 SIGN-OFF.....</b>	<b>18</b>

## 1. Introduction

---

### 1.1 Purpose of the document

The Santander Bank N.A. ("SBNA", "Bank") Risk Appetite Statement ("RAS") defines the types and, where appropriate, level of risk the SBNA Board of Directors ("Board") 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 SBNA 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 Bank, articulates the way in which SBNA 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 SBNA Risk Appetite Framework document (reviewed and approved by the Executive Risk Management Committee) which sets forth the governance, core principles, and key requirements for developing and approving the SBNA RAS.

### 1.2 Scope

This RAS applies to SBNA and includes metrics and limits set either at the consolidated Santander Holdings USA, Inc. ("SHUSA") level or at the SBNA level.

### 1.3 Document approval and maintenance

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

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

## 2. The SBNA Risk Appetite Principles and Objectives

---

SBNA's RAS is underpinned by the principle that SBNA seeks to maintain a moderate risk profile, generate sustainable earnings, maintain strong capital levels, and actively manage liquidity to remain solvent at all times, including through stress situations.

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

- Limits in SBNA's RAS are designed to ensure that SBNA meets regulatory constraints as an autonomous subsidiary. The Risk Appetite is set to ensure (i) SBNA's post-loss capital ratios in CCAR/DFAST analysis are at or above internally-defined limits and (ii) SBNA's cash flow profile keeps its Liquidity Coverage Ratio (LCR) at or above limits.
- SBNA's Risk Appetite boundaries are defined to ensure that SBNA's balance sheet, earnings, and business profile (e.g., asset quality, liquidity, and concentrations) are consistent with stakeholder expectations for prudent risk management.
- SBNA's RAS establishes Board-level expectations for processes and controls for non-financial risks (e.g., no tolerance for use of non-validated models, risk-averse approach to operational, conduct, and regulatory risk).
- SBNA'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 SBNA's business.
- SBNA 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.
- SBNA 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 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.

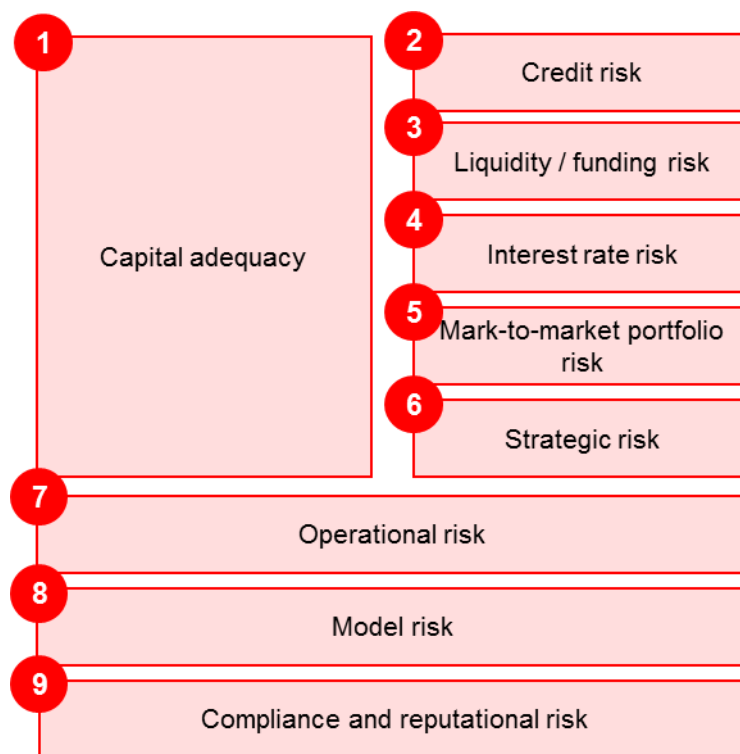
The Board of SBNA is committed to establishing and maintaining a risk management culture that combines business strategy with prudent risk-taking, transparency, and ethical business practices. This includes fair and transparent business practices and a zero-appetite approach to willful noncompliance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

### 3. The SBNA Risk Taxonomy

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

SBNA 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, 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 SBNA Risk Appetite Taxonomy is shown below:

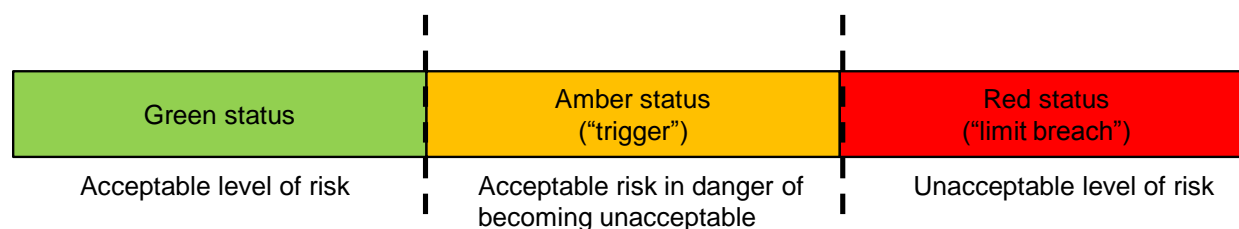


## 4. Qualitative Statements and Quantitative Metrics by Risk Category

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

The qualitative statements articulate SBNA's approach toward 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 SBNA's appetite to risk exposure. These statements and metrics are found on the following pages<sup>1</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 SBNA 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 SBNA. Both triggers and limit breaches prompt an escalation and remediation process within SBNA<sup>2</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 SBNA'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>1</sup> The SBNA Risk Appetite Metrics Glossary document details each quantitative metric, its owner, the calculation process, and the frequency of reporting.

<sup>2</sup> The Monitoring and Escalation Process document describes 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: SBNA Chief Financial Officer**

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

### QUALITATIVE STATEMENTS

SBNA will hold sufficient capital to act as a source of strength, 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

SBNA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
<b>Baseline</b>			
Common Equity Tier 1 Ratio	11.00%	10.75%	Floor
Tier 1 Risk-based Capital Ratio	12.50%	12.25%	Floor
Total Capital Ratio	14.30%	14.05%	Floor
Tier 1 Leverage Ratio	9.95%	9.70%	Floor
Tangible Common Equity Ratio	9.90%	9.65%	Floor
<b>Stress</b>			
Common Equity Tier 1 Ratio	7.55%	6.50%	Floor
Tier 1 Risk-based Capital Ratio	9.05%	8.00%	Floor
Total Capital Ratio	11.05%	10.00%	Floor
Tier 1 Leverage Ratio	7.05%	5.00%	Floor
Tangible Common Equity Ratio	7.00%	6.00%	Floor

## 2. Credit Risk (1/2)

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

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

### QUALITATIVE STATEMENTS

SBNA is willing to take credit risks that it understands and that fall within its risk appetite:

- It will focus on lending products for which in-house knowledge and skills exist from a risk perspective and on which credit risk can be measured and managed;
- It will monitor and manage portfolio quality and concentrations, including borrower and collateral quality, portfolio diversification across product, industry, geography, collateral type, and client segment.
- It will 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 SBNA's material portfolios. Material portfolios are defined as those having credit exposures of more than \$5BN or representing a Business Line that is of key strategic importance.

These metrics fall into three categories:

- CCAR/DFAST "loss budget", i.e. the amount of stressed losses under SHUSA's BHC scenario that can be absorbed without threatening the Bank'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.

SBNA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
<b>CCAR/DFAST loss budget - Stressed</b>			
SBNA Retail	\$675MM	\$725MM	Ceiling
SBNA Wholesale	\$1,250MM	\$1,350MM	Ceiling
SBNA GBM	\$375MM	\$400MM	Ceiling
<b>Net charge-off rate - Actuals</b>			
SBNA Retail	1.0%	1.3%	Ceiling
SBNA Small Business Banking + Business Banking + Auto	0.7%	0.9%	Ceiling
SBNA C&I	0.5%	0.7%	Ceiling
SBNA CRE	0.3%	0.5%	Ceiling
SBNA GBM	0.2%	0.4%	Ceiling



<b>2. Credit Risk (2/2)</b>			
<b>SBNA RISK APPETITE METRICS</b>	<b>AMBER TRIGGER</b>	<b>RED LIMIT</b>	<b>LIMIT TYPE</b>
<b>60+ days past due - Actuals</b>			
SBNA Retail	5.0%	7.5%	Ceiling
<b>Portfolio concentration measures - Actuals</b>			
# of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > \$100MM	N/A	0	Ceiling
Industry exposure (by OCC group)	\$4.5BN	\$5.0BN	Ceiling
CRE exposure (excl. Multifamily)	\$10.0BN	\$10.5BN	Ceiling
Multifamily exposure	\$10.5BN	\$11.0BN	Ceiling
Single obligor exposure	N/A	\$500MM	Ceiling
Top 20 obligors exposure	\$7.0BN	\$8.0BN	Ceiling

### 3. Liquidity / Funding Risk

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

**2<sup>nd</sup> Line of Defense Risk Management unit: SBNA Liquidity Risk Management function**

#### QUALITATIVE STATEMENTS

- SBNA 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.
- SBNA will diversify its funding sources and minimize its dependence on capital markets.

#### QUANTITATIVE METRICS

SBNA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
Stressed Survival Period	90 days	60 days	Floor
Liquidity Coverage Ratio	120%	110%	Floor
Structural Funding Ratio	105%	100%	Floor

#### 4. Interest Rate Risk

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

**2<sup>nd</sup> Line of Defense Risk Management unit: SBNA Market Risk Management function**

##### QUALITATIVE STATEMENTS

- SBNA will conservatively manage its Interest Rate Risk exposures, setting a maximum for the sensitivity of the net interest income and market value of equity to interest rates.
- To minimize its exposure to Interest Rate Risk, SBNA will hedge via instruments that it understands.

##### QUANTITATIVE METRICS

SBNA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
Net interest income sensitivity (+/- 100bps shock)	(\$150)MM	(\$200)MM	Floor
Market value of equity sensitivity (+/- 200bps shock)	(\$825)MM	(\$1,100)MM	Floor

#### 5. Mark-to-market Portfolio Risk

**1<sup>st</sup> Line of Defense Owners: SBNA Global Banking and Markets Head of Trading, SBNA Chief Financial Officer**

**2<sup>nd</sup> Line of Defense Risk Management unit: SBNA Market Risk Management function**

##### QUALITATIVE STATEMENTS

SBNA and its subsidiaries will only participate in trading for purposes of client facilitation and will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements.

## 6. Strategic Risk

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

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

### QUALITATIVE STATEMENTS

- SBNA strives to deliver consistent performance through pragmatic risk-taking. SBNA 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.
- SBNA will ensure that adequate governance and oversight processes and controls are in place for all business activities, products, and services.
- SBNA's strategic planning process will both consider and work with the risk appetite setting, capital planning, and recovery and resolution planning processes.

### QUANTITATIVE METRICS

SBNA RISK APPETITE METRICS	AMBER TRIGGER	RED LIMIT	LIMIT TYPE
Pre-provisioned net revenue (PPNR) impairment	\$1,250MM	\$1,350MM	Ceiling
Loss in Stress	100%	150%	Ceiling

## 7. Operational Risk

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

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

### QUALITATIVE STATEMENTS

- SBNA 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.
- SBNA 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

SBNA RISK APPETITE METRICS	AMBER TRIGGER	RED 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>6</b>	<b>10</b>	<b>Ceiling</b>

**8. Model Risk****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**

- SBNA 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.

**9. Compliance and Reputational Risk****1<sup>st</sup> Line of Defense Owners: All Staff SBNA****2<sup>nd</sup> Line of Defense Risk Management unit: SBNA Chief Compliance Officer****QUALITATIVE STATEMENTS**

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

## 5. Appendices

### Appendix A – Risk Type Glossary

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>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, and 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 triggers and breaches are escalated and remediated within SBNA. 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.

#### Risk Monitoring and Reporting

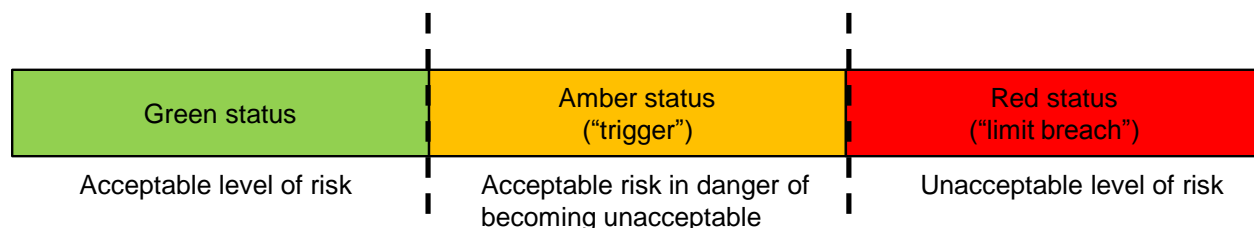
Deep-dive reports, which include granular analysis on each metric, are presented to the ERM monthly and the Board Risk Committee quarterly. Summary reports, which indicate the status of each metric, are sent to the ERM, the RC, and the Board every month.



## 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 SBNA 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 SBNA. Both triggers and limit breaches prompt an escalation and remediation process within SBNA.

### SBNA and SHUSA level triggers and breaches

SBNA risk appetite triggers and breaches may be applicable solely at SBNA, or to SHUSA overall, depending on metric definition and the scale of the breach. The SBNA ERM and RC are responsible for approving action plans for triggers and limit breaches that reach the SHUSA level, but SBNA-specific breaches are escalated and remediated within SBNA. The following sections focus on escalation and remediation within SBNA 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 SBNA 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 SBNA or SHUSA. Where there is no clear metric owner in the business, the SBNA CRO has the authority to select an owner or request that the risk type head fill role requirements.

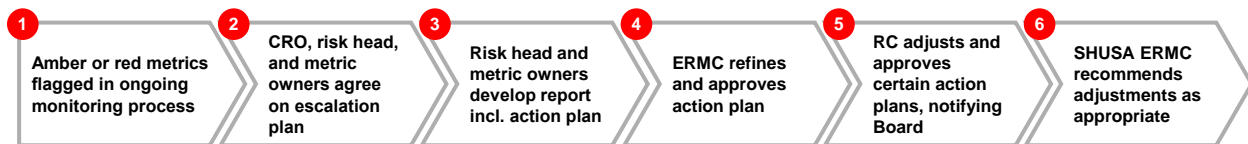
Immediately after a trigger or limit breach is discovered, the metric owners, working with the SBNA risk type heads, will notify the SBNA CRO, who is responsible for determining the pathway and speed of further escalation. Many triggers and breaches will be escalated within SBNA using the standard approval 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 SBNA 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 SBNA RAS.

Although responsibility for escalating and remediating SBNA-specific triggers and breaches resides within SBNA, 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 SBNA.

## Exhibit 2: SBNA 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, SBNA's strategic direction, and SBNA'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	2012	CRO	Board of Directors	Replaced by version 2.0
2.0	1/22/2013	CRO	Board of Directors	Replaced by version 3.0
3.0	6/27/2014	CRO	Board of Directors	Annual update and enhancements to adapt industry and regulatory best practices
4.0	12/11/2014	CRO	Board of Directors	Recalibration of metrics and annual update
5.0	3/20/2015	CRO	Board of Directors	Annual update; Remove complimentary metrics, recalibrate select metrics, document clean up
6.0	9/25/2015	CRO	Board of Directors	Change from "Risk Tolerance Statement" to "Risk Appetite Statement" Update of methodology and limits to adapt to industry practice and regulatory best practices

### 6.2 Sign-off

Approving Body	Governance Committee review	Final Approval Date
SBNA RC	ERMC	12/11/2014
SBNA Board	SBNA ERMC / SBNA RC	3/20/2015
SBNA Board	SBNA ERMC / SBNA RC	9/25/2015