Santander Holdings USA

MATERIAL RISK PROGRAM –

2015 GUIDANCE

May 8, 2015 version 1.0

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1. Introduction

1.1 Program Objective

The purpose of the Material Risk Program, "The Program" is to ensure Material Risks are identified, assessed, aggregated and reported to Material Risk End Users. Material Risk End Users include:

- SHUSA Scenario Analysis Program
- Governing Committees
- Executive Management
- Strategic Planning
- Risk Tolerance

1.2 Document Purpose and Target Audience

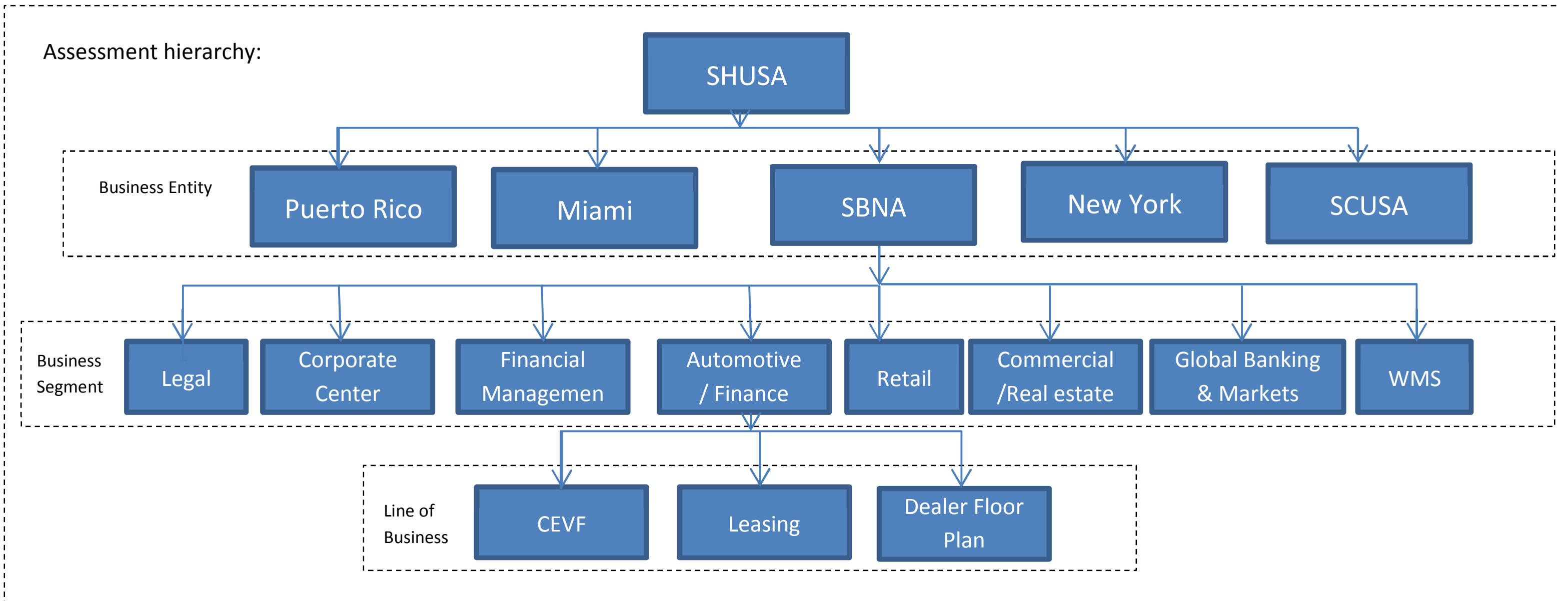
The SHUSA Material Risk Program Guidance document, "Guidance" establishes the requirements for the identification, assessment, aggregation, reporting and governance of Material Risks. The requirements and the roles and responsibilities set forth in this document define minimum standards which adhere to regulatory requirements and meet the requirement for Comprehensive Capital Adequacy Review (CCAR) submission. The Program is applicable to SHUSA and its subsidiaries.

The audience for the Guidance is: (1) The First Line of Defense and the Business Segment Executive who is responsible for creating Line of Business and Business Segment Material Risk Inventory; (2) The Business Entity Enterprise Risk Management (ERM) team or designated individual responsible for overseeing and ensuring consistent and timely execution of the Program. Business Entity ERM is required to review and share this Guidance with the applicable First and Second Lines of Defense team members responsible for the execution and/or oversight of program deliverables; and (3) Business Entity and SHUSA Risk Managers who will review, assess, and aggregate Business Entity Material Risk Inventories and the SHUSA Material Risk Inventory, respectively for submission to the end users.

The First and Second Lines of Defense are required to incorporate the requirements of this Guidance document into their business model, project plans and written procedures. Additional guidance will be provided to address the on-going maintenance of the Material Risk Inventories to meet the requirements of mid-cycle and annual needs of CCAR.

The 2015 Material Risk Program incorporates the following Business Entities:

1) **Puerto Rico** – (includes: Santander Bancorp, Santander Financial Services, and Santander Overseas Bank)
2) **Miami** - International Private Banking – Miami
3) **SBNA** - Santander Bank, National Association
4) **New York** - Santander Investment Securities
5) **SCUSA** - Santander Consumer USA Holdings



The output of the Material Risk Program will be a complete set of Material Risks for SHUSA. The diagram above illustrates the assessment hierarchy:

- Material Risk Inventories are created at the Line of Business: CEVF, Leasing and Dealer Floor Plan
- In the example, the Lines of Business Inventories: CEVF, Leasing, and Dealer Floor Plan are enriched and aggregated to produce the Business Segment Material Risk Inventory for the Business Segment 'Automotive / Finance'
- Business Segment Material Risk Inventories will be enriched and aggregated to produce Business Entity Material Risk Inventory
- The Business Entity Material Risk Inventories will be enriched and aggregated to produce the SHUSA Material Risk Inventory

1.3 Timeline and Deliverables

Business Entity ERM teams are responsible for submitting their business inventory results to SHUSA ERM by August 31, 2015. SHUSA ERM is responsible for submitting the SHUSA Material Risk Inventory to the Scenario Generation Process by October 31, 2015.

It is the responsibility of the Business Entity ERM teams and the First Line of Defense to ensure that project plans and resources are in place to meet these timeframes. Below are the key deliverable dates for completed and approved Material Risk Inventories:

- **Line of Business / Business Segment Material Risk Inventories** must be completed by **June 30, 2015** and submitted to Business Entity ERM
- **Business Entity Material Risk Inventories** and supporting documentation must be completed by Business Entity ERM and submitted to SHUSA ERM by **August 31, 2015.**

1.4 Prior Approval for Exceptions

Business Entity ERM must receive written approval from the Director of Risk Architecture for any deviation to the approach, timeline and requirements established in this Guidance document.

1.5 Changes From 2014

The changes are as follows:

First Line Executive Ownership of Line of Business/Business Segment Material Inventories: The Program requires that the Chief Risk Officer and Business Entity ERM transfer ownership for the completion of Line of Business and Business Segment Material Risk Inventories to the First Line of Defense. This will promote the implementation of a robust continuous process.

Comprehensive Line of Business Risk Identification: The Program requires that Line of Business and Business Entity ERM coverage of Risk be comprehensive by completing Line of Business and Business Segment Material Risk Inventories. The Material Risk Inventories will:

- Demonstrate the comprehensive approach taken to identity Material Risk, clearly documenting the manner in which underlying programs and other key inputs were incorporated into the assessment.
- Document the supporting analysis used in the identification and assessment process
- Document key participants involved in the process
- Inform executive managements' understanding of its Material Risk profile and guide actions for risk management

Changes in Output Requirements: Output requirements include 75 to 150 Material Risks with documented financial impacts in a Baseline and Stressed conditions. Prior year output did not include stressed conditions and included thousands of risks. Aggregation and reporting requirements will require the aggregation of financial impacts by the Business Entity. The result will be a Material Business Entity Inventory which will be submitted to SHUSA ERM. The resulting Material Risk Inventory will be the 75-150 SHUSA Risks.

Additionally, The Program requires the identification and capture of Risk Drivers. This will ensure the Program's adherence to the requirements for stressing risks that are immaterial but when combined become material.

Line of Business/Business Segment – Support Function Inventories: To ensure that all Business Entity Risks are identified, assessed, and considered, the Program requires the completion of Business Segment Material Risk Inventories for key Support functions including: Human Resources, Legal, Technology and Operations and Finance.

Risk Assessment: Prior year impact and frequency scales and the corresponding rubrics used to calculate residual risk are no longer required for assessing financial impacts. These tools can be used by Business Entity ERM units and the First Lines of Defense as long as the financial impact results provided are consistent with the definitions in this Guidance Document.

The Program provides templates and Guidance to ensure that the assessment of the Annual Expected Impact and Stressed Financial Impact ranges are supported by internal and external data and/or other analysis.

Controls: The Program no longer requires that Business Entity ERM provide detailed control scoring assessments and scores as part of their submission to SHUSA ERM. It is expected that granular assessments such as Risk Control and Self-Assessment will identify and score controls. Business Entity Material Risk Inventories must document Controls and the assumptions surrounding the effectiveness and adequacy of these Controls in the Risk Narratives and in the Financial Impact Rationale.

Material Impact Scale: The Program has implemented a Material Impact Scale for the aggregation and reporting of risks. This scale was developed by SHUSA ERM in conjunction with the Capital Team.

Governance: The Program requires that Material Risk Inventories will be submitted to the Board Executive Risk Committee (BERC), the Enterprise Risk Committee (ERMC) and Level 2 sub committees for review, approval and challenge. Challenge will occur subsequent to completion of: the Line of Business, Business Segment, and Business Entity Material Risk Inventories.

1.6 Framework

The 2015 approach supports the approved SHUSA ERM Framework which:

1) Utilizes a Three Line of Defense Model for the identification, assessment, and Aggregation of Risks.

    - Requires the First Line of Defense to complete Risk Assessments including an evaluation of Controls and financial impacts and to participate in the Material Risk Program as subject matter experts.

    - Requires Business Entity ERM to coordinate and ensure the consistency of the Risk Identification and Risk Assessment for all Risk Types across the applicable Business Entity and to facilitate and complete Aggregation activities.

    - Requires the Second Line of Defense Risk Managers (Market, Liquidity, Credit, etc. Risk groups) to support the First Line of Defense in the execution of Risk Identification and Risk Assessment processes, and to provide guidance to ensure consistent assessment processes.

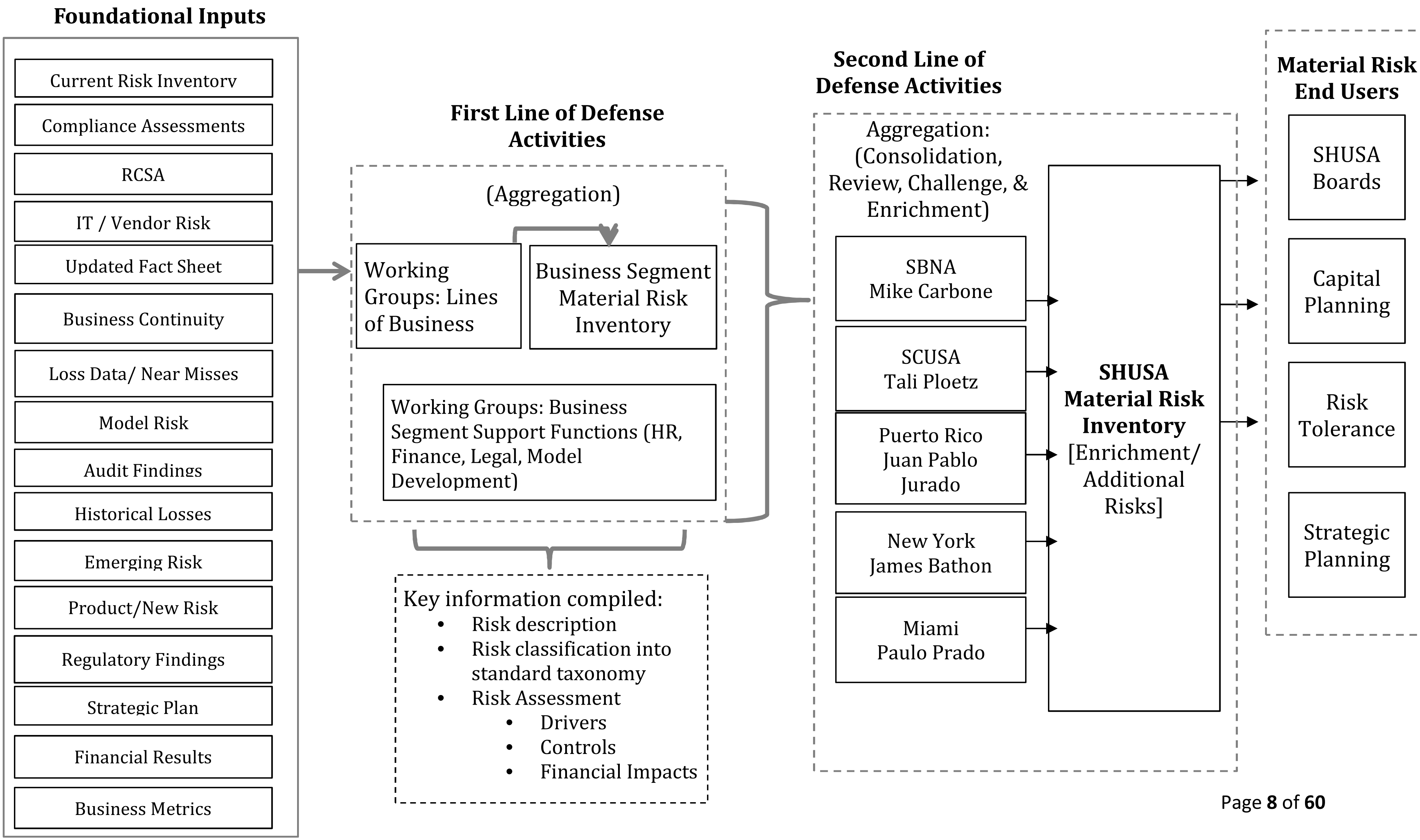
    - Requires the Third Line of Defense, Internal Audit, to complete a periodic assessment of the Program, by reviewing the effectiveness of the Program's policy, methodology, procedures and associated processes which provide for the complete and accurate identification, assessment, aggregation and reporting of Material Risks.

2) The Program provides for the complete coverage of "Risk" and "Risk Types" as documented in the Framework and in Appendix B of this Guidance document

3) The Program requires appropriate committees to participate in the approval and challenge process.

1.7 Program Overview

The following page contains a visual depiction of the approach to create the SHUSA Material Risk Inventory.



The Material Risk Program requires all professionals at SHUSA and its subsidiaries to identify manage and report their Material Risks.

The approach, as depicted in the Program Overview allows for consistent identification, assessment and aggregation across all Risk Types within the Risk Taxonomy. This approach is appropriate for Lines of Business that are in the process of implementing a First Line of Defense model and for those units that have fully staffed First Line of Defense risk professionals.

For those Business Entities and Lines of Business/Business Segments that do not have First Line of Defense risk professionals or did not participate in the 2014 Material Risk Program, the Business Entity ERM team is expected to coordinate and facilitate the identification, assessment and recording of Material Risks.

In all cases, Business Entity ERM is expected to play a key role in the creation of Line of Business, and Business Segment Material Risk Inventories. This includes providing training, tracking progress, assisting the First Line of Defense as needed and providing oversight to ensure compliance with Guidance requirements. This will entail working with the First Line of Defense throughout the assessment process to ensure that the Program output is fit for purpose.

The First Line of Defense activities of: continuous risk identification, assessment, monitoring, and reporting are the foundation of the Material Risk Program. The Risks identified through this process are summarized and used as inputs for the Material Risk Program. The First Line of Defense will identify its Material Risks using the professional judgment of its subject matter experts. Their professional judgment will be supported by both quantitative and qualitative data sources. The Line of Business subject matter experts will, using its knowledge of its customer base, product offerings, delivery channels, enabling technology and business process create its inventory of Material Risks. These activities must include the full range of Risks covered by the Risk Taxonomy and must include an end to end product view. While, the Line of Business/Business Segment should identify as many Risks as appropriate given the size and complexity of their operation, the Guidance suggests a range of Risks for the Lines of Business, Business Segment and Business Entity.

The Second Line of Defense ERM teams will in conjunction with the Second Line of Defense Risk Managers utilize the Line of Business/Business Segment Material Risk Inventories to create the Material Risks for the Business Entity. This will entail a comprehensive process for enrichment and Aggregation. During this process Risks will combined and reassessed. Additionally this process will include the adding of new Risks. The Business Entity Material Risk Inventories will then be submitted to SHUSA ERM for further enrichment and Aggregation.

The result of the process will be an inventory of Material Risks, approximately 75 to 150, that includes:

- The Business Entity, Business Segment and Line of Business
- Risk Type, Sub Type, Risk Name
- Risk Narrative
- Risk Drivers
- Annual Expected Loss and Stressed Financial Impact

This Inventory of Material Risks will be submitted to Material Risk End Users such as:

- SHUSA Boards and Executive management to understand and respond to changes in its Material Risk profile
- Regulators, including the Federal Reserve to assess management's ability to effectively understand, monitor, and manage its Risks
- The SHUSA Scenario Analysis Program, for the stressing of idiosyncratic Risks, which is a key input to the annual capital planning process
- Risk Tolerance and Strategic Planning

1.8 Definitions of Key Terms

The definitions of key terms used in this Guidance document are located in Appendix B.

1.9 Roles and Responsibilities

Implementation of the Program requires full participation by the First and Second Lines of Defense and governing Committees as follows:

First Line of Defense:

- Document Line of Business Material Risk Inventory which includes a suggested 5 – 20 Material Risks > $1 million
- Document Business Segment Material Risk Inventory (derived by Aggregation which includes a suggested 15 – 30 Material Risks)
- Ensure that Line of Business and Business Segment Material Risk Inventories are presented to business management, First Line of Defense risk working committees and the Executive Risk Management Committee (ERMC) for challenge and approval
- Develop standardized processes and documented procedures to ensure compliance with SHUSA ERM requirements
- Identify and assess Risks for all Lines of Business and support functions including: Human Resources, Finance, Legal, and Technology & Operations

- Ensure the appropriate participation in Business Entity Aggregation workshops organized and facilitated by Business Entity ERM
- Submit results to Business Entity ERM in accordance with Program timelines

The **Business Entity ERM teams**:

- Conduct and facilitate Aggregation activities with the Second Line of Defense Risk Managers and the First Line of Defense to create the create Business Entity Material Risk Inventory which includes 75 – 150 risks > $1 million
- Ensure the Business Entity Material Risk Inventories are presented to the ERMC and Board of the Executive Risk Committee (BERC) for review and challenge
- Develop Policy, Methodology and standardized processes and documented procedures to ensure compliance with the SHUSA ERM requirements
- Ensure the entire Business Entity is considered for Risk Identification and Risk Assessment. This must include all Lines of Business and incorporate separate assessments for support functions including: Human Resources, Finance, Legal, Technology and Operations
- Provide support and guidance for the Material Risk Program through its Framework, Policy and Guidance documents, define and make available tools, training and the Risk Taxonomy to First Line of Defense and other appropriate parties
- Provide oversight of the First Line of Defense to ensure program is conducted in accordance with Program Guidance. This will entail working with the First Line of Defense throughout the assessment process to ensure that the Program output is fit for purpose.
- Maintain a project plan to track the First Line of Defense assessments. Regularly provide updates and areas of concern to SHUSA ERM
- Submit Business Entity Material Risk Inventory to SHUSA ERM in accordance with established timeframes
- Facilitate First Line requests for assessment guidance to the respective Business Entity Second Line Risk Managers, including requests for data sources and calculation methodology

Business Entity Second Line Risk Managers:

- Support the First Line of Defense in the execution of Risk Identification and Risk Assessment processes
- Provide guidance on assessment approach to the First Line of Defense to ensure consistency. This will include identifying and providing relevant data sources and calculation approaches for assessment
- Provide or make available all second line assessment results, including: IT assessments, vendor assessments, business continuity assessments, loan review assessments, and Risk Control Self Assessments

- Participate in the Business Entity Aggregation/SHUSA Process. This will entail adding new Risks, combining like Risks, and performing reassessment activities
- Present results to the Second Line of Defense Level 2 Sub-Committees for oversight, challenge and approval

SHUSA ERM and **SHUSA Risk Managers** will review, assess, and aggregate Business Entity Material Risk Inventories to complete the SHUSA Material Risk Inventory for submission to the end users such as the Capital Team, SHUSA Boards, and other key stakeholders.

Governing Committees: Governing Committees including the ERMC, the BERC and Level 2 Sub-Committees are responsible for review, challenge and approval.

The chart below identifies the key processes covered within the Guidance and the roles and responsibilities of the First Line of Defense including the Business Executive, the Second line of Defense including Business Entity ERM and Business entity Risk Mangers and Governing committees.

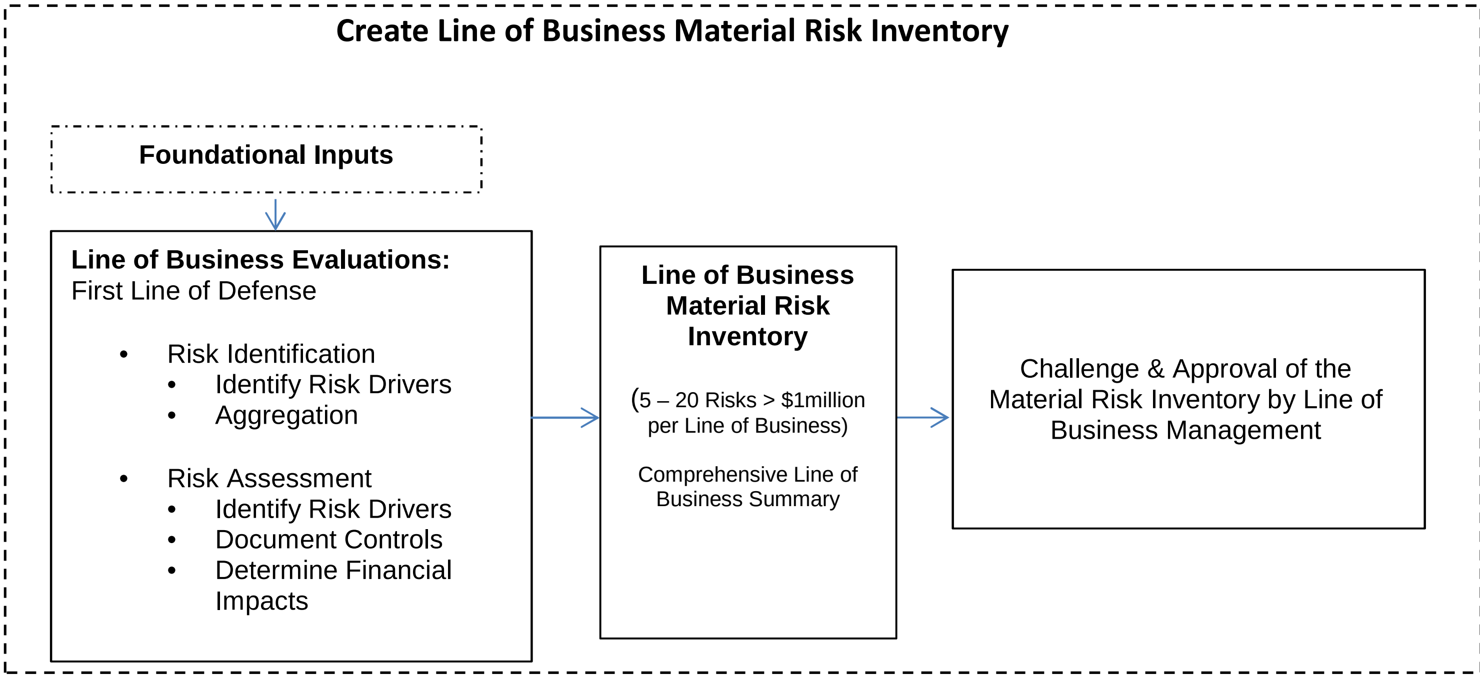
Key Process	First Line of Defense	Business Entity Enterprise Risk Managers	Business Entity Risk Managers	Business Executives	SHUSA Enterprise Risk Managers	Governing Committees
Create Line Of Business Material Risk Inventory (Section 2 of the Guidance Document)	**R**	**I/C**	**I/C**	**A**	**I/C**	**-**
Enhance / Aggregate Line of Business Material Risk Inventory to create Business Segment Material Risk Inventory (Section 3 of the Guidance Document)	**R**	**I/C**	**I/C**	**A**	**I/C**	**A**
Enhance / Aggregate Business Segment Material Risk Inventory to create Business Entity Material Risk Inventory (Section 4 of the Guidance Document)	**I/C**	**R**	**R**	**I/C**	**I/C**	**A**

R = Responsible, A = Accountable/Approver, C = Consulted, I = Informed

1.10 Key Business Entity ERM and Business Segment Contacts

A listing of key Business Entity ERM and Business Segment Executives is provided in Appendix A.

2. Create of Line of Business Material Risk Inventory



Background

As indicated in the Program Overview, the First Line of Defense activities of: continuous risk identification, assessment, monitoring, and reporting are the foundation of the Material Risk Program. The Risks identified through this process are summarized and used as inputs for the Material Risk Program.

The diagram above illustrates the process to be followed by the First Line of Defense to create their Material Risk Inventory. These inventories must be created for all Lines of Business and Support functions.

It is the responsibility of the First Line of Defense for all revenue earning Lines of Business and support functions to establish working teams of subject matter experts for the identification, assessment, documentation and approval of their Material Risk Inventories. It is the responsibility of the Second Line of Defense ERM to oversee these activities to ensure that the identification and assessment approach is consistent with SHUSA Guidance, with a particular focus on program scope, process and documentation.

Creation of the Line of Business Material Risk Inventory and the Material Program Summary report requires the Line of Business subject matter experts to:

- Obtain, review and analyze Foundational Input sources to identify Material Risks (See Section 2.1)
- Aggregate / Combine like Risks to achieve a suggested inventory of 5 – 20 Material Risks (>$1 M) (See Section2.1)
- Conduct Risk Assessment activities (See section 2.2)
- Obtain Line of Business management approval for Line of Business Material Risk Inventory (See section 2.3)

Tools

To assist in the collection of risks, Business Entity ERM will be cascading to the First Lines of Defense:

- Risk Taxonomy (See Exhibit C)
- Material Risk Inventory Template (See Exhibit D)
- Risk Identification Checklist - Taxonomy

Output Requirements

- An approved Line of Business Material Risk Inventory. This report ensures the full range of risks and key Foundational Inputs were considered during the Risk Identification exercise. Furthermore, this report will serve as a centralized location for supporting documentation and approvals.
- A completed Line of Business Material Risk Inventory of approximately 5 to 20 Risks – This Excel based tool will facilitate the downstream Aggregation exercises

Timeline

The finalized Line of Business Material Risk Inventories must be submitted to Business Entity ERM by June 30, 2015.

2.1 Risk Identification

Risk Identification is the first step that the First Line of Defense must perform to develop their inventory of Material Risks. The Line of Business must identify and record all Risks (singular or aggregated) with a Stressed Financial Impact greater than $1 million. This threshold enables management to focus on Material Risks while simultaneously capturing Risks at a granular level that will become Material Risks in stressed conditions.

To meet this objective it is expected Lines of Business / Support Functions will have a number of working sessions to comprehensively review Foundational Input sources in an effort to identify and analyze their Risks. Support functions include Legal, Human Resources, Technology and Operations, and Finance.

The Material Risk Inventory should be specific to the products and processes performed within the Line of Business and should consider various dimensions such as new products, customer base, the business process including distribution channels and enabling technology, and credit exposure including concentration and counterparty concerns. The Resulting Material Risk Inventory should include the idiosyncratic Risks of the Line of Business.

Below is an illustration which depicts various dimensions to be considered during Risk Identification. The Risk Taxonomy, Foundational Inputs and dimensions are to be used by Lines of Business to facilitate Risk Identification. The dimensions are to be evaluated against the Risk Taxonomy ensuring a comprehensive granular Risk Identification process. For example, if a Line of Business services Pay Day Lenders, a review of this dimension (Customer Type) across the Taxonomy would identify potential Reputational, Credit, Compliance, and Strategic Risks. The Line of Business should record the Risk to the most relevant Risk Type. The grid identifies potential Risk Types for each dimension.

Risk Type	New Product	Strategic Objectives	Customer Type	Emerging Risk	Distribution Channels	Concentration	Business Process	Enabling Technology	Counterparty	Off Balance Sheet	Staffing	Etc...
Market	X	X		X		X			X	X		
Reputational	X	X	X	X	X		X	X	X		X	
Credit	X	X	X	X		X			X	X		
Operational	X	X		X	X		X	X			X	
Liquidity	X	X		X		X			X	X		
Compliance	X	X	X	X	X		X		X		X	
Model	X	X		X								
Strategic	X	X	X	X	X			X	X	X	X	

Lines of Business executives are required to establish a standard process to ensure that the Foundational Inputs, the Risk Taxonomy and various dimensions are used to complete the Line of Business Material Risk Inventory. Specifically, the following steps are required:

Line of Business Planning

- Assign responsibility for the completion of the Line of Business Material Risk Inventory: This individual should be a senior member of the Line of Business and have direct access to the Line of Business and Business Segment senior management team.

- Establish working groups within the Line of Business. These working groups should be comprised of subject matter experts. The working groups should include key members from Technology and Operations and Compliance as needed.

- Gather and document Line of Business Foundational Input sources. These sources should be documented in the Line of Business Material Risk Inventory. The Line of Business input sources will include at a minimum all of the available items:

    - Assessments performed by the First, Second and Third Lines of Defense. These will include IT assessment, vendor assessments, business continuity assessments, loan review assessments, Risk Control Self Assessments and reviews by regulators, agencies and external consultants
    - Line of Business Balance Sheet and Income Statement
    - Key management reports and Line of Business metrics including key risk indicators and key performance indicators
    - Known limit breaches and potential limit breaches
    - Customer complaints
    - Known regulatory breaches and regulatory changes
    - Near misses and loss data
    - Credit exposures and concentrations
    - External data and peer analysis
    - Emerging Risks
    - Off-Balance Sheet Risks
    - Key process improvement initiatives being undertaken within the Line of Business
    - All concerns and materials presented to the First Line of Defense Risk committees, and the Business Entity Risk committees including the ERMC and the Level 2 sub-committees.
    - Models utilized by the Line of Business
    - Strategic plan
    - Business Fact sheets if available
    - New Product Assessments

Identify and Record Risks

- The working group will review all applicable Foundational Input sources captured above, as well as other dimensional factors to identify Risks that meet the Program's criteria

- Use the Risk Taxonomy as a tool to ensure completeness of exercise. The Risk Taxonomy includes eight Risk Types and over 140 Sub risks. The working team should review the Risk Taxonomy to ensure full risk capture. The results of this review should be clearly documented in the Material Risk Inventory

- Identify Risks and corresponding Risk Drivers and other factors that influence the Risk to determine those that meet the threshold of over $1 million for Stressed Financial Impact

- Record and combine like risks using the Risk Taxonomy as appropriate to classify and achieve a suggested inventory of 5 – 20 risks in excess of $1 million. Where necessary, there may be a need to aggregate identical Risks to reach the Program's threshold. An example may be vendor Risk. Individual vendor Risks may not exceed the threshold, but when combined, the total vendor Risk for the Line of Business may meet the threshold requirement for Material Risk recording

- The following fields should be recorded to the Line of Business Material Risk Inventory: Business Entity, Business Segment, Line of Business, Risk Type, Sub Risk, and Risk Name. The Exhibit below illustrates the fields on the Line of Business Material Risk Inventory that will be populated following completion of the Risk Identification exercise

Risk Type - The Risk Type from the SHUSA ERM Risk Taxonomy	Select a Risk Type
Risk Sub Type - The Risk Sub-Category from the SHUSA ERM Risk Taxonomy	Select a Sub Risk Type
Risk Name - The name of the risk which helps define it and differentiate it from other risks in other Business with a similar Risk Category	[Replace with Risk Name]
Risk Driver - The economic, business or regulatory force(s) leading to the potential increase(s) in the Risk profile as capture under the 'Stressed Financial Impact'. Diver(s) must be supported in the 'Financial Impact Rationale'.	Choose an item.
Annual Expected Loss (Base) - The annual expected financial impact range amount. The dollar range should be supported by internal/external loss data and other MRI sources. This impact amount assumes controls are working as designed.	$1 Million - $5 Million
Stressed Financial Impact - The worst 1 in 10 year financial impact range amount. This impact should be supported by internal and external loss data and other MRI sources and external events. This impact assumes that all controls may not be working as designed.	Choose an item.
Key Controls (narrative) - Activities and limits put in place by the business to mitigate the risk. This should be a high level overview of the key mitigating factors; it should incorporate management's assessment of the underlying controls, both their adequacy and effectiveness. In instances where management has scored their controls, this should be incorporated at a summary level. This evaluation is needed to determine financial impacts. Known weaknesses in design should be referenced.	
Financial Impact Analysis - Explanation on the analysis and data utilized to determine the annual and stressed impact bands selected and forward assumptions (Firm specific events and Risk Driver(s) selected).	
Risk Narrative - The risk narrative should be an executive level write up touching on the nature of the risk, the expected impact, the worst one in ten year impact, the risk drivers and the adequacy of the control suite.	

Subsequent to the recording of the suggested 5 – 20 risks in excess of $1 million the Line of Business should begin the Risk Assessment Process.

2.2 Risk Assessment

Risk Assessment occurs after the Line of Business Material Risks have been identified and recorded on the Line of Business Material Risk Inventory. The Risk Assessment process consists of determining and documenting Controls and financial impacts and completing comprehensive Risk Narratives.

In order to determine the financial impact the Line of Business must, as part of its Foundational Input collection process collect and record the necessary data as available, both qualitative and quantitative to support the assessment. This data includes financial results, business metrics, exposures, and internal and external loss data. Additionally, management must at a high level understand the Controls both adequacy of design and effectiveness. Finally, Line of Business management must collect, record, and make assumptions about the Drivers of the Material Risks. Management must analyze historical data and make forward looking assumptions. The rationale for the impacts must be clearly articulated, supported and documented both on the Line of Business Material Risk Inventory.

The Risk Assessment Steps are as follows:

Collect and record qualitative and quantitative data

- Line of Business management must obtain and record the internal and external loss data, the source and the time period collected for the eight Risk Types. Additionally, management should obtain and include in its analysis the financial results, business metrics, and reporting that is used in the everyday management of its business activities

- Business Entity ERM in conjunction with the Business Entity Risk Managers are responsible for supporting the First Line of Defense in its determination of the sources of data and the time horizon for collection. When possible, three or more years' worth of data should be collected. This should be documented in the Material Risk Inventory

- Analyze the internal and external data to determine the historical loss trends. This should be documented in the Material Risk Inventory

Identify and record Risk Drivers for Material Risks influenced by economic factors

When applicable, Risk Drivers should be recorded on the Line of Business Material Risk Inventory. The Line of Business will select a primary Risk Driver from a SHUSA ERM provided list. More than one Risk Driver can be selected. The Risk Driver(s) are to be leveraged and referenced in the resulting Risk Narrative. In addition, the analysis and rationale for the impacts selected will be documented within the assessment under 'Financial Impact Rationale' and must reference the Risk Driver if one was selected. If more than one Driver is selected, all must be addressed within the commentary.

The Risk Drivers will be used by the Scenario Analysis team to correlate risk and establish the criteria for scenario workshops, a key input to SHUSA's Capital Plan. Risk Drivers will also be used to aggregate, combine and stress immaterial Risks to identify those which become material is a stress scenario. The Risk Drivers include:

- Consumer Confidence (Up/Down)
- Unemployment (Up/Down)
- Inflation/Deflation
- Interest Rates (Up/Down, Steepen/Decline)
- Corporate Credit Spreads (Widen/Narrow)
- Equity Prices (Up/Down)
- Housing Prices (Up/Down)
- Used Vehicle Prices (Up/Down)
- US Dollar Appreciation/Depreciation
- Soft Commodity Prices (Up/Down)
- Oil Prices (Up/Down)
- Other Hard Commodity Prices (Up/Down)
- Localized Economic Downturn (Specify Geography)

Identify and Document Controls

For the purpose of the Program, Controls are defined as activities and limits put in place by the Line of Business or Business Entity to mitigate the identified Risk. Controls can be preventive, detective, or oversight. It is a requirement of the Program that First Line of Defense document the high level Controls in place to mitigate and manage each Material Risk identified.

The Program does not require the First Line of Defense to score or certify their Controls. However the First Line of Defense must consider the adequacy and effectiveness of the Controls in determining financial impacts.

Controls to be considered include the following: Policies and Guidance, Committee Oversight Controls, Limit Monitoring, External Relationship Monitoring, Staffing Controls, Information Security and Access Controls, Insurance, and Process Controls.

High level Controls should be documented in the Line of Business Material Inventory. Control gaps should be considered by management in the determination of impact amounts and reflected in the Risk Narrative or the Financial Impact Rationale.

Identify and record forward looking assumptions

This activity requires the Line of Business to identify and capture factors that could have an impact on the Annual Expected Loss and the Stressed Financial Impact. These include firm specific events such as business process changes in customers, systems implementation, core processing changes, staffing increases or reductions, increases in volumes, regulatory landscape etc.. This should be documented on the Line of Business Material Risk Inventory.

In addition assumptions made as they relate to macroeconomic Risk Drivers should be documented in the Financial Impact Rationale. Documentation of Risk Driver history should be collected and leveraged during the assessment cycle to support the assumptions and resulting financial impacts.

Determine Financial Impact

Financial impact is determined by assigning a dollar value range of loss (decreased revenues and/or increased expenses) after the consideration of controls via the Impact Scale (see below) provided by the Program. The documented financial impacts for each Risk must include and Annual Expected Impact amount and a Stressed Financial Impact amount (worst 1 in 10 year impact).

The Annual Expected Financial Impact assumes all controls are functioning as expected and should be supported by internal/external loss data and other analysis of Foundational Inputs. The Stressed Financial Impact (worst 1 in 10) amount assumes that not all controls are necessarily performing as expected and should consider the impact of Risk Drivers and the adequacy of Controls.

The final analysis performed to arrive at the financial impacts must be documented within the assessment materials, specifically within the Financial Impact Rationale section of the Line of Material Risk Inventory.

The Impact Scale, below was developed through consultation with the Capital Team.

\$1 M - \$5 M
\$5 M - \$50 M
\$50 M - \$250 M
\$250 M - \$500M
>\$500 M

Complete the Risk Narrative

The Risk Narrative should be an executive level summary of the Risk. It should address the nature of the Risk, the Annual Expected Loss, the Stressed Financial Impact, the Risk Drivers and the Controls. The Risk Narrative should clearly articulate the nature of the Risk as it pertains to the Line of Business. Concepts which should also be included in the Risk Narrative include key assumptions around Risk Drivers, changes in expected volumes, changes in the complexity of the process, the effectiveness of change management activities. The Risk Narrative should be recorded on the Line of Business Material Risk Inventory and the Line of Business Material Risk Summary.

Material Risk recorded to a Line of Business Material Risk Inventory

Below is a Risk recorded to a Line of Business Material Risk Inventory post the Risk Identification and Assessment Processes.

Risk Name	Risk Narrative	Controls	Drivers	Annual Expected Loss	Stressed Financial Impact (Worst 1 in 10)	Financial Impact: Rationale / Commentary(stressed and normal)
Loss of Third Party Loan Broker	Multi-Family Lending partners with XYZ Capital to originate 98% of the new loan volume. XYZ Capital originates approximately $1.75 billion of high performing new loans annually that earns an average rate of 5.75%. The risk of losing the broker presents reinvestment and balance sheet management risk. The potential loss amount would be the difference between the expected returns of the new multi-family loans versus alternative investments. Alternative investments are expected to yield between 2.00% - 4.00%. The current state of relationship is strained, the Relationship Manager expects broker to leave. Additionally, there is no signed contract in place and the broker could leave without notice.	Legal Reviews, Contract Requirement, Vendor Monitoring/ Relationship Mangers	N/A	$5M - $50M	$50M – $250M	Annual Expected impact was calc'd at $30 million ($1.75 B * 1.75%), in worst case the effect would be approx. $65 million ($1.75 billion *3.75%). An analysis of the last 10 years of rates indicated that the worst 1-10 for rates earned on Investment Securities of average duration was 2%.

The Risk Narrative encompasses all of the requirements including:

- Risk Narrative addresses, the nature of the Risk - Loss of key vendor
- Controls - Detective control of vendor monitoring identified strained relationship; preventative control which requires vendor contracts was not followed
- Status of vendor relationship – strained , sole provider, expected to leave

Assessment Results – Annual Expected and Stress Financial Impacts

- Impact of Risk - Loss of loan volume $1.75 Billion
- Lower reinvestment return on capital 4% (Expected) and 2% (Worst Case Scenario)

- Stressed Financial Impact was determined assuming there was no additional loan demand and the reinvestment option was Investment Securities. An analysis of the last 10 years of rates indicated that the worst 1-10 for rates earned on Investment Securities of average duration was 2%
- Financial Impact Rationale explains determination of Financial Impact amounts. Annual = Loss on Loan Volume amount ($1.75 Billion) * Interest rate difference (5.75%-4.00%). Stressed = Loss on Loan Volume amount ($1.75 Billion) * Interest rate difference (5.75%-2.00%)

2.3 Challenge and Approval Process

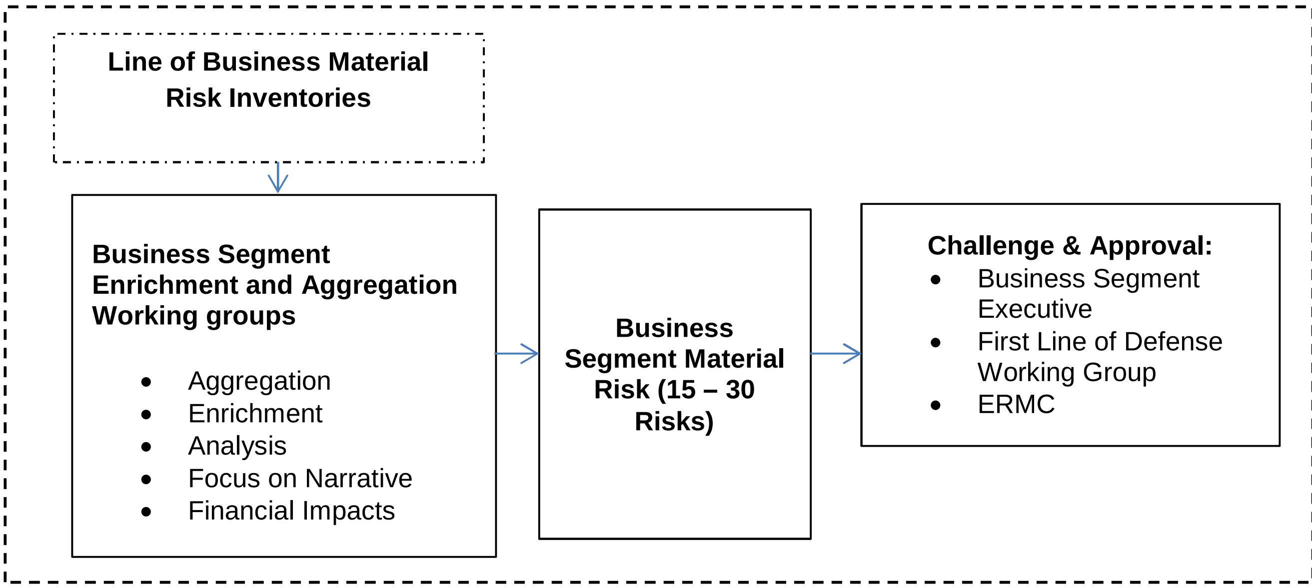
The purpose of the challenge and review process is to ensure that proper levels of review occur throughout the Risk Identification and Assessment process. The challenge and approval process requires the business and executive management to confirm inventories are complete, accurate and properly supported.

The Line of Business Material Risk Inventory challenge and approval process is documented via appropriate sign-offs by Line of Business management. Prior to sign off the Line of Business Manager will:

- Perform a comprehensive review of the Risk Identification and Risk Assessment Process, and supporting Documentation. The signoff will indicate that the Material Risks are completely and accurately identified, high level controls are appropriately documented and incorporated appropriately in the financial impacts, and financial impacts are appropriately supported by quantitative data and documented appropriately
- The Line of Business Material Risk is in a status that is appropriate for executive management, and regulators

3. Create Business Segment Risk Material Risk Inventory

Create of a Business Segment Inventory



Summary

This section of the Guidance is only applicable to Business Segments that have multiple Lines of Business. This section does not apply to Business Segments with one Line of Business and support function Line of Business Material Risk Inventories.

Background

The diagram above illustrates the process for creation of the Business Segment Material Risk Inventory from Line of Business Material Risk Inventories. The creation of an aggregated Business Segment Material Risk Inventory is critical for executive review and approval and for downstream Aggregation processes.

It is the responsibility of the First Line of Defense to establish working teams of subject matter experts for the creation of the Business Segment Material risk Inventory. It is the responsibility of the Second Line of Defense ERM to oversee these activities to ensure that Aggregation and enrichment activities are consistent with SHUSA Guidance.

The Business Segment Material Risk Inventory as defined is the combined aggregated Inventory of the suggested 15 - 30 Material Risks for the Business Segment that will be provided to Business Entity ERM. The aggregated inventory must account for all Risks identified in the underlying Line of Business Material Risk Inventories. The Aggregation of underlying Risks must be documented in a manner which clearly demonstrates that all underlying Material Risks were carried forward into the Business Segment Material Risk Inventory.

Tools

The following tools will be used to aggregate of Business Segment Material Risk Inventories into a Business Entity Material Risk Inventory:

- Risk Taxonomy (See Exhibit C)
- Material Risk Inventory Template (See Exhibit D)

Output Requirements

A completed Business Segment Material Risk Inventory of approximately 15 to 30 Risks. This Excel based tool will facilitate downstream Aggregation.

Timeline

The Business Segment Material Risk Inventor is to be completed and submitted to Business Entity ERM by June 30, 2015.

Create a Business Segment Material Risk Inventory

Similar to the process used to create the Line of Business Material Risk Inventories, it is required that the Business Segment executive designate an individual(s) responsible to manage and oversee this process.

The designated individual(s) is required to obtain all Line of Business Material Risk Inventories. In addition to the documentation, the key personnel that participated in Line of Business Inventory process will be required to assist in the aggregation process. It is expected that the aggregation process will involve a series of working group meetings.

The goal of this process is to aggregate the (5-20) Material Risks from the Line of Business Inventories into the Business Segment Material Risk Inventory (15-30 Material Risks).

Prior to the first working group meeting, the designated individual(s) should combine all Line of Business Material Inventory Excel files into one combined file. This newly combined file should be grouped and sorted by Risk Taxonomy (Risk Type and Sub Risk Type).

The following sections are the process steps that the Business Segments should follow in Aggregating Line of Business Material Risk Inventories to a Business Segment Material Risk Inventory.

Identify Idiosyncratic Risks

The working group participants should identify all Material Risks that are specific and unique in nature. These Risks should not be combined. The Risks should be recorded in the Business Segment Material Risk Inventory.

Combine Essentially Identical Risks

Essentially identical Material Risks for purposes of Business Segment Aggregation occurs when the Risk Type, Sub Risk, Risk Name and Risk Narrative for two or more Line of Business are essentially identical. When working group participants identify essentially identical Risks during the Aggregation working group, the Program requires that the Risks be combined and reported as a single Risk for the Line of Business Material Risk Inventory.

A few examples of essentially identical Risks are “obligor credit downgrade or credit default”, “non-compliance with AML requirements”, and “privacy breach.”

Upon completion of aggregating identical Risks, the Risks should be recorded in the Business Segment Material Risk Inventory.

Aggregate Risks with Like Taxonomy

Risks that have the same Risk Type and Sub Risk Type but different Risk Names and Risk Description should be reviewed for potential Aggregation. The requirement is for the Business Segment to use best professional judgment as to what Risks can and should be aggregated.

Upon completion of aggregating Risks with like Taxonomy, the Risks should be recorded in the Business Segment Material Risk Inventory.

Update/Populate Business Segment Material Risk Inventory

Subsequent to Business Segment Aggregation, the working group participants are required to:

- Reassess the Expected Annual Loss Impact and Stressed Impact Amounts. The Risk Assessment process described in Section 2.2 is to be completed and documented in the same manner as the Line of Business Risk Assessment. This includes providing the analysis and supporting documentation on the Business Segment Material Risk inventory for impact amounts derived
- Combine and update Risk Narratives for newly Aggregated Risks. Include reassessment details in the Financial Impact Rationale and Risk Narratives

3.1 Challenge and Approval Process

The purpose of the challenge process is to ensure that proper levels of review occur throughout the Risk Identification and Risk Assessment process. The challenge and approval process requires the business and executive management to confirm inventories are complete, accurate and properly supported.

The Business Segment Material Risk inventory challenge and approval process requires challenge and approval by:

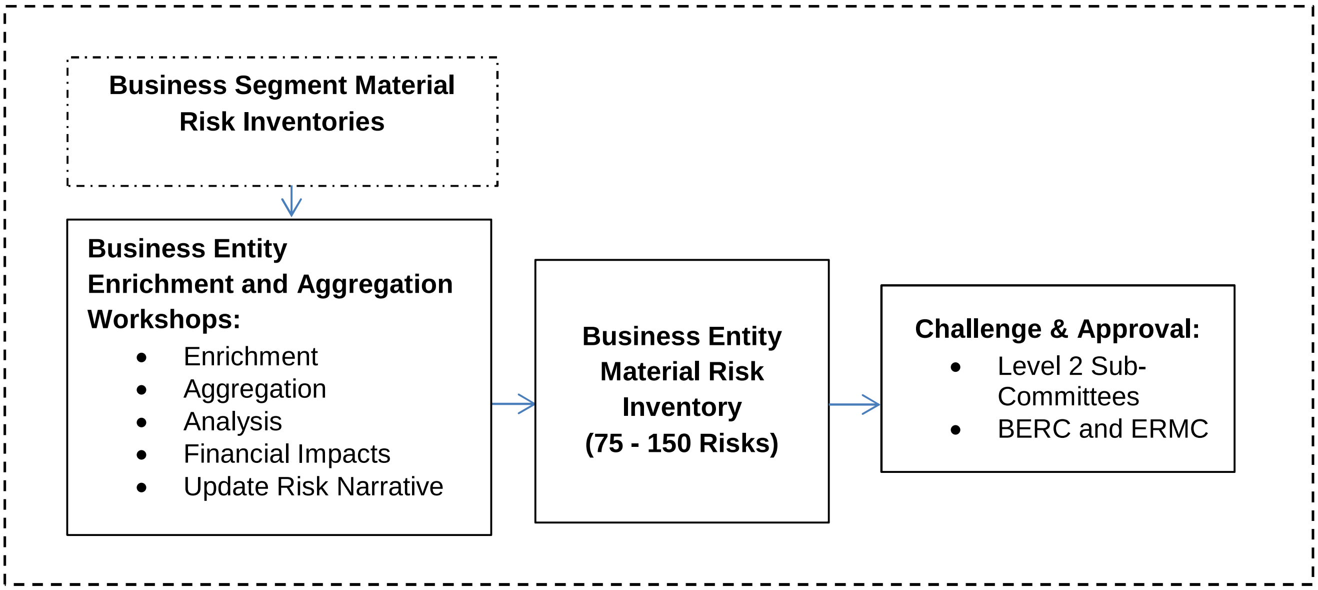
- Business Segment Executive
- First Line of Defense Working Group
- ERMC

The Business Segment Material Risk Inventory challenge and approval process is documented via appropriate sign-offs by Business Segment executive management. Prior to sign off, the Business Segment Executive Manager (or designee) will:

- Perform a comprehensive review of the Business Segment Risk Identification and Risk Assessment Process, and supporting documentation, which includes Line of Business Material Risk Summaries. The signoff will indicate that the Material Risks are completely and accurately identified, high level controls are appropriately documented and incorporated appropriately in the financial impacts, and financial impacts are appropriately supported by quantitative data and documented appropriately
- The Business Segment Material Risk Inventory is in a status that is appropriate for executive management, and regulators

4. Create Business Entity Material Risk Inventory

Creation of a Business Entity Inventory



Background

The Program requires the creation of a Business Entity Material Risk Inventory. This section provides guidance for the Aggregation of multiple Business Segment Material Risk Inventories into a single aggregated Business Entity Material Risk Inventory. The responsibility for the completion of the Business Entity Material Risk Inventory lies with Business Entity ERM with support from Second Line Risk Managers (Credit Risk, Liquidity Risk, Market Risk, etc…) and Business Segment Executives, including support functions.

Business Entity ERM will facilitate a number of workshops to combine the underlying Business Segment inventories. These workshops will result in the Business Entity Material Risk Inventory of 75 – 150 risks. The Business Entity Material Risk Inventory, once approved, will be provided to SHUSA ERM for consolidation into the SHUSA Risk Inventory.

Tools

The following tools will be used to Aggregate of Business Segment Material Risk Inventories into a Business Entity Material Risk Inventory:

- Risk Taxonomy (See Exhibit C)
- Material Risk Inventory Template (See Exhibit D)

Output Requirements

A completed and approved Business Entity Material Risk Inventory Business of 75 to 100 Risks – This Excel based tool will facilitate SHUSA ERM aggregation.

Timeline

The Business Entity Material Risk Inventory is to be completed and submitted to SHUSA ERM by August 31, 2015.

Create a Business Entity Material Risk Inventory

It is expected that the creation of the Business Entity Material Risk Inventory will be completed via a series of workshops. The workshops will be a review of Business Entity Material Risk with the appropriate Business Entity Second Line Risk Managers and the First Line of Defense.

Prior to the first workshop meeting, Business Entity ERM will combine all of the Business Segment Material Risk Inventories into one combined file. This newly combined file should be grouped and sorted by Risk Type and Sub-Risk. Workshops will be held for each of the following Risk Types:

- Strategic
- Reputational
- Operational
- Credit
- Market
- Liquidity
- Compliance
- Model

Workshop Activities:

Inventory Enrichment

The workshop participants are required to review the Business Entity Inventory for completeness of Material Risks. The Second Line Risk Managers will challenge the completeness and accuracy of the Business Entity Material Risk inventory. The Business Entity Material Risk Inventory will be enriched for any missing Risk items, including: (1) Missing Risks specific to the Lines of Business or Business Segment. This should incorporate a review of the Business Segment Strategic Plan. (2) Enterprise Risks, (i.e.) those specific to the Business Entity. For Risks that are entity specific, Business Entity ERM will ensure that participation includes Business Segment executives as well as support functions such as Legal, Human Resources, and Finance. This top down approach will ensure that the Business Entity Material Risk Inventory is comprehensive.

Identify Idiosyncratic Risks

The workshop participants will identify all Material Risks that are specific and unique in nature. These Risks will not be combined. The Risks should be recorded in the Business Entity Material Risk Inventory.

Combine Essentially Identical Risks

Essentially identical Material Risks for purposes of Business Entity aggregation occurs when the Risk Type, Sub Risk, Risk Name and Risk Narrative for two or more Line of Business are essentially identical. When working group participants identify essentially identical Risks during the aggregation workshop, the Program requires that the Risks be combined and reported as a single Risk for the Business Entity Material Risk Inventory.

A few examples of essentially identical Risks are "obligor credit downgrade or credit default", "non-compliance with AML requirements", and "privacy breach."

Upon completion of aggregating identical Risks, the Risks should be recorded in the Business Entity Material Risk Inventory.

Aggregate Risks with Like Taxonomy

Risks that have the same Risk Type and Sub Risk Type but different Risk Names and Risk Description should be reviewed for potential Aggregation. The requirement is for the Business Entity ERM and Second Line Risk Managers to use their best professional judgment as to what Risks can and should be aggregated.

Upon completion of aggregating Risks with like Taxonomy, the Risks should be recorded in the Business Entity Material Risk Inventory.

Determine Business Entity Risk Count

At periodic intervals during the Aggregation process, Business Entity ERM will need to assess the status of the number of Risks and the need to continue to attempt to conduct additional Aggregation activities.

Update Business Entity Material Risk Inventory Data

It is expected that the impact determination completed by Business Entity ERM and Second Line Risk Managers to be thorough and complete and documented in accordance with SHUSA ERM requirements, promulgated in Section 2.2 of this Guidance document. For Risks that are being aggregated, Workshop participants are required to:

- Confirm and or replace Risk Drivers provided in the Business Segment Inventories. Evidence of this activity should be reflected in the Business Entity Material Risk Summary and the Business Entity Material Risk Inventory
- Reassess the Expected Annual Loss Impact and Stressed Impact Amounts. The Risk Assessment process described in Section 2.2 is to be completed and documented in the same manner as the Line of Business/Business Segment Risk Assessment. This includes providing the analysis and supporting documentation on the Business Entity Material Risk inventory for impact amounts derived. This reassessment process will ensure the consistent determination of Financial Impacts with a focus on data sources, Risk Drivers, and key assumptions
- Combine and update Risk Narrative for newly aggregated Risks. Include reassessment details in the Financial Impact Rationale and Risk Narratives

Challenge and Approval Process

The purpose of the challenge and approval process is to ensure that proper levels of review occur throughout the Risk Identification and Assessment process. The Business Entity Risk Program Summary challenge and approval process requires challenge and approval by:

- Level 2 Sub-Committees
- ERMC
- BERC

Prior to sign off the Business Entity ERM will:

- Perform a comprehensive review of the Risk Identification and Risk Assessment Process, and supporting documentation. The signoff will indicate that the Material Risks are completely and accurately identified, high level controls are appropriately documented and incorporated appropriately in the financial impacts, and financial impacts are appropriately supported by quantitative data and documented appropriately
- The Business Entity Material Risk Inventory is in a status that is appropriate for executive management, and regulators

5. Appendix A – Key Business Segment and Business Entity ERM Contacts

SBNA

Business Segment	Business Segment Executive	Lines of Business
Retail Banking	Maria Tedesco	Small Business Banking
		Cards
		Mortgages
		Purchased Portfolios (RV/Marine)
		Individual
Commercial Banking	Cameron Betters	Business Banking
		Middle Market
		Commercial Real Estate
		Multifamily
		Asset Based Lending
		Oil and Gas
		Government Banking
		Mortgage Warehouse
		Products - Commercial Banking
Global Banking and Markets	Frederico Papa	MRG
		Large Corporates
Automotive Finance	Jack Murphy	CEVF
		Leasing
		Dealer Floor Plan
Wealth Management	Fernando Battle	Wealth Management
Financial Management	Juan Carlos Alvarez Soto	Financial Management
Corporate Center	TBD	Corporate Center
Legal	Christopher Pfirrman	Legal
HR	Lisa VanRoekel	HR
Tech and Operations	David Chaos	Tech and Operations
Finance	Xavier Ruiz Sena	Finance

SBNA Business Entity ERM

Business Entity	Name	Title
SBNA	Marcello Brutti	Chief Risk Officer
SBNA	Mike Carbone	Director, Enterprise Risk Management
SBNA	Rod Alhadeff	Director, CCAR Risk ID and Assessment

SCUSA

Business Segment	Business Segment Executive	Lines of Business
Automotive Finance	Jason Grubb, Brad Martin	Automotive Finance
Personal Lending	George Schmelzel III	Personal Lending
Legal	Eldridge A. Burns Jr.	Legal
HR	Michelle Whatley	HR
Tech and Operations	James W Fugitt	Tech and Operations
Finance	Jason A Kulas	Finance

SCUSA Business Entity ERM

Business Entity	Name	Title
SCUSA	Peter Moenickheim	Chief Risk Officer
SCUSA	Tali Ploetz	Director of Enterprise Risk Management
SCUSA	Justin Smith	Director of Enterprise Risk Management

Puerto Rico – Santander Bancorp

Business Segment	Business Segment Executive	Lines of Business
Retail Banking	Rogerio Leal	Personal Loans
		Small Business Banking
		Santander Insurance Agency
		Credit Cards
		Mortgages
Mortgage Servicing	Victor Carreras/Gisela Cupril	Mortgage Servicing
GBM **Commercial Banking and CRE** **Specialty and Gov't Banking**	Lilian Diaz	GBM
		Enterprise
		Institutional/Public Sector
Investment Services/Wealth Management	Luis Roig	Santander Securities LLC
Financial Management	Alejandro Guzman	Financial Management
Corporate Center	Marie Guiven	Corporate Center, Including Other Real Estate Owned (REO)
Trust	Wendy Gonzalez	Trust
Pension Plan	Criselyris Melendez	Pension Plan
Foreign Accounts	Marimet Irurita	Foreign Accounts
Human Resources	Criselyris Melendez	Human Resources
Tech and Operations	Javier Caceres	Tech and Operations
Legal	Rafael Bonilla	Legal
Finance	Alejandro Guzman (CAO)	Finance

Puerto Rico – Santander Financial Services

Business Segment	Business Segment Executive	Lines of Business
Retail Banking	Jeanette Villamil	Island Finance
Other	Marie Guiven	Special Assets

Puerto Rico – Santander Overseas Bank

Business Segment	Business Segment Executive	Lines of Business
GBM	Lillian Diaz/ Maria Semidei	GBM

Puerto Rico Business Entity ERM

Business Entity	Name	Title
Puerto Rico	Juan Pablo Jurado	Chief Risk Officer

New York - Santander Investment Securities (SIS)

Business Segment	Business Segment Executive	Lines of Business
GBM – Cash Equities Brokerage	Marcio Souza	GBM – Equity Sales and Trading
GBM – Debt Underwriting	Sergio Lew	GBM – Investment Banking/Financial Services and Advisory
GBM – Equity Underwriting	Sergio Lew	GBM – Investment Banking/Financial Services and Advisory
GBM – Fixed Income/Bond Trading	Juan Minuesa	GBM – Fixed Income/Currency Sales and Trading
GBM – Futures Brokerage Activity	Isaac Prada	GBM – Exchange Traded Derivatives
GBM – Fixed Income and Equity Research	Jesus Gomez	GBM – Fixed Income and Equity Sales
Legal	James H. Bathon	Legal
HR	Susana Fernandez	HR
Tech and Operations	Juan de Dios Davila	Tech and Operations
Finance	Francisco Sempere	Finance

New York Business Entity ERM

Business Entity	Name	Title
New York	Jim Bathon	Chief Risk Officer

Miami

Business Segment	Business Segment Executive	Lines of Business
Private Banking	Jon Diaz Valdenebro Marilyn Moll Eugenio Alvarez	Private Banking
Personal Lending	Francisco Gonzalez Rivera	Personal Lending
Legal	John Villamil-Morel	Legal
HR	Martha Mancini	HR
Tech and Operations	Rodolfo Bucaro	Tech and Operations
Finance	Eloina Franco-Espinosa	Finance

Miami Business Entity ERM

Business Entity	Name	Title
Miami	Paulo Prado	Chief Risk Officer

6. Appendix B – Definition of Terms

The Terms defined below are used throughout this document.

- **Aggregation:** The process of consolidating, compiling, and enriching Risk as defined by the Risk Taxonomy or other methods. The aggregation process also includes enrichment activities such as the identification and assessment of new Risks, as well as review and challenge.
- **Annual Expected Loss:** A reasonable expectation of a negative impact to revenues/expenses within the next 12 month period in baseline conditions. This considers the amount at risk along with the current control environment both the design and effectiveness. This amount must be recorded within the Material Risk Program Financial Impact Scales and is required to be supported internal/external loss data, peer analysis, or other supporting analysis.
- **Business Entity:** Subsidiaries of SHUSA for purposes of the program, SBNA, Miami, NY, Puerto Rico and SCUSA.
- **Business Entity ERM:** Enterprise Risk Management professionals assigned to oversee, assess and assist in the execution of the Material Risk Program.
- **Business Entity Material Risk Inventory:** The combined aggregated Inventory of the Top 75-150 Risks for Business Entity that is provided to SHUSA ERM.
- **Business Segment Executive:** The individual responsible for providing sponsorship and delegating ownership for creating Line of Business and Business Segment Material Risk Inventories.
- **Business Segment Material Risk Inventory:** The combined aggregated Inventory of the 15 - 30 Risks for the Business Segment that will be provided to Business Entity ERM.
- **Controls:** Activities and limits put in place by the Line of Business or Business Entity to mitigate Risk. Controls can be preventive, detective, or oversight. The Program requires high level controls including Policies and Guidance, Limit Monitoring, Committee Oversight Controls, External Relationship Monitoring, Staffing Controls, Information/Security Access Controls, Insurance, and Process Controls.
- **Financial impact Rationale:** Explanation on the analysis and data utilized to determine the annual and stressed impact bands selected.

- **First Line of Defense:** Business functions that own and manage risks and are responsible for conducting Risk Identification and Assessment Activities. They are also responsible for completing and submitting Material Risk Inventories and Material Risk Program Summaries to Business Entity ERM for their Lines of Business and Business Segments in support of capital planning.

- **Line of Business Material Risk Inventory:** The 5-20 aggregated risks greater than $1 million dollars each generated through the First Line of Defense completing the Risk Identification and Assessment process for the Line of Business. Key data elements are: Business Entity, Business Segment, Line of Business, Risk Type, Risk Name, Risk Narrative, Key Controls, Drivers, Residual Financial Impact, Stressed Financial Impact and Financial Impact Rationale.

- **Material Impact Scale:** The Material Impact Scale was developed through consultation with the Capital Team and output from the Risk ID and Assessment working group to quantify Material Risks. The scales are appropriate for quantifying both Annual Expected and Stressed Financial Impacts.

$1 M - $5 M
$5 M - $50 M
$50 M - $250 M
$250 M - $500M
>$500 M

  These scales are properly aligned for a SHUSA level Material Risk program based on the asset/capital size of the combined Santander US entities. Total SHUSA capital is in excess of $10 Billion and the 2014 stress scenarios ranged from a few hundred million to $2.5 billion. These scales provide an improved distribution of values and facilitate the prioritization of risks. The scales above will be used by entities when reporting Material Risks.

- **Material Risks:** For purposes of the SHUSA program, defined as any Risk (individual or aggregated) with an Annual Expected Loss or Stressed Financial Impact equal to or greater than $1 million.

- **Material Risk End Users:** The end users are SHUSA Scenario Analysis Program, Governing Committees, Executive Management, Strategic Planning and Risk Tolerance.

- **Foundational Input:** All info and data that enables management to identify their risks, this includes but is not limited to First, Second and Third Line risk assessment results, strategic plans, management reporting, known KPI/KRI breaches, client complains, internal/external loss data.

- **Material Risk Program (MRP):** A process to identify, quantify, aggregate and report Material Risks across all Entities to establish the material risks facing the firm.
- **Material Risk Inventory:** This document assists the Line of Business to demonstrate the comprehensiveness of their assessment process, clearly documenting how all risk were considered using the underlying programs. It provides a centralized location for sign off and approval, housing the necessary supporting information critical to illustrate a clear use of First Line program data. The inventory is designed to stand alone and be delivered to Entity ERM and SHUSA ERM according to program guidelines and timelines. Furthermore this document will be a key output for management decision making and for providing transparency to our regulators.
- **Risk:** The SHUSA ERM Framework document defines risk as: The risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise perform as agreed or inadequate or failed internal processes or systems, including IT and data management systems and processes, human errors or misconduct, or adverse external events. Losses may result from internal fraud; external fraud, inadequate or inappropriate employment practices or workplace safety; failure to meet professional obligations involving clients, products, and business practices; damage to physical assets; business disruption and system failures; or failures in execution, delivery, and process management. Losses from such events may occur directly, or indirectly, for example through litigation arising from an adverse event or from downstream reputational or other impedances to strategic goals.
- **Risk Assessment:** The process by which Material Risks are identified and are measured for materiality. This process evaluates the size and/or materiality of each risk and in consideration of controls both at a Residual Financial Impact (Annual) and a Stressed Financial Impact (Worst 1 in 10). This process requires the use of internal/data or other supporting analysis.
- **Risk Driver:** The primary economic factors or business force leading to the potential increases in the risk profile.
- **Risk Identification:** Is the process by which all Material Risks are identified and captured for inclusion in the Material Risk Program.
- **Risk Name:** A risk name developed by the business which in brief terms describes the risk**.** The Sub Risk can be used as the Risk Name where appropriate.

- **Risk Narrative:** The risk narrative should be an executive level summary of the risk. It should address the nature of the risk, the expected impact, the worst one in ten year impact, the risk drivers and the controls. The narrative should clearly articulate the nature of the risk as it pertains to the line of business.

- **Risk Taxonomy:** Is a method to capture, record, classify and report risks. It is also used to help ensure a comprehensive risk identification process.

- **Risk Type:** The eight risk classifications as defined in the SHUSA ERM Framework (Operational, Credit, Market, Liquidity, Strategic, Model, Compliance, Reputational)

- **Second Line of Defense Risk Managers:** Risk Managers, who support the First Line of Defense in the execution of Risk Identification and Risk Assessment processes, provide guidance to ensure consistent assessment processes, challenge results and assist in aggregation.

- **SHUSA ERM Framework:** The Framework describes the high level principles for the management, control and oversight of risk across all business activities and support functions of SHUSA and its subsidiaries as U.S. regulated institutions.

- **SHUSA Material Risk Inventory:** The top 75 – 150 consolidated SHUSA Risks generated through the consolidation and aggregation of the Business Entity Risk Inventories.

- **Stressed Financial Impact (Worst 1 in 10):** An annual expected loss that considers a severe combination of circumstances that could reasonably be expected to occur in one annual period out of ten. The 10 year time horizon is designed to capture the risk that management can foresee based on experience. The determination of this amount requires the identification of key drivers that would increase (drive) the expected loss to increased levels. This amount must be recorded within the Material Risk Program Financial Impact Scales and is required to be supported internal/external loss data, peer analysis, or other supporting analysis.

- **Sub Risk:** The second tier of the Risk Taxonomy consisting of approximately 140 Sub Risks.

- **Third Line of Defense:** Internal Audit - provides independent assurance and reports to the Board. It is a permanent corporate function, independent of any other function or unit in SHUSA or its operating subsidiaries, whose purpose is to provide assurance to the SHUSA Board and Senior Management, thus contributing to the protection of the organization and its reputation, by assessing the quality and effectiveness of the processes and systems of internal control, risk management and risk governance; compliance with applicable regulations; the reliability and integrity of financial and operational information including the integrity of the balance sheet of SHUSA.

7. Appendix C – Risk Taxonomy

Strategic - Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, industry factors such as competition and customer preference, the resources deployed against these goals, and the quality of implementation.

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Strategic Planning	Obstacles to successfully implementing strategic objectives	Execution Risk
		Magnitude of change
		Cost Control Initiatives
		Diversification
		Parent Influence
		Resources
Expansion Risk	Risk related to expansion in customer base, products or geography	Product
		Customers
		Mergers and Acquisitions
		Systems/Technology
Systems strategy and data architecture	Systems strategy and data architecture	Systems strategy and data architecture
External Factors	Adverse effects to Santander as a result of changes external environment.	Economic conditions / market performance
		Industry
		Competition
		Technology
Management and Other Personnel	Risk brought on by communications or actions, intentional or unintended, by management.	Expertise
		Responsiveness
		Communication skills
		Performance management & compensation
Corporate Governance	Risk brought by inadequate corporate governance or oversight.	Corporate Governance

Reputational - Reputational Risk is the potential that a corporate practice, or a new fact or rumor concerning products and services sold by the firm or practices at the firm changes the public's perception, including that of investors, customers, and regulatory bodies and ratings agencies, of the corporation in a negative fashion

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Brand Image	Risk of damages to the Santander brand image or to our customers	Financial Stability
		Product offerings
		Fraud
		Complaints
		Litigations
		Regulators

Credit - The potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Rating Migration	Risk of loss caused by the effect of changes in the credit quality of the issuer/borrower on the valuation of financial assets.	Rating Migration
Default	The risk of financial loss should an obligor not be able or willing to fulfill its obligations to pay on the maturity date of the obligation. It is measured as the higher of the maximum gross exposure of the individual transaction (i.e. before application of collateral or credit risk mitigation). Examples of direct credit risk include: – Cash exposures (e.g. loans, bonds, overdrafts, asset finance, leases, preferred shares, equities). – Commitments (e.g. undrawn facilities, guarantees issued on behalf of an obligor). – Committed and uncommitted trade finance exposures – Contingent exposures (e.g. relating to 3rd party guarantors)	Default
Counterparty	This is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows, leading to a performance loss. While this can be applied to loan products, it covers a broad range of exposures due to transactions with broker/dealers, derivatives trades, clearing entities etc. This risk can also occur in a secondary or contingent fashion in the case where counterparty offers a guarantee for a collateralized security or derivative, or where there is recourse in the event of collateral short-fall, such as in a clearing relationship.	Counterparty
Residual Value	Residual Value (RV) risk is the risk of financial loss that may occur if, at the end of a lease contract, even if the obligor has complied fully with his financial obligations under the contract, the actual proceeds realized upon the sale of returned assets are lower than the projection of the expected value used in establishing the pricing at lease origination.	Residual Value
Concentration	Concentration risk (also referred to as Aggregation/Correlation risk) refers to an exposure with the potential to produce losses large enough to threaten a financial institution's health or ability to maintain its core operations. The loss may arise through exposures to: individual counterparties; groups of individual counterparties or related entities;	One obligor Industry Product Maturity

	counterparties in specific geographical locations; industry sectors; specific products; service providers (e.g. back office services); and natural disasters or catastrophes.	Geography
Country	The risk that funds held or controlled outside the US are unable to be repatriated in order to meet obligations as they fall due because: a) a sovereign state freezes foreign currency payments (transfer/conversion risk) or b) a sovereign state defaults on its obligations (sovereign risk).	Country
Settlement	Settlement risk arises when the Bank pays away funds on behalf of a customer before the corresponding cleared funds have been received. Typical products giving rise to settlement risk include uncleared effects, derivatives settlement, cash transmission and payments through clearing houses.	Settlement
Collateral	Collateral risk is the risk that legally pledged collateral (e.g. real estate, business assets, underlying treasury instruments) will be insufficient to cover the customer's exposure upon liquidation.	Collateral
Other Than Temporary Impairment (OTTI) Accounting	Risk of not properly accounting for Other Than Temporary Impairment requirements	OTTI

Market - The risk to current or anticipated earnings or capital resulting from adverse movements in market rates or prices, including, but not limited to, interest rates, foreign exchange rates, or equity prices.

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Interest rates	Risk in interest rate spreads compressing negatively affecting our margins	Interest Rates
Price Risk	The risk to current or anticipated earnings or capital arising from adverse movements in: · Interest Rates (e.g. LIBOR, EURIBOR, OIS, etc.) · Foreign exchange rates (e.g. EUR/USD, EUR/GBP, etc.) · Equity or equity indices (e.g. Euro Stoxx 50, etc.) · Commodity prices (e.g. crude oil, copper) · Credit Spreads (including counterparty Credit Valuation Adjustment - CVA) Price Risk Includes the potential economic impact (decrease in the value of assets) that could be derived from SHUSA’s Subsidiaries participating in the underwriting of equity or debt capital markets transactions that are not fully sold into the market, and where the Subsidiary retains on its balance sheet a higher amount of exposure than anticipated.	Foreign Exchange Rates
		Equity/Equity Indices
		Commodity Prices
		Credit Spreads
Basis Risk	The risk that one subtype of market risk is offset with another subtype and they do not exhibit perfect correlation to one another. This includes mismatching of underlying tenors or interest rates. (Examples: when 90-day LIBOR is hedged with 180-day LIBOR; when Mortgaged Backed Securities are hedged with LIBOR; when cash instruments are hedged with forwards or futures contracts).	Basis Risk
Correlation Risk	The risk that a portfolio of assets believed to be diversified all decline in value simultaneously.	Correlation Risk
Non Linear Risk	Includes behavioral risks and volatility: Behavioral risks like the potential economic impact (decrease in value of assets) coming from early unscheduled return of principal on a fixed-income security or derivative of a security. This is a significant risk in mortgages and securities with underlying mortgage assets. The volatility risk is the potential economic impact (decrease in value of assets) coming from adverse changes in the volatility of the risk factors.	Behavioral Risks
		Embedded options

Liquidity - The risk to current or anticipated earnings or capital arising from an inability to meet its obligations when they come due without incurring unacceptable losses. The firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

Sub Risk	*Sub Risk Definition*	Detailed Sub Risk
Market Liquidity	*How external liquidity sources view the bank's asset quality, earnings, and capital - e.g., agency ratings, economic conditions (job growth, migration, industry concentrations, competition, etc.), depth and breadth of the market, system-wide shocks to markets and market participants.*	General Market Liquidity
		Strategic Factors
		External Factors
		Liquid Asset-Based Factors
Funding Liquidity	*Risk that a unit is unable to effectively and efficiently meet the expected and unexpected current and future cash flow.*	Wholesale Liabilities
		Retail Liabilities
		Diversification
Contingent Liquidity	*Risk that future events will create a greater need for cash than previously anticipated by management, given that commitments to lend are uncertain both in probability and amount. Also describes the risk of finding new liabilities or replacing liabilities under difficult market conditions.*	General Contingent Liability
		Unsecured funding
		Securitization
		Off-balance-sheet items

Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people & systems, or from external events.

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Internal Fraud	The risk of losses from willful actions designed to defraud, misappropriate goods or evade business regulations, laws or policies (excluding diversity/discrimination events) in which at least one person linked to the company is implicated. Examples; misappropriation of assets, tax evasion, intentional mismarking of positions, bribery.	Internal Unauthorized Activity acting alone or in collusion with others
		Internal theft and financial misrepresentation
		Unauthorized Trading Activity
		Bribery & Corruption
		Sales Malpractice
External Fraud	The risk of losses from willful actions designed to defraud, misappropriate goods or evade business regulations, by a third party separate from the company. Examples; theft of information, hacking damage, third-party theft and forgery.	External Theft
		External Misrepresentation or Deception
		Digital/Online Banking Fraud
Employment Practices & Workplace Safety	The risk of losses from actions that is incompatible with legislation or agreements on labor, health or safety. Indemnity payments for damage to people, or diversity/discrimination events. Examples; discrimination, workers compensation, employee health and safety.	Health & Safety Breach
		Discrimination or Harassment
		Employment Liability and Disputes
Clients, Products and Business Practices	The risk of losses arising from accidental or negligent breaches of professional obligations with specific clients, (including fiduciary or suitability requirements), or from the nature or design of a product. Examples; market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning.	Breach of Fiduciary Duties (Improper or inappropriate Investment Advice, Investment Representation, or sales practices)
		Inappropriate/Unsuitable product design
		Not reporting in accordance with financial regulatory/legal requirements
		IT risk, non-cyber (e.g., access controls, inventory mgmt.)
		Non-Compliance with Taxation law and regulation
		Non-Compliance with data protection/privacy laws and regulations

		Failure to Meet Contractual Terms (written or implied)
		Failure to obtain appropriate regulatory authorization, permissions and license requirements
Damage to Physical Assets	The risk of losses of non.-budgeted value or costs in material assets, derived from damages produced by natural disasters or other external events. Examples: natural disasters, terrorism, vandalism.	Accidental damage to Physical Assets
		Willful damage to Physical Assets
		Natural Disaster causes damage to Physical Assets
Business Disruption and System Failures	The risk of losses and compensation caused by disruption of business or systems malfunctions. Examples; utility disruptions, software failures, hardware failures.	Ineffective management of Change
		Workforce Disruption
		External Service Disruption or Denial of Service
		Internal Systems Infrastructure and Application Failure or Defect
Execution, Delivery and Process Management	The risk of losses arising from failed transaction processing or process management, from relationships with trade counterparties, suppliers and vendors. Examples; data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.	Insufficient capacity to process transaction in a timely fashion
		Transaction Capture and Input Errors
		Inadequate Client Account Management
		Erroneous Customer Statements and Financial records
		Inaccurate Financial Reporting
		Model or Product Structuring Error Investment Banking, Treasury & Asset Management
		Inadequate Management of Suppliers/Vendors

Compliance - The risk to current or anticipated earnings or capital arising from violations of, or nonconformance with laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. When the violations or nonconformance previously mentioned are related to the prevention and/or detection of money laundering, tax evasion, or other criminal activities, there is a BSA/AML compliance risk.

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Regulatory Compliance	The risk that a change in laws and regulations will materially impact a security, business, sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape.	Lending Regulations
		Bank Operations Laws/Regulations
		CRA Laws/Regulations
		Securities, Insurance and Other Financial Services Laws/Regulations
Core Banking and Fair Lending	Risk of failing to comply with Core Banking and Fair Lending requirements.	Credit Operations
		Product Risk
		Marketing
		Underwriting
		Pricing
		Steering
		Redlining
		Loan Servicing
		Debt Collection Activities
BSA/AML/OFAC	Risk of failing to comply with BSA, AML and OFAC requirements.	Customer Type
		Geography (Customers and Geography)
		Products/Channels/Services per customer
		Concentration Accounts
		Vendors
		Customer Processes (Screening/Id/Rating/Due Diligence)
		Transaction Scanning/Monitoring
		Record Retention
		Training

Regulatory Programs	Risk of failing to execute/implement regulatory program requirements.	Emerging regulatory requirements
		Regulatory Change Management
		Remediation activities
Governance	Risk of inadequate Governance over the Banks Compliance Program	Staffing levels and skills
		Adequacy of policies and procedures
Reporting	Failure to abide by all applicable regulations leading to inaccurate reporting and regulatory findings and/or financial losses	Reporting
Legal	Risk of non-compliance leading to legal action against the Bank	Legal

Model - Potential for loss arising when a financial model used to measure a firm's risks or value transactions does not perform the tasks or capture the risks it was intended to. Typically this is due to either a conceptual flaw or implementation error; poor quality data or missing data, or due to the model being used inappropriately or in error.

Sub Risk	Sub Risk Definition	Detailed Sub Risk
Assumptions	The risk that the assumptions upon which the model was designed were flawed.	Assumptions
Deterioration	The Risk that the assumptions and methodology behind the model seize to be correlated with the changing world.	Deterioration
Misuse	The risk that a model is misapplied or not used when called for.	Misuse
Data Availability	The risk that data required for accurate model output is not available.	Data Availability
Training	The risk that personnel are not adequately trained in the use and methodology of the model.	Training

8. Appendix D – Line of Business Material Risk Inventory

PLEASE CLICK THE BUTTON 'ENABLE CONTENT'!!!!!!

Print Entire Workbook

Print Entire Workbook to PDF

INSTRUCTIONS

Lines of Business must comply all sections of this template and it is recommended, between 5 - 20 Risk sheets, which will contain the Material Risks for the Line of Business. Requirements for Business Segments and Business Entities differ and additional detailed instructions are included below.

Step 1 - Select the 'Title Page' tab and on row 33 overwrite the place holder and enter the assessment entity name, i.e. the name of the Line of Business, Business Segment or Enmity, depending at which level the assessment is being conducted at.

Step 2 - Gather your areas 'Foundational Input Sources' per program Guidance document, i.e. Credit Assessments, RCSAs, Loss data, Macroeconomic Driver data, etc... Your Entity ERM Team and Entity Risk Management (Second Line of Defense) will be available as a resource if you should need it. It is strongly recommended they be invited to discussions and working groups.

Step 3 - Update the tabs in this workbook with the Foundational Input data. This will be used to inform your Material Risk Identification exercise.

Step 4 - Perform Risk identification and assessment (Sheets 1 - 40).

Step 5 - Update 'Summaries' tab with 'Executive Summary' and 'Process Followed' (sections 1 and 3). These should be populated last. Ensure the commentary sections on the other tabs, such as 'New Products', 'Off-balance Sheet', etc... are updated to indicate whether analysis of that particular content resulted in the inclusion or agrandizement of a Material Risk.

Step 6 - Fill in the 'Approval and Documentation' tab, print off or email for Approval and Challenge. The buttons atop this page will automatically print of and or PDF this file for ease of process.

Material Risk Tool version 1.1 updated May 7, 2015

MACRO - INSTRUCTIONS

Lines of Business must comply all sections of this template and it is recommended, between 5 - 20 Risk sheets, which will contain the Material Risks for the Line of Business.

Click here if Line of Business Assessment

Business Segments (made up of various Lines of Business) need only complete the tabs:

-Approval and Documentation
-Summaries
-Sheets 1 - 30 (recommended)

Click here if Business Segment Assessment

Business Entities (made up of multiple Business Segments) must complete tabs:

- Approval and Documentation
- Summaries
- Entity Material Risk Inventory
- Any other tabs may be completed as appropriate but are not required (requirements for this are in process for definition)

Click here if Business Entity Assessment

Note: This workbook contains a hidden sheet named 'Risk Inventory'. This sheet automatically pulls all data from sheets 1 through 40. To unhide it simply right click on the button below. This sheet will be of use for any additional reporting or when aggregating multiple Material Risk Inventories. Since it is formula driven it should be copied and pasted using 'Paste Special' / 'Values'. Clicking the below button will make it appear before Sheet '1. it is labeled 'Risk Inventory'. To hide this sheet simply click applicable assessment button.

Unhide Master List of 1 - 40 Risks

Approval & Documentation

Assessment Cycle	Choose an item.
Business Segment	
Business Segment Head	
Line of Business	
Line of Business Head	
Key Meeting Dates	
Participants involved in Analysis	
Frist Line Risk Managers	
Approver(s):	

Approver Name (printed): ____________________

Approver singature:____

This document will:
• Demonstrate the comprehensive approach taken to identify Material Risks, clearly documenting the manner in which underlying programs and other key inputs where incorporated into the assessment.
• Inform managements' understanding of its Material Risk profile and guide appropriate actions for risk management
• Contain the supporting analysis used in the assessment process
• Document key participants involved in the process
• Provide a centralized location for sign off and approval
• Be submitted to Business Entity and SHUSA ERM along with the Excel based Material Risk Inventory in accordance with established timeframes
• Used by Regulators and Second and Third Line of Defence to assess the Identification and assessment of Material Risks

1. Executive Summary

This section should be a high level overview of Material Risks identified. Completion of this section will be facilitated once the remainder of this template is completed:

[Enter Executive Summary here]

2. Business Overview

The section should be an abstract providing an overview and orientation of the business (an introduction as to what the Business is all about); it may highlight the current Business Model and include the business's location(s), what product(s) or service(s) it provides and its general purpose within the larger organization. Should include descriptions, volumes, exposures, etc. for line of business:

[Enter Business Overview here]

3. Process Followed

The section should be an overview of the approach followed to identify the full range of Material Risks specific to the products and processes performed within the Line of Business including factors such as exposures, counterparties, concentrations, new products, distribution channels, off-balance sheet risks, etc... using the underlying risk programs and other key inputs. Additionally reference the manner in which the Risk Taxonomy was used to ensure completeness:

For Business Segments, this section should more simply be an overview of the approach followed to enrich/aggregate the full range of Material Risks specific to the products and processes performed within the Business Line. This analysis will be supported by various underlying Line of Business Material Risk Inventories:

[Enter Overview of process followed and key inputs utilized here]

4. Strategic Plan

This section highlights the strategic plan and may include projected volumes, profits and keys to success. Any planned changes in the operating model or strategy should be highlighted including the manner in which risk management is integrated in the change management process.

Potentially it may include embedded highlights/ charts—a bar chart showings volumes, net interest margin and projected profits for the next three years. If included, these charts should be cited and explain in the text. Include a discussion of new risks identified as a result of the review of the Strategic plan:

[Enter highlights of strategic plan along with changes to risk profile here]

5. New Products

Listing of new Products / Services being offered (or planned). Ensure New Product Assessments are used to inform this section:

Product/Service Name	Final Approval Date	Target Launch Date	Status	Risk Review Date
	Click here to enter a date.	Click here to enter a date.	Choose an item.	Click here to enter a date.
	Click here to enter a date.	Click here to enter a date.	Choose an item.	Click here to enter a date.
	Click here to enter a date.	Click here to enter a date.	Choose an item.	Click here to enter a date.
	Click here to enter a date.	Click here to enter a date.	Choose an item.	Click here to enter a date.
	Click here to enter a date.	Click here to enter a date.	Choose an item.	Click here to enter a date.

Include commentary surrounding any delayed products/services or those which will have a large impact on business functions/risk profile. Include an explanation regarding any new product or service which has not/will not undergo review by Risk and Compliance. Include summary (if any) of changes to the Material Risk Inventory.

[Summary overview on New products/Services. Enter here if applicable]

6. Off-balance Sheet Risks

A high level overview of assets or liabilities which do not appear on our balance sheet. The nature of these balances and related transactional responsibilities need to be understood and assessed as part of the Material Risk Program.

[Enter Off-balance sheet related commentary here, to create a Carriage Return hold down the [ALT]+[RETURN]]

7. Significant Events and Emerging

Include events (paid or emerging) in excess of $1 Million recognized over the past 12 months and/or those remaining unpaid:

Date of Occurrence	Paid Date (if applicable)	Dollar Amount	Description

Emerging Events commentary, including process for capture of emerging events:

[Enter commentary here, to create a Carriage Return hold down the [ALT]+[RETURN]]

8. Loss/Gain Analysis

8.1 Internal Loss/Gain Data

Internal loss/gain data analysis including all data used to assess and quantify their Material Risks across the 8 Risk Types. Lines of Business should consult with their Second Line of Defense to determine the appropriate sources of information for each risk type. When possible three or more years' worth of data should be utilized:

Risk Type	Source Data Used and Time period of data
Operational	
Market	
Liquidity	
Compliance	
Strategic	
Reputational	
Credit	
Model	

8.2 External Data / Loss Data

Summary of external data sources used to understand, analyze and validate the quantification of the Material Risk, for each risk type:

[Enter external data sources utilized in this exercise to address each risk type, to create a Carriage Return hold down the [ALT]+[RETURN]]

9. Audit/Regulatory Findings

Enter significant Audit/Regulatory finds and/or resolutions since the last annual assessment cycle.

Business Area	Finding	Severity	Date of finding	Resolution Date	Status

Audit/Regulatory commentaries:

[Enter commentary here, to create a Carriage Return hold down the [ALT]+[RETURN]]

10. Line of Business Assessments

10.1 RCSA

Below is an aggregate summary of most the recent RCSA Results followed by a high level summary of the output along with the methodology employed and the key data elements of the program. Commentary will indicate how this RCSA results which were leveraged to inform and develop the Line of Business Material risks covered in this document.

Risk Type	Base Line Impact	Impact (other)
Business Disruption and System Failures		
Clients, Products and Business Practices		
Damage to Physical Assets		
Employment Practices & Workplace Safety		
Execution, Delivery and Process Management		
External Fraud		
Internal Fraud		

Overview on the RCSA process and results, i.e. was the entire Line of Business assessed, methodology used, key findings if any, etc...:

[Enter Business Metric commentary here if applicable]

10.2 Business Continuity

Highlight any significant failures, action plans or significant events over the past 12 months:

[Enter Business Continuity events and program highlights here if applicable]

10.3 Vendor Management

High level summary of vendor management program highlighting any significant events over the past 12 months:

[Enter Vendor Management and program highlights here if applicable]

10.4 IT Assessments

Highlight any significant failures, action plans or significant events over the past 12 months:

[Enter IT Assessment results and any significant events, i.e. intrusions, firewall breaches, etc...]

10.5 Credit Assessments

Summary results of most recent Credit Assessment:

[Enter Assessment results and any significant events]

10.6 Model Assessments

Summary results of most recent Model Assessment:

[Enter Assessment results and any significant events]

10.7 Other

Highlight any other key inputs which informed the assessment and how they were used:

[Enter any other key inputs and how they were used]

11. Business Metrics

Below are the key metrics utilized by Management for this Line of Business which helps to inform the Risk Identification process:

Business Metric Name	Prior Year				Current Year	
	Q1 – 2014	Q2 – 2014	Q3 – 2014	Q4 - 2014	Q1 – 2015	Q2 - 2015

Commentary:

[Enter Business Metric commentary here if applicable]

11. Summary of Material Risks by Risk Type and Sub Type

The following section is comprised of the top five to thirty Material risks from the Line of Business (in excess of $1 million) or 15 – 30 for a Business Segment. They should be representative of the underlying programs and be validated through at least one workshop/ working group session involving the 1st Line of Defense and 1st Line Risk. The results should be officially reviewed and approved by Executive representation of the Line of Business or higher:

Aggregation: This Risk was derived from the following Lines of Business or Segments (not requried for Line of Business Inventories)	
Risk Type - The Risk Type from the SHUSA ERM Risk Taxonomy	
Risk Sub Type - The Risk Sub-Category from the SHUSA ERM Risk Taxonomy	
Risk Name - The name of the risk which helps define it and differentiate it from other risks in other Business Lines with a similar Risk Category	
Risk Driver - The economic, business or regulatory forces leading to potential increases in the Risk profile. (additional drivers may be added in free form text under dropdown)	
Annual Expected Loss (Base) - The annual expected financial impact range amount. The dollar range should be supported by internal/external loss data and other MRI sources. This impact amount assumes controls are working as designed.	
Stressed Financial Impact - The worst 1 in 10 year financial impact range amount. This impact should be supported by internal and external loss data and other MRI sources and external events. This impact assumes that all controls may not be working as designed.	
Key Controls (narrative) - Activities and limits put in place by the business to mitigate the risk. This should be a high level overview of the key mitigating factors; it should incorporate management's assessment of the underlying controls, both their adequacy and effectiveness. In instances where management has scored their controls, this should be incorporated at a summary level. This evaluation is needed to determine financial impacts. Known weaknesses in design should be referenced.	
Financial Impact Analysis - Explanation on the analysis and data utilized to determine the annual and stressed impact bands selected and forward assumptions (Firm specific events and Risk Drivers).	
Risk Narrative - The risk narrative should be an executive level write up touching on the nature of the risk, the expected impact, the worst one in ten year impact, the risk drivers and the adequacy of the control suite.	

Below is an imbedded Excel section of the Material Risk Inventory, this is the section in which the Business Entities will enter their risks.

Business Entity	Business Line	Line of Business	Risk Id	Risk Type	Sub Risk	Risk Name	Risk Narrative	Drivers	Controls	Annual Expected Loss	Stressed Financial Impact (Worst 1 in 10 year impact)	Financial Impact: Rationale / Commentary (stressed and normal)
Business Entity	Business Line(s)	Line(s) of Business	Risk ID	The eight risk classifications as defined in Framework	The second tier of the Risk Taxonomy consisting of approximately 40 Sub Risks and over 100 Detailed Sub Risks.	A risk name developed by the business which in brief terms describes the risk	An executive level summary of the risk. It should address the nature of the risk, the expected impact, the worst one in ten year impact, the risk drivers and the controls. The narrative should clearly articulate the nature of the risk as it pertains to the line of business.	The primary economic driver or business force leading to an increase/decrease in the Financial Impact. (multiple selection allowed)	High Level explanation of activities and limits put in place to mitigate risk. Controls can be preventive, detective, or oversight. The Program requires high level controls including Policies and Guidance, Limit Monitoring, Committee Oversight Controls, External Relationship Monitoring, Staffing Controls, Information/Security Access Controls, Insurance, and Process Controls.	The negative impact to revenues/expenses within a typical 12 month period. (after considering controls & likelihood)	Annual expected loss, considers a severe combination of circumstances reasonably expected to occur in one annual period out of ten.	Explanation on the analysis and data utilized to determine the annual and stressed impact bands selected.
			1									
			2									
			3									