

SHUSA Risk Transformation

Supporting materials on metrics and limits
2015 Risk Appetite redevelopment

Table of contents

Executive summary	2
Approach to Risk Appetite redevelopment	3
Objectives	4
Risk taxonomy and list of metrics	5
Metric selection	6
Calibration	7
Metrics and limits summary	10
Identified limitations in 2015 RAS and plans for improvements	15

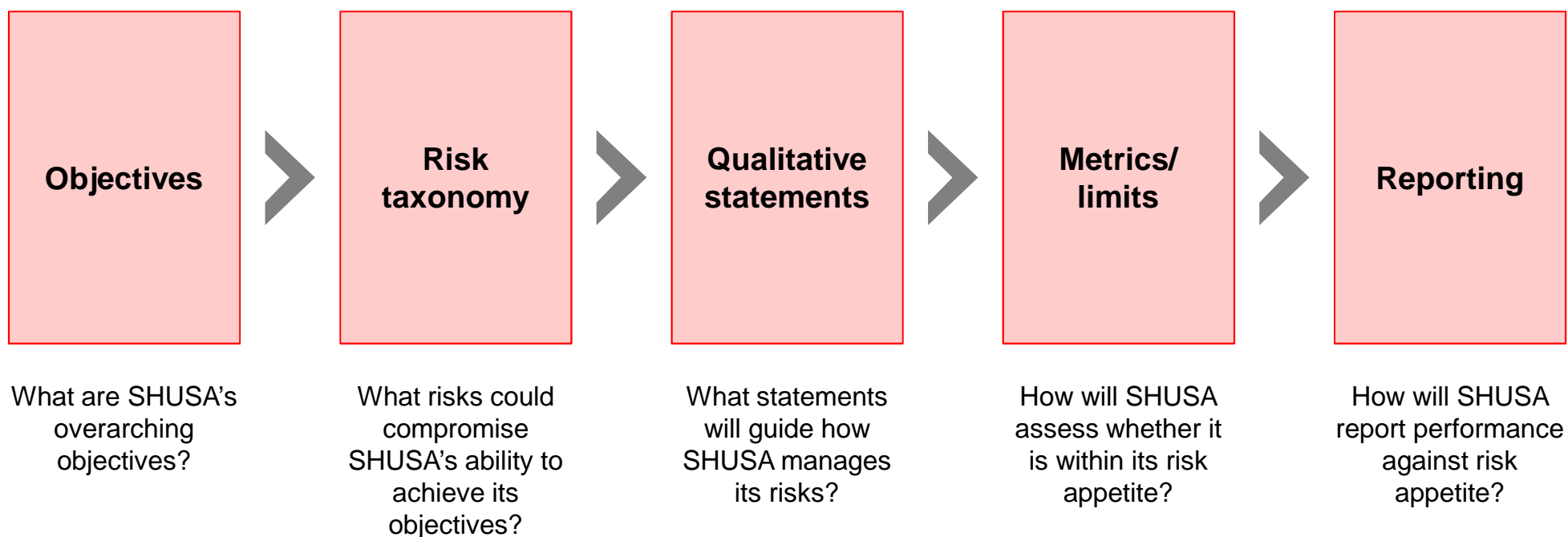
Metrics rationale and limit calibration	16-106
1 Capital adequacy risk	16
2 Credit risk	20
A. CCAR loss budgets	26
B. Net charge-off rates	29
C. Delinquency rates	48
D. Concentration metrics	54
3 Residual value risk	59
4 Liquidity/funding risk	64
5 Interest rate risk	71
6 Mark-to-market portfolio risk	75
7 Strategic risk	80
8 Operational risk	87
9 Model risk	97
10 Compliance and reputational risk	102

We have redeveloped the Board level Risk Appetite Statements for SHUSA, SBNA, and SCUSA

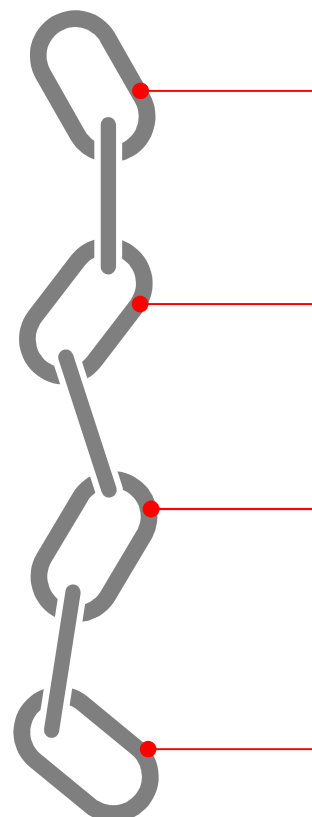
- The SHUSA, SBNA, and SCUSA Risk Appetite Statements were developed using
 - A common set of objectives and risk taxonomy
 - Parallel calibration of metrics to ensure alignment
- While the limits for certain metrics may need to be revised as the contours of the enterprise's balance sheet and risk profile shift, the conceptual framework used for redeveloping the RAS and metrics included should be durable over the next several years
- SHUSA's RAS is anchored in specific objectives for risk-taking. The boundaries established in SHUSA's RAS are defined such that they allow SHUSA to achieve several primary objectives
 - Meet regulatory constraints as an autonomous subsidiary
 - Sustain confidence of external stakeholders
 - Minimize control-related risks
 - Comply with Santander S.A.'s (or "Group") consolidated risk appetite
- 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

We followed a five-step process to redevelop the Risk Appetite

Risk Appetite redevelopment



The RAS is anchored in specific objectives for risk-taking

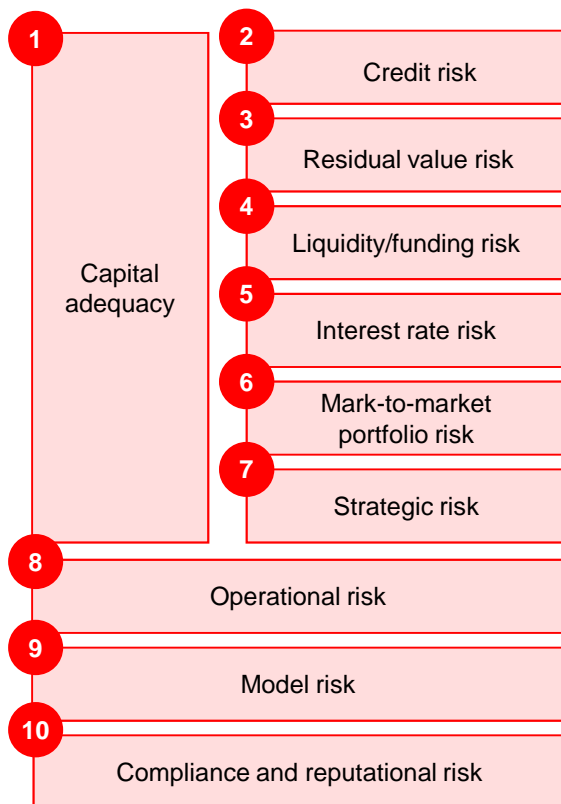


Objectives	Manifestation in RAS
A Meet regulatory constraints	<ul style="list-style-type: none">• Capital: Ensure post-loss capital ratios in CCAR analysis are at or above limits• Liquidity: Ensure cash flow profile keeps LCR at or above limits
B Sustain confidence of external stakeholders (e.g., rating agencies)	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Establish Board-level expectations for processes and controls in place for non-financial risks
D Comply with Group-level Risk Appetite expectations	<ul style="list-style-type: none">• 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

We based the RAS risk taxonomy on the ERM framework and selected appropriate metric(s) for each risk category

Risk taxonomy for the risk appetite



Metrics in the RAS

1	<ul style="list-style-type: none"> * Common Equity Tier 1 Ratio Tier 1 Risk-based Capital Ratio Total Capital Ratio 	<ul style="list-style-type: none"> * Tier 1 Leverage Ratio Tangible Common Equity Ratio <p>For all: baseline and stress</p>
2	<ul style="list-style-type: none"> CCAR loss budget¹ Net charge-off rate % 60/61+ days past due 	<ul style="list-style-type: none"> * # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > \$100 MM² Concentrations: * industry, * CRE, multifamily, * single obligor, * top 20 obligors
3	<ul style="list-style-type: none"> Residual value deterioration³ 	<ul style="list-style-type: none"> Net residual value exposure
4	<ul style="list-style-type: none"> * Liquidity stress testing survival horizon * Liquidity Coverage Ratio * Structural Funding Ratio 	<ul style="list-style-type: none"> Available committed liquidity/average projected net originations
5	<ul style="list-style-type: none"> Net interest income sensitivity (+/- 100bps shock) 	<ul style="list-style-type: none"> Market value of equity sensitivity (+/- 200bps shock)
6	<ul style="list-style-type: none"> Mark-to-market Value at Risk (VaR) 	
7	<ul style="list-style-type: none"> Pre-provisioned net revenue (PPNR) impairment * Loss in stress⁴ 	<ul style="list-style-type: none"> SCUSA subprime assets as % of SHUSA total credit exposure SCUSA Total Risk Weighted Assets (RWAs)
8	<ul style="list-style-type: none"> Gross operational risk losses/gross margin 	<ul style="list-style-type: none"> Frequency of events >\$200 K in losses
9	<ul style="list-style-type: none"> Backlog of Tier 1 models not appropriately approved 	
10	<ul style="list-style-type: none"> # Matters Requiring Immediate Attention (MRIAs) 	<ul style="list-style-type: none"> Serviced for others monthly net charge-off rate

* mandated by Santander Group

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

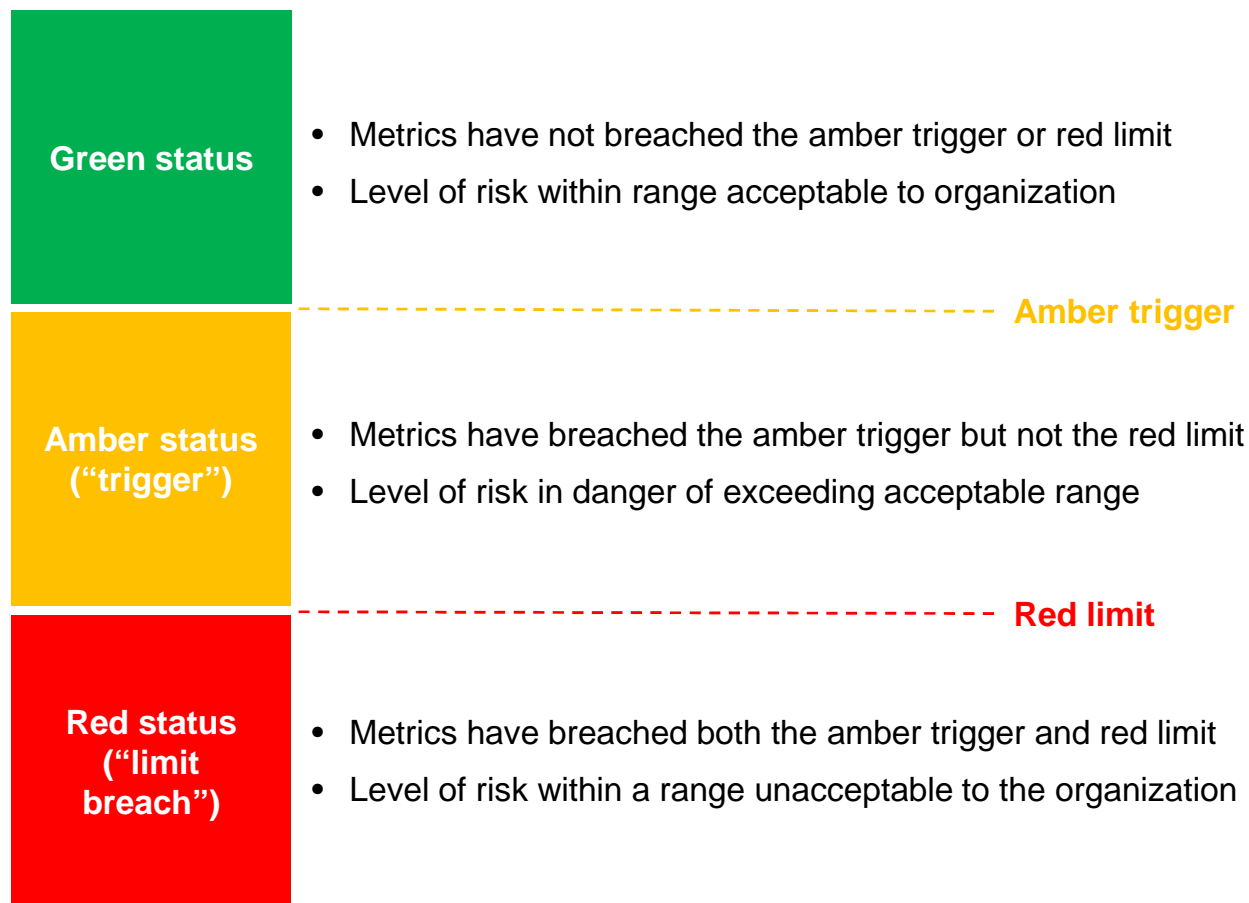
4. Projected losses in stress over profit before tax

Metrics by RAS objective

RAS Objective	Meet regulatory constraints		Sustain confidence of external stakeholders (e.g. ratings agencies)	Minimize risks that do not generate incremental earnings	Comply with Group-level Risk Appetite expectations
	Quantitatively pass CCAR	Comply with other regulations			
Metrics	<ul style="list-style-type: none"> • Common Equity Tier 1 Ratio (baseline + stress) • Tier 1 Risk-based Capital Ratio (baseline + stress) • Total Capital Ratio (baseline + stress) • Tier 1 Leverage Ratio (baseline + stress) • Tangible Common Equity Ratio (baseline + stress) • PPNR impairment • Residual value deterioration • CCAR loss budget • Net charge-off rate • % 60/61 days past due • Net residual value exposure 	<ul style="list-style-type: none"> • Liquidity coverage ratio • # Matters Requiring Immediate Attention (MRIAs) <div> <p>These metrics are included so the performance of the credit portfolios is monitored more frequently than the annual CCAR exercise</p> </div>	<ul style="list-style-type: none"> • Industry concentration • Multifamily concentration • Available committed liquidity/average projected net originations • Net interest income sensitivity • Market value of equity sensitivity • Mark-to-market (MtM) Value at Risk (VaR) • SCUSA subprime assets as % of SHUSA total credit exposure • SCUSA total Risk Weighted Assets (RWAs) • Serviced for others monthly net charge-off rate 	<ul style="list-style-type: none"> • Gross operational losses/gross margin • Frequency of events > \$200 K in losses • Backlog of Tier 1 models not appropriately approved 	<ul style="list-style-type: none"> • # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > \$100 MM • CRE concentration • Single obligor exposure • Top 20 obligors exposure • Liquidity stress testing survival horizon • Liquidity coverage ratio • Structural funding ratio • Loss in stress

Metric status definitions and escalation processes

Metric status definitions



Escalation processes

- Escalation procedures apply to all amber triggers and red breaches
- SHUSA-level:** Escalated to SHUSA CRO, with most review and approval by ERM (amber) or RC (red)¹
- Subsidiary-only:** Review and approval responsibility in subsidiary; SHUSA ERM provides review and input to action plans

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

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

Metrics by approach to calibration

Approach to calibration	Aligned to existing management limits	Derived via analyses with management adjustment	Relied primarily on management judgment and benchmarking	Based on prior commitments to regulators	Designed as zero-tolerance metrics
Metrics	<ul style="list-style-type: none"> Common Equity Tier 1 Ratio (baseline + stress) Tier 1 Risk-based Capital Ratio (baseline + stress) Total Capital Ratio (baseline + stress) Tier 1 Leverage Ratio (baseline + stress) Tangible Common Equity Ratio (baseline + stress) Liquidity stress testing survival horizon Liquidity Coverage Ratio Structural Funding Ratio Net interest income sensitivity Market value of equity sensitivity Mark-to-market Value at Risk (VaR) 	<ul style="list-style-type: none"> CCAR loss budget Net charge-off rate % 60/61+ days past due Residual value deterioration Net residual value exposure PPNR Impairment 	<ul style="list-style-type: none"> Industry concentration CRE concentration Multifamily concentration Single obligor exposure Top 20 obligors exposure Available committed liquidity/average projected net originations SCUSA subprime assets as % of SHUSA total credit exposure Loss in stress SCUSA Total Risk Weighted Assets (RWAs) Gross operational risk losses/gross margin Frequency of events >\$200 K in losses Serviced for others net charge off rate 	<ul style="list-style-type: none"> Backlog of Tier 1 models not appropriately approved <div> <p>MRMG has committed to eliminate this backlog by end of 2017 so the limit for this metric is based on the internal schedule for achieving that goal</p> </div>	<ul style="list-style-type: none"> # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > \$100 MM # Matters Requiring Immediate Attention (MRIAs)

1 Metrics and limits (1/5)

Risk type	Entity	Metrics ¹	BHC Baseline scenario			BHC Stress scenario		
			Actual	Amber trigger	Red limit	Actual	Amber trigger	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%

* mandated by Santander Group

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

1 Metrics and limits (2/5)

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Credit risk	CCAR loss budget ¹	SCUSA Auto	\$6,375 MM ²	\$6,575 MM	\$7,000 MM
		SCUSA Unsecured	\$1,150 MM ²	\$1,175 MM	\$1,250 MM
		SBNA Retail	\$650 MM ²	\$675 MM	\$725 MM
		SBNA Wholesale	\$1,225 MM ²	\$1,250 MM	\$1,350 MM
		SBNA GBM	\$350 MM ²	\$375 MM	\$400 MM
	Net charge-off rate ³	SCUSA Auto ⁴	6.63%	7.9%	8.6%
		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%

* mandated by Santander Group

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 the most recent month's net charge-off rate, annualized

4. 12-month trailing average to account for seasonality of the SCUSA Auto portfolio

2 Metrics and limits (3/5)

3

4

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Credit risk	* # of counterparties with Santander Risk Rating (internal) < 5.0 and exposure > \$100 MM ¹	SHUSA	0	N/A	0
	* Industry exposure (by OCC group)	SHUSA/SBNA	<i>Varies by industry</i>	\$4.5 BN	\$5.0 BN ²
	* CRE exposure (excl. Multifamily)	SHUSA/SBNA	\$8.5 BN	\$10.0 BN	\$10.5 BN ³
	Multifamily exposure	SHUSA/SBNA	\$10.6 BN	\$10.5 BN	\$11.0 BN ³
	* Single obligor exposure	SHUSA/SBNA	\$500 MM	N/A	\$500 MM
	* Top 20 obligors exposure	SHUSA/SBNA	\$6.3 BN	\$7.0 BN	\$8.0 BN
Residual value risk	Residual value deterioration ⁴	SHUSA/SCUSA	\$475 MM	\$500 MM	\$525 MM
	Net residual value exposure	SHUSA/SCUSA	1.1%	5.0%	9.0%
Liquidity/ funding risk	* Liquidity stress testing survival horizon ⁵	SHUSA	28 days⁶	90 days	60 days
		SBNA	19 days⁶	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

* mandated by Santander Group

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 three different liquidity scenarios (market, idiosyncratic and combined stressed conditions)

6. As of June 2015 - July value for SBNA was 51 days

5 Metrics and limits (4/5)

6

7

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	(\$825) MM	(\$1,100) MM
Mark-to-market portfolio risk	Mark-to-market Value at Risk (VaR)	SHUSA	\$11.3 MM	\$24.4 MM	\$28 MM
Strategic risk	Pre-provisioned net revenue (PPNR) impairment	SHUSA	\$3,700 MM	\$3,825 MM	\$4,100 MM
		SCUSA	\$2,500 MM	\$2,575 MM	\$2,775 MM
		SBNA	\$1,200 MM	\$1,250 MM	\$1,350 MM
	* 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%

* mandated by Santander Group

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

1. Projected losses in stress scenario aligning to Santander Group 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)

7 Metrics and limits (5/5)

8

9

10

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Strategic risk	SCUSA Total Risk Weighted Assets (RWAs)	SHUSA/SCUSA	\$36.9 BN	Set as \$2 BN less than the red limit [\$33.8BN]	Set so SCUSA CET1 is 11% based on prior month capital level [\$35.8BN]
Operational risk¹	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 > \$200 K 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 <ul style="list-style-type: none"> SHUSA–25 SCUSA–24 SBNA–45 Other entities–40 	N/A	<ul style="list-style-type: none"> 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%

* mandated by Santander Group

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

The 2015 RAS has several limitations—SHUSA and its subsidiaries have planned improvements for future iterations

Identified limitations in 2015 RAS

Plans for improvements

1	<p>Forward-looking metrics exist, but are not yet robust</p> <ul style="list-style-type: none"> Forward-looking credit metrics, such as customer/obligor scores and probabilities of default, are currently being enhanced across SHUSA Senior management chose not to include these metrics in the Board-level RAS until the enhancements are complete and the metrics are more reliable; examples of future metrics provided are aligned with market practice 	<ul style="list-style-type: none"> Improve forward-looking credit metrics Include additional forward-looking metrics in future iterations of the RAS
2	<p>The overall CCAR process is undergoing significant improvements (e.g., data, systems, models, etc.)</p> <ul style="list-style-type: none"> The total capital depletion that the enterprise can absorb, without threatening its ability to remain above the internally-defined post-stress capital ratios, does not directly depend on the CCAR process However, the allocation of credit loss budgets and PPNR impairment is based on CCAR projections and thus the underlying analytics, which are evolving 	<ul style="list-style-type: none"> Build out and enhance the overall CCAR process (a multi-year project with quick win improvements by the 2016 exercise and longer planned improvements for 2017 and beyond) Refresh calibration following 2016 CCAR exercise
3	<p>Limits may require revision as SHUSA's strategic direction and business profile change</p> <ul style="list-style-type: none"> Limits are predicated on a relatively stable business mix, whereas SHUSA's business and risk profile are currently in a state of flux Strategic, liquidity, and capital plans had not yet been fully updated for 2016 at the time of limit calibration 	<ul style="list-style-type: none"> Refresh limits following material changes to relevant policies and/or the enterprise's balance sheet and risk profile (likely in 12–18 months)
4	<p>Analyses underlying calibration are based on short internal time-series</p> <ul style="list-style-type: none"> Time-series of internal data for several metrics were only available for a few years Thus, calibration relied more heavily on external data for benchmarking and establishing stress-to-base relativities 	<ul style="list-style-type: none"> Improve internal data management

1

Capital adequacy risk

Metric selection: Inclusion of capital adequacy metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none">• Common Equity Tier 1 Ratio (baseline and stress)• Tier 1 Risk-Based Capital Ratio (baseline and stress)• Total Capital Ratio (baseline and stress)• Tier 1 Leverage Ratio (baseline and stress)• Tangible Common Equity Ratio (baseline and stress)	<ul style="list-style-type: none">• SHUSA• SBNA• SCUSA	<ul style="list-style-type: none">• All of these metrics are outlined in SHUSA's Capital Policy standards• These metrics are part of the FDIC Prompt Corrective Action ("PCA") standards• If these ratios fall below the PCA adequately capitalized levels, SHUSA believes there is an unacceptably high probability that the company could not continue acting as a financial intermediary• The RAS capital adequacy metrics are intended to reflect metrics that are important to external stakeholders when making decisions regarding SHUSA in either normal or stressful economic environments• Tangible Common Equity Ratio is most closely followed in the financial industry by external stakeholders (particularly for SCUSA)

Calibration: Use of the 2015 Capital Policy to derive capital adequacy limits

Metric definition

Which type of stress should be used?

Following scenario characteristics must be considered

- **Appropriately severe:** SHUSA should use an appropriately severe stress scenario in order to understand “how much they can lose” in an economic downturn
- **Tailored to SHUSA:** SHUSA should use a scenario that has been tailored to SHUSA’s business and risks and corresponding vulnerabilities (e.g., BHC Stress)
- **Consistent over time:** FRB SA scenario remains relatively consistent over time, in terms of magnitude of stress and which portfolios are stressed

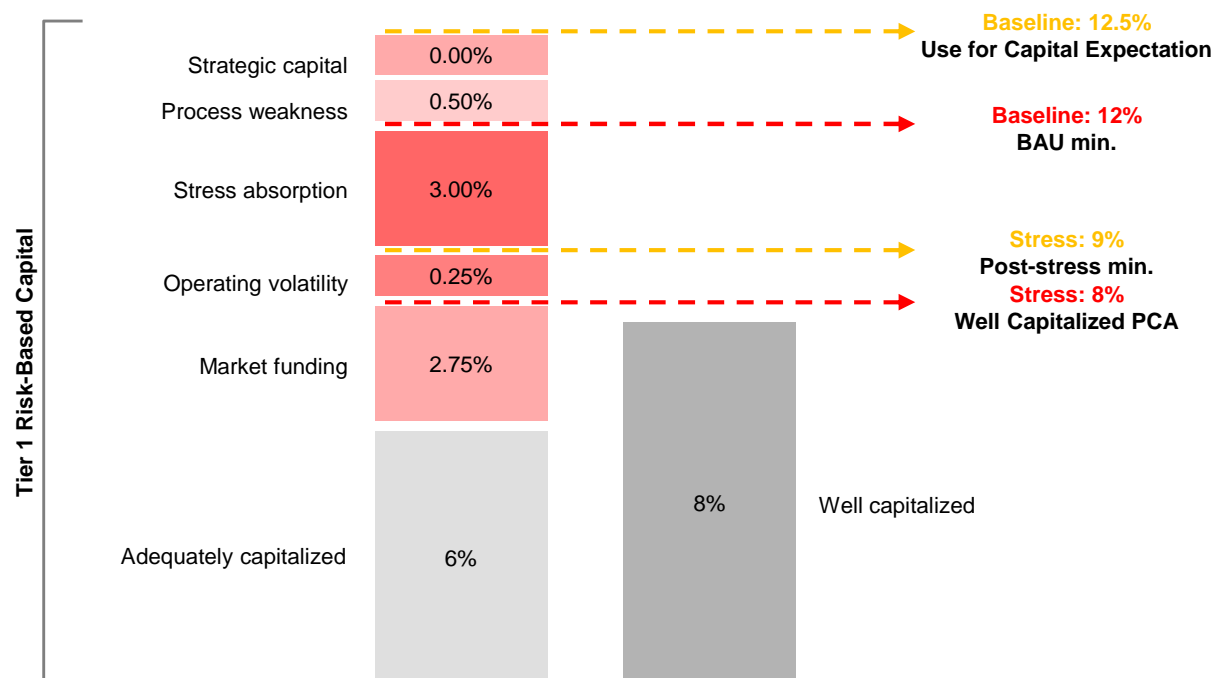


We have selected the **BHC Stress** scenario as it is appropriately severe and tailored to SHUSA

Metric calibration

What should the limits be?

- Limits were based on SHUSA’s Capital Expectations, outlined in the Capital Policy
- Stressed red limit was derived from the FDIC Prompt Corrective Action (PCA) for “Well Capitalized”



Limits: Capital Adequacy risk

Risk type	Entity	Metrics ¹	BHC Baseline scenario			BHC Stress scenario		
			Actual	Amber trigger	Red limit	Actual	Amber trigger	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%

* mandated by Santander Group

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

2

Credit risk

Metric selection: Inclusion of credit risk metrics (1/2)

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> CCAR loss budget 	<ul style="list-style-type: none"> SCUSA Auto SCUSA Unsecured SBNA Retail SBNA Wholesale SBNA GBM 	<ul style="list-style-type: none"> The 2015 RAS is tied to the objective of quantitatively passing CCAR; CCAR loss budgets, by portfolio, allow the entities' Boards to compare projected losses under stress against the maximum losses the bank can afford to lose in the US regulatory context (and still pass CCAR) SHUSA must not suffer more losses than would cause it to drop below their internal capital ratio minima in a stressed scenario SHUSA can use the distribution of losses across credit portfolios based on CCAR 2015 under the BHC Stress scenario to create a loss budget
<ul style="list-style-type: none"> Net charge-off rate 	<ul style="list-style-type: none"> SCUSA Auto SCUSA Unsecured SBNA Retail SBNA SBB, BB, and Auto SBNA C&I SBNA CRE SBNA GBM 	<ul style="list-style-type: none"> As the projected losses in the BHC Stress scenario are only calculated annually, SHUSA will want a business-as-usual metric to monitor more frequently These metrics serve as early warning indicators of exceeding the CCAR loss budget Net charge-off rates provide management with a "snapshot" view of losses in a given period
<ul style="list-style-type: none"> % 60/61+ days past due 	<ul style="list-style-type: none"> SCUSA Auto SCUSA Unsecured SBNA Retail 	<ul style="list-style-type: none"> Delinquencies are a pre-default measure that can serve as an early warning indicator of the deterioration of SHUSA's retail portfolios % 60/61+ days past due are appropriate (vs. 30 or 90 DPD) because: <ul style="list-style-type: none"> A significant portion of % 30+ DPD captures loans that will recover between 30-60 DPD % 90+ DPD is likely too late (for SCUSA) due to their aggressive collections policy SBNA tracks delinquencies at 60+ days; SCUSA tracks delinquency at 61+ days

Metric selection: Inclusion of credit risk metrics (2/2)

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> Industry exposure (by OCC group) 	<ul style="list-style-type: none"> SBNA C&I 	<ul style="list-style-type: none"> This metric is cascaded from Santander Group Limits on industry size ensure that the credit portfolio is adequately diversified
<ul style="list-style-type: none"> CRE exposure (excl. multifamily) Multifamily exposure 	<ul style="list-style-type: none"> SBNA CRE 	<ul style="list-style-type: none"> CRE exposure is cascaded from Santander Group Santander does not have Multifamily portfolios in other geographies; thus, to be comparable across geographies, Multifamily exposure is reported separately CRE and Multifamily are important metrics to track in the RAS given their large exposures (\$8.5 BN for CRE and \$10.6 BN for Multifamily)
<ul style="list-style-type: none"> # of counterparties with Santander Risk Rating < 5.0 and exposure > \$100 MM 	<ul style="list-style-type: none"> SBNA Wholesale SBNA GBM 	<ul style="list-style-type: none"> This metric is cascaded from Santander Group This metric sets a maximum on the individual exposure that SHUSA can extend to individual counterparties of lower credit quality (defined as internal risk rating of < 5.0) which aligns with Santander's rules for originating new loans
<ul style="list-style-type: none"> Single obligor exposure Top 20 obligors exposure 	<ul style="list-style-type: none"> SBNA GBM 	<ul style="list-style-type: none"> These metrics are cascaded from Santander Group It is important for SHUSA to monitor and manage obligor concentrations, given the size of their largest exposures As of June 2015, SHUSA's top 20 obligors accounted for ~9.7% of its total binding exposures, and its top obligor accounted for ~0.8% of its total binding exposures

Calibration: Sub-portfolios across SBNA and SCUSA

RAS credit portfolios	Components
SBNA Retail	SHUSA residential RE (1 st Lien + HELOC)
	SHUSA credit card
	SHUSA other Consumer
	- SCUSA Unsecured (deducted from SHUSA other consumer)
SBNA CRE	SHUSA CRE
SBNA SBB + BB + Auto	SBNA Auto
	SBNA SBB and Business Banking
SBNA C&I	SHUSA C&I
	- SBNA SBB and Business Banking
	- SCUSA C&I (fleet Auto loans, deducted from SHUSA C&I)
	- SHUSA GBM (deducted from SHUSA C&I)
SBNA GBM	SHUSA GBM
SCUSA Unsecured	SCUSA unsecured
SCUSA Auto	SCUSA auto
	- SBNA auto
	+ SCUSA C&I (fleet loans)

SBB, BB and Auto are only subsegmented for the net charge-off rate metrics

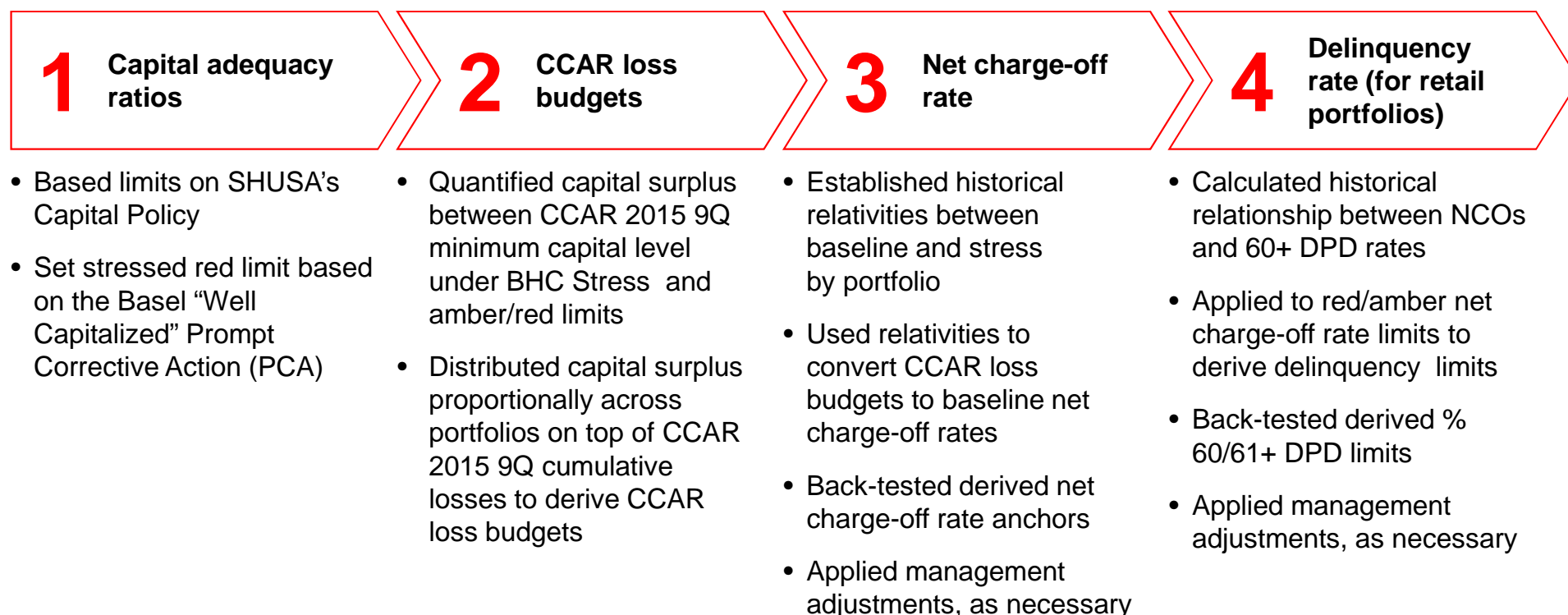
For the loss budget, all 3 portfolios are combined into **SBNA Wholesale**

Calibration: Sub-portfolios and credit metrics across SBNA and SCUSA

Metrics	SCUSA		SBNA				
	Auto	Unsecured	Retail	Small BB + BB + Auto	C&I	CRE	GBM
CCAR loss budget (in \$)	✓	✓	← ✓ →	← ✓ →	← ✓ →	→	✓
Net charge-off rate (in %)	✓	✓	✓	✓	✓	✓	✓
Delinquency rate (in %)	✓ % 61+ DPD	✓ % 61+ DPD	✓ % 60+ DPD				
# of counterparties with SRR < 5.0 and exposure > \$100 MM					← ✓ →		
Concentration metrics					✓ (by industry)	✓ (CRE and multifamily)	✓ (single obligor and top 20 obligors)

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

Sequence of calibration by metric type



Other credit metrics included are calibrated individually, not as part of this sequence

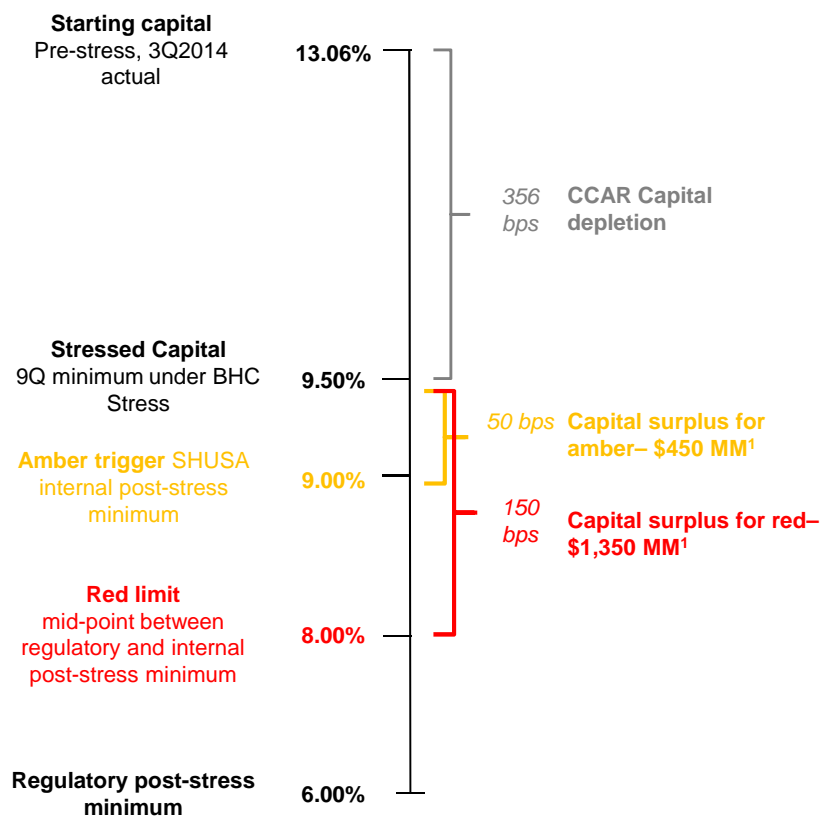
2A

Credit risk

CCAR loss budget

Calibration: Use of CCAR 2015 results and capital adequacy limits to quantify the boundaries around credit losses (and PPNR)

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



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

		BHC Stress \$9,750 MM		Capital surplus allocation	
Credit losses	SCUSA Auto ²	\$6,375 MM		➤	45.5%
	SCUSA Unsecured	\$1,150 MM		➤	8.1%
	SBNA Retail + Other	\$650 MM		➤	4.7%
	SBNA Wholesale	\$1,225 MM		➤	8.7%
	GBM	\$350 MM		➤	2.5%
PPNR impairment		BHC Base \$9,950 MM	BHC Stress \$6,275 MM	Impairment \$3,675 MM	
	Total Revenue	\$22,025 MM	\$18,725 MM	\$3,300 MM	➤ 23.5%
	Expenses due to Op. risk ³	\$625 MM	\$1,125 MM	\$500 MM	➤ 3.7%
	Expenses due to RV ⁴	\$2,975 MM	\$3,450MM	\$475 MM	➤ 3.4%
	Non-Interest Expense	\$8,450 MM	\$7,875 MM	\$600 MM	[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)

Limits: Credit risk, CCAR loss budget

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Credit risk	CCAR loss budget ¹	SCUSA Auto	\$6,375 MM ²	\$6,575 MM	\$7,000 MM
		SCUSA Unsecured	\$1,150 MM ²	\$1,175 MM	\$1,250 MM
		SBNA Retail	\$650 MM ²	\$675 MM	\$725 MM
		SBNA Wholesale	\$1,225 MM ²	\$1,250 MM	\$1,350 MM
		SBNA GBM	\$350 MM ²	\$375 MM	\$400 MM

* mandated by Santander Group

Set by spreading the capital surplus implied by the amber Tier 1 Risk-based Capital limit (binding constraint) proportionately across credit loss categories

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

2B

Credit risk

Net charge-off rates

Calibration: Anchor points and process used to derive the NCO limits

1 Establish historical relativity between baseline and stress

- Derive stress scalar by comparing average net charge-off rates during
 - Crisis conditions (two definitions used) vs. Normal conditions (Q1,2011-present)
 - FRB Baseline vs. FRB Severely Adverse and BHC Stress

2 Use relativity to convert stress losses to baseline NCOs

- Annualize amber and red stress losses
- Adjust stress losses by stress scalar to calculate annualized baseline losses
- Convert to baseline net charge-offs by dividing by outstanding balances

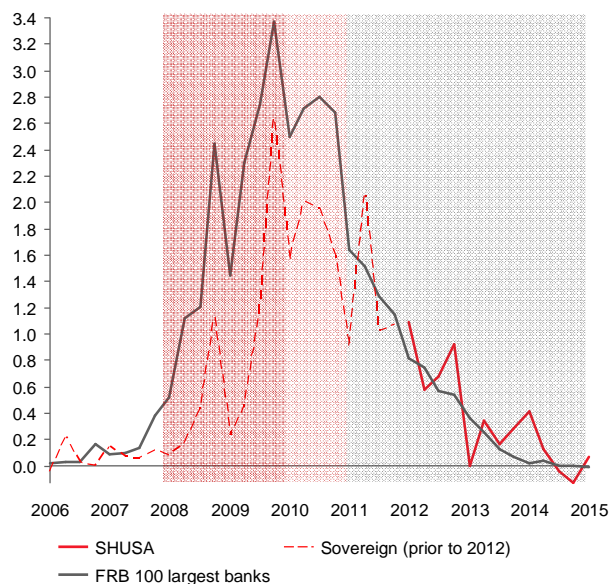
3 Back-test derived NCO rate anchors

- Compare historical performance against derived amber and red anchors, check for reasonableness
- Compare BHC baseline against amber and red anchors, check for reasonableness

Calibration: We followed a similar process for each sub-portfolio

1 Evaluated historical time-series of NCO rates, for SHUSA/Sovereign and for peers (FRB 100 largest banks)

Net charge-off rate
%, 1Q2006 – 1Q2015



2 Average NCO rates were calculated for both SHUSA and peers during the crisis (measured two ways) and compared that to the NCO rates in normal conditions

Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
SHUSA / Sovereign	0.56%	0.79%	1.41
FRB 100 largest banks	0.54%	1.89%	3.53
Crisis conditions = Q12008-Q42010			
SHUSA / Sovereign	0.56%	1.12%	2.00
FRB 100 largest banks	0.54%	2.15%	4.02

Scalar derived from CCAR 2015 losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$182 MM	\$562 MM	3.09
BHC Stress	\$182 MM	\$934 MM	5.14

We have derived an overall stress scalar:

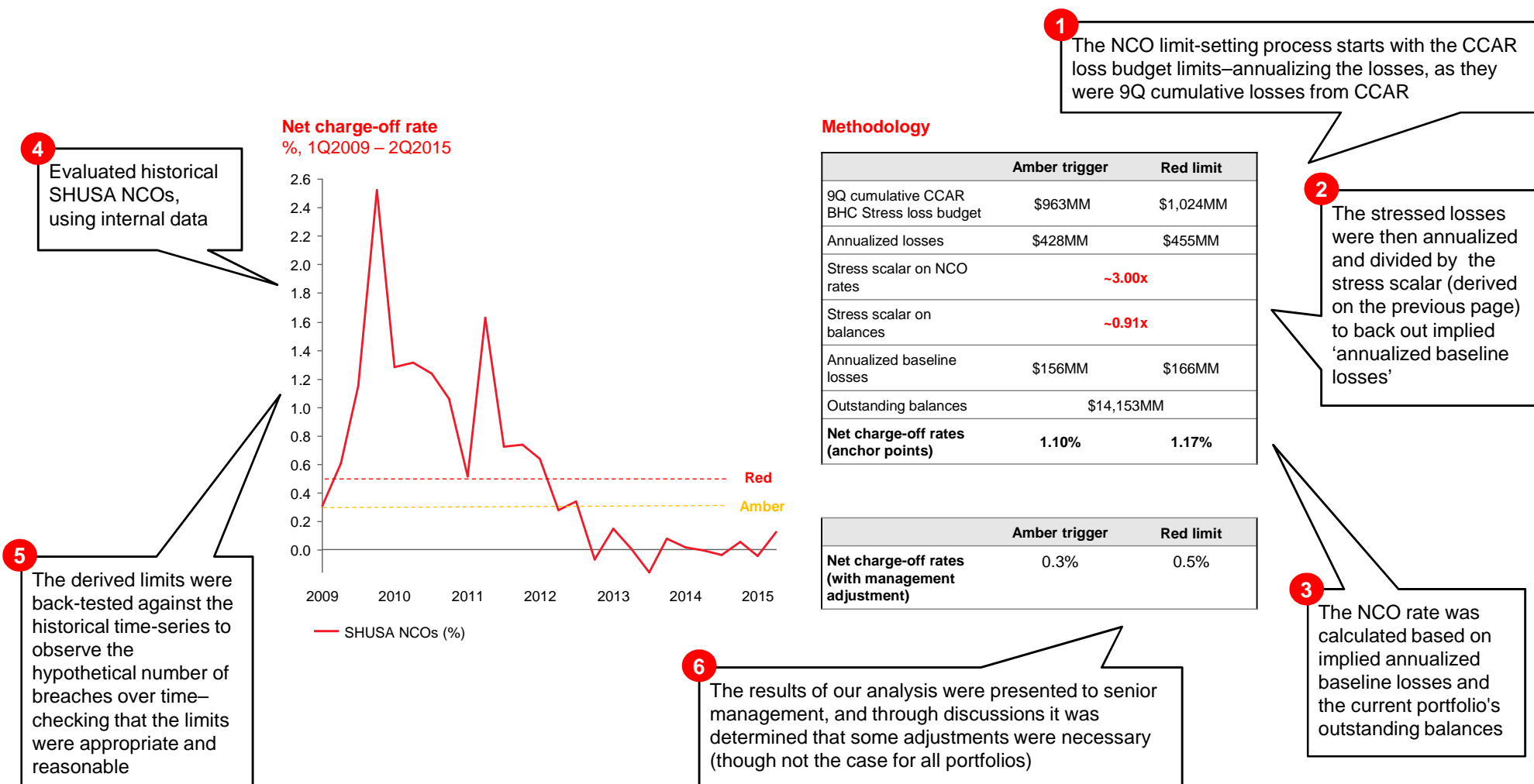
CRE	~3X
-----	-----

3 Stress scalars are calculated by dividing the average in crisis conditions by the average in normal conditions

4 Separately, additional stress scalars are calculated based on 2015 CCAR stressed losses—using two stress scenarios, FRB Severely Adverse and BHC Stress

5 Given the various anchor points and our understanding of the portfolios (here, CRE), stress scalars were weighted to arrive at an overall stress scalar to be used in limit-setting

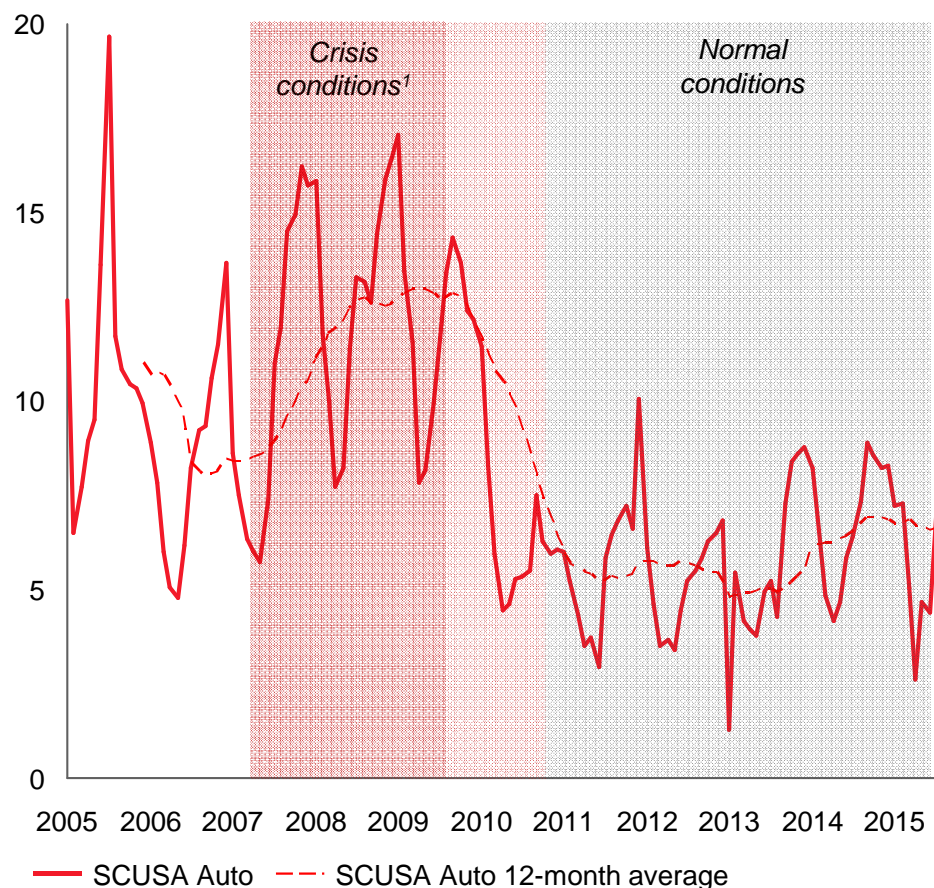
Calibration: We followed a similar process for each sub-portfolio



Calibration: NCO stress scalars

Industry auto portfolios vs. SCUSA Auto

Net charge-off rate
%, 1Q2006–1Q2015



Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
SCUSA Auto	5.76%	12.35%	2.13
Crisis conditions = Q12008-Q42010			
SCUSA Auto	5.76%	10.36%	1.80

Scalar derived from CCAR 2015 stressed losses²

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$4,625 MM	\$5,450 MM	1.18
BHC Stress	\$4,625 MM	\$6,373MM	1.38

We have derived an overall stress scalar:

Auto

~1.4X

Due recent shifts in the portfolio mix, the stress scalar from CCAR 2015 is likely most reflective of how much losses would increase in a crisis.

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)

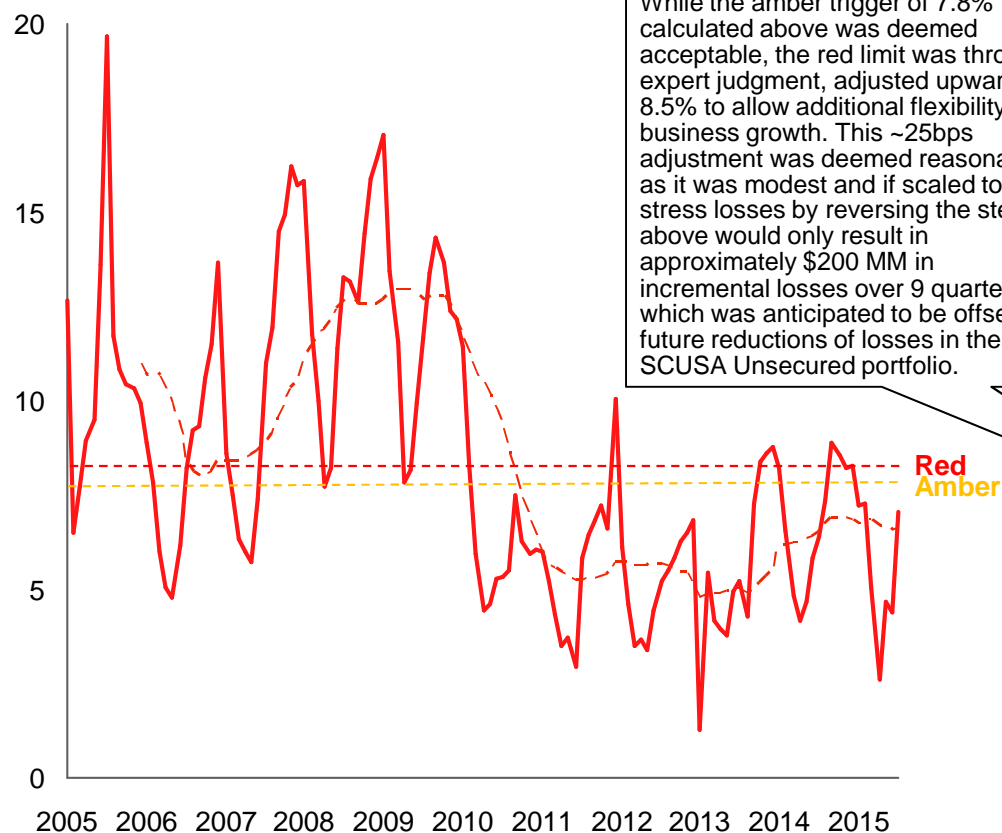
2. Includes SCUSA Auto fleet loans, captured in C&I in the 14As

Source: SNL Financial Regulated Depositories Bank Regulatory Financials database; "Auto Losses and Delq.xlsx"; Oliver Wyman analysis

Calibration: NCO anchor calculation, back-testing, and mgmt. adjustment

SCUSA Auto

Net charge-off rate %, Jan 2005–Jul 2015



Methodology

	Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget	\$6,573 MM	\$6,990 MM
Annualized stressed losses	\$2,921 MM	\$3,107 MM
Stress scalar on NCO rates	~1.4x	
Stress scalar on balances	~0.94x	
Annualized baseline losses	\$2,253 MM	\$2,396 MM
Outstanding balances	\$29,015 MM	
Net charge-off rates (anchor points)	7.76%	8.26%

	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	7.8%	8.5%
Adjustment to strip out dividend payments¹	7.9%	8.6%

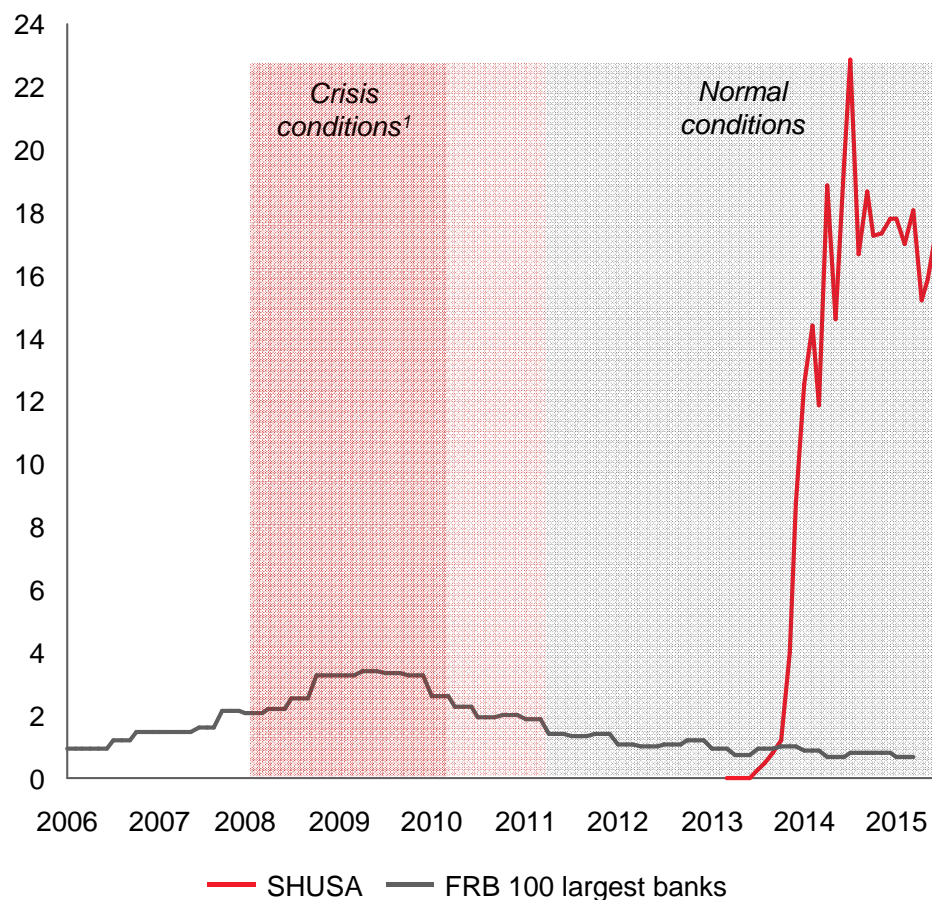
Additionally, it was decided to assume that there would be no dividend payment under a stress scenario, which released ~10 bps of additional loss rate budget. As a result the Risk Appetite Auto charge-off rate levels were increased to 8.6% (red limit) and 7.9% (amber trigger).

Calibration: NCO stress scalars

Industry other consumer portfolios vs. SCUSA Unsecured

Net charge-off rate

%, Jan 2006– Jun 2015



Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
FRB 100 largest banks	1.03%	2.91%	2.80
Crisis conditions = Q12008-Q42010			
FRB 100 largest banks	1.03%	2.67%	2.58

Scalar derived from CCAR 2015 losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$986 MM	\$1,175 MM	1.19
BHC Stress	\$986 MM	\$1,139 MM	1.16

We have derived an overall stress scalar:

SCUSA Unsecured ~1.5X

We used stress scalar of ~1.5X as it is more conservative than scalars derived from the CCAR stressed losses, reflecting the fact that historical realized relativities were different for Other Consumer (which is likely not fully representative of SCUSA's Unsecured portfolio)

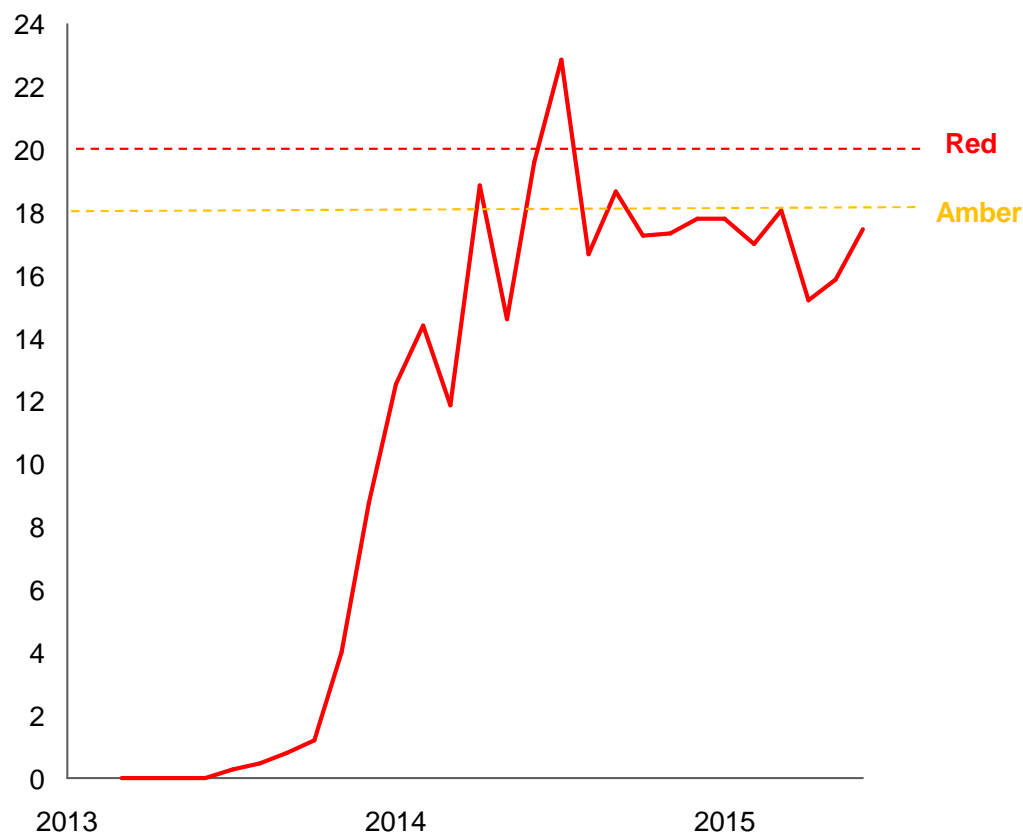
1.Crisis conditions defined as Q12008 (beginning of the recession as defined by NBER) through Q4 2009 or Q42010 (2 or 6 quarters after end of recession to allow for credit quality lag)

Source: SNL Financial Regulated Depositories Bank Regulatory Financials database; Federal Reserve Board historical data: charge-off and delinquency rates on loans and leases at 100 largest commercial banks, "Personal Lending Balance and Delq.xlsx" excluding NewComLink; Oliver Wyman analysis

Calibration: NCO anchor calculation, back-testing, and mgmt. adjustment

SCUSA Unsecured

Net charge-off rate
%, Mar 2009– Jun 2015



Methodology

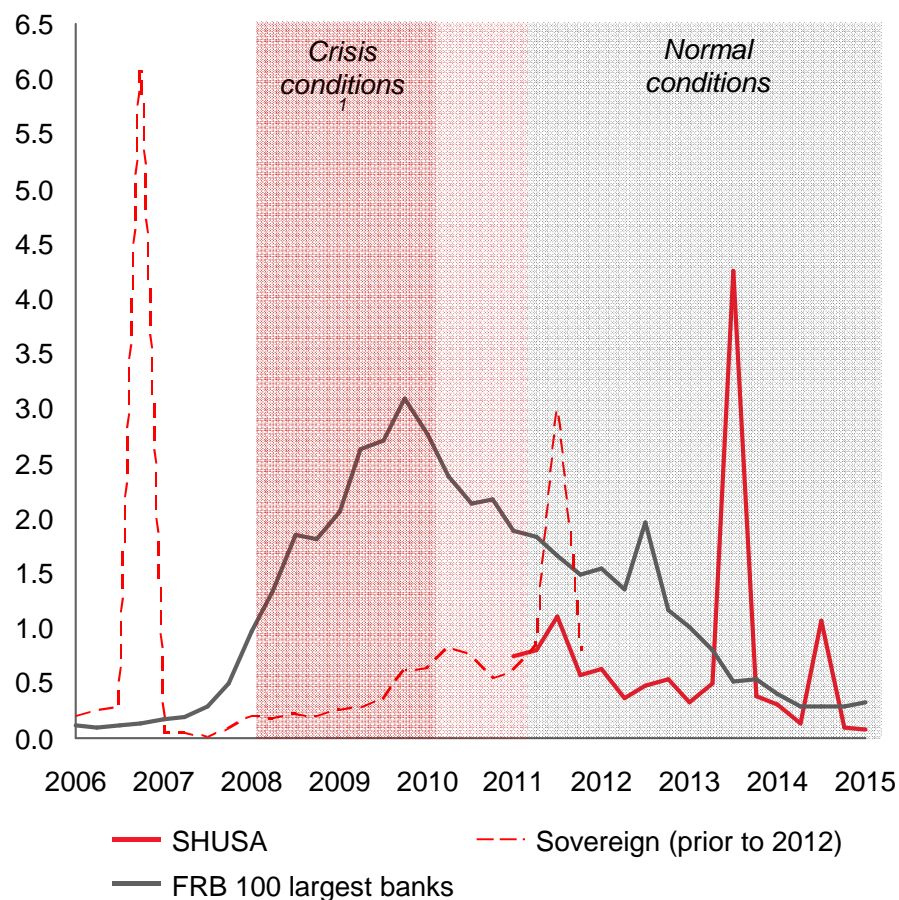
	Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget	\$1,175 MM	\$1,249 MM
Annualized losses	\$522 MM	\$555 MM
Stress scalar on NCO rates		~1.5x
Stress scalar on balances		~0.95x
Annualized baseline losses	\$368 MM	\$391 MM
Outstanding balances	\$2,225 MM	
Net charge-off rates (anchor points)	16.52%	17.57%
	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	18%	20%

Both the amber trigger and red limit were through expert judgement, adjusted upward by ~150 bps to allow additional flexibility for business growth. This adjustment was deemed reasonable as it was modest and if scaled to stress losses by reversing the steps above would result in approximately \$100MM and \$175 MM in incremental losses over 9 quarters, respectively for amber and red. This was anticipated to be offset by future reductions of losses due to changes in SCUSA portfolios.

Calibration: NCO stress scalars

Industry residential real estate portfolios vs. SBNA RRE (incl. in SBNA Retail)

Net charge-off rate %, 1Q2006–1Q2015



Note: Retail is ~80% RRE, so this is used for setting the stress scalar

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)

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, Oliver Wyman analysis

Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
FRB 100 largest banks	1.02%	2.05%	2.02
Crisis conditions = Q12008-Q42010			
FRB 100 largest banks	1.02%	2.15%	2.12

Scalar derived from CCAR 2015 losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$171 MM	\$466 MM	2.73
BHC Stress	\$171 MM	\$443 MM	2.60

We have derived an overall stress scalar:

RRE

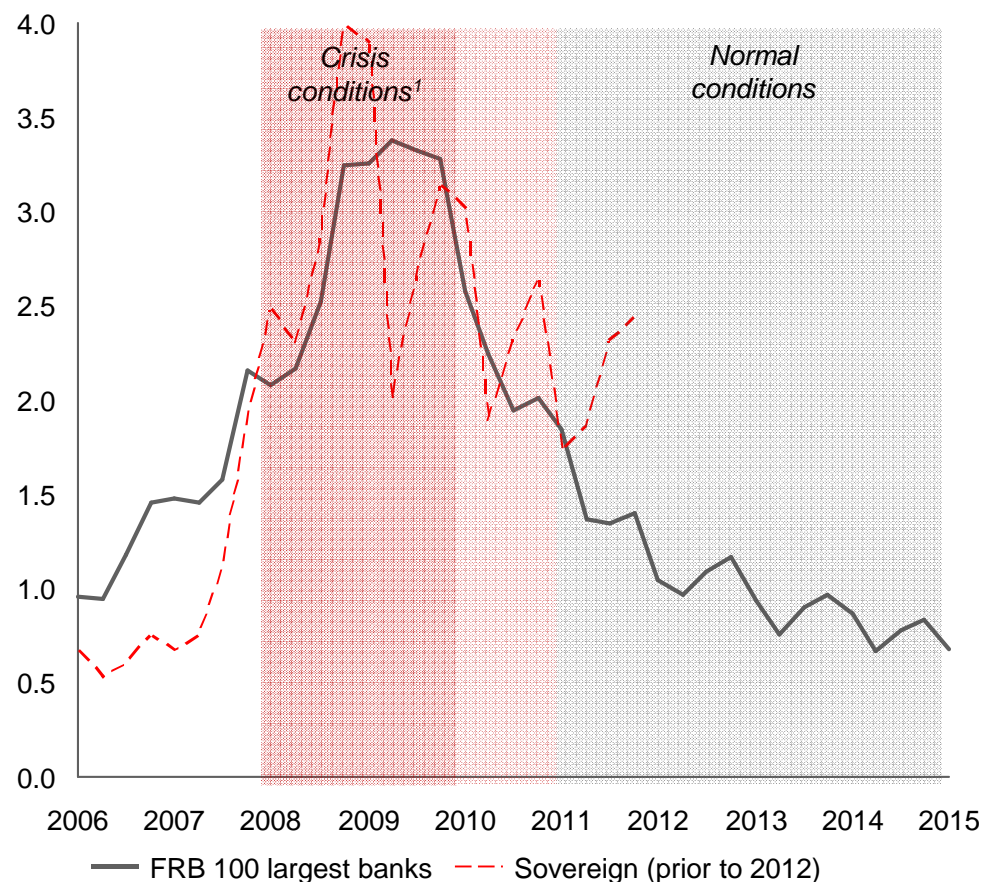
~2.25X

We used a ~2.25X scalar as this is between the two scalars derived from historical loss rates using the different crisis conditions time periods and the scalar derived using the CCAR 2015 losses in BHC Stress and BHC Baseline.

Calibration: NCO stress scalars

Industry other consumer portfolios vs. SBNA Other Consumer
(incl. in SBNA Retail)

Net charge-off rate
%, 1Q2006–1Q2015



Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
FRB 100 largest banks	1.03%	2.91%	2.81
Crisis conditions = Q12008-Q42010			
FRB 100 largest banks	1.03%	2.67%	2.58

Scalar derived from CCAR 2015 losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$130 MM	\$152 MM	1.17
BHC Stress	\$130 MM	\$165 MM	1.27

We have derived an overall stress scalar:

Other Consumer ~2.75X

We used a ~2.75X scalar as this is between the two scalars derived from historical loss rates using the different crisis conditions time periods

Note: For Sovereign, other consumer is all consumer loans, minus consumer auto. For FRB 100 largest banks, other consumer includes all consumer loans, minus credit cards

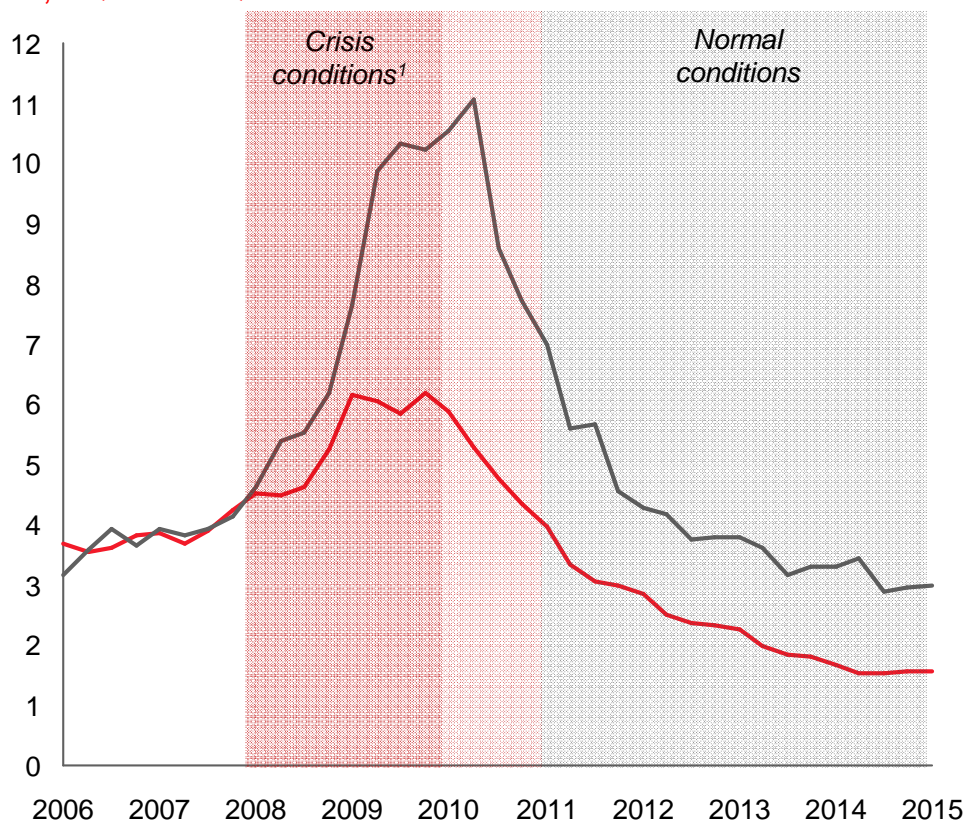
1. Crisis conditions defined as Q12008 (beginning of the recession as defined by NBER) through Q4 2009 or Q42010 (2 or 6 quarters after end of recession to allow for credit quality lag)

Source: SNL Financial Regulated Depositories Bank Regulatory Financials database; Federal Reserve Board historical data: charge-off and delinquency rates on loans and leases at 100 largest commercial banks; Oliver Wyman analysis

Calibration: NCO stress scalars

Industry credit card portfolios vs. SBNA Credit Card (incl. in SBNA Retail)

Net charge-off rate %, 1Q2006–1Q2015



— S&P ABS tracker,
US credit card charge-offs (gross)
— FRB 100 largest banks

We used a ~2X scalar as this is between the two scalars derived from historical loss rates using the different crisis conditions time periods

We have derived an overall stress scalar:

Credit cards

~2X

Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
FRB 100 largest banks	4.02%	7.48%	1.86
S&P ABS tracker	2.30%	5.39%	2.34
Crisis conditions = Q12008-Q42010			
FRB 100 largest banks	4.02%	8.14%	2.03
S&P ABS tracker	2.30%	5.29%	2.30

Scalar derived from CCAR 2015 losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$156 MM	\$116 MM	0.74
BHC Stress	\$156 MM	\$115 MM	0.73

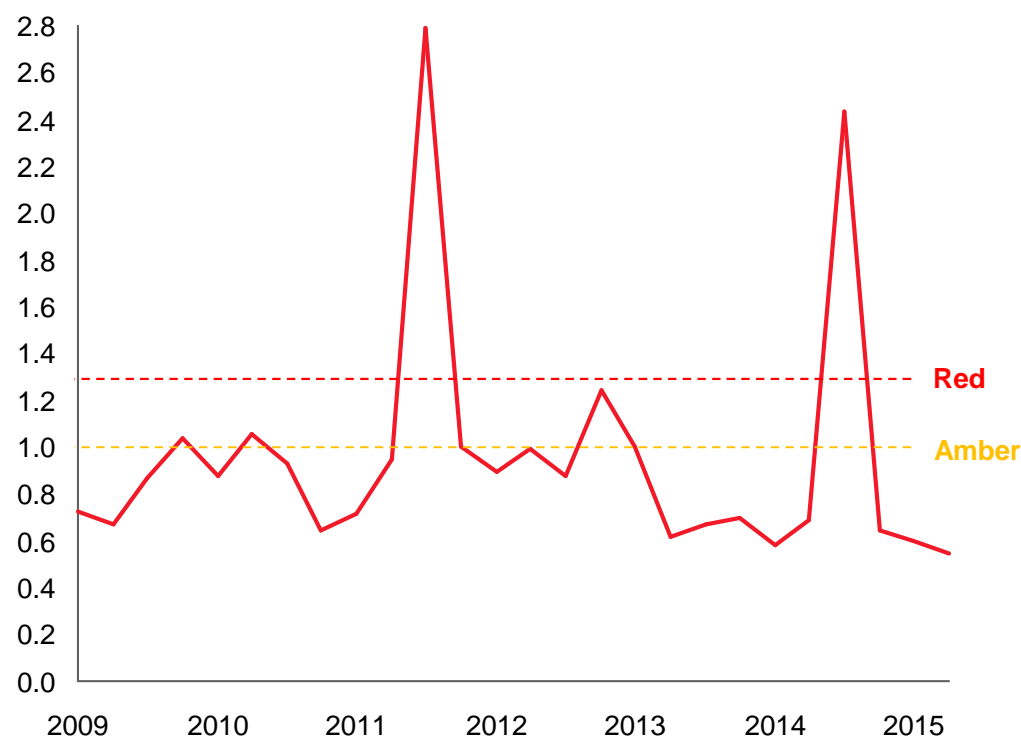
1. Crisis conditions defined as Q12008 (beginning of the recession as defined by NBER) through Q4 2009 or Q42010 (2 or 6 quarters after end of recession to allow for credit quality lag)

Note: Credit card charge-off data from Standard & Poor's "U.S. Auto Loan ABS Tracker: May 2015", reported monthly and averaged for quarterly figures
Source: Federal Reserve Board historical data: charge-off rates on loans and leases at 100 largest commercial banks, Oliver Wyman analysis

Calibration: NCO anchor calculation, back-testing, and mgmt. adjustment

SBNA Retail

Net charge-off rate
%, 1Q2009–2Q2015



The red limit was through expert judgement, adjusted upward by ~30bps to allow additional flexibility for business growth. This adjustment is anticipated to be offset by a management adjustment downwards in SBNA CRE.

Methodology

Retail sub-portfolio	Balances ¹ (\$ MM)	Scale factor
RRE	\$12,775	2.25
Other Consumer (incl. other loans)	\$2,100	2.75
Credit Card	\$275	2.00
Weighted avg. scalar		~2.25

	Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget	\$686 MM	\$729 MM
Annualized losses	\$305 MM	\$324 MM
Stress scalar on NCO rates		~2.25x
Stress scalar on balances		~0.93x
Annualized baseline losses	\$146 MM	\$155 MM
Outstanding balances	\$15,131MM	
Net charge-off rates (anchor points)	0.96%	1.02%

	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	1.0%	1.3%

1. Outstandings as of 2Q2015 (Credit Metric Trends spreadsheet)

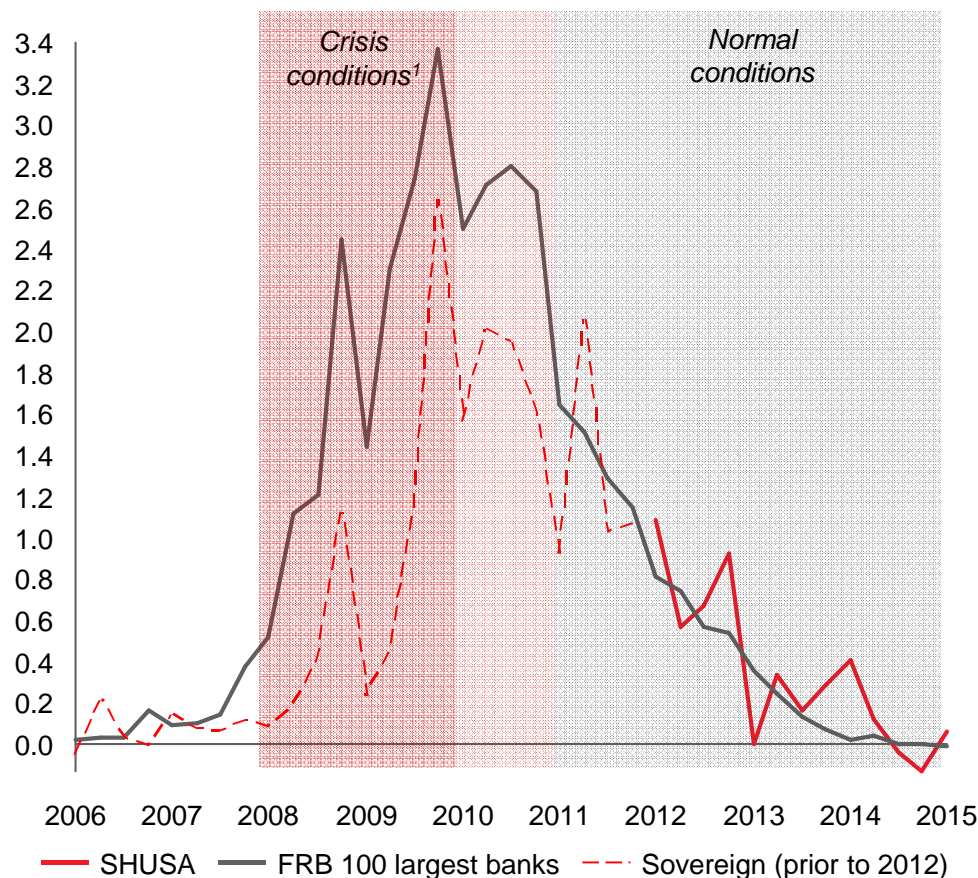
Source: SHUSA CCAR 2015 Capital Aggregation Tool, Credit Metric Trends spreadsheet

Note: SBNA Retail consists of SBNA RRE, SBNA Other Consumer, and SBNA Other Loans

Calibration: NCO stress scalars

Industry CRE portfolios vs. SBNA CRE

Net charge-off rate
%, 1Q2006–1Q2015



We used a ~3X scalar as this represents the average of the scalars derived from historical loss rates and the scalar derived using the CCAR 2015 losses in BHC Stress and BHC Baseline.

Scalar derived from historical loss rates

	Average in normal conditions	Average in crisis conditions	Stress scalar
Crisis conditions = Q12008-Q42009			
SHUSA/ Sovereign	0.56%	0.79%	1.41
FRB 100 largest banks	0.54%	1.89%	3.53
Crisis conditions = Q12008-Q42010			
SHUSA/ Sovereign	0.56%	1.12%	2.00
FRB 100 largest banks	0.54%	2.15%	4.02

Scalar derived from CCAR 2015 losses

	BHC Baseline	Stress scenario	Stress scalar
FRB SA	\$182 MM	\$562 MM	3.09
BHC Stress	\$182 MM	\$934 MM	5.14

We have derived an overall stress scalar:

CRE	~3X
------------	------------

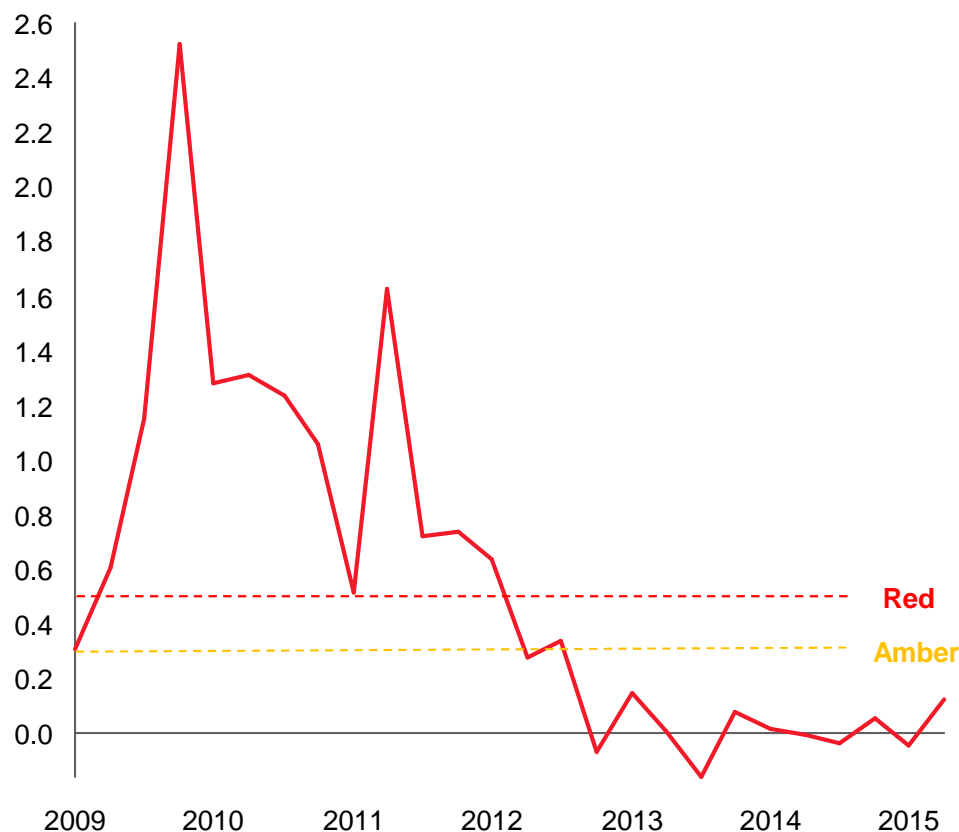
1. Crisis conditions defined as Q12008 (beginning of the recession as defined by NBER) through Q4 2009 or Q42010 (2 or 6 quarters after end of recession to allow for credit quality lag)

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; Oliver Wyman analysis

Calibration: NCO anchor calculation, back-testing, and mgmt. adjustment

SBNA CRE

Net charge-off rate
%, 1Q2009–2Q2015



Methodology

	Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget	\$963MM	\$1,024MM
Annualized losses	\$428MM	\$455MM
Stress scalar on NCO rates	~3.0x	
Stress scalar on balances	~0.91x	
Annualized baseline losses	\$156MM	\$166MM
Outstanding balances	\$14,153MM	
Net charge-off rates (anchor points)	1.10%	1.17%

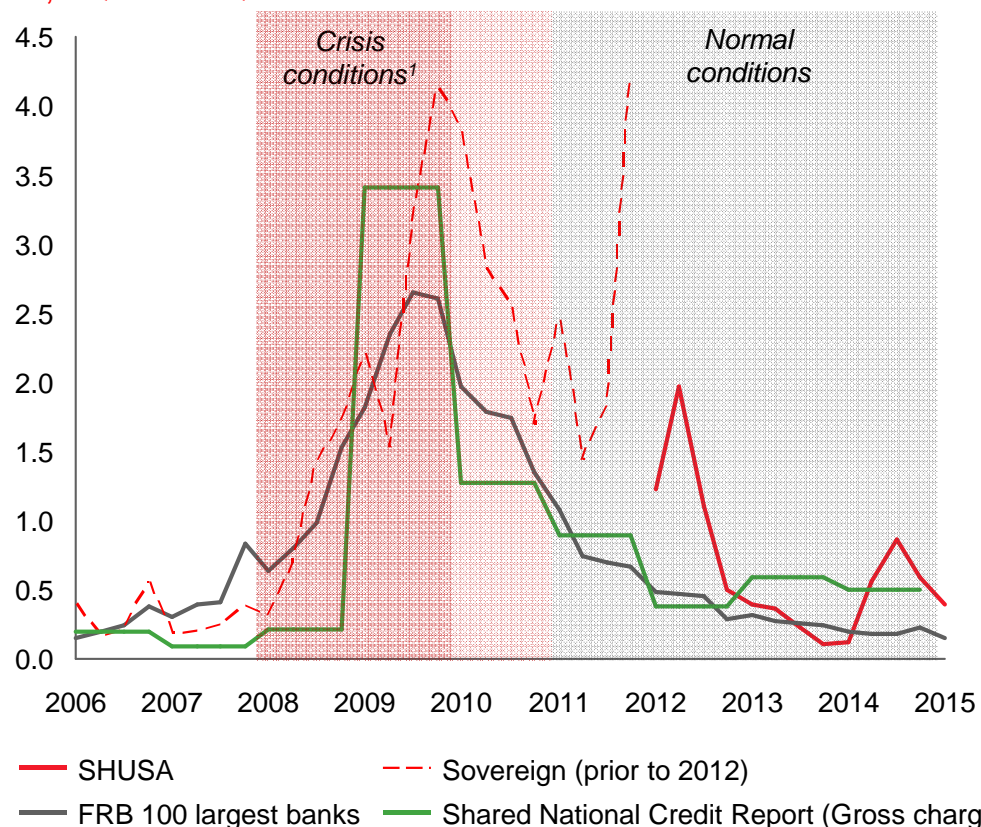
	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	0.3%	0.5%

The amber trigger and red limit were through expert judgement, adjusted downwards by ~70-80 bps due to the expectation of lower loss rates and to offset management adjustments upwards for SBNA Retail and C&I.

Calibration: NCO stress scalars

Industry C&I portfolios vs. SBNA C&I (incl. SBNA GBM)

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



We used a ~3X scalar as this represents the average of the scalars derived from historical loss rates and the scalar derived using the CCAR 2015 losses in BHC Stress and BHC Baseline for C&I

Note: ~\$180 MM 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

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)

2. A modeling error was identified after these results were submitted

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), Oliver Wyman analysis

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 losses

	BHC Baseline	Stress scenario	Stress scalar
SBNA C&I FRB SA	\$96 MM	\$244 MM	2.56
SBNA GBM ² FRB SA	\$30 MM	\$223 MM	7.57
SBNA C&I BHC Stress	\$96 MM	\$286 MM	2.99
SBNA GBM ² BHC Stress	\$30 MM	\$347 MM	11.76

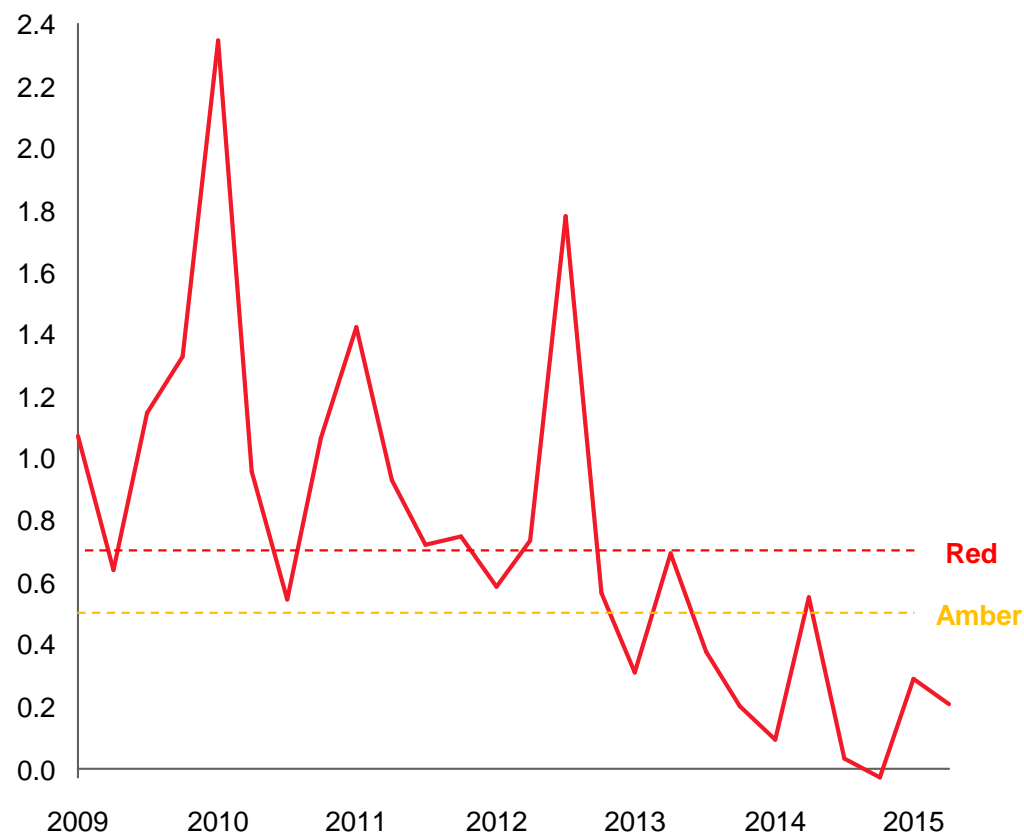
We have derived an overall stress scalar:

C&I	~3X
----------------	------------

Calibration: NCO anchor calculation, back-testing, and mgmt. adjustment

SBNA C&I (excl. SBNA GBM)

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



Methodology

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

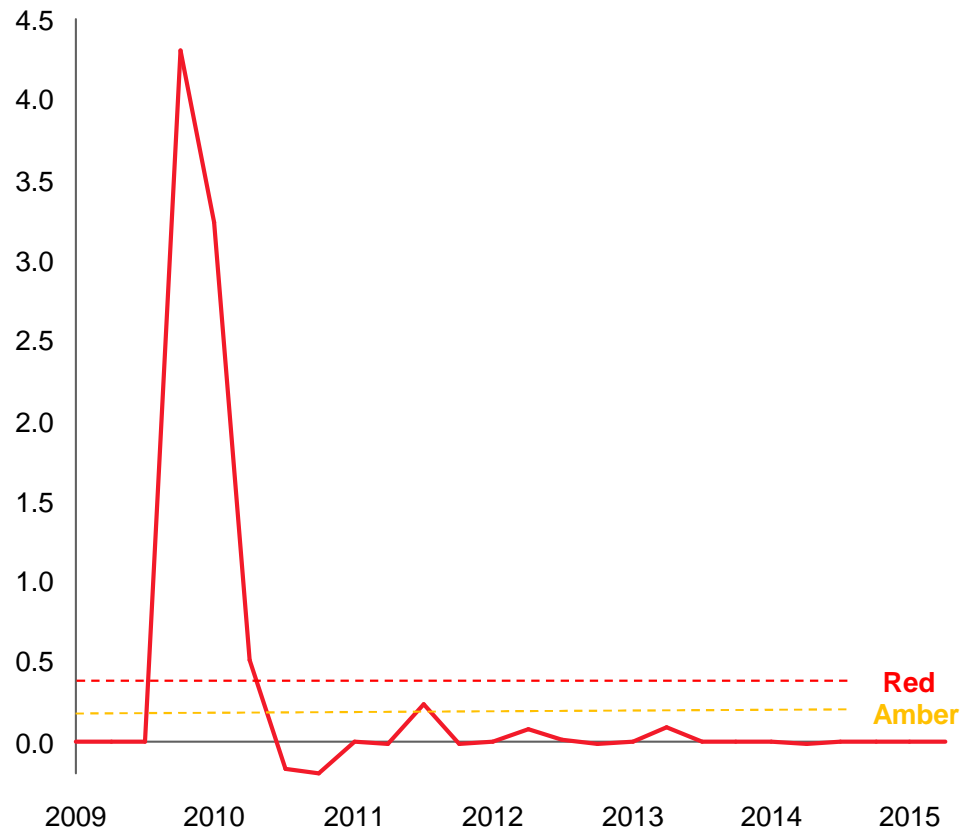
	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	0.5%	0.7%

The red limit was through expert judgment, adjusted upward by ~15bps to allow additional flexibility for business growth. This adjustment is anticipated to be offset by a management adjustment downwards in SBNA CRE.

Calibration: NCO anchor calculation, back-testing, and mgmt. adjustment

SBNA GBM

Net charge-off rate (%), 1Q2009–2Q2015



Methodology

	Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget	\$358 MM	\$380 MM
Annualized losses	\$159 MM	\$169 MM
Stress scalar	~3.0x	
Stress scalar on balances	~1.3x	
Annualized baseline losses	\$40 MM	\$43 MM
Outstanding balances	\$10,148	
Net charge-off rates (anchor points)	0.39%	0.42%

	Amber trigger	Red limit
Net charge-off rates (with management adjustment)	0.2%	0.4%

The amber trigger was through expert judgment, adjusted downward by ~20bps to provide a larger buffer between the red limit and amber trigger.

Calibration: Summary of management overlays for NCO limits

Check of change in 9Q cumulative CCAR losses

Between original and revises limits for SBNA portfolios

Between original and revises limits for SBNA portfolios				9Q cumulative CCAR losses (\$MM)				
Initial segment	Final segment	Balances (\$BN) ¹	Red limit for net charge-off rate		Original	Revised	Original	Revised
			Stress scalar	Original				
Retail		\$15.1	2.09	1.02%			\$729.3	
	Retail (excl. Small BB)	\$14.2	2.09			1.30%		\$869.0
	Small BB	\$0.9	2.09					
C&I		\$9.3	2.77	0.54%			\$313.5	
	C&I (excl. BB)	\$7.2	2.77			0.70%		\$315.4
	BB	\$2.1	2.77					
	Small BB + BB	\$3.0	2.56			0.90%		\$158.3
CRE	CRE	\$14.2	2.74	1.17%	0.50%		\$1,023.9	\$436.4
GBM	GBM	\$10.1	3.98	0.42%	0.40%		\$380.6	\$363.3
Total		\$48.8					\$2,447.4	\$2,142.3

This check holds for both no balance growth and the balance growth by portfolio projected by the P-18 through Dec. 2016

Limits: Credit risk, NCO rates

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Credit risk	Net charge-off rate ¹	SCUSA Auto ²	6.63%	7.9%	8.6%
		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%

* mandated by Santander Group

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

1. Net charge-off rates are annualized.

2. 12-month trailing average of NCOs to account for seasonality of the SCUSA Auto portfolio. All other portfolios use current month NCO values.

2C

Credit risk
Delinquencies

Calibration: Process for calibrating preliminary delinquency anchors

Approach

**NCO/delinquency
historical relationship**

Description of approach

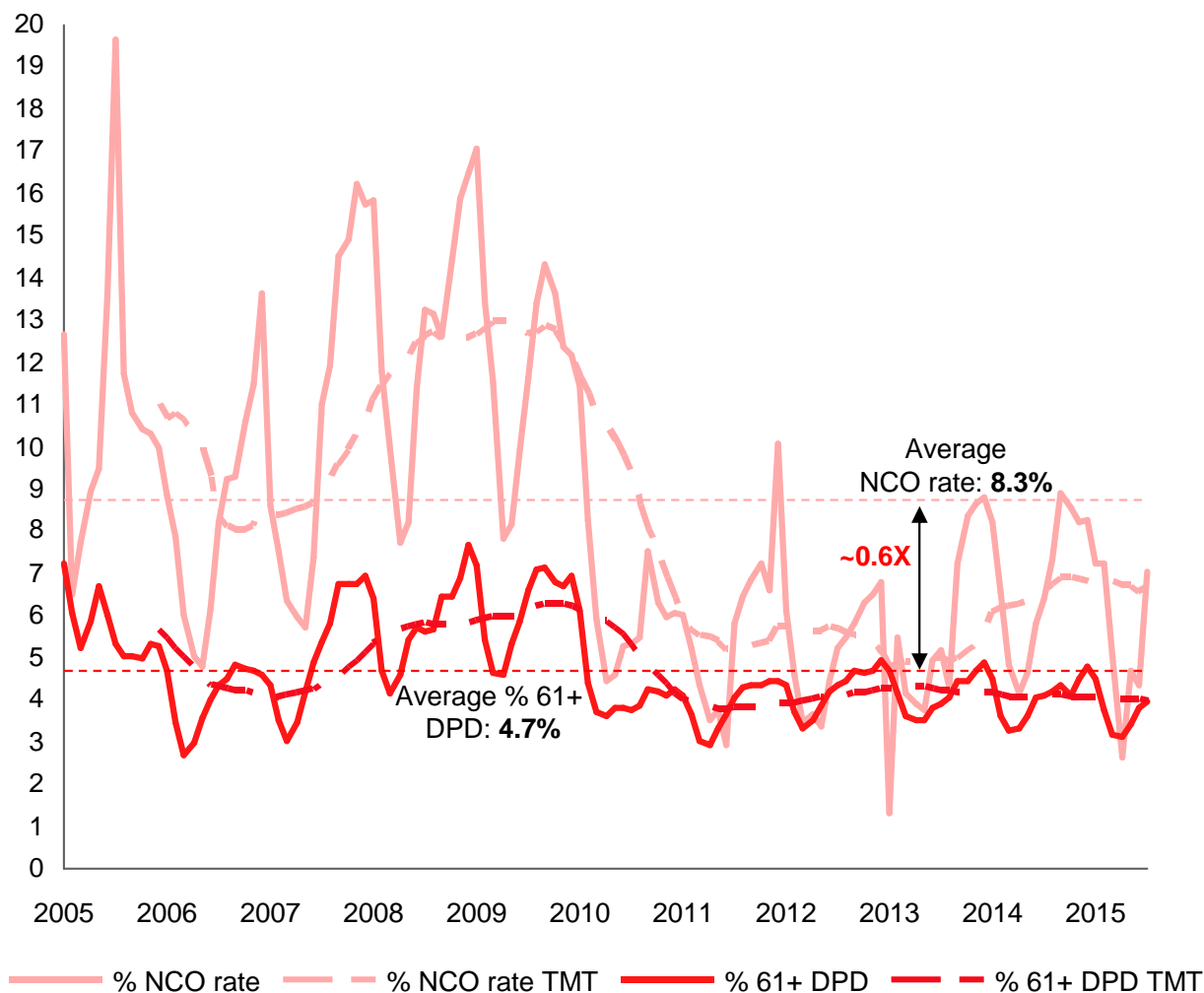
- Calculate historical relationship between NCOs and 60+ DPD rates
- Apply to red/amber NCO limits to derive delinquency limits

Portfolios calibrated

- SCUSA Unsecured
- SCUSA Auto
- SBNA Retail

Calibration: NCO/delinquency historical relationship

SCUSA Auto –% 61+ DPD



Methodology

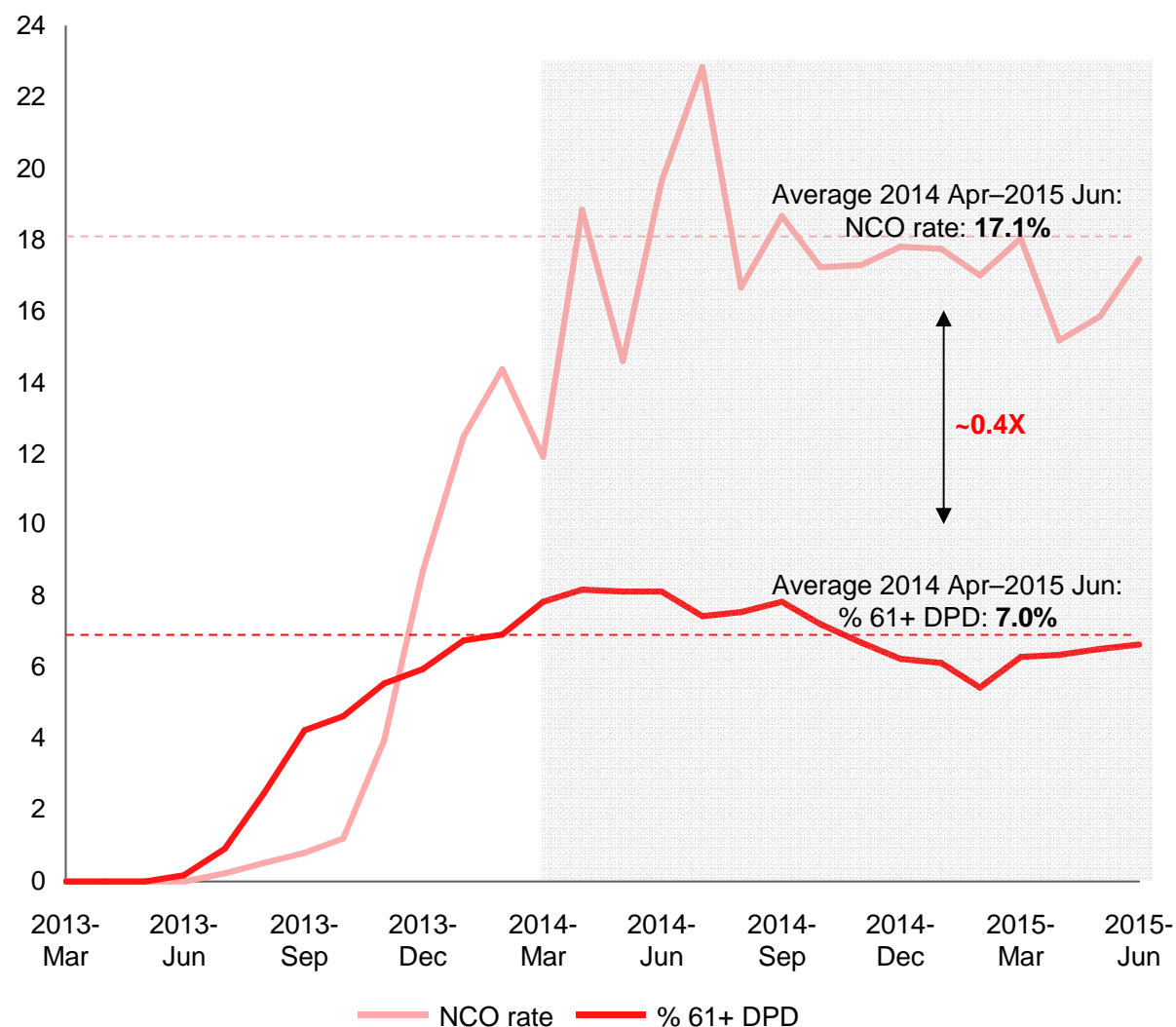
	Amber trigger	Red limit
Net charge-off rate	7.76%	8.26%
Scalar	~0.6X	
% 61 DPD	4.40%	4.68%

	Amber trigger	Red limit
% 61 DPD (with management adjustment)	4.4%	4.9%

The management overlays for net charge-off rate triggers and limits flow through to calculate those for delinquency rates

Calibration: NCO/delinquency historical relationship

SCUSA Unsecured –% 61+ DPD



Methodology

	Amber trigger	Red limit
Net charge-off rate	16.52%	17.57%
Scalar	~0.4X	
% 61 DPD	6.54%	6.95%

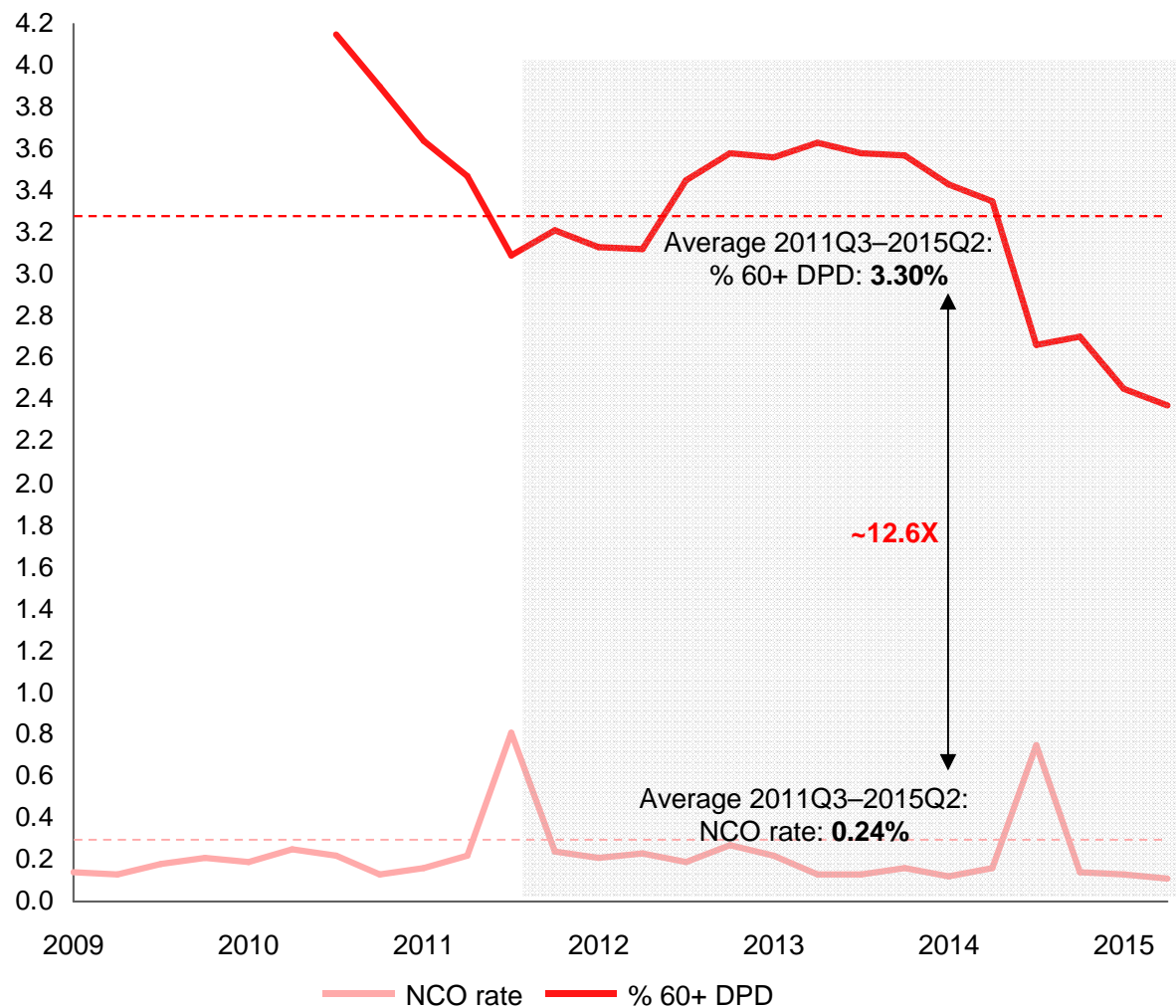
	Amber trigger	Red limit
% 61 DPD (with management adjustment)	7.0%	8.0%

The management overlays for net charge-off rate triggers and limits flow through to calculate those for delinquency rates

Source: "Personal Lending Balance and Delq.xlsx" excluding NewComLink

Calibration: NCO/delinquency historical relationship

SBNA Retail –% 60+ DPD



Methodology

	Amber trigger	Red limit
Net charge-off rate	0.96%	1.02%
Scalar	~12.6X	
% 60 DPD	12.09%	12.85%

	Amber trigger	Red limit
% 60 DPD (with management adjustment)	5.0%	7.5%

The amber trigger and red limit were through expert judgment, adjusted downwards by around 5-7% by management

Limits: Credit risk, % 60/61+ days past due

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Credit risk	% 61+ days past due	SCUSA Auto ¹	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%

* mandated by Santander Group

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

1. 12-month trailing average of NCOs to account for seasonality of the SCUSA Auto portfolio. All other portfolios use current month NCO values

2D

Credit risk
Concentrations

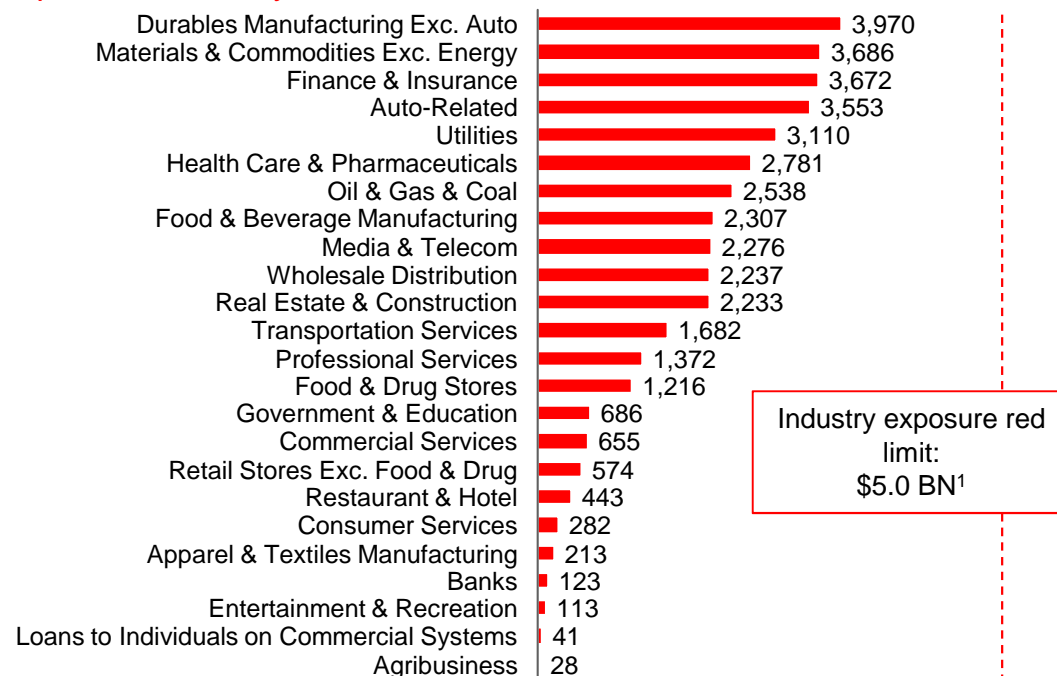
Calibration: Context on concentration and total portfolio size metrics

Context on concentration and total portfolio size limits

- The RAS includes concentration and total portfolio size limits
- Dollar limits are set against the exposure for any individual industry, CRE and Multifamily
 - For individual industry segments (based on the OCC industry segmentation), the threshold will be ~50% of (CET1 + ACL)
 - For CRE, the threshold will be ~100% of (CET1 + ACL)
 - For multifamily, the limit is \$11 BN
- Currently, no industry segment is in breach of the individual industry segment limit
- Similarly, both CRE and Multifamily are currently not in breach of their respective limits

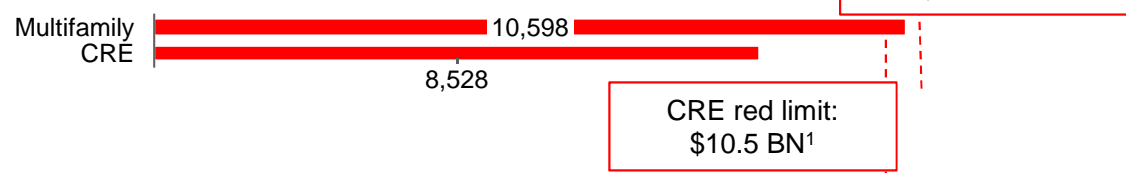
Industry segments

Exposure as of July 2015, \$ MM



CRE + Multifamily

Exposure as of July 2015, \$ MM

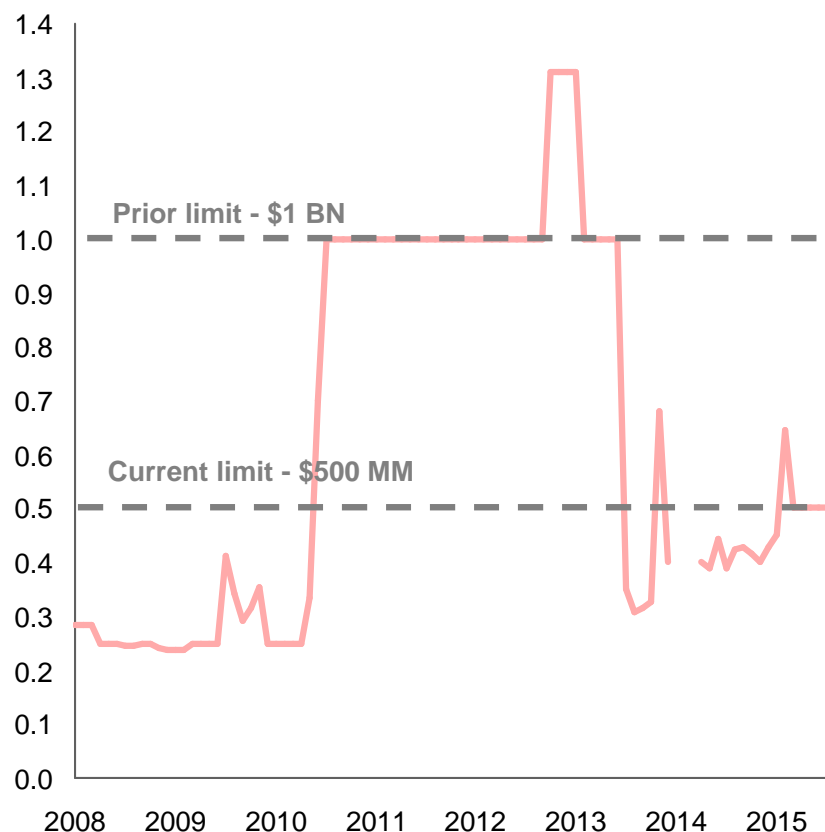


1. Exposure and CET1 + ACL as of July 2015

Source: "Comparison shareholder equity vs. CET1+ACL.xlsx"; "Historic Balances by SIC Code 200150918.xlsx"; "Credit Metric Trends_2015_06_FINAL(dist).xlsx"

Calibration: Single obligor

Single obligor binding exposure \$BN, Dec 2007–Jun 2015



Rationale for limit

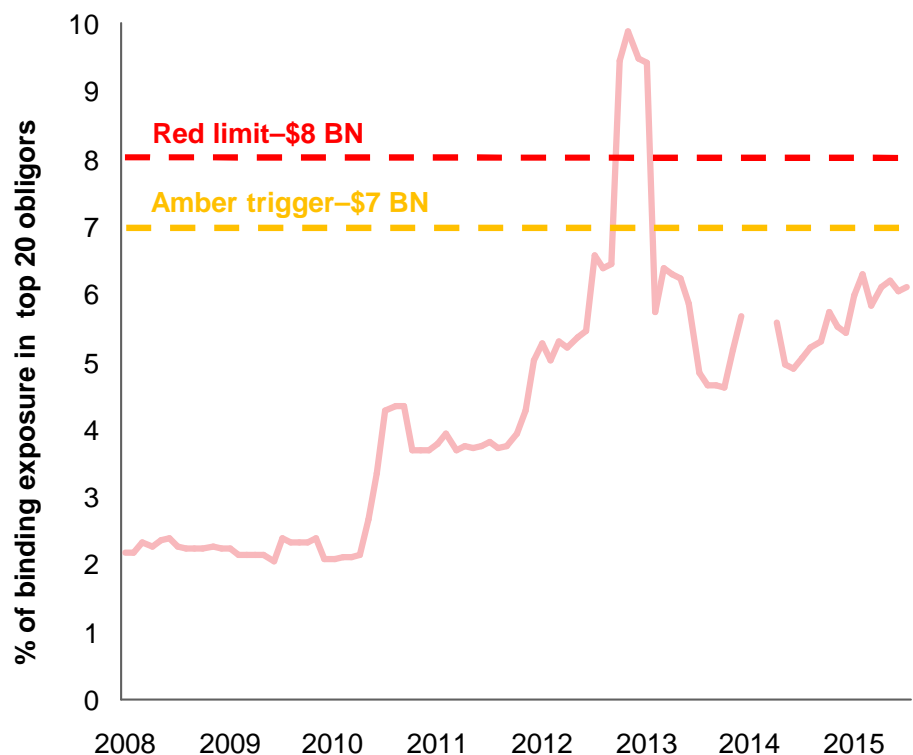
- SBNA currently sets its limit for single obligor exposure at \$500 MM; this limit is determined by management judgment
- SBNA sets individual limits for all large obligors; there are currently 15 single obligors with total exposure limits that exceed \$400 MM
 - These are obligors with whom SBNA is developing a broad and profitable relationship across a range of banking products and services
 - These 15 obligors represent 12% of estimated U.S. P&L for 2015
 - The weighted average rating of these obligors is 7.7, which translates to an S&P rating between A and A+

Source: SHUSA top 1 and 20 obligor data, "Preclas above USD 400 MM in SBNA.xlsx"
1. Assuming a stressed LGD of 40% from the Commercial CCAR loss forecasting model

Calibration: Top 20 obligors

Top 20 obligor binding exposure

Dec 2007–Jun 2015



Rationale for limit

- The amber trigger was set by management discretion
 - As of June 30, 2015, SBNA's top 20 obligors represented \$6.1 BN in binding exposure, or \$305 MM per obligor on average
 - A reasonable assumption to create a buffer is to assume the average exposure of SBNA's top 20 obligors is ~\$350 MM
 - \$350 MM for 20 obligors would create an amber trigger of \$7 BN
- The red limit is calibrated by adding \$1BN buffer, or ~\$50 MM per obligor

Limits: Credit risk, Concentration metrics

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Credit risk	# of counterparties with Santander Risk Rating < 5.0 and exposure > \$100 MM	SHUSA/SBNA	0	N/A	0
	* Industry exposure (by OCC group)	SHUSA/SBNA	<i>Varies by industry</i>	\$4.5 BN	\$5.0 BN ¹
	* CRE exposure (excl. Multifamily)	SHUSA/SBNA	\$8.5 BN	\$10.0 BN	\$10.5 BN ²
	Multifamily exposure	SHUSA/SBNA	\$10.6 BN	\$10.5 BN	\$11.0 BN
	* Single obligor exposure	SHUSA/SBNA	\$500 MM	N/A	\$500 MM
	* Top 20 obligors exposure	SHUSA/SBNA	\$6. BN	\$7.0 BN	\$8.0 BN

* mandated by Santander Group

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

1. Approximately 50% of CET1 + ACL
2. Approximately 100% of CET1 + ACL

3

Residual value risk

Metric selection: Inclusion of residual value risk metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> Residual value deterioration 	<ul style="list-style-type: none"> SHUSA/SCUSA 	<ul style="list-style-type: none"> The 2015 RAS is tied to the objective of quantitatively passing CCAR The residual value deterioration metric allows the Board to compare projected residual value impairment under stress against the maximum PPNR impairment the bank can afford (and pass CCAR) Residual value deterioration contributes to PPNR impairment In order to pass CCAR, SHUSA must not suffer a PPNR impairment that would cause it to drop below the internal capital minimum in a stressed scenario
<ul style="list-style-type: none"> Net residual value exposure 	<ul style="list-style-type: none"> SHUSA/SCUSA 	<ul style="list-style-type: none"> As the projected residual value deterioration is only calculated annually, SHUSA will want a business-as-usual metric to monitor more frequently Net residual risk exposure provides SHUSA with a “snapshot” view of changes in residual value in a given period
<ul style="list-style-type: none"> Stressed residual losses to lifetime profit Stressed residual losses vs. Tier 1 capital 	<ul style="list-style-type: none"> SCUSA SCUSA 	<ul style="list-style-type: none"> These metrics are stressed ratios used to monitor potential residual value changes resulting from movement in market conditions These metrics incorporate Auto-specific stresses

Model used to produce metric pending validation; calibration to follow appropriate model validation

Calibration: Net residual value exposure

Limits set by SHUSA and SCUSA management

Set in May 2015

- By using an internal ROA model, SCUSA compared lifetime expected return of lease assets (lifetime ROA) to current CRLIT

$$\text{Lifetime ROA as \% of CRLIT} = (\$413/\$4,190) = 10\%$$

- This was translated to a shortfall analysis to show the break-even point, and thus select a limit

Assumed shortfall level (\$ MM)	Shortfall as % of CRLIT	Implied portfolio ROA
0	0%	3.1%
213	5%	1.5%
413	10%	0.0%

- 9% was selected as the red limit, being just below the break-even point of 10%
- Given the shortfall analysis, management determined that 5% would be an appropriate amber trigger

	Amber trigger	Red limit
Net residual value exposure	(5.00%)	(9.00%)

Check against stressed impairment budget

Derived from CCAR 2015 PPNR Impairment

- The SCUSA limits assume a business-as-usual scenario
- To maintain consistency across other metrics, and to ensure that SHUSA would still be able to pass CCAR, we calculated amber and red limits based on the budget for residual value impairment under stress
- We found that these limits were more conservative than those proposed by SCUSA

	Amber trigger	Red limit
Residual value impairment	\$500 MM	\$525 MM
Annualized impairment	\$225 MM	\$250 MM
Net CRLIT	\$4,190	

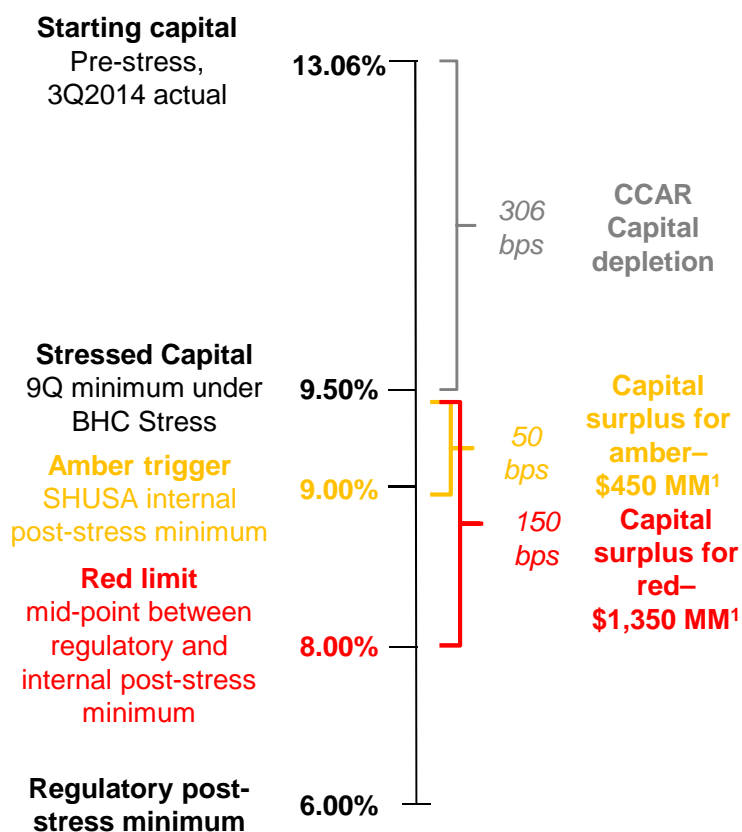
Limits (Annualized impairment/Net CRLIT)	(5.36%)	(5.97%)
------------------------------------------	---------	---------

The BHC Stress scenario implies a tighter red limit for Net Residual Value Exposure vs. the FRB Severely Adverse scenario which yields limits more in line with the limits set by management

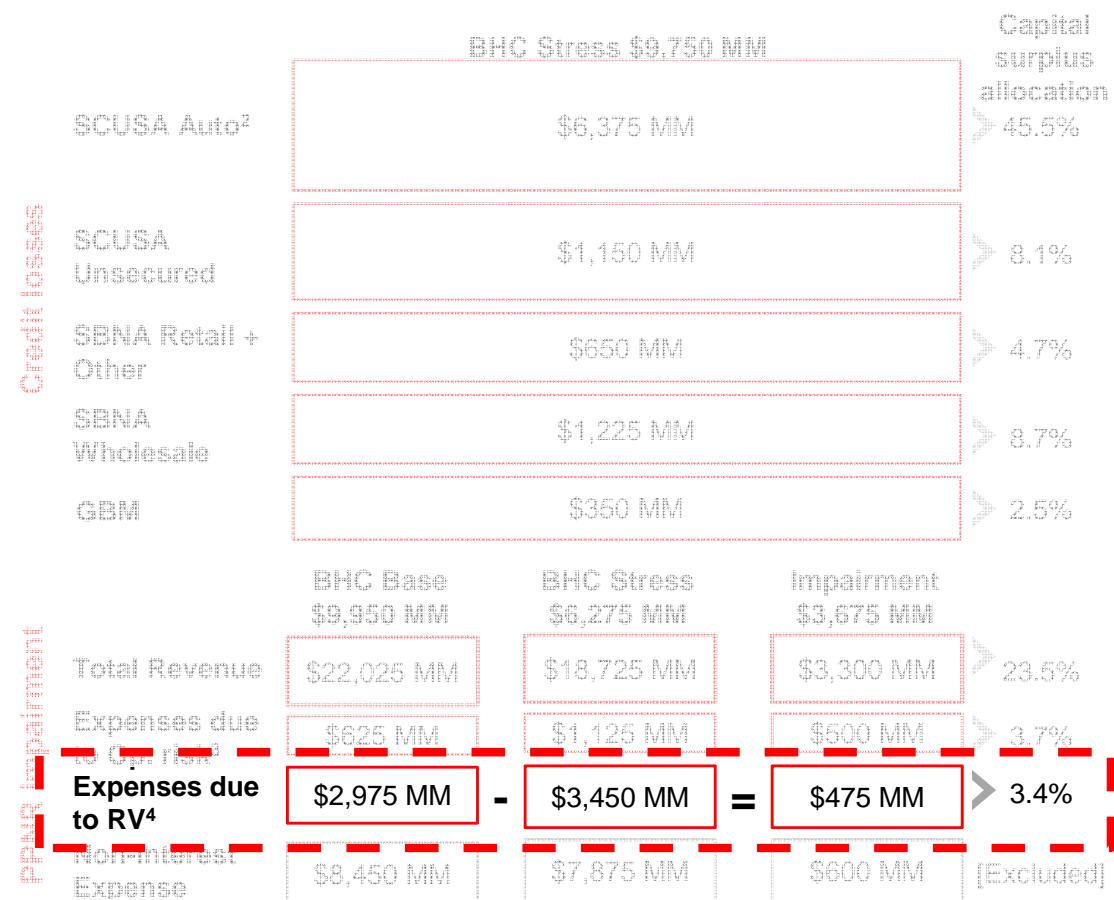
Calibration: Residual value deterioration

Information shown previously in
**Credit risk: CCAR loss
budget section**

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



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



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)

Limits: Residual value risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Residual value risk	Residual value deterioration ¹	SHUSA/SCUSA	\$475 MM	\$500 MM	\$525 MM
	Net residual value exposure	SHUSA/SCUSA	1.1%	5.0%	9.0%

* mandated by Santander Group

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

1. Projected 9Q cumulative increase in Leased Vehicle Expense between BHC Stress and Baseline scenarios—assumes all attributed to SCUSA

4

Liquidity/funding risk

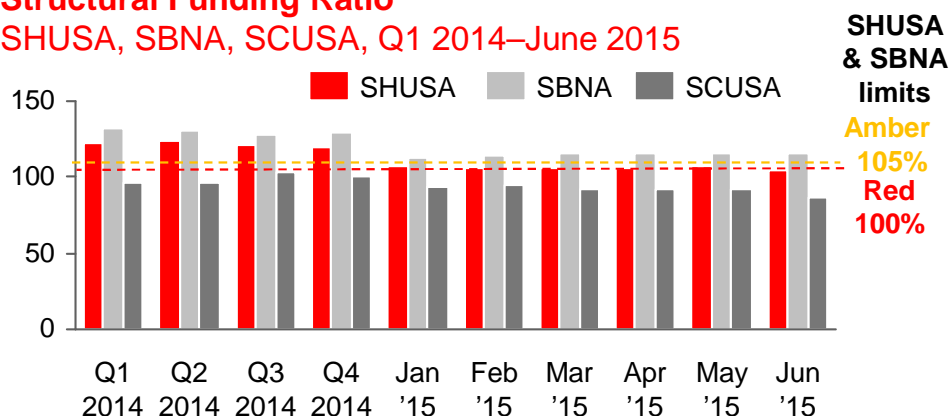
Metric selection: Inclusion of liquidity/funding risk metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> Liquidity stress testing survival horizon 	<ul style="list-style-type: none"> SHUSA SBNA 	<ul style="list-style-type: none"> This metric is cascaded from Santander Group Though Santander Group defines the types of scenarios (local, global, idiosyncratic, and wholesale), SHUSA can develop specific stress scenarios The liquidity stress testing survival horizon period is not applicable for SCUSA given its liquidity profile and its regulatory obligations
<ul style="list-style-type: none"> Liquidity Coverage Ratio 	<ul style="list-style-type: none"> SHUSA SBNA 	<ul style="list-style-type: none"> This metric is cascaded from Santander Group This metric is defined by regulators and is designed to measure liquidity under short-term stress SHUSA must ensure its cash flow profile keeps Liquidity Coverage Ratio (LCR) at or above limits to remain compliant with Basel III The LCR is not applicable for SCUSA given its liquidity profile
<ul style="list-style-type: none"> Structural Funding Ratio 	<ul style="list-style-type: none"> SHUSA SBNA SCUSA 	<ul style="list-style-type: none"> This metric is cascaded from Santander Group The net stable funding ratio under Basel III's international framework for liquidity risk measurement, standards and monitoring (December 2010) mandates that banks will have until 2018 to meet the NSFR standard SHUSA currently monitors the structural funding ratio which is a precursor to NSFR
<ul style="list-style-type: none"> Available SCUSA committed liquidity/average projected net originations 	<ul style="list-style-type: none"> SCUSA 	<ul style="list-style-type: none"> Due to the nature of its business, SCUSA does not have a liquidity stress testing survival horizon period metric or a LCR metric This is a metric that management chose to include as a measure of SCUSA's available liquidity This metric ensures SCUSA has adequate liquidity to cover the time between loan origination and the time at which assets are placed in match-funded securitizations

Calibration: Liquidity/funding risk calibration approach

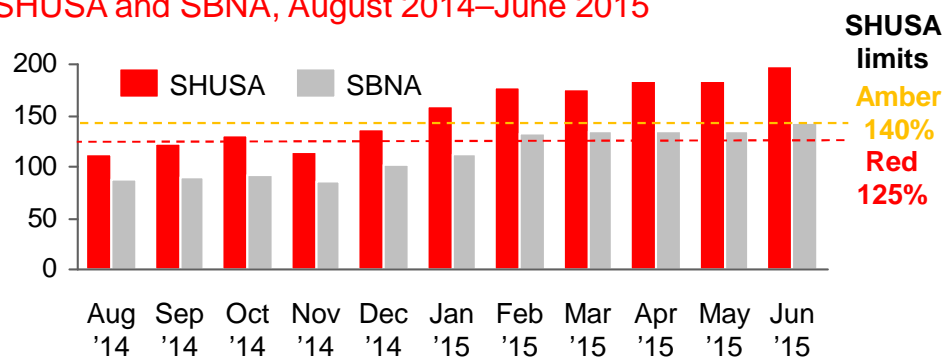
Structural Funding Ratio

SHUSA, SBNA, SCUSA, Q1 2014–June 2015



Basel III Liquidity Coverage Ratio

SHUSA and SBNA, August 2014–June 2015



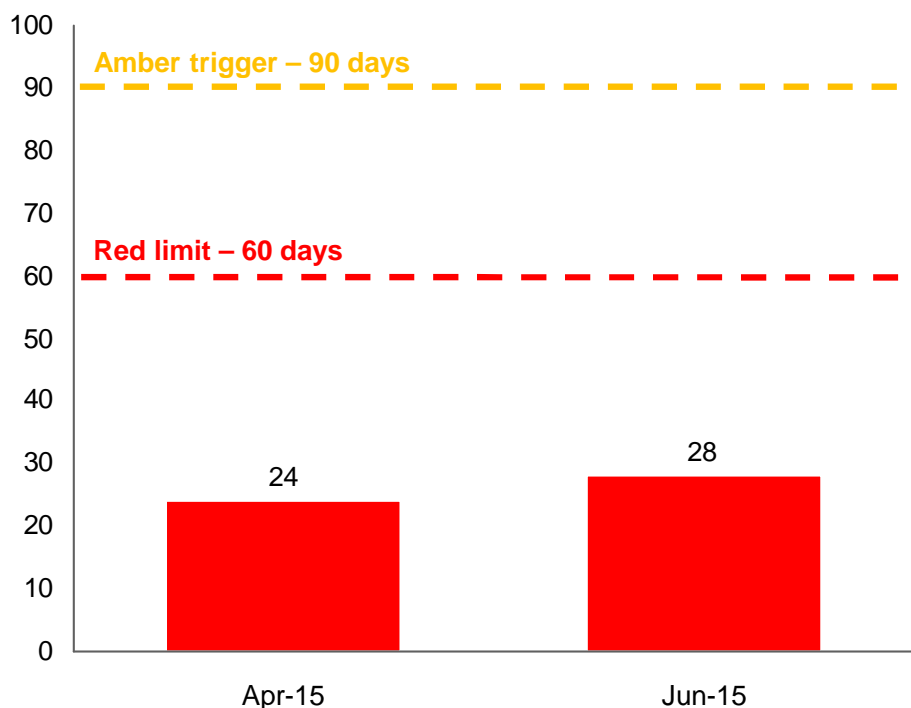
Calibration approach

- SFR limits are set keeping in mind the future regulatory minimum (100%) for the Net Stable Funding Ratio, adding a buffer per management discretion, and verifying against historical trends
- LCR limits are set using the regulatory minimum (100%) as an anchor point, then adding a buffer per management discretion, and verifying against historical trends
- LCR is not an applicable measurement for SCUSA, as it would often be 0% given the nature of SCUSA's business

SFR	Amber trigger	Red limit
SHUSA	105%	100%
SBNA	105%	100%
SCUSA	TBD	TBD
LCR	Amber trigger	Red limit
SHUSA	140%	125%
SBNA	120%	110%

Calibration: Liquidity stress testing survival horizon

Historical Liquidity stress testing survival horizon SHUSA, days



Calibration approach

- This metric measures the amount of days remaining until SHUSA and its subsidiaries will have a cash shortfall under Market, Idiosyncratic and Combined stressed conditions. The Liquidity Stress Testing Survival Horizon limit and target are measured in accordance with the firm's risk appetite
- The red limit and amber trigger represent a timeframe that is more conservative than the regulatory definition of 30 days
- The 90 day and 60 day amber trigger and red limit provide a more complete overview of potential mismatches between inflows and outflows

Calibration: Available committed liquidity/average projected net originations

SCUSA available committed liquidity over monthly net funding needs

of months

Monthly Net Funding Needs (\$ MM)	WHL + BSNY Available (\$ MM)			
	5,578	6,078	6,500	7,000
750	7.4	8.1	8.7	9.3
783	7.1	7.8	8.3	8.9
1,000	5.6	6.1	6.5	7.0
1,250	4.5	4.9	5.2	5.6
1,300	4.3	4.7	5.0	5.4

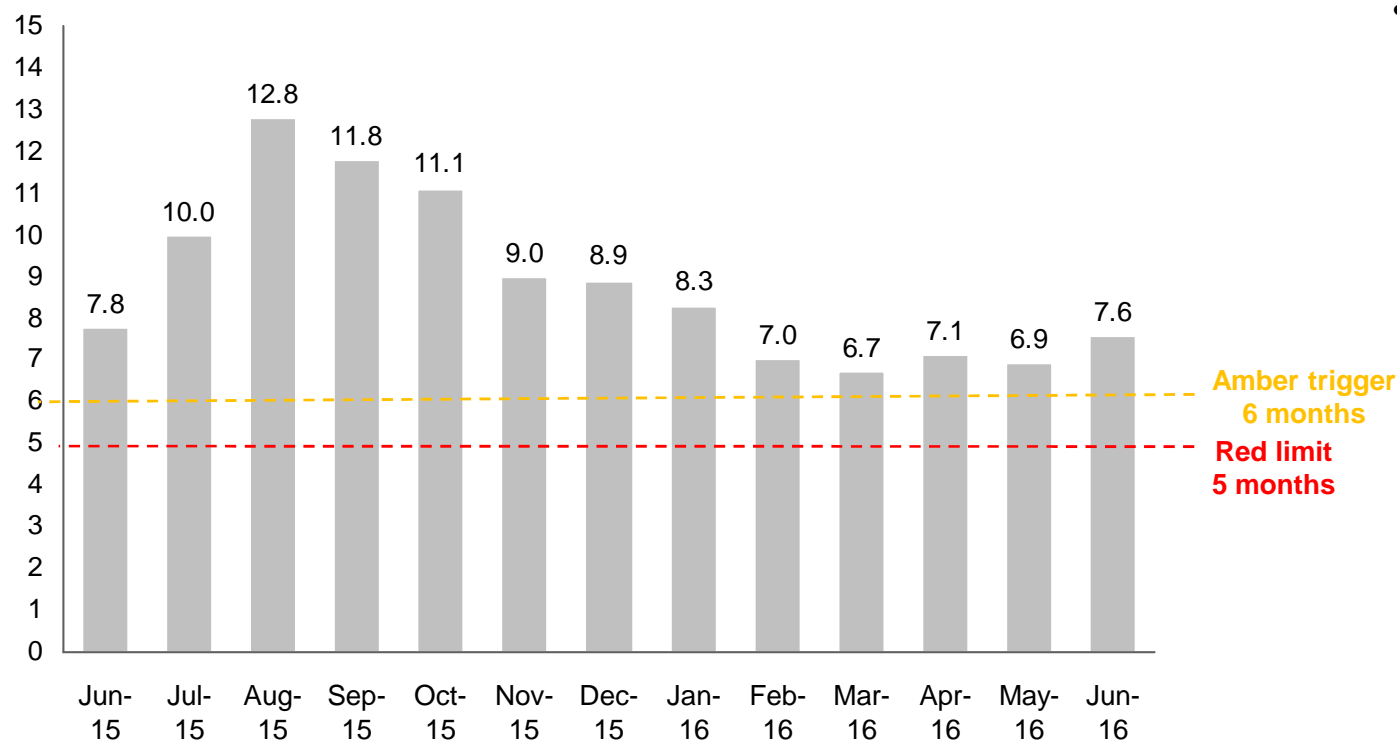
Calibration approach

- Due to the nature of its business, SCUSA does not have a liquidity stress testing survival horizon metric or an LCR metric
- This metric was designed by management and ensures SCUSA has adequate liquidity to cover the time between loan origination and the time at which assets are placed in match-funded securitizations
- The red limit of 5 months was established by evaluating the changes to the level of the metric if monthly funding needs increase to \$1,250 MM or greater without an increase in available liquidity; it is reasonable that the red limit is just above the level of 4.9 months outlined in this scenario
- The amber trigger of 6 months was established by evaluating the changes to the level of the metric if monthly funding needs increase to \$1,000 MM and available liquidity decreases by \$500 MM; it is reasonable that the amber trigger is just above the level of 5.6 months outlined in this scenario

Calibration: Available committed liquidity/average projected net originations

Projected available committed liquidity/average projected net originations
June 2015–June 2016, months

Forward-looking projections



- SCUSA is not expected to be in breach of this limit in the next year

Limits: Liquidity/funding risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Liquidity/ funding risk	* Liquidity stress testing survival horizon ¹	SHUSA	28 days ²	90 days	60 days
		SBNA	19 days ³	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 ²	6 months	5 months

* mandated by Santander Group

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

1. Based on the worst of four different liquidity scenarios (Systemic Local, Idiosyncratic, Systemic Global, and Wholesale Funding Sources)

2. As of June 2015–July value for SBNA was 51 days

3. Based on EPS Liquidity stress methodology

5

Interest rate risk

Metric selection: Inclusion of interest rate risk metrics

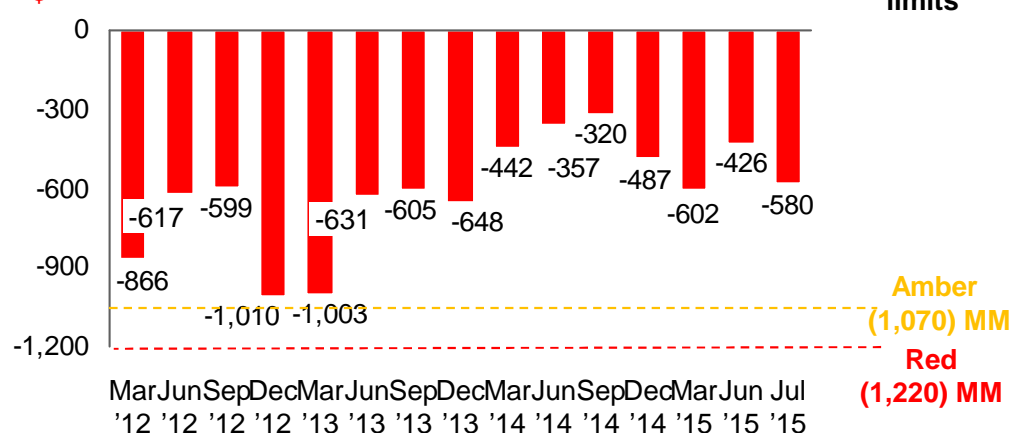
Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> Net interest income sensitivity (+/-100bps) 	<ul style="list-style-type: none"> SHUSA SBNA SCUSA 	<ul style="list-style-type: none"> IRR exposure limits can provide an early warning of possible financial problems resulting from the effects of changing interest rates on the existing balance sheet and income performance and thus can be used to define an appetite for interest rate-related negative performance variability The ALM NII metric estimates the directional sensitivity of earnings at risk (NII) due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift NII shocks provide a short-to-mid term view of the impact on earnings and capital due to various changes in interest rates This configuration of the metric is an industry standard
<ul style="list-style-type: none"> Market value of equity sensitivity (+/- 200bps) 	<ul style="list-style-type: none"> SHUSA SBNA SCUSA 	<ul style="list-style-type: none"> MVE measures the difference between the current fair value of an asset and the current fair value of liabilities; it serves as a proxy to the market value of SHUSA's balance sheet The ALM MVE metric estimates the directional sensitivity of market value of equity due to the repricing interaction of the existing assets and liabilities over time resulting from a particular yield curve shift MVE shocks provide a longer term economic view of SHUSA's IRR exposure that incorporates all future cash flows from existing asset/liability and off-balance sheet exposures This configuration of the metric is an industry standard

1. Though it is only available at the time of funding when finalized contract terms are set

Calibration: NII and MVE

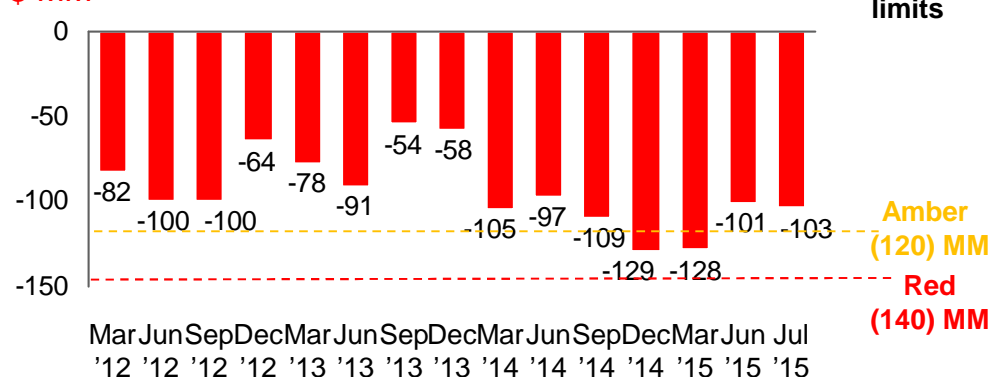
SHUSA MVE Exposure -100/+200 bps

\$ MM



SHUSA NII Exposure +/-100 bps

\$ MM



Calibration approach

- The red limit and amber trigger are set by the ALM team
- It is important to note that the limits for ALM NII and ALM MVE will likely be adjusted once the strategic plan is finalized

ALM MVE	Amber trigger	Red limit
SHUSA	(\$1,070) MM	(\$1,220) MM
SBNA	(\$825) MM	(\$1,100) MM
SCUSA	(\$240) MM	(\$300) MM

ALM NII	Amber trigger	Red limit
SHUSA	(\$120) MM	(\$140) MM
SBNA	(\$150) MM	(\$200) MM
SCUSA	(\$75) MM	(\$100) MM

Limits: Interest rate risk

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	(\$825) MM	(\$1,100) MM

* mandated by Santander Group

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

6

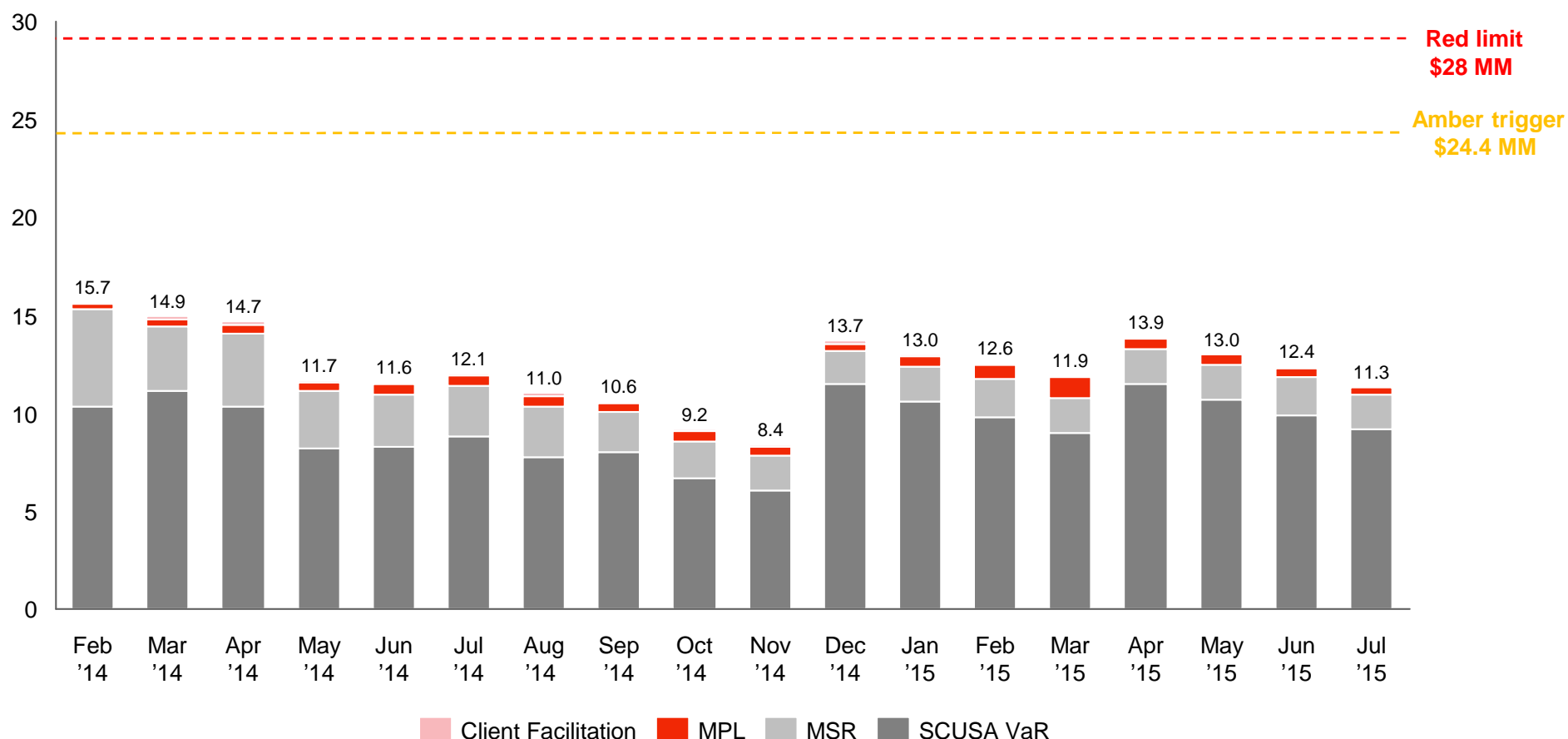
Mark-to-market portfolio risk

Metric selection: Inclusion of mark-to-market portfolio risk metric

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none">Mark-to-market Value at Risk (VaR)	<ul style="list-style-type: none">SHUSA	<ul style="list-style-type: none">The purpose of this metric is to have a standalone measure that covers the risk in all the material MtM portfolios for SHUSA<ul style="list-style-type: none">Client facilitationMortgage pipelineMortgage servicing rightsSCUSA economic hedgesAs of July 2015, the VaR for SHUSA's trading portfolio was \$11.3 MM, composed of 0.5% client facilitation, 16.4% MSR, 2.5% mortgage pipeline and 80.6% SCUSA VaRMThe VaR is currently calculated by taking historical series of daily market data since 2008 and using a level of confidence of 99% (unweighted percentile)

Calibration: SHUSA mark-to-market (MtM) portfolio 99% daily Value at Risk (VaR) and limit

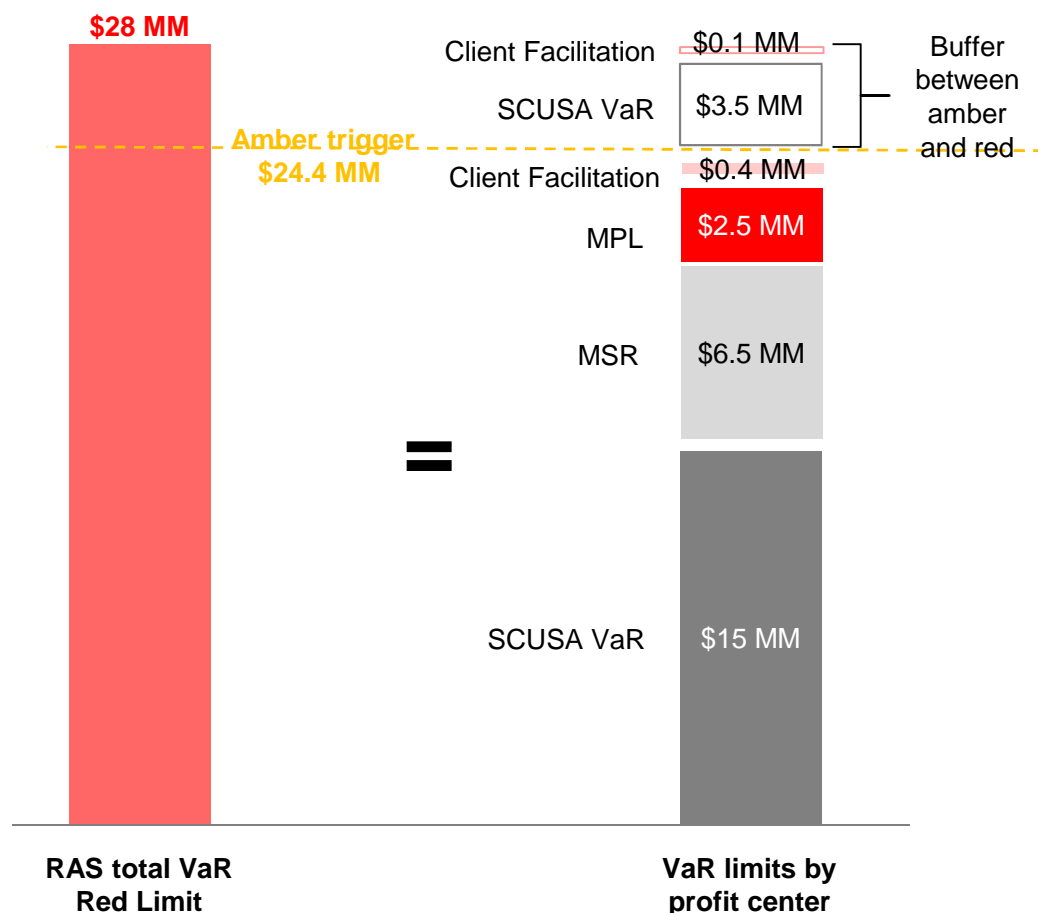
VaR and limits, end of month \$ MM, Feb 2014–July 2015



Source: "MSR MPL History.xlsx", "SCUSA VaR.xlsx", "ClientFacilitation_Control_Report_20150731"

Calibration: MtM VaR limit - the aggregation of VaR limits by portfolio

VaR limits by profit center



Calibration approach

- The amber trigger for SHUSA MtM VaR is the sum of the 99% VaR limits for each portfolio set by management:
 - It is assumed that limits for portfolio are additive, i.e. there is no risk diversification across portfolios
 - The limits for each profit center are set by the individual business units
- The red limit is calibrated as the amber trigger plus the sum of an additional buffer by portfolio, added per management discretion
- Management chose to add a buffer for the following reasons:
 - The VaR position may grow with new risk balance limits
 - Increased market volatility may elevate the VaR metric even if the position does not change

Source: "MSR MPL History.xlsx", "SCUSA VaR.xlsx", "ClientFacilitation_Control_Report_20150731"

Limits: Mark-to-market portfolio risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Mark-to-market portfolio risk	Mark-to-market Value at Risk (VaR)	SHUSA	\$11.3 MM	\$24.4 MM	\$28 MM

* mandated by Santander Group

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

7

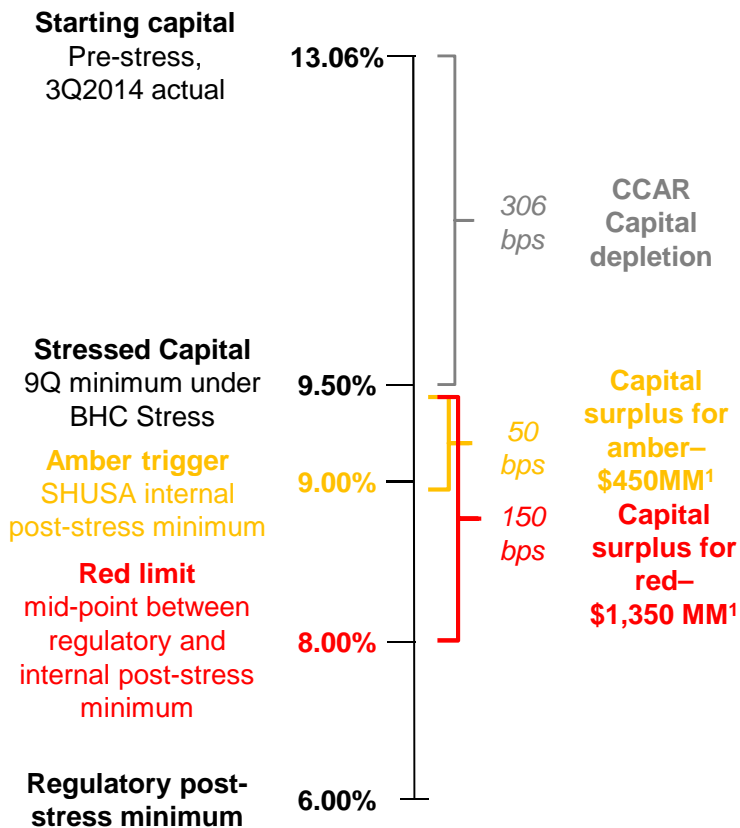
Strategic risk

Metric selection: Inclusion of strategic risk metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> Pre-provisioned net revenue (PPNR) impairment 	<ul style="list-style-type: none"> SHUSA 	<ul style="list-style-type: none"> The 2015 RAS is tied to the objective of quantitatively passing CCAR The PPNR impairment metric allows SBNA's Board to compare projected PPNR impairment under stress against the maximum impairment the bank can afford (and still pass CCAR) In order to quantitatively pass CCAR, SHUSA must not drop below their internal capital ratio minima SHUSA must ensure its PPNR impairment is not so large as to lead to this type of breach under the BHC Stress scenario
<ul style="list-style-type: none"> Loss in stress 	<ul style="list-style-type: none"> SHUSA 	<ul style="list-style-type: none"> Loss in stress is cascaded from Santander Group This metric is an internally-defined risk-profile management tool for the board; it is meant to ensure that losses under an adverse, but plausible stress do not exceed 100% of Profit Before Taxes (PBT)
<ul style="list-style-type: none"> SCUSA subprime assets as % of SHUSA credit exposure 	<ul style="list-style-type: none"> SHUSA 	<ul style="list-style-type: none"> SCUSA has substantial subprime assets Restricting the size of SCUSA has been flagged as a management priority—both for credit risk and reputational reasons
<ul style="list-style-type: none"> SCUSA total Risk-Weighted Assets (RWA) 	<ul style="list-style-type: none"> SCUSA 	<ul style="list-style-type: none"> This metric defines the total riskiness of the portfolio Restricting the size of SCUSA Auto has been flagged as a management priority—both for credit risk and reputational reasons The metric was constructed as RWA as opposed to balances or balances over capital to include undrawn commitments and account for the riskiness of the portfolio

Calibration: PPNR impairment

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



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

Information shown previously in **Credit risk: CCAR loss budget** section

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

	BHC Base \$9,950 MM	BHC Stress \$6,275 MM	Impairment \$3,675 MM	
Total Revenue	\$22,025 MM	\$18,725 MM	\$3,300 MM	23.5%
Expenses due to Op. risk³	\$625 MM	\$1,125 MM	\$500 MM	3.7%
Expenses due to RV⁴	\$2,975 MM	\$3,450 MM	\$475 MM	3.4%
Non-Interest Expense	\$8,450 MM	\$7,875 MM	\$600 MM	[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)

Calibration: Comparison between loss in stress and CCAR-derived limits

	CCAR loss budgets/impairments	Loss in stress
Purpose of exercise	<ul style="list-style-type: none"> US supervisory requirement; toll-gate for capital actions Meant to ensure that SHUSA has sufficient capital to withstand a severely adverse macroeconomic scenario <ul style="list-style-type: none"> Institutions are expected to deplete capital throughout the course of the stress 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Breaches signal the need for management discussions and potential action plans
Scenario	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> ICAAP is generally used, Group expects an idiosyncratic, plausible stress FRB Adverse is the most comparable “off-the-shelf” scenario
Calculation details	<ul style="list-style-type: none"> Scenario-consistent P&L and balance sheet simulation, covering losses and revenue 	<ul style="list-style-type: none"> Numerator based on strategic plan Denominator based on losses (including provisions, concentration risk, market risk, ops risk) under above-defined scenario

- SHUSA team is calculating the loss in stress metric (currently gathering management overlays)
- It appears likely that SHUSA, SBNA, and SCUSA will breach the limit of 100%

Calibration: Loss in stress

Loss in Stress metric calculation

Figures in \$ MM	CCAR 2015
BHC Base PBT (CCAR 2015)	695
<i>Add back adjustments for model uncertainty (to reconcile to ICAAP)¹</i>	+ 443
PBT (Normalized)	1,138
FRB Adverse stressed losses	1,585
Decline in Net Operating Income ²	541
Increase in Net Provisions ²	827
Increase in Concentration risk ³	117
Increase in Trading portfolio risk ³	10
Increase in Stressed CVA ³	3
Increase in Operational Risk ²	87
Stressed losses/PBT ("Loss in Stress")	139%
Amber trigger	100%
Red limit	150%

Approach and rationale for limit-setting

- The PBT (profit before tax) is calculated under BHC Baseline, and then compared to the stressed losses under FRB Adverse to create the Loss in Stress metric
- This specific calculation of stressed losses is mandated by Group—some calculations come directly from the CCAR results, others are provided by Group
- Lacking an idiosyncratic scenario, SHUSA made the decision to use the FRB Adverse scenario from the 2015 CCAR run—this is the 'off-the-shelf' scenario most comparable to ICAAP, which is used at Group
- 100% must be the amber trigger as it is a Group-mandated target based on their risk appetite
- A red limit of 150% is reasonable given the CCAR results and the current state of available strategic plan data (the SHUSA P18 was not complete at the time of limit-setting)

1. Adjustments for model errors/uncertainty are incorporated in the CCAR loss forecasting process, but must be added back to reconcile to ICAAP (which does not account for these adjustments)
 2. These losses come directly from CCAR 2015 results (SHUSA Capital Aggregation Tool)
 3. Calculated using Group methodology, further detailed in the Metrics Glossary

Calibration: SCUSA subprime assets as % of SHUSA total credit exposure

SCUSA assets, Q2 2015 \$ MM

	FICO 300-630	FICO 630-851	Not Available
Core/Organic Loans	13,830.6	3,587.7	2,232.5
Consumer Auto Lending	5,254.1	1,154.1	719.1
Commercial Fleet Retail	0.046	0.015	955.8
Chrysler Lease	237.6	4,854.7	436.6
Chrysler Commercial Fleet Lease	-	0.139	388.8
UBER Lease	-	-	110.08
RV/Marine Loans	76.1	122.0	122.1
Purchased Auto Loans	179.7	68.9	3.5
Credit Cards & Other Unsecured	767.1	1,405.03	446.3

SCUSA sub-prime assets

Total SHUSA assets	\$ 117 BN
Total sub-prime assets at SCUSA	\$24.4 BN
SCUSA subprime assets as % of SHUSA exposure	21%

Calibration approach

- Due to the large sub-prime exposure at SCUSA, SHUSA's management chose to set a limit for the maximum amount of sub-prime exposure on the SHUSA balance sheet, as nearly all of SHUSA's sub-prime exposure is in SCUSA
- A red limit of 25% was set by management as it aligns with:
 - Rating Agencies' expectations
 - Reviews of competitors' positions
- Given SHUSA's current position of 21%, the red limit of 25% allows an incremental ~\$6BN of sub-prime to be booked at SCUSA before breaching the red limit, given no growth at SBNA
- The amber trigger of 23% establishes an early warning indicator that the proportion of subprime assets is approaching the red limit

Limits: Strategic risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Strategic risk	Pre-provisioned net revenue (PPNR) impairment	SHUSA	\$3,700 MM	\$3,825 MM	\$4,100 MM
		SCUSA	\$2,500 MM	\$2,575 MM	\$2,775 MM
		SBNA	\$1,200 MM	\$1,250 MM	\$1,350 MM
	* 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%
	SCUSA Total Risk Weighted Assets (RWAs)	SHUSA/SCUSA	\$36.9 BN	Set as \$2BN less than the red limit [\$33.8 BN]	Set so SCUSA CET1 is 11% based on prior month capital level [\$35.8 BN]

* mandated by Santander Group

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

1. Projected losses in stress scenario aligning to Santander Group 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)

8

Operational risk

Metric selection: Inclusion of operational risk metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> Gross losses/gross margin 	<ul style="list-style-type: none"> SHUSA SBNA SCUSA 	<ul style="list-style-type: none"> This metric measures the overall operational risk losses at SHUSA compared to net revenue Gross losses are more appropriate than net losses for the purposes of the RAS for the following reasons: <ul style="list-style-type: none"> To account for a 'worst case' scenario in the future under which there are no recoveries To avoid waiting for additional recoveries and not accounting for or not acting on a breach pending these recoveries This metric can be relatively easily calculated and monitored
<ul style="list-style-type: none"> Frequency of events with > \$200 K in losses 	<ul style="list-style-type: none"> SHUSA SBNA SCUSA 	<ul style="list-style-type: none"> This metric is a fairly common forward looking indicator of overall operational risk level This metric may be an indicator of a weakening control environment or increased risk profile This metric can be relatively easily calculated and monitored We chose to include only the financial events to be objective and align with the gross losses/gross margin metric Operational risk events not associated with a dollar loss are monitored and managed by the Board through a separate process

Metric selection: Exclusion of operational risk metrics

Metrics excluded from the RAS

- Net operational losses/gross margin

Rationale/commentary

- Gross operational losses/gross margin is already included as a metric in the RAS and it would be redundant to include two metrics of losses/margin
- Gross losses are more appropriate for the purposes of the RAS for the following reasons:
 - To account for a 'worst case' scenario in the future under which there are no recoveries
 - To avoid waiting for additional recoveries and not accounting for or not acting on a breach pending these recoveries
- This metric will be reported as a management limit

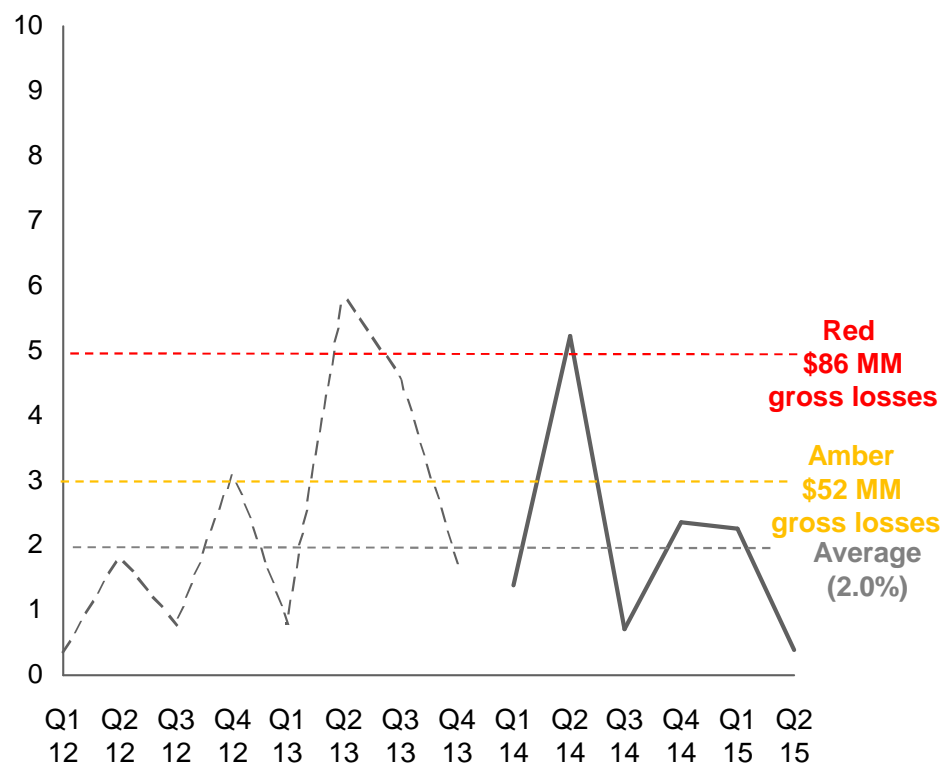
- Any event type losses

- After looking at the distribution of losses to specific risk types over time, it was deemed that including a specific risk type metric would be too granular for the RAS and likely redundant with the overall gross losses/gross margin metric (as EDPM consistently accounts for the largest portion of gross losses)
- Event type gross losses will be reported as management metrics

Calibration: SHUSA Gross losses/gross margin

SCUSA gross losses/gross margin¹

%



Average quarterly gross margin: \$1,729,083,021

Average quarterly gross losses: \$35,072,811

— SHUSA

- - - SBNA + SCUSA (SHUSA estimation), pre-2014

Calibration approach

- To set an anchor point for the amber trigger, we used the BHC Baseline losses from CCAR 2015 as a loss budget

9Q BHC baseline losses (\$ K)	Quarterly BHC baseline losses (\$ K)	Quarterly gross losses/gross margin
\$622,126	\$69,125	4.0%

- To set an anchor point for the red limit, we used the 9Q cumulative CCAR losses from the BHC stressed scenario

9Q BHC stress losses (\$ K)	Quarterly BHC stress losses (\$ K)	Quarterly gross losses/gross margin
\$1,134,386	\$126,043	7.3%

- The final red limit and amber trigger were decreased from the above anchor points by management to be more conservative and align with peers

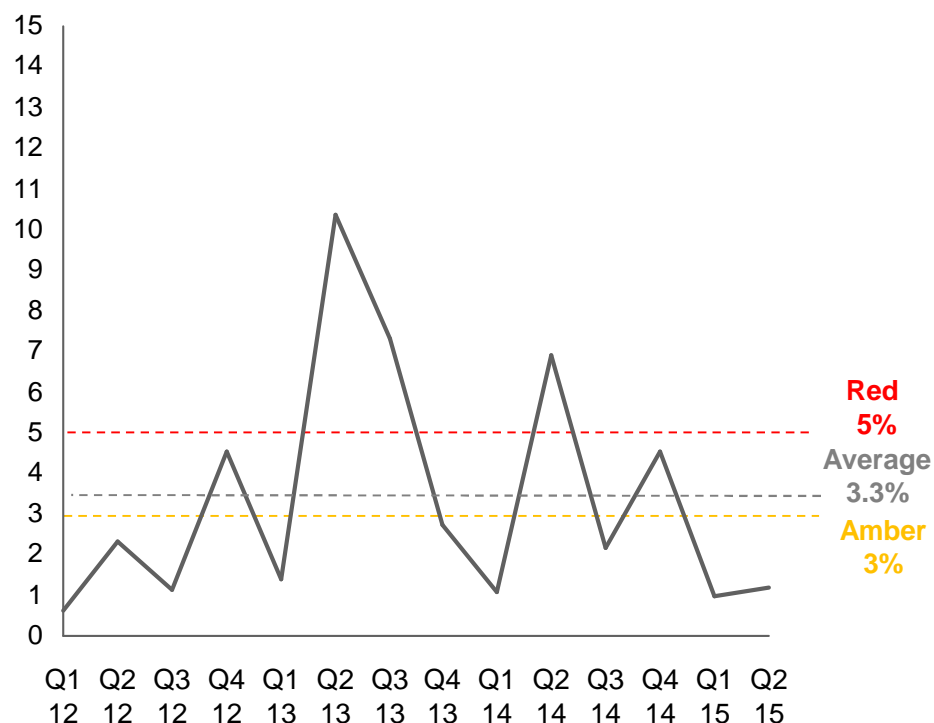
	Amber trigger	Red limit
Limit	3%	5%
Implied losses (\$ K)	\$51,873	\$86,454

Note: SHUSA was not formed until 2014; net revenue numbers are estimated prior to 2014 by the addition of SBNA and SCUSA net revenue
 Source: SHUSA's "Corporate RTS Actual Loss-Gross Margin" data, SHUSA's "SHUSA-Aggregation-All-nocpi" taken from Access op risk database, Oliver Wyman analysis

¹ Gross losses are defined as losses before accounting for recoveries; gross margin is defined as net revenue

Calibration: SBNA Gross losses/gross margin

SCUSA gross losses/gross margin¹ %



Average quarterly gross margin: \$635,353,930
Average quarterly gross losses: \$20,873,046

Calibration approach

- Given that SBNA accounts for 58% of SHUSA's 9 quarter BHC stressed loss budget, we scaled the SBNA anchor points such that SBNA gross losses account for 58% of SHUSA's gross losses under each anchor point
- The final red limit and amber trigger were decreased from the above anchor points by management to be more conservative

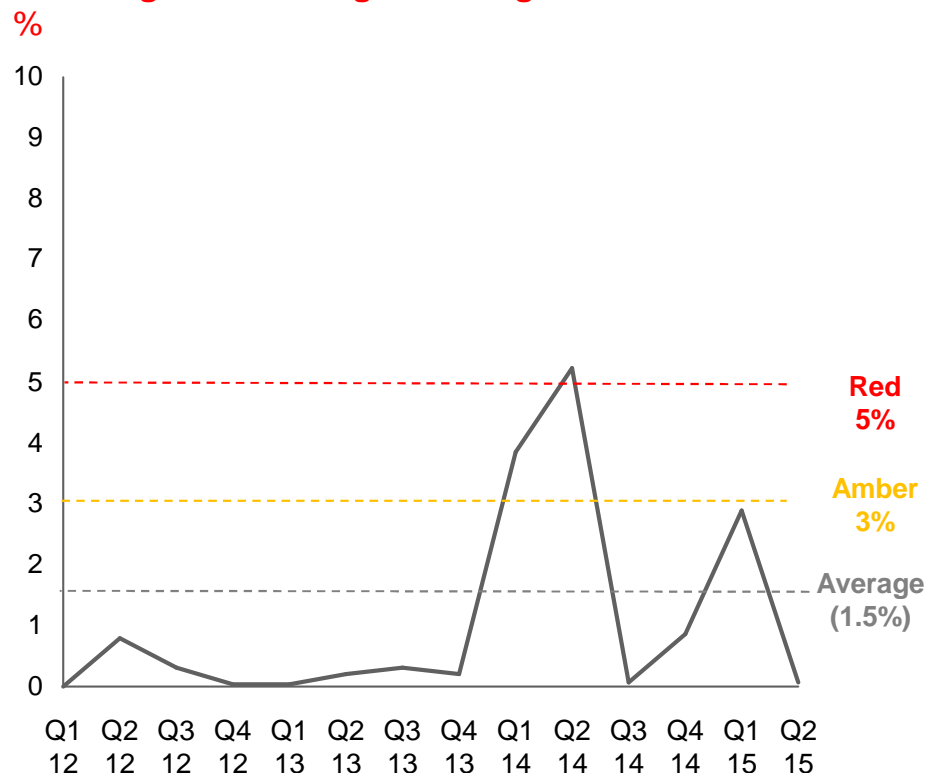
	Amber trigger	Red limit
SHUSA gross losses limit (\$ K)	\$51,873	\$86,454
SBNA gross losses anchor point (\$ K)	\$30,329	\$50,548
SBNA gross losses/gross margin (%)	4.8%	8.0%
Limits (management overlay)	3%	5%

Source: SHUSA's "Corporate RTS Actual Loss-Gross Margin" data, SHUSA's "SHUSA-Aggregation-All-nocpi" taken from Access op risk database, Oliver Wyman analysis

¹ Gross losses are defined as losses before accounting for recoveries; gross margin is defined as net revenue

Calibration: SCUSA Gross losses/gross margin

SCUSA gross losses/gross margin¹



Average quarterly gross margin: \$892,955,234
 Average quarterly gross losses: \$13,692,944

Calibration approach

- Given that SCUSA accounts for 42% of SHUSA's 9 quarter BHC stressed loss budget, we scaled the SCUSA anchor points such that SCUSA gross losses account for 42% of SHUSA's gross losses under each anchor point
- The final red limit and amber trigger were adjusted from the above anchor points by management to better align with SHUSA and SBNA limits

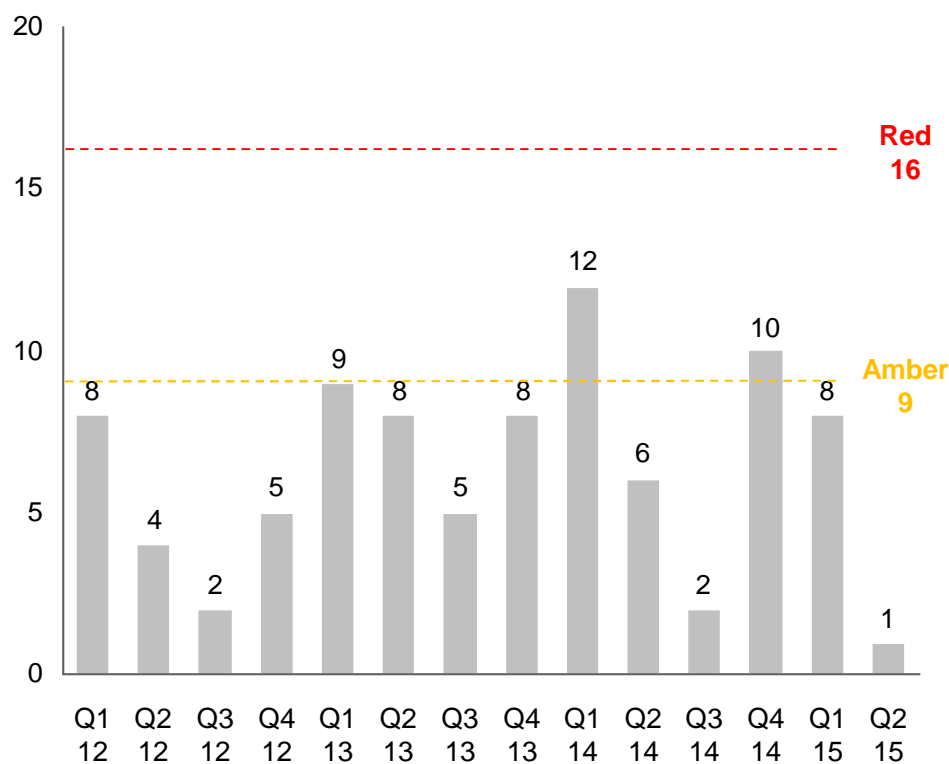
	Amber trigger	Red limit
SHUSA gross losses limit (\$ K)	\$51,873	\$86,454
SCUSA gross losses anchor point (\$ K)	\$21,544	\$35,906
SCUSA gross losses/gross margin anchor point (%)	2.4%	4.0%
Limits (management overlay)	3%	5%

Source: SHUSA's "Corporate RTS Actual Loss-Gross Margin" data, SHUSA's "SHUSA-Aggregation-All-nocpi" taken from Access op risk database
 , Oliver Wyman analysis

¹ Gross losses are defined as losses before accounting for recoveries; gross margin is defined as net revenue

Calibration: SHUSA Frequency of material risk events

Number of material¹ events



Calibration approach

- We calibrated this metric to be consistent with the limits for gross losses/gross margin
- We estimated the average loss associated with each material risk event and calculated the frequency of material risk events that could occur before SHUSA breaches the gross losses implied by the red and amber thresholds of the gross losses/gross margin metric for SHUSA

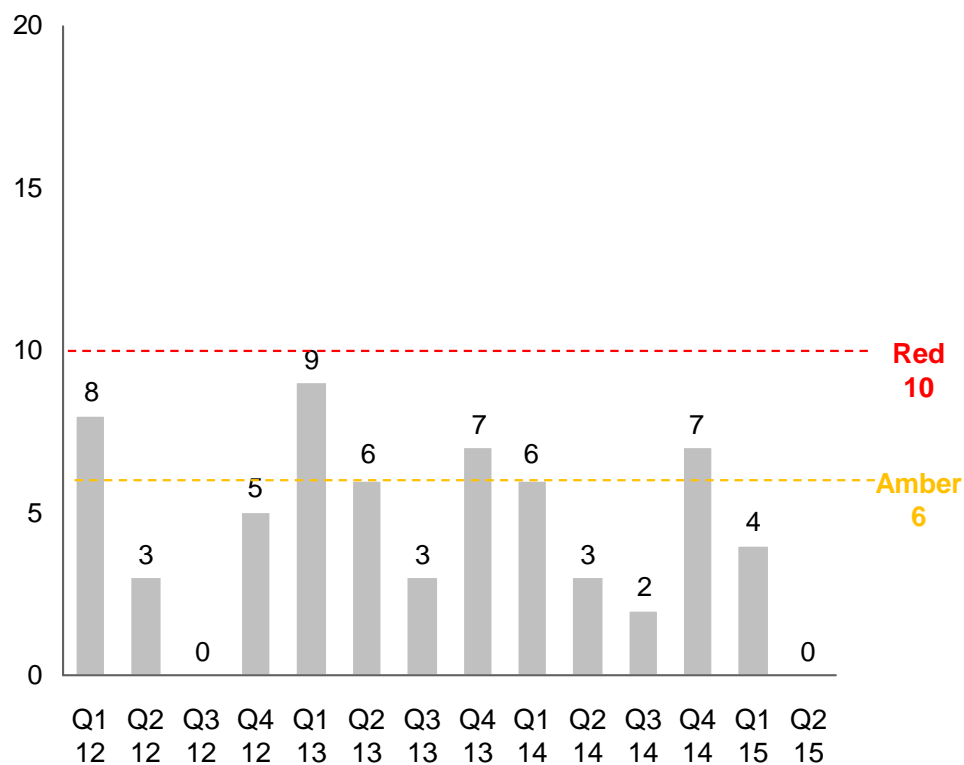
	Amber trigger	Red limit
SHUSA gross losses (\$ K)	\$51,873	\$86,454
# of material events	9	16

Source: SHUSA's "SHUSA-Aggregation-All-nocpi" taken from Access op risk database; Oliver Wyman analysis

1. This includes only material events with an associated financial loss. A material risk event with a financial loss is defined as an event that results in a loss of \$200,000 or greater

Calibration: SBNA Frequency of material risk events

Number of material¹ events



Calibration approach

- We calibrated the red limit to be consistent with the limits for gross losses/gross margin
- Given that 62% of SHUSA risk events in the past 4 quarters are SBNA events, we scaled the SHUSA material event limit by 62% to set the limit for SBNA

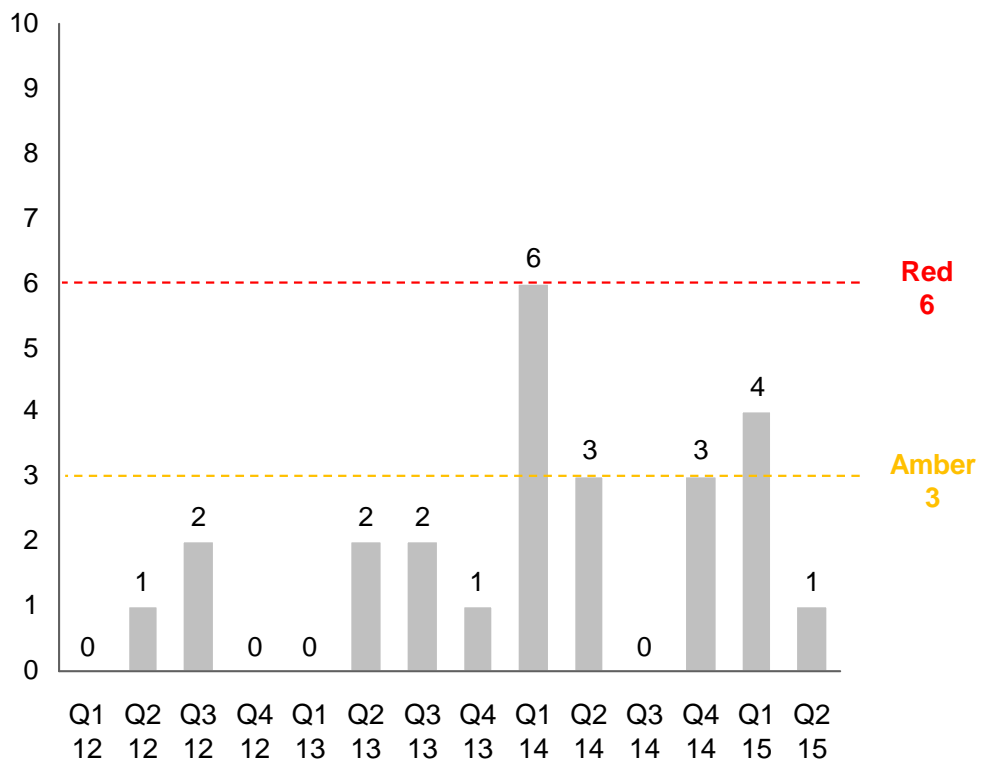
	Amber trigger	Red limit
# SHUSA material events	9	16
# SBNA material events	6	10

Source: SHUSA's "SHUSA-Aggregation-All-nocpi" taken from Access op risk database, Oliver Wyman analysis

1. This includes only material events with an associated financial loss. A material risk event with a financial loss is defined as an event that results in a loss of \$200,000 or greater

Calibration: SCUSA Frequency of material risk events

Number of material¹ events



Calibration approach

- We calibrated the red limit to be consistent with the limits for gross losses/gross margin
- Given that 38% of SHUSA risk events in the past 4 quarters are SCUSA events, we scaled the SHUSA material event limit by 38% to set the limit for SCUSA

	Amber trigger	Red limit
# SHUSA material events	9	16
# SCUSA material events	3	6

Source: SHUSA's "SHUSA-Aggregation-All-nocpi" taken from Access op risk database, Oliver Wyman analysis

1. This includes only material events with an associated financial loss. A material risk event with a financial loss is defined as an event that results in a loss of \$200,000 or greater

Limits: Operational risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
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 >\$200 K in losses	SHUSA	1 ²	9	16
		SCUSA	1 ²	3	6
		SBNA	0 ²	6	10

* mandated by Santander Group

Note: all actuals for credit risk are 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

9

Model risk

Metric selection: Inclusion of model risk metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none">Backlog of Tier 1 models not appropriately	<ul style="list-style-type: none">SHUSA	<ul style="list-style-type: none">Given regulator concerns around the state of MRM at SHUSA, a metric is necessary to track progress against the schedule for clearing the large validation backlog

Calibration: Model risk

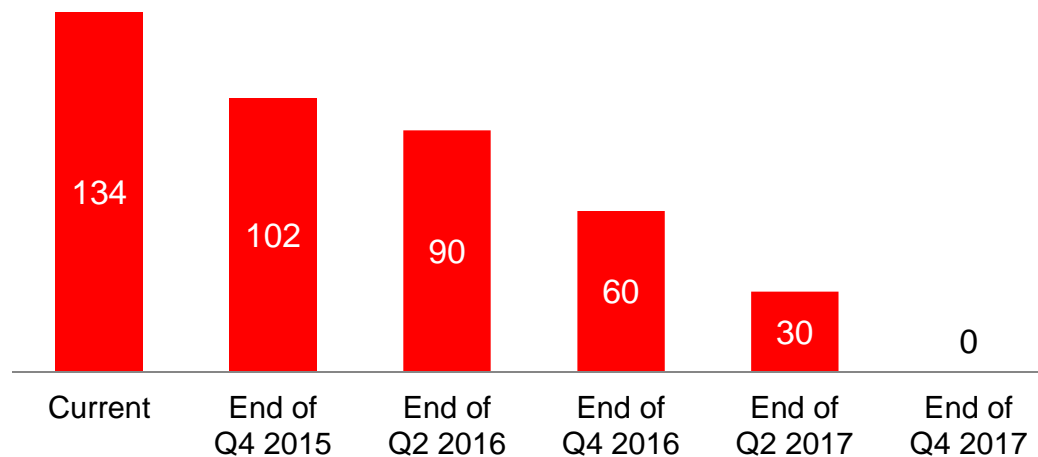
Metrics considered	Advantages	Disadvantages
1 No new Tier 1 models used in production without appropriate approvals	<ul style="list-style-type: none"> • Demonstrates commitment to ensuring no Tier 1 models are used in production without appropriate approval • Shows zero tolerance going forward 	<ul style="list-style-type: none"> • Does not track progress against backlog • Difficult to manage/may not be controllable by MRMG • Binary in nature
2 “Draw down” backlog of legacy Tier 1 models to zero by the end of 2017	<ul style="list-style-type: none"> • Demonstrates commitment to ensuring no Tier 1 models are used in production without appropriate approval • Allows tracking of progress against backlog in a way that can be managed 	<ul style="list-style-type: none"> • Difficult to forecast an accurate schedule for the decline of legacy models used in production (e.g., due to uncertainty regarding new models being submitted) • May incentivize failing models last minute to stay on schedule
3 Residual risk rating	<ul style="list-style-type: none"> • Desirable because controls-based 	<ul style="list-style-type: none"> • Residual risk ratings are not ready to use • Difficult to calibrate
4 No delayed annual reviews	<ul style="list-style-type: none"> • Desirable because controls-based 	<ul style="list-style-type: none"> • SHUSA does not currently have an annual review process in place

 Selected metric

Calibration: Draw down of backlog of legacy Tier 1 models used in production without appropriate approvals

Schedule for Tier 1 (highest risk) models used in production without appropriate approval (backlog)

As of August 17, 2015



Red limit	N/A	102	90	60	30	0
-----------	-----	-----	----	----	----	---

Rationale for metric and approach to calibration

- MRM is committed by MRMG policy to ensure no Tier 1 models are used in production without appropriate approval by the end of 2017
 - “Draw down” backlog of legacy models to zero by the end of 2017
 - Ensure no new models are put in production without appropriate approval
- We propose using the schedule to draw down the backlog of “legacy” models used in production without appropriate approval (on the left) to set the red limit

Limits: Model risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Model risk	Backlog of Tier 1 models not appropriately approved	SHUSA	134 ¹ <ul style="list-style-type: none"> • SHUSA–25 • SCUSA–24 • SBNA–45 • Other entities–40 	N/A	<ul style="list-style-type: none"> • 4Q2015–102 • 2Q2016–90 • 4Q2016–60 • 2Q2017–30 • 4Q2017–0

* mandated by Santander Group

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

1. As of August 17, 2015

10

Compliance and reputational risk

Metric selection: Inclusion of compliance and reputational risk metrics

Metrics included in the RAS	Entity/portfolio	Rationale/commentary
<ul style="list-style-type: none"> # Matters Requiring Immediate Attention (MRIAs) 	<ul style="list-style-type: none"> SHUSA 	<ul style="list-style-type: none"> It is vital for SHUSA to restore the confidence of regulators and other external stakeholders Overall level of “urgent” regulatory concerns must be monitored and managed Although it may take a long time to remediate current “breach” status (as the limit is set to zero), this metric is sets a very strong tone from the Board by the new SHUSA leadership Other KRIs (e.g., levels of training completion) although useful for management and monitoring, are not directly related to SHUSA’s compliance status
<ul style="list-style-type: none"> Serviced for others monthly net charge-off rate 	<ul style="list-style-type: none"> SCUSA 	<ul style="list-style-type: none"> Metric reflects SCUSA’s effectiveness in servicing portfolios for others The performance of sold loans is important to monitor and manage because if net charge-off rates rise this may harm SCUSA’s ability to sell in the future

Calibration: # of open MRIsAs

Metric rationale and description

- SHUSA is committed to fully complying with all regulatory standards and ensuring the timely remediation of all outstanding regulatory findings
- Thus, SHUSA is including the number of open MRIsAs in its Risk Appetite Statement

Calibration of limit

- Management proposes setting the limit at zero, setting a strong “tone-from-top” that MRIsAs are unacceptable and must be remediated as soon as possible

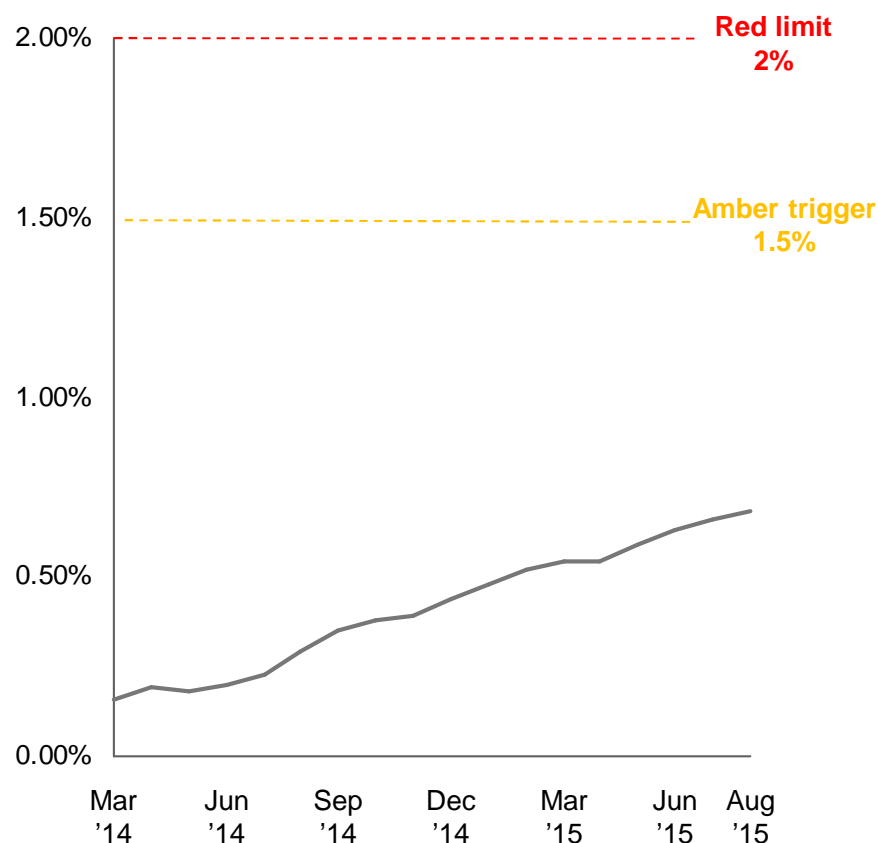
Open MRIsAs As of 7/29/2015

	SAN-US	SCUSA	SHUSA
2012			
Liquidity Risk Management Practices	✓		
2013			
Development of Comprehensive Underwriting Standards for Small Fleet Lines of Credit		✓	
Expansion of the Dealer Finance Underwriting Policies		✓	
Implementation of an Effective Credit Risk Management Framework		✓	
2014			
Capital Plan Transparency and Documentation			✓
Data Governance and Quality			✓
Governance Structure			✓
Leadership and Staffing			✓
Model Risk Management			✓
Pre-Provision Net Revenue (PPNR)			✓✓
Project Planning			✓
Risk Identification Process			✓
Establish and Implement Adequate Testing and Monitoring		✓	
Establish and Implement Appropriate Systems and Controls		✓	
Consolidated Liquidity Stress Testing			✓
Contingency Funding Plan			✓
2015			
SAN-US MRM Framework Plan	✓		
SAN-US MRM Governance and Oversight	✓		
SAN-US MRM Leadership Strengthening	✓		
Audit Planning Process			✓
Staffing and Skills Assessment			✓
Loss Estimation Methodologies: Retail Credit Risk			✓
Loss Estimation Methodologies: Wholesale Credit Risk			✓
Board and Senior Management Oversight of Consolidated Organization			✓
Enterprise-wide Risk Management Program			✓
Total	4	5	17

Calibration: Serviced for others monthly net charge-off rate

SCUSA servicing for others net charge-off rate¹

% 12-month trailing average, March 2014–August 2015



Calibration approach

- The serviced for others monthly net charge-off rate is constructed to include only other portfolios that expose SCUSA to reputational risk (currently RBS and BANA)
- The most recent 3 month's 12-month trailing average net charge-off rates were 0.63-0.68%
- Assuming the current time represents normal conditions and a $\sim 2\text{-}3X^2$ stress-to-base multiplier, management has set the amber trigger at 1.5% and red limit at 2%

1. Servicing for others portfolio contains RBS and BANA

2. Appropriate as service for others is primarily, though not purely, prime (both BANA and RBS SFO includes some non-prime)

Limits: Compliance and Reputational risk

Risk type	Metrics	Entity/portfolio	Actual	Amber trigger	Red limit
Compliance and reputational risk	# Matters Requiring Immediate Attention (MRIAs)	SHUSA	26	N/A	0
	Serviced for others monthly net charge-off rate ¹	SHUSA/SCUSA	0.66%	1.5%	2%

* mandated by Santander Group

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

1. For those portfolios exposing SCUSA to Reputational risk

2. As of Q1 2015

Appendix

1

Qualitative statements

Qualitative statements by risk type: Capital adequacy

Risk Type	Qualitative Statements
SHUSA	<ul style="list-style-type: none">SHUSA will hold sufficient capital to act as a source of strength for its subsidiaries, 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
SCUSA	<ul style="list-style-type: none">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
SBNA	<ul style="list-style-type: none">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

Qualitative statements by risk type: Credit Risk

Risk Type	Qualitative Statements
SHUSA	<ul style="list-style-type: none"> • SHUSA is willing to take credit risks that it understands and that fall within its risk appetite: <ul style="list-style-type: none"> – 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 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
SCUSA	<ul style="list-style-type: none"> • SCUSA is willing to take credit risks that it understands and that fall within its risk appetite: <ul style="list-style-type: none"> – 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 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
SBNA	<ul style="list-style-type: none"> • SBNA is willing to take credit risks that it understands and that fall within its risk appetite: <ul style="list-style-type: none"> – 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

Qualitative statements by risk type: Residual value risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none">SHUSA 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 subsidiaries' capital strength under baseline or stress
SCUSA	<ul style="list-style-type: none">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
SBNA	<ul style="list-style-type: none">N/A

Qualitative statements by risk type: Liquidity/funding risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none">• SHUSA will ensure that, together with its subsidiaries, it holds sufficient High Quality Liquid Assets and has an effective Contingency Funding Plan to withstand liquidity shortfalls in a severe stress scenario• SHUSA will diversify its funding sources and minimize its dependence on capital markets
SCUSA	<ul style="list-style-type: none">• 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• SCUSA will diversify its funding sources and minimize its dependence on capital markets
SBNA	<ul style="list-style-type: none">• 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

Qualitative statements by risk type: Interest rate risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none">• SHUSA 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, SHUSA will hedge via instruments that it understands
SCUSA	<ul style="list-style-type: none">• 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• To minimize its exposure to Interest Rate Risk, SCUSA will hedge via instruments that it understands.
SBNA	<ul style="list-style-type: none">• 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

Qualitative statements by risk type: Mark-to-market portfolio risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none">SHUSA 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
SCUSA	<ul style="list-style-type: none">SCUSA will maintain a low risk profile on all fair value activities to protect against losses due to adverse market movements
SBNA	<ul style="list-style-type: none">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

Qualitative statements by risk type: Strategic risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none"> SHUSA strives to deliver consistent performance through pragmatic risk-taking. SHUSA 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 SHUSA's strategic planning process will both consider and work with the risk appetite setting, capital planning, and recovery and resolution planning processes
SCUSA	<ul style="list-style-type: none"> 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
SBNA	<ul style="list-style-type: none"> 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

Qualitative statements by risk type: Operational risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none">• SHUSA 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• SHUSA 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
SCUSA	<ul style="list-style-type: none">• 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
SBNA	<ul style="list-style-type: none">• 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

Qualitative statements by risk type: Model risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none">• SHUSA 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
SCUSA	<ul style="list-style-type: none">• 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
SBNA	<ul style="list-style-type: none">• 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

Qualitative statements by risk type: Compliance and reputational risk

Entity	Qualitative Statements
SHUSA	<ul style="list-style-type: none"> • SHUSA 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 • SHUSA expects that its employees will act with the highest ethical standards at all times
SCUSA	<ul style="list-style-type: none"> • 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
SBNA	<ul style="list-style-type: none"> • 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

2

Excluded metrics

Metric selection: Exclusion of capital adequacy metrics

Metrics excluded from the RAS

- Total Capital Ratio (SCUSA)
- Tier 1 Leverage Ratio (SCUSA)

Rationale/commentary

- SCUSA does not need to meet regulatory capital adequacy requirements on a standalone basis
 - Common Equity Tier 1 and Tier 1 Risk-based Capital are included because they are the two most binding constraints on SHUSA at the consolidated level
 - Tangible Common Equity is included because SCUSA uses this for reporting purposes
 - Total Capital and Tier 1 Leverage Ratio are excluded at the Board-level due to the large number of metrics; thus these two capital adequacy ratios can be used as management limits
-
- Tier 1 Common Ratio (SHUSA, SBNA, SCUSA)
- This metric is outlined in SHUSA's Capital Policy standards and is part of the FDIC Prompt Corrective Action ("PCA") standards
 - However, it is being phased out this year [*"For all banking organizations, the proposal would remove the tier 1 common capital ratio requirement"*]¹

1. FRB Docket No. R-1517, released 7/17/2015

Metric selection: Exclusion of credit risk metrics (1/2)

To be
considered
in future
iterations of
the RAS

Metrics excluded from the RAS

Rationale/commentary

<ul style="list-style-type: none"> Wholesale obligor scores (e.g., % Santander Risk Rating (SRR) < X, % criticized, % classified) 	<ul style="list-style-type: none"> The SRR scale is currently not developed to a mature stage to be an effective metric at this time; an SRR metric should be added to future iterations of the RAS once the scale is enhanced % criticized and % classified are derived from the SRR and thus should be excluded from the Board-level RAS for the same reasons as above These metrics will be reported as management metrics
<ul style="list-style-type: none"> Probability of default and loss given default projections 	<ul style="list-style-type: none"> Probability of default (PD) and loss given default (LGD) metrics are forward-looking metrics that, if mature, should be included in Board-level RAS However, the PD and LGD models are not yet mature enough to provide reliable projections on the credit quality of all of SHUSA's portfolios These metrics will be reported as management metrics
<ul style="list-style-type: none"> Retail customer scores (e.g., % Loss Forecasting Score < X, % Custom score < X, % FICO score < X) 	<ul style="list-style-type: none"> For the SBNA and SCUSA retail portfolios, delinquencies are included in the Board-level RAS as early indicators of default Furthermore, the Loss Forecasting Score is not yet mature enough to be included in the Board-level RAS in its present form Additional indicators of default were considered but excluded due to the large number of Board-level metrics; these metrics will be reported as a management metrics
<ul style="list-style-type: none"> Loan-to-value ratio 	<ul style="list-style-type: none"> Loan-to-value (LTV) ratio is too granular a metric for the Board-level RAS and will be reported as a management metric For SCUSA Auto, the LTV ratio is not a primary risk driver of default For the SBNA portfolios, there are strict rules surrounding the LTV ratio in underwriting The LTV ratio is not applicable to SCUSA Unsecured as these loans do not have collateral

Metric selection: Exclusion of credit risk metrics (2/2)

Metrics excluded from the RAS	Rationale/commentary
<ul style="list-style-type: none"> Granular concentration metrics (including C&I, leveraged lending, out of footprint and cross border) 	<ul style="list-style-type: none"> There were a number of concentration metrics considered for inclusion in the Board-level RAS; those chosen for inclusion most appropriately reflect SHUSA's largest and/or riskiest exposures Additional concentration risk metrics were deemed too detailed for the Board-level RAS These metrics will be reported as management metrics
<ul style="list-style-type: none"> % of total drawn balances with PD under XXX ALLL coverage of stressed losses 	<ul style="list-style-type: none"> This metric was deemed to be redundant on other metrics in the Board-level RAS (e.g., net charge-off rate and % 60+ DPD)
<ul style="list-style-type: none"> Concentration – large exposures 	<ul style="list-style-type: none"> Large exposures is a metric requested for inclusion by Santander Group Santander Group agreed SHUSA does not need to include this metric in the Board-level RAS, as it is redundant with the top 20 obligors exposure metric
<ul style="list-style-type: none"> Coverage Ratio (total reserves/total loans) 	<ul style="list-style-type: none"> This metric is meant to ensure that the enterprise is reserving adequately for potential loan losses It was deemed secondary to other credit metrics and thus is not included in the Board-level RAS This metric will be reported as a management metric
<ul style="list-style-type: none"> % NPL % Non-accrual 	<ul style="list-style-type: none"> These metrics are indications of asset performance and are thus redundant to other metrics in the Board-level RAS These metrics will be reported as management metrics

Metric selection: Exclusion of residual value risk metrics

Metrics excluded from the RAS

Rationale/commentary

- Concentration in geography
- Concentration in make and model

- A geography concentration metric was deemed to be too granular for inclusion in the Board-level RAS
- SCUSA Auto Leasing is concentrated in Chrysler vehicles by contract and thus monitoring of this metric would not be actionable
- These metrics will be reported as management metrics

- Total SCUSA residual value

- This metric was discarded in favor of the alternative metrics which focus on the stressed losses resulting from the leasing portfolio
- Management did not believe a cap was necessary if limits were placed on the stressed P&L impact from the leasing portfolios

- Sensitivity to Manheim index
- Sensitivity to light vehicle sales
- Sensitivity to gas prices

- These sensitivity metrics were deemed to be secondary to other residual value metrics and thus is not included in the Board-level RAS
- These indicators could be used for modeling purposes and can be reported as management metrics

Metric selection: Exclusion of liquidity/funding risk metrics

Metrics excluded from the RAS	Rationale/commentary
<ul style="list-style-type: none"> Net stable funding ratio (NSFR) 	<ul style="list-style-type: none"> Basel III's international framework for liquidity risk measurement, standards and monitoring (December 2010) mandates that banks will have until 2018 to meet the NSFR standard The Board-level RAS includes the SFR instead, which is a precursor to the NSFR
<ul style="list-style-type: none"> Wholesale funding % 	<ul style="list-style-type: none"> This metric is too specific to be included in the Board-level RAS as there are a number of similar funding mix metrics This metric will be reported as a management metric
<ul style="list-style-type: none"> Intragroup funding/total balance sheet 	<ul style="list-style-type: none"> This metric is too specific to be included in the Board-level RAS as there are a number of similar funding mix metrics This metric will be reported as a management metric
<ul style="list-style-type: none"> Loans-to-deposits ratio 	<ul style="list-style-type: none"> The loans-to-deposits ratio may be an over-simplified view of liquidity and funding stability This metric will be reported as a management metric
<ul style="list-style-type: none"> Concentrations in illiquid assets % of liability in high LCR run-off categories 	<ul style="list-style-type: none"> These metrics are both components of the LCR metric and are thus redundant for the Board-level RAS These metrics will be reported as management metrics

Metric selection: Exclusion of interest rate risk metrics

Metrics excluded from the RAS

- Available For Sale (AFS) and Held to Maturity (HTM) portfolio mark-to-market impact

Rationale/commentary

- These metrics do not have an implication for SHUSA P&L (in the same manner as for the trading portfolio)
- The investment portfolio is also quite small
- The financial impact measured by the these metrics is encapsulated in the capital ratios (via AOCI and OTTI)
- These metrics will be reported as management metrics

- Duration
- Convexity

- Duration and convexity metrics were deemed to be secondary to other interest rate risk metrics and thus is not included in the Board-level RAS
- These metrics will be reported as management metrics

Metric selection: Exclusion of mark-to-market portfolio risk metrics

Metrics excluded from the RAS	Rationale/commentary
<ul style="list-style-type: none">• CVA sensitivity• Stressed CVA	<ul style="list-style-type: none">• The stressed CVA is a component of the loss in stress metric and is thus redundant to include in the Board-level RAS• SHUSA does not currently track CVA, but it small and has been estimated at ~\$3MM
<ul style="list-style-type: none">• Losses in portfolios subject to trading controls	<ul style="list-style-type: none">• This metric was deemed secondary to other mark-to-market portfolio risk metrics and thus is not included in the Board-level RAS• This metric will be reported as a management limit

Metric selection: Exclusion of strategic risk metrics

Metrics excluded from the RAS	Rationale/commentary
<ul style="list-style-type: none"> Losses due to counterparty event 	<ul style="list-style-type: none"> Including a metric on losses due to a counterparty event is too specific for the Board-level RAS This risk driver is incorporated in credit concentration risk in GBM
<ul style="list-style-type: none"> Losses due to business partnerships with Chrysler 	<ul style="list-style-type: none"> SHUSA cannot avoid negative impacts resulting from the business partnership with Chrysler
<ul style="list-style-type: none"> Fee income (% of revenue) 	<ul style="list-style-type: none"> These are return metrics
<ul style="list-style-type: none"> Leverage Ratio (T1C/total assets) 	<ul style="list-style-type: none"> The RAS sets the playing field within which returns should be optimized, thus it is not the role of the RAS to consider returns
<ul style="list-style-type: none"> Efficiency ratio (non-interest expense/net revenue) 	<ul style="list-style-type: none"> These metrics will be reported as management limits
<ul style="list-style-type: none"> Return on tangible common equity (pre-tax return) 	
<ul style="list-style-type: none"> Return on assets (pre-tax return/average earning assets) 	
<ul style="list-style-type: none"> Long term credit rating 	<ul style="list-style-type: none"> This is captured indirectly through the objectives of the Board-level RAS (i.e. an objective of the RAS is to improve the long term credit rating) This metric will be reported to management
<ul style="list-style-type: none"> Maximum revenue/capital in non-core businesses 	<ul style="list-style-type: none"> This metric is likely not relevant to SHUSA This metric reduces some degrees of strategic business freedom
<ul style="list-style-type: none"> Earnings/profitability under different scenarios 	<ul style="list-style-type: none"> This is captured by the PPNR impairment metric, which measures the difference between earnings in baseline and stress

Metric selection: Exclusion of model risk metrics

Metrics excluded from the RAS

- # of models put into production/use without proper validation or provisional approval (all, Tier 1, new, etc.)
- % of models with Level 1 validation findings
- % of models with elevated model risk/with “X” model risk score
- % of models with ongoing monitoring in place

Rationale/commentary

- This is included in the Board-level RAS as a qualitative statement
- These metrics are too granular to monitor and measure at Board-level and will be reported as management metrics

Metric selection: Exclusion of compliance and reputational risk metrics

Metrics excluded from the RAS	Rationale/commentary
<ul style="list-style-type: none"> • # of customer complaints 	<ul style="list-style-type: none"> • Tracking of customer complaints is not developed, but is improving • This metric will be reported as a management metric
<ul style="list-style-type: none"> • Employee turnover 	<ul style="list-style-type: none"> • The data is currently not granular enough to capture important personnel changes • This metric will be reported as a management metric
<ul style="list-style-type: none"> • Mandatory compliance training courses past due 	<ul style="list-style-type: none"> • This metric is not necessarily an indicator of poor risk culture • This metric will be reported as a management metric
<ul style="list-style-type: none"> • Retail customer satisfaction “Voice of the Customer” survey 	<ul style="list-style-type: none"> • The “Voice of the Customer” is conducted internally • This metric will be reported as a management metric
<ul style="list-style-type: none"> • Complaints from regulatory agencies (monthly) 	<ul style="list-style-type: none"> • Neither internal nor external data was sufficient to calibrate this metric • This metric will be reported as a management metric
<ul style="list-style-type: none"> • J.D. Power score 	<ul style="list-style-type: none"> • Methodology for the J.D. Power score is not considered sufficiently robust for the Board-level RAS • This metric will be reported as a management metric
<ul style="list-style-type: none"> • Regulatory ratings • Volume of positive/negative media stories and social media commentary • Compliance, AML, and other regulatory fines, penalties and actions • Employee satisfaction • # of reported breaches of the Code of Conduct and Ethics 	<ul style="list-style-type: none"> • These metrics are too granular to monitor and measure at Board-level and will be reported as management metrics

3

Credit Risk: Auto net charge – off rate additional analysis

Calibration: Additional analyses to support adjustment of SCUSA Auto net charge-off rate

- Following a presentation to the SCUSA Board on September 22nd, 2015, questions were been raised around the appropriateness of the net charge-off rate limit proposed for the SCUSA Auto lending portfolio
 - The proposed Auto net charge-off rate levels were lower than the net charge-off rate forecast in SCUSA's Strategic Plan (P-18), and were thus deemed inappropriate by some stakeholders
 - There was a concern that the limits would have material impact on SCUSA's overall business strategy and financial performance
- To address these issues, several analyses were completed, including a re-evaluation of the P-18 and several sensitivity analyses
 - The P-18 loss rates were re-evaluated, resulting in a revised loss forecast for retained Auto lending, as:

- A number of limitations were identified
- Roll-rate models were used to develop an alternative set of projections

P-18 loss forecast for retained Auto lending	2016	2017	2018
Original P-18	8.90%	9.30%	9.40%
Revised P-18	8.40%	8.95%	9.00%

- The revised P-18 loss rates are higher than the proposed RAS levels. However, the RAS levels are still deemed to be appropriate for 2015, and current loss rates are well below them. The limits will need to be recalibrated in 2016 after the CCAR models and process—which form a key input—are revised and improved
- In addition, a series of sensitivity analyses were completed to test the new Auto NCO limits' sensitivities to inputs, including:
 - The binding capital adequacy constraint at SHUSA and dividend payments
 - SCUSA's portfolio mix
 - The relationship between stress and baseline losses
 - Assumptions around capital accumulation/portfolio growth since CCAR in Q3 2014

Calibration: Adjusted NCO sensitivity analysis - binding capital adequacy constraint at SHUSA and dividend payments (1/2)

- The post-stress Tier 1 Risk-based Capital ratio limit at SHUSA is a key input in the analysis. Sensitivity analysis was conducted by lowering this limit, though no change to either this limit or the NCO limits were made based on the analysis
- The current 8% limit for the Tier 1 Risk-based Capital ratio was set at 8% in part to create a buffer for the known weaknesses in the CCAR process and analytics. The table below summarizes the impact of changes to the binding capital adequacy constraint at SHUSA on the SCUSA Auto net charge-off rate limit

Red limit for SHUSA Tier 1 Risk-based Capital ratio	Red limit for SCUSA Auto net charge-off rate Without mgmt. adjustment	Comments
8.0% (used in analysis)	8.3%	Prompt Corrective Actions “well capitalized” level
7.0%	8.8%	
6.0%	9.2%	Post-stress regulatory minimum

- Furthermore, the projections included dividend payments by SCUSA of \$440 MM at the SCUSA level, which translate to a net \$178 MM depletion of capital at SHUSA. The analysis was re-run assuming that dividends would not be paid in a period of stress
- With capital actions included, the CCAR 9Q minimum for the Tier 1 Risk-based Capital ratio is 9.48%, translating to a capital surplus is ~\$450 MM. Without capital actions, the CCAR 9Q minimum for the Tier 1 Risk-based Capital ratio is 9.67%, growing the capital surplus by \$178 MM

Tier 1 risk based capital	CCAR 2015 9Q min.	Post-stress min.	Denominator	Capital surplus	Capital surplus
With capital actions	9.48%	9.00%	\$91,781 MM	0.48%	\$440 MM
Without capital actions	9.67%	9.00%	\$91,781 MM	0.67%	\$618 MM

- As shown below, \$81 MM of the additional capital surplus is allocated to SCUSA Auto credit losses under stress, which translates into a net charge-off rate limit that is 10bps higher. **It was decided to add the 10bps to the originally proposed levels as it is more realistic to assume that dividend payments would in fact be suspended under stress conditions**

Calibration: Adjusted NCO sensitivity analysis - binding capital adequacy constraint at SHUSA and dividend payments (2/2)

- As shown below, \$81 MM of the additional capital surplus is allocated to SCUSA Auto credit losses under stress, which translates into a net charge-off rate limit that is 10bps higher. **It was decided to add the 10bps to the originally proposed levels as it is more realistic to assume that dividend payments would in fact be suspended under stress conditions.**

	Amber trigger			Red limit		
SCUSA Auto	With capital actions	Without capital actions	Delta	With capital actions	Without capital actions	Delta
Loss budget	\$6,573 MM	\$6,653 MM	\$81 MM	\$6,990 MM	\$7,071 MM	\$81 MM
Net charge-off rate limit	7.76%	7.86%	0.10%	8.26%	8.35%	0.10%

Calibration: Adjusted NCO sensitivity analysis - SCUSA's portfolio mix (1/2)

- Evolution of the SCUSA business portfolio may lead to additional loss budget capacity for SCUSA Auto
- Analysis of this possibility was conducted in three ways, reallocating loss budget from Personal lending and/or Auto leasing to the Auto loan portfolio. Although these analyses indicate that the Auto NCO limits could be higher if losses were reallocated from SCUSA's Personal lending portfolio to the Auto portfolio, no changes to the NCO limits were made based on the analysis. The results of the analysis are outlined below:

A. Assume constant balances of \$29 BN for the SCUSA Auto portfolio

Scenario	Amber trigger	Red limit
Scenario A: Loss budget for entire Personal lending portfolio is reallocated	9.2%	9.7%
Scenario B: Loss budget for all of Personal lending, except for BlueStem, is reallocated	8.0%	8.5%
Scenario C: Loss budget for entire Auto leasing portfolio is reallocated	8.3%	8.9%
Scenario D: Both Scenarios A and C	9.7%	10.4%
Scenario E: Both Scenarios B and C	8.6%	9.1%
Scenario F: No change	7.8%	8.3%

- The scenario in which the net charge-off rate limits and additional balances supported for SCUSA increase the most is Scenario D—assuming that SCUSA is able to reallocate the loss budget for all of Unsecured and for all of Auto leasing to the SCUSA Auto lending portfolio
- Understanding the (market, contractual, etc.) realities, this scenario may be unlikely to occur A more reasonable scenario is likely Scenario B—assuming that SCUSA can reallocate all of the Unsecured portfolio's loss budget, excluding that associated with BlueStem
- Notably, this brings the red limit to the same place as the finalized limit (Scenario F + management adjustments) at 8.5%

Calibration: Adjusted NCO sensitivity analysis - SCUSA's portfolio mix (2/2)

- B. Assume constant net charge-off rate limits and calculate incremental balances above \$29 BN that could be supported with 7.8% amber trigger/8.5% red limit

Scenario	Additional balances supported
Scenario A: Loss budget for entire Personal lending portfolio is reallocated	\$5,185 MM
Scenario B: Loss budget for all of Personal lending, except for BlueStem, is reallocated	\$882 MM
Scenario C: Loss budget for entire Auto leasing portfolio is reallocated	\$2,167 MM
Scenario D: Both Scenarios A and C	\$7,352 MM
Scenario E: Both Scenarios B and C	\$3,048 MM
Scenario F: No change	-

- C. Consider combinations of balance growth and net charge-off rate limit changes—in this case for Scenario A

Scenario	Amber trigger	Red limit
		Without mgmt. adjustment
No balance growth	9.2%	9.7%
\$1 BN in balance growth	8.9%	9.4%
\$2 BN in balance growth	8.6%	9.1%
\$3 BN in balance growth	8.3%	8.8%
\$4 BN in balance growth	8.0%	8.6%
\$5 BN in balance growth	7.8%	8.3%

Calibration: Adjusted NCO sensitivity analysis - The relationship between stress and baseline losses

- The relationship between the stress and baseline losses is another key input in the analysis. For the purposes setting NCO limits, the relative difference between baseline and stress losses (“scalar”) was set at 1.38x. This reflects the relative difference from the CCAR-2015 analysis, though it is lower than the difference in NCO rates observed during and after the financial crisis. While sensitivity analysis was conducted both raising and lowering the scalar, no changes to the NCO limits were made based on the analysis. The table below summarizes how lower or higher stress to baseline relativity impacts the net charge-off rate limit:

Stress to baseline losses relativity	Amber trigger	Red limit	Comments
		Without mgmt. adjustment	
1.18X	9.1%	9.7%	Aligns with the relativity projected in 2015 CCAR FRB Severely Adverse vs. BHC Baseline
1.38X (used in analysis)	7.8%	8.3%	Aligns with the relativity projected in 2015 CCAR BHC Stress vs. BHC Baseline
1.7X	6.3%	6.7%	
1.8X	6.0%	6.3%	Aligns to the relativity projected in Great Recession vs. baseline
2.0X	5.4%	5.7%	

- As described in the beginning of this document, as we redevelop our CCAR models there is a risk that the stress/baseline relativity will increase, implying that the net-charge of rates that we can afford are even lower

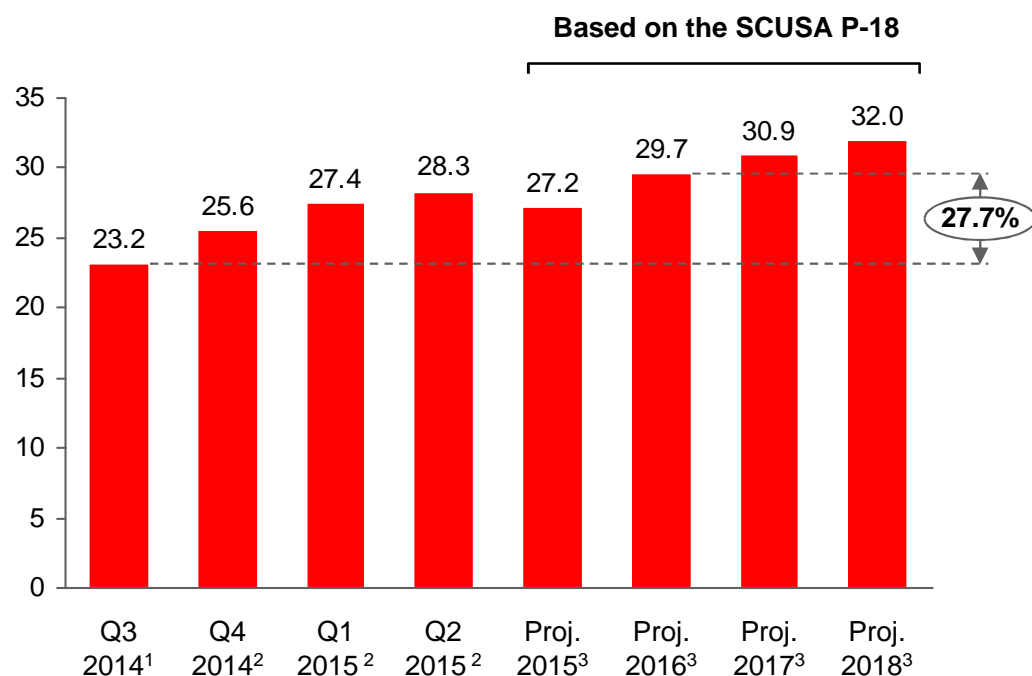
Scenario	Amber trigger	Red limit
		Without mgmt. adjustment
Loss budget	\$81 MM	\$81 MM
Net charge-off rate limit	0.10%	0.10%

Calibration: Adjusted NCO sensitivity analysis - Assumptions around capital accumulation/portfolio growth since CCAR in Q3 2014 (1/4)

- In setting the amber trigger and red limit on net-charge off rates, the loss budgets were taken to represent the maximum dollar amount of losses that SHUSA can afford based on today's portfolio size. Thus these dollar loss budgets were converted into annual charge-off limits by dividing the implied baseline loss levels by portfolio balances as of July 2015. This approach was viewed as:
 - (i) internally consistent with CCAR 2015 figures, which represent the most recently available information on the dollar depletion to capital that SHUSA can afford and
 - (ii) an approach that would work where portfolio growth has been relatively stable, as changes in balances (i.e. the denominator of the NCO calculation) would impact the overall limit
- Because SCUSA's auto portfolio has grown since CCAR-2015, an analysis was conducted to investigate whether a higher NCO limit could be supported on the larger balances, taking into account increased losses as well as additional capital built at SHUSA since CCAR-2015. While the analysis indicated that higher NCO limit could potentially be supported given the additional capital built at SHUSA since CCAR-2015, further analysis demonstrated that this result is sensitive to the baseline/stress relativity described above, and **as such no change to the limits is recommended based on this analysis.**
- The analysis included several steps, summarized in this section.
 1. Baseline NCO rates were re-calculated using balances as of CCAR 2015 of ~\$23 BN. The resulting NCO levels under this calculation were 9.7% and 10.3% for the amber and red limits, respectively. However, because the Auto portfolio has grown significantly since CCAR-2015, application of these NCO levels would lead to losses in excess of the calculated loss budget. To size the incremental dollars of capital needed, analysis was conducted to account for (a) higher dollars of stress losses and (b) incremental balance sheet size, assuming a size of \$29.7 BN (2016 forecast under the P-18, see figures on following slide)

Calibration: Adjusted NCO sensitivity analysis - Assumptions around capital accumulation/portfolio growth since CCAR in Q3 2014 (2/4)

SCUSA Auto portfolio total outstanding balances \$BN, Q3 2014 – Q2 2015 (actual)



SCUSA Auto net charge-off rate limits

		Amber trigger	Red limit
9Q cumulative CCAR BHC Stress loss budget		\$6,573 MM	\$6,990 MM
Annualized stressed losses		\$2,921 MM	\$3,107 MM
Stress scalar on NCO rates		~1.4x	
Stress scalar on balances		~0.94x	
Annualized baseline losses		\$2,253 MM	\$2,396 MM
Q3 2014 balances	Outstanding balances	\$23,236 MM	
	Net charge-off rates	9.7%	10.3%

1. SCUSA Auto loss actuals (3Q2014) from CCAR 2015 Baseline Y14As (line item 39)
 2. SCUSA Auto Losses and Delq.xlsx file
 3. SCUSA P-18 for Core Auto and Chrysler

Calibration: Adjusted NCO sensitivity analysis - Assumptions around capital accumulation/portfolio growth since CCAR in Q3 2014 (3/4)

2. Applying the same NCO levels to this portfolio size would require additional capital of ~\$1.2 BN (see text and figure below):

- ~\$650 MM of capital to account for increased dollar stress losses. This figure represents the incremental losses above baseline losses arising from a larger portfolio (assuming proportional scaling of stress and baseline losses). Baseline losses are deducted on the assumption that pricing would cover these losses
- ~\$500 MM of capital to account for the increase in balance sheet size, based on growth of \$6.4 BN in balances (\$23.2 BN in CCAR-2015 to \$29.7 BN in the 2016 P-18 forecast) at an 8% capital charge (reflecting the post-stress Tier 1 Risk Based Capital limit)

Capital to cover incremental expected losses given projected growth

	Stress – red limit	Baseline	Delta
CCAR losses	\$6,990MM [\$7,000MM]	\$4,625MM	\$2,365MM
Projected balance growth in SCUSA Auto	27.7% increase		
Revised CCAR losses given projected growth	\$8,928MM	\$5,907MM	\$3,021MM
Capital depletion given incremental expected losses due to projected growth			\$656MM

Capital to maintain capital ratio given higher RWAs

	Risk-weighted assets (RWAs)
Q3 2014	\$23.3BN
Projection for 2016	\$29.7BN
Delta	\$6.4BN
Capital to maintain Tier 1 Risk-based Capital Ratio at 8%	\$515MM

Incremental capital: \$1.2BN

Calibration: Adjusted NCO sensitivity analysis - Assumptions around capital accumulation/portfolio growth since CCAR in Q3 2014 (4/4)

3. The incremental capital needed from increased balances at an increased NCO limit can then be compared to the additional capital available since CCAR-2015, sized at ~\$900 MM in two ways:
- Based on SCUSA retained earnings of ~\$900 MM over the last 12 months (since 08/2014)
 - Based on the additional capital built by SHUSA since CCAR-2015 of \$1.9 BN, pro-rated by contribution to balance sheet growth (SCUSA Auto accounts for \$6.4 BN of \$13.3 BN, or 48% assuming growth to the 2016 P-18 levels). A ~48% pro-rata share of the \$1.9 BN is ~\$925 MM
 - Both analyses above lead to similar conclusions of ~\$900 MM of additional capital available to support growth. This is less than the \$1.2 BN needed to support anticipated growth at the NCO levels implied by CCAR-2015.
 - The analysis does suggest amber and red net charge-off rate limits of 9.5% and 10.1% could be supported **if all other assumptions related to the process by which these limits were calculated hold**
 - The analysis was similarly sensitivity tested in line with the base/stress relativity analysis described earlier (see table below)
 - Sensitivity tests demonstrate that if the relativity were increased to a multiplier in line with historical experience during the financial crisis, the amber and red NCO limits would return to levels comparable (though lower) than the currently proposed limits, and as such **no change to the limits is recommended based on this analysis:**

Stress to baseline losses relativity	Amber trigger	Red limit
		Without mgmt. adjustment
1.38X	9.1%	10.1%
1.7X	7.7%	8.2%
2.0X	6.5%	7.0%