**SERVICES SCHEDULE**

**Dated: As of June 15, 2015**

**Risk Transformation – Implementation Year 1**

This Services Schedule is one of the “Services Schedule(s)” referred to in the Consulting Agreement between **OLIVER WYMAN, INC.**(“Consultant”) and **SANTANDER HOLDINGS USA, INC.**, on its own behalf and for the benefit of its affiliates (“SHUSA”) dated as of June 17, 2013 (the “Agreement”), and is attached to and made part thereof. All capitalized terms used hereunder shall have the same meaning as set forth in the Agreement. In the event of a conflict between the terms of this Services Schedule and the Agreement, the terms of the Agreement shall govern.

1. Services and Deliverables

The Services shall consist of those Services as more particularly described in Appendix A to this Services Schedule (“Appendix A”) attached hereto and incorporated herein by reference. The deliverables provided in connection with the Services shall consist of those deliverables set forth in Appendix A.

Consultant shall perform the Services in accordance with the specifications and performance requirements set forth in Appendix A.

1. Term of Services

The Services shall commence no later than as of the date set forth above, and shall be completed no later than June 14, 2016, unless terminated earlier as provided in **Section 3** of the Agreement. The term of this Schedule shall be from June 15, 2015 to June 14, 2016 (the “Schedule Term”).

1. Locations

The Services will be performed at the Consultant’s offices, and at SHUSA locations as may be needed for the Services.

1. Fees

(A) SHUSA shall pay Consultant a fixed fee in the total amount of Thirty Seven Million Dollars ($37,000,000) (the “Fixed Fee”) for the Services.

(B) In the case that Scott Powell is the Chief Executive Officer of SHUSA:

(i) The Services provided during the Schedule Term shall be invoiced based on invoice periods (each, an “Invoice Period”), which shall be as follows: June 15, 2015 to August 31, 2015; September 1, 2015 to November 30, 2015; December 1, 2015 to February 29, 2016; March 1, 2016 to May 31, 2016; and June 1, 2016 to June 14, 2016. SHUSA shall pay the Fixed Fee in installments (each, an “Installment”) for Services performed during the applicable Invoice Period. Consultant shall invoice SHUSA on the last date of the applicable Invoice Period (“Invoice Date”). Consultant shall invoice according to the following schedule:

Installment 1, in the amount of $10,000,000, for the Invoice Period June 15, 2015 to August 31, 2015.

Installment 2, in the amount of $13,000,000, for the Invoice Period September 1, 2015 to November 30, 2015.

Installment 3, in the amount of $7,000,000, for the Invoice Period December 1, 2015 to February 29, 2016.

Installment 4, in the amount of $6,000,000, for the Invoice Period March 1, 2016 to May 31, 2016.

Installment 5, in the amount of $1,000,000, for the Invoice Period June 1, 2016 to June 14, 2016.

(ii) SHUSA shall have fifteen (15) days (the “Acceptance Test Period”) from the applicable Invoice Date in which to examine the Deliverables and Services (which shall collectively referred to herein as “Work”) furnished during the applicable Invoice Period to verify that such Work materially conforms to the written specifications and requirements that are expressly set forth under the Agreement or herein (the “Specifications”).

(iii) Prior to the expiration of the Acceptance Test Period, Scott Powell, acting reasonably and in good faith, shall provide the Company with either (a) written notice of any failure of the Work to materially conform to the Specifications, which notice shall describe such failure in reasonable detail (a “Rejection Notice”) or (b) written notice of its acceptance of such Work (an “Acceptance Notice”).

(iv) Following receipt of a Rejection Notice, Consultant may, in its sole discretion, exercise one of two options as set forth in (a) and (b) below:

(a) Consultant may opt to immediately terminate this Schedule, without any liability, and SHUSA shall not be entitled to any damages; or

(b) Consultant may opt to use commercially reasonable efforts to promptly remedy any nonconformity and redeliver/reperform conforming Work to SHUSA, in which case SHUSA shall then have another Acceptance Test Period in which to examine the redelivered/reperformed Work to verify that it materially conforms to the Specifications.

(v) Work shall be deemed accepted for all purposes hereunder on the earliest to occur of (a) payment by SHUSA, (b) receipt by Consultant of an Acceptance Notice with respect to such Work, and (c) the failure of SHUSA to deliver either an Acceptance Notice or a Rejection Notice with respect to such Work upon or prior to the end of the applicable Acceptance Test Period.

(C) In the case that Scott Powell is no longer the CEO of SHUSA, subsection 4(B) shall not apply and SHUSA be responsible for paying the entire Fixed Fee in accordance with subsection 4(A). Notwithstanding anything to the contrary, Consultant shall have the right to invoice SHUSA for the remainder of the Fixed Fee not yet paid as of the date that Scott Powell is no longer the CEO of SHUSA, and in the case of termination of this Schedule for any reason, SHUSA shall be responsible for payment of Services properly performed and expenses incurred, in each case through the effective date of termination.

1. Expenses

In connection with the Services, Consultant will be reimbursed for out-of-pocket expenses for the Services in accordance with **Section 2.2** of the Agreement provided that total expenses do not exceed Fifteen Percent (15%) of the fees outlined in **Section 4** hereof, an amount of up to Five Million, Five Hundred Fifty Thousand Dollars ($5,550,000).

1. Invoicing and Payment

Consultant shall invoice SHUSA for the Services in accordance with Section 4 above. Consultant shall itemize such invoice, and SHUSA shall pay such invoice, in accordance with **Sections 2.4 and 2.5** of the Agreement.

Accepted and agreed to by the parties hereto as of the date first above written.

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| **OLIVER WYMAN, INC.** | | |  | **SANTANDER HOLDINGS USA, INC.**, | | |
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| By: |  | |  | By: |  | |
|  | Name: |  |  |  | Name: |  |
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**Appendix A to**

**Services Schedule**

**A. Description of Services**

1. **Overview of Project**

As highlighted by repeated regulatory feedback, Santander U.S. (including SHUSA and the relevant subsidiaries that will be included in the intermediate holding company (“IHC”)) has significant weaknesses in its foundational risk capabilities.

Consultant has completed a six week planning project and two week mobilization project to help launch the building of foundational risk management capabilities required to run the organization in a sound and effective manner, as part of a broader enterprise-wide initiative: the Capital and Risk Transformation (CART).

As part of those engagements, Consultant assisted with the creation of plans across three areas:

* + - * 1. Governance and Organization (including Risk Appetite)
        2. Non-financial risk (model risk and operational risk) and Risk identification
        3. Model development

With the planning and mobilization phases complete, Santander U.S. has turned to execution against these plans. Consultant will support Santander U.S. over the course of 12 months (June 15, 2015 to June 14, 2016) across each of the areas defined above. In many cases, Consultant will execute against these plans jointly with Santander U.S. staff; in these cases the expectations and deliverables for both Consultant and Santander U.S. staff have been defined in this document. While this document covers 12 months of support, specific tasks and delivery dates are known in the most detail for the first 6 months. As such, the deliverables described in this Statement of Work focus on these first 6 months; as execution progresses, Santander U.S. and Consultant will jointly agree on the specific nature and timing of further deliverables in the following 6 months, taking into account progress to date, changes in Santander U.S.’s priorities, and the level of resources committed by Consultant in this Statement of Work, and the parties shall amend this Statement of Work accordingly. The focus of the engagement is described in the following section.

1. **Services and deliverables**

As defined above, Consultant’s support is organized into three major workstreams[[1]](#footnote-1). This section describes Consultant’s role and deliverables for each workstream:

* + - * 1. Governance and Organization (including Risk Appetite)
        2. Non-financial risk (model risk and operational risk) and Risk identification
        3. Model development

The following sub-sections describe the background, Consultant’s responsibilities, and Consultant’s deliverables for each workstream.

* 1. **Governance and Organization (including Risk Appetite)**

As part of the CART program, Santander U.S. has launched efforts to strengthen the Risk Appetite Framework and Risk Governance and Organization. The Consultant will provide support in the following areas:

* Redevelopment and embedding of the Risk Appetite Statement and Framework
  + Risk Appetite statement, cascading and embedding
  + Reporting, monitoring and escalation processes
* Design of the Target Operating Model for risk management
  + Risk leadership structure and responsibilities
  + Articulation of roles and responsibilities across Santander U.S./subsidiaries, and organizational design (by risk type)
* Strengthening of Board and Senior Management risk oversight
  + Board Risk Committee Education
  + Board and Management Risk Committee effectiveness
* Enhancement of internal risk reporting
  + Gap analysis and recommendations for quick wins
  + Reporting landscape
  + Templates for select reports (phased approach)

The following paragraphs describe the projects in this workstream, the Consultant’s tasks and deliverables, as well as Santander U.S.’s responsibilities for each area.

* + 1. **Redevelopment and embedding of the Risk Appetite Statement (RAS) and Framework**

Approach: *Joint Santander U.S. / the Consultant execution support*

There are two primary objectives to this project:

* Define, cascade, and embed Santander U.S.’s Risk Appetite in a way that sets clear boundaries for risk taking across the enterprise
* Define reporting, monitoring and escalation processes that inform decision making and allow for timely remediation of risk appetite breaches
  + - 1. **Risk Appetite Statement, cascading and embedding**

The Consultant will work closely with Santander U.S. to draft and finalize the foundational building blocks of an enterprise-wide Risk Appetite Framework:

* **Guidelines:** The Consultant will articulate the Risk Appetite guidelines, in particular, the meaning of Risk Appetite and the approach to determining statements, metrics and associated limits (e.g. exclusion of purely financial metrics, inclusion of stressed and forward looking metrics, etc.).
* **Risk values:** The Consultant will assist Santander U.S. in articulating the top-of-the-house Risk Values that align with Santander U.S.’s Corporate Values and drive the rest of the Risk Appetite Statement.
* **Material risks:** The Consultant will assist Santander U.S. in converging on a list of the enterprise’s most material financial and non-financial risks categories (e.g. credit risk, market risk, operational risk, model risk, data risk, etc.) in a way that is consistent with the Board approved ERM framework.
* **Qualitative statements:** For each risk category, the Consultant will outline a set of qualitative statements that state the desired strategic positioning and risk profile of Santander U.S.
* **Quantitative statements and limits:** For quantifiable risks the Consultant will help determine a set of risk appetite metrics, associated limits and early warning thresholds. During this exercise the Consultant will factor in the enterprise’s constraints and context; primarily metrics cascaded from Santander Group as well as those arising from US regulation, supervisory expectations, peer practices and other stakeholders (e.g. ratings agencies).

Along each step of the process the Consultant will involve stakeholders from Group, Santander U.S., SHUSA, SCUSA and SBNA to ensure that the framework captures the most significant risks at the Santander U.S. Board-level. Finally, the Consultant will consolidate the statements, both quantitative and qualitative, into the overall RAS for Santander U.S. and document the RAS creation process. The documentation will include the rationale behind chosen metrics and their calibration. In addition the Consultant will create corresponding communication materials to aid in socializing the Santander U.S.-level RAS to Senior Management across the enterprise.

Upon completion of the Santander U.S.-level RAS, the Consultant will determine the organizational levels to which cascading is appropriate. The Consultant will cascade the RAS to priority subsidiaries (SBNA and SCUSA) for each element of the risk appetite statement (e.g. qualitative statements and metrics). The Consultant will ensure priority subsidiary-level limits align to Santander U.S.-level limits. The Consultant will also identify additional risks that may be material for the subsidiary but not for the IHC and will add further limits/statements as necessary. As with the Santander U.S.-level RAS, the Consultant will consolidate these statements into SBNA and SCUSA-level Risk Appetite Statements. The cascaded RAS will be socialized with the enterprise – this will require additional communication materials and the facilitation of group Q&A discussions, town halls, etc.

The Consultant will work with Santander U.S. to update the most critical processes to include Risk Appetite considerations. The Consultant will first help identify 5-6 processes that should be explicitly linked to the Risk Appetite (e.g. strategic planning, capital planning), and subsequently describe the nature of that linkage, including alignment to statements, metrics and limits described in the RAS. The Consultant will assess the degree to which Risk Appetite considerations are already embedded and implement any necessary changes in the form of updated process maps. Consequently Santander U.S. will update all relevant frameworks, policies, and procedural documents.

* + - 1. **Reporting, monitoring, and escalation processes**

In parallel to RAS development, the Consultant will draft a high level reporting, monitoring and escalation process for the Santander U.S.-level RAS. This will include a description of the reporting process, escalation process for early warning signals and breaches at different levels of the enterprise, as well as articulation of consequences for parties responsible for breaches. This will also include assignment of specific owners to Risk Appetite limits.

The Consultant will act in an advisory capacity in the delivery of RAS related business and data requirements, for the Santander U.S.-level RAS and otherwise. Additionally, after the Board has approved an SBNA and SCUSA RAS, the Consultant will act as advisors in the enterprise-wide communication and socialization process.

Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

* Own and hold accountability for final Risk Appetite Statement and related frameworks and policies
* Utilize relevant industry practice in RAS redevelopment
* Update relevant documentation and organize formal approval processes
* Review and challenge approach, principles, Risk values, qualitative statements, metrics and limits, etc.
* Provide underlying data for supporting analyses
* Deliver communication of new RAS and its implications

The Consultant Deliverables

The Consultant will provide Santander U.S. the following deliverables over the next 6 months:

* **By 8/31/2015,** Santander U.S.-level Risk Appetite Statement, including documentation of process and rationale, in a Word document (subject to Board Approval)
* **By 8/31/2015,** process for Santander U.S. RAS reporting, breach escalation and consequences in a PowerPoint and/or Word document (subject to Board Approval)
* **By 8/31/2015,** definition of approach for cascading Santander U.S.-level RAS to subsidiaries and levels below in a PowerPoint and/or Word document
* **By 8/31/2015,** communication materials for Santander U.S.-level RAS in emails, Word documents (memos), and PowerPoint presentations
* **By 11/30/2015,** RAS for priority subsidiaries (SBNA & SCUSA) in respective Word documents (subject to Board Approval)
* **By 11/30/2015,** updated process maps for key processes with explicit RAS links shown in PowerPoint and/or Word documents
  + 1. **Design of Target Operating Model for risk management**

Approach: *Joint Santander U.S. / the Consultant execution support*

The Consultant will assist Santander U.S. in defining the target state operating model for the risk management organization in accordance with the Three- Lines-of-Defense governance principles. The work will consist of:

* Formalization of risk leadership structure and responsibilities to strengthen its effectiveness
* Articulation of roles and responsibilities across Santander U.S. and its subsidiaries, and organizational design including alignment with 3LoD principles, performed by risk type
  + - 1. **Risk leadership structure and responsibilities**

The Consultant will assist with formalizing the reporting lines of subsidiary Chief Risk Officers (CROs) and socializing these changes with Santander U.S. management for sign-off. The implications of the reporting lines (e.g. full vs. dotted) will be documented for specific key decisions (e.g. performance assessment, hiring/firing decision) to bring more clarity to the responsibilities.

The role of first line Risk Control Officers (RCOs) will also be defined at a high-level to ensure consistency across the organization. These positions will be designed to enable the business lines to take ownership of their risk and execute on risk leadership guidance. Risk control officers will be the first line executives reporting to the relevant subsidiary CEO in charge of overseeing the execution of risk processes (Risk ID, compliance, etc.) within subsidiaries. The Consultant will socialize the proposed solution and refine proposed guidelines with Santander U.S. and subsidiary risk leadership.

Deliverables:

The Consultant will deliver the following by the end of July:

* **By 07/31/15,** CRO reporting lines overview in a PowerPoint document
* **By 07/31/15,** CRO reporting lines implications as detailed decision matrix for performance assessment and hiring/firing decisions in a PowerPoint document
* **By 07/31/15,** formalized high-level guidelines for the roles of the RCOs with responsibilities and reporting lines description in a PowerPoint document
  + - 1. **Articulation of roles and responsibilities across Santander U.S. / subsidiaries and organizational design (by risk type)**

The articulation and development of the implementation plan for 3 Lines of Defense (3LoD) across the Santander U.S. and the subsidiaries will then be performed in three major waves of work for each risk type (Model Risk Management and Operational Risk will be covered by dedicated workstreams).

Wave 1:

The Consultant will review existing frameworks (e.g. the existing SHUSA credit risk framework), or assist in drafting frameworks where needed, and provide input on incorporation of 3 Lines of Defense principles and their articulation in terms of roles and responsibilities between the 1st line, 2nd line (Santander U.S. and subsidiaries) and the 3rd line.

Wave 2:

The Consultant will work closely with Santander U.S. to design the functional organizational structure to execute the activities set out in the frameworks. The structure definition will include the description of risk groups, their responsibilities and reporting lines. An assessment will also be performed to estimate the necessary talent (skill types and FTE ranges) for each group to perform their duties adequately, and the additional resources to be mobilized based on current available talent. Based on these analyses, the Consultant will assist in designing a remediation strategy to bridge the gaps in staffing.

Wave 3:

Conducted partly in parallel to Wave 2, the Consultant will provide guidance in implementing the new structure (e.g. staggering of units during implementation, whether a pilot is needed, timing of roll-out, etc.). Critical processes will be identified and defined in a way that illustrates the responsibilities and interrelationships between different lines and functions. The Consultant will also provide guidance in the planning of the implementation of organizational changes.

To assist with planning for the implementation of the target operating model, the Consultant will perform an assessment of first line capabilities at the subsidiaries to understand the likely level of effort to roll out the target model.

Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

* Ownership and accountability for final Target Operating Model design and related frameworks and policies
* Provision of information describing the current organizational structure and split of activities
* Input on the target state operating model design based on the Consultant’s draft designs
* Convergence on possible framework updates, target state structure and staffing needs
* Convergence on recommendations to allow continuation of work
* Cascading the risk frameworks to subsidiary-level frameworks
* Implementation of the target operating model design

Deliverables

The Consultant will provide deliverables by risk type, depending on the waves defined above:

|  |  |  |
| --- | --- | --- |
| **Wave 1** | **Wave 2** | **Wave 3** |
| * Updates / drafting frameworks by risk type with clear articulation of 3LoD responsibilities (including split between Santander U.S. and the subsidiaries) | * Formalized Risk groups’ structures at Santander U.S., Risk Control Officers, Risk-taker levels including:   + Description of responsibilities   + Staffing FTE ranges & skill needs at the functional level e.g. retail underwriting * Functional level Talent Assessment * Staffing remediation strategy | * Process map of most critical processes for each risk type (1-2 per risk type) * Specification of interrelationships between functions described above * As necessary, design interaction charters |

The Consultant will provide the deliverables defined above by risk type. The exact timing of roll-out by risk type will be agreed between Santander U.S. and Consultant; an illustrative schedule is provided below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Wave 1** | **Wave 2** | **Wave 3** |
| **ERM / RAS / Strategic risk** | By 07/31/15 | By 08/31/15 | By 09/30/15 |
| **Credit** | By 07/31/15 | By 08/31/15 | By 09/30/15 |
| **Market and Liquidity** | By 09/30/15 | By 10/31/15 | By 12/31/15 |
| **Compliance risk** | By 09/30/15 | By 10/31/15 | By 12/31/15 |
| **Risk Management information** | By 12/31/15 | By 01/31/16 | By 02/31/16 |
| **Capital risk** | By 12/31/15 | By 01/31/16 | By 02/31/16 |
| **Operational Risk** | Addressed as part of its separate workstream | | |
| **MRM** | Addressed as part of its separate workstream | | |

* + 1. **Strengthen Board and Management oversight**

The objective of this project is to strengthen Board and Management oversight through training, rationalization of Risk Committee structures, clarity of roles and responsibilities and optimization of meeting frequency and activities.

Approach: *Joint Santander U.S. / the Consultant execution support*

* + - 1. **Board Risk Committee training**

To ensure Board-level support and engagement throughout the Risk Transformation program, and to provide the Board with current best practices and supervisory expectations of their role, the Consultant will assist with the enhancement of Risk training for the Santander U.S. Board Risk Committee. The Consultant will review Board membership changes and training delivered in the past to identify and prioritize the most relevant topics. Given the results of the diagnostic, the Consultant will design regular training and assessment processes (timelines, skills review, material updates, etc.) and define a training curriculum and schedule for 12 months. The selected training topics will be those which will most effectively increase the Board’s oversight and ability to challenge, for example: Risk Appetite Statement, Model Risk Management, implications of new regulations/regulatory findings, CCAR obligations, etc. The Consultant will create the materials and jointly with Santander U.S. deliver two training sessions. The Consultant will engage in a formal knowledge transfer with Santander U.S. upon completion of the second session, and act in an advisory capacity for the delivery of the remaining training sessions.

* + - 1. **Board and Management Risk Committee effectiveness**

The Consultant will work to strengthen guidance from top-level Santander U.S. committees (Board Risk and Executive)

* At the highest level, this involves a review of the linkages between the IHC-level committees and Group committees.
* At the Santander U.S.-level, the Consultant will define the risk-related expectations from top-level committees and identify potential challenges to their respective authorities. The Consultant will review the enterprise committee suite and structure (BERC, ERMCs, etc.) and detail necessary changes to committee composition, mandates, processes, and charters.

The implementation of related changes will occur in a phased approach, with Level 1 Risk committees addressed in Phase 1 and Level 2 Risk Committees in Phase 2. Different levels of committees are explained in Santander U.S.’s Governance Guidance.

Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

* Ownership and accountability for final design and related frameworks and policies
* Provision of information describing the current committee structures and activities
* The engagement of Santander U.S. stakeholders, particularly at the Board and Senior Management levels, is a critical component of these initiatives
* Board attendance and participation in training sessions is essential, as is members’ input into and feedback on the training topics, curriculum and schedule
* The Board must ensure adherence to the finalized training curriculum and schedule in the Santander U.S.-led sessions
* Senior Management responsibilities will include commitment to new committee compositions, mandates, processes and charters, along with securing Board approval for these changes
* Santander U.S. stakeholders will be responsible for the coordination and organization of meetings, interview, and workshops with the Board and Senior Management throughout the project

Deliverables

The Consultant will provide the following deliverables over the next 6 months:

* **By 07/31/2015,** completion of a diagnostic of Risk Management Committee oversight effectiveness in a PowerPoint document
* **By 08/31/2015,** feedback on governance and coordination mechanisms between Santander U.S. and parent in a Word document
* **By 08/31/2015,** the Board Risk Training curriculum and schedule in a Word document
* **By 08/31/2015,** delivery of the first Board Training session with accompanying materials in PowerPoint and/or Word documents
* **By 09/30/2015,** delivery of the second Board Training session with accompanying materials in PowerPoint and/or Word documents
* **By 09/30/2015,** definition of the composition, mandates, and charters for Level 1 Risk Committees in respective Word documents[[2]](#footnote-2)
* **By 11/30/2015,** definition of the composition, mandates, and charters for Level 2 Risk Committees in respective Word documents
* **By 11/30/2015,** completion of a high level assessment of existing performance scorecards and potential remediation of scorecards (dependent on results of assessment) in a PowerPoint document
  + 1. **Enhancing internal risk reporting**

Approach: *Joint Santander U.S. / the Consultant execution support*

The objective of this project is to improve Santander U.S.’s risk reporting capabilities in multiple phases of work, in 2015 focused on BHC entities – SHUSA, SBNA and SCUSA, to be expanded to IHC and other US entities in future phases. The Consultant will ensure to build on existing work and align the target reporting landscape with any organizational changes coming out of Risk Transformation. The focus of Consultant’s support in this Statement of Work is on the BHC entities only.

* + - 1. **Gap analysis and recommendations for quick wins**

The Consultant will assess the current reporting landscape with a focus on reporting on the most senior levels of the organization (e.g. BERC, ERMC, etc.). The Consultant will assess the landscape along dimensions such as report target audience, content, frequency, format, workload to produce reports, controls around data, etc., drawing upon industry practice to identifying gaps and issues. The assessment will allow the Consultant to find quick wins and make recommendations to make risk reporting more effective as soon as possible.

* + - 1. **Reporting landscape**

The Consultant will begin to define the target risk reporting landscape to determine which risk related content should be reported to whom, when, and at what level of granularity. During this phase the Consultant will identify reports to be included in the first and second waves of template creation, the first wave will include reports to the most senior audiences (Complete wave 1 vs. wave 2 report definitions will be agreed once the overall reporting landscape is decided).

* + - 1. **Templates for select reports (phased approach, working down from the top)**

The Consultant will work with report owners to design and socialize the different reports. These target-state templates will include elements that can be filled out based on available data as well as placeholders for information that should be included once the calculation and data aggregation capabilities are available. This activity will involve the development of mock-up reports in PowerPoint. Such reports will include, for example, features such as mechanisms to address outstanding issues from previous reports, drill downs on open issues, use of tablets and other mobile devices to improve accessibility. The process to develop these reports will involve collation of required metrics and limits for each report, engagement with senior stakeholders (e.g. Board members and Senior Management) to ensure the reports convey necessary information, and to secure final sign-off on the format of the reports. The Consultant will provide advisory support to embed these template reports into ‘business as usual’ activities.

Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

* The overall responsibilities for Santander U.S. on this project will be to secure Board approval for relevant Wave 1 report templates, operationalization of Wave 1 risk reports and execution of quick wins on current reporting landscape
* Securing Board approval will involve engaging with Board representatives and/or the Board Enterprise Risk Committee (BERC) to ensure planned Board reports meet their user requirements
* Operationalization of reports will involve the roll-out and use of reports ensuring the production of new reports becomes part of ‘business as usual’ activities. A Santander U.S. team needs to be assigned to create Wave 1 and 2 reports at the intended frequency. This team will also work closely with the Consultant to determine business and data requirements to create the risk reports. Further, this team will need to define end-to-end report process documentation and process assurance controls

Deliverables

The Consultant will provide Santander U.S. the following risk reporting deliverables over the next 6 months:

* **By 07/31/2015,** an assessment of the current reporting landscape (in terms of the reporting audience, content, frequency, format, etc.) and recommendations for quick win enhancements, in PowerPoint
* **By 09/04/2015,** definition of the target risk reporting landscape and definition of which reports are to classified as Wave 1, Wave 2 and other, in PowerPoint
* **By 9/30/2015,** templates and socialization of a first wave of reports, in PowerPoint – approximately 3-5 reports
* **By 10/31/2015,** templates and socialization of second wave of reports, in PowerPoint – approximately 3-5 reports
  1. **Non-financial risk (model risk and operational risk) and Risk identification**

As part of the CART program, Santander U.S. has launched efforts to build out and strengthen existing fundamental risk management capabilities. The Consultant will provide support in the following areas:

* + - * 1. Risk Identification
        2. Model Risk Management
        3. Operational Risk Management
    1. **Risk Identification**

The Risk Identification workstream is part of the overall Risk Transformation horizontal. The aim of the workstream is the improvement of the material risk identification process. Santander U.S. intends to design and execute an enhanced material risk identification process which will synthesize a concise and comprehensive compendium of the organization’s most material risks for senior management and the Board, and for use in downstream applications, such as capital planning.

The Risk Identification workstream has structured its overall efforts into two main activities:

* + - * 1. Enhancement of Risk ID and Assessment process
        2. Execution of Risk ID and Assessment process

To successfully implement the year 1 priorities for Risk Identification, The Consultant proposes a joint execution support, which means the Consultant will share execution responsibility and accountability for deliverables together with Santander U.S.

The Consultant will work in close coordination with the Risk Identification team and the Risk Transformation PMO to ensure that all deliverables are fully aligned with Santander U.S. needs and priorities.

The following paragraphs describe the Consultant’s key tasks and deliverables for the proposed approach.

Approach: *Joint Santander U.S. / the Consultant execution support*

The Consultant proposes to execute jointly with Santander U.S. the Risk Identification sub-workstream of the CART implementation plan in line with the timelines and deliverables outlined in that plan.

* + - 1. **Enhancement of Risk ID and Assessment process**

The Consultant will support Santander U.S. in finalizing the design of the comprehensive risk identification process. This will include the definition of a top-down risk identification process as well as the definition of incremental enhancements for the bottom-up risk identification process to align the risk identification process with industry practice. Additionally the Consultant will develop templates for the top-down process. Subsequently the Consultant will enhance the existing risk identification documentation to reflect the revised processes and to prepare the document for regulatory submission.

* + - 1. **Execution of Risk ID and Assessment process**

The Consultant will support the Santander U.S. Risk Identification team in the review and challenge of the material risk results received from business lines within legal entities as part of the bottom-up risk identification process. Additionally the Consultant will support the aggregation and enrichment process which will ultimately lead to the Business Entity material risk inventories. As a second step the Consultant will prepare and facilitate the ERMC review and challenge workshops (1 workshop per legal entity) on a legal entity level and SBNA-level aggregation workshops (7 workshops - 1 workshop by risk type) to support the aggregation process. Finally, the Consultant will support the aggregation of business entity inventory to a Santander U.S. level inventory. Additionally the Consultant will prepare and facilitate the review and challenge workshops for top-down / bottom-up risk aggregation as well as the ERMC and RC review and challenge (2 - 4 workshops).

Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

* Facilitate the scheduling of meetings with Santander U.S. and legal entity / geography subject matter experts in a timely manner
* Support the interaction and workshops with legal entities / geographies, focused on second line of defense aggregation and synthesis
* Gather bottom-up data from legal entities / geographies and actively follow-up to ensure comprehensiveness of data / information received
* Lead the execution of the top-down risk identification process
* Ensure subject matter expert capacity and senior stakeholders are available to support the top-down risk identification and aggregation workshops

Deliverables

The Consultant will deliver the following deliverables over the next 6 months

1. Enhancement of Risk ID and Assessment process

* **By 07/15/2015,** draft of comprehensive risk identification framework and process in PowerPoint format
* **By 07/31/2015,** documentation of comprehensive risk identification framework and process in PowerPoint format

1. Execution of Risk ID and Assessment process

* **By 08/15/2015,** SBNA aggregation workshops in PowerPoint format
* **By 08/31/2015,** Legal entity ERMC workshops to challenge business entity material risk inventory in PowerPoint format
* **By 10/31/2015,** Risk Identification process policy in Word format
* **By 10/31/2015,** Santander U.S. ERMC and RC workshops to aggregate top-down and bottom-up process results and challenge the Santander U.S. material risk inventory in PowerPoint format
  + 1. **Model Risk Management**

The aim of the Model Risk Management (MRM) horizontal is to address foundational deficiencies in model risk management including the following workstreams:

* Governance and Reporting
  + Oversight of MRM Framework
  + MRM-specific Target Operating Model
  + Model Risk Reporting
* Model Risk Management Framework
  + MRM Capabilities
  + MRM Training
* Model Validation
* MRM Leadership and Staffing
* SCUSA Pricing Governance

To successfully implement the year 1 priorities for Model Risk Management, the Consultant proposes to provide target execution support for the Governance and Reporting, Model Risk Management Framework and MRM Leadership and Staffing workstream. Additionally, the Consultant will provide advisory support for the overall execution of the Model Risk Management workstreams.

The Consultant will work in close coordination with the Model Risk Management team, the Model Risk Management PMO, and the Model Development team to ensure that all deliverables are fully aligned with Santander U.S. needs and priorities.

The following paragraphs describe the Consultant’s key tasks and deliverables for the proposed approach.

Approach: *Joint Santander U.S. / the Consultant execution support*

The Consultant proposes to execute jointly with Santander U.S. the following sub-workstreams of the MRM portion of the CART implementation plan in line with the timelines and deliverables outlined in that plan.

* + - 1. **Oversight of MRM Framework**

The objective of this sub-workstream is to strengthen board and senior management oversight of the new MRM framework through improved awareness of model risk and MRM oversight responsibilities among board members and senior management. The Consultant will develop MRM educational materials and conduct sessions with the board and senior management to prepare them for their responsibility to approve MRM-related policies and committee charters as well as to provide oversight for the MRM framework.

* + - 1. **MRM-specific Target Operating Model**

The objective of this sub-workstream is to define the appropriate MRM operating model for Santander U.S., taking into account regulatory requirements, industry practices, and Santander U.S.’s businesses, talent pool, and organizational structure. The Consultant will detail the operating model for MRM across the three lines of defense in line with the overall target operating model for risk as defined by the risk transformation workstream. This will include the definition of the three lines of defense model for MRM, the design of the organizational structure, the definition of roles and responsibilities, the design of the governance structure, and the definition of organizational linkages within Santander U.S. and across Santander U.S. and its subsidiaries. As part of the effort, the Consultant will also map the critical processes for MRM. The work will result in an implementation plan outlining the steps for transitioning to the target operating model.

* + - 1. **Model risk reporting**

The objective of this sub-workstream is to develop tactical and long-term reporting solutions that will allow Santander U.S. to adequately monitor and manage model risk across the organization. The Consultant will support the design of a comprehensive reporting framework as well as a tactical (short-term) reporting solution for MRM. As part of this sub-workstream the Consultant will first design reporting templates for a short-term solution. The Consultant will then develop requirements for BAU MRM reporting and identify and assess available MRM data in order to define and align MRM monitoring metrics to the overall risk appetite. In a final step the Consultant will design a comprehensive MRM reporting framework (target state) and ultimately develop the requirements and design for the long-term reporting solution.

* + - 1. **MRM capabilities**

The objective of this sub-workstream is to develop a set of policies, procedures, standards, and templates that will allow Santander U.S. to consistently implement model risk management capabilities in line with SR 11-7 across the organization. The Consultant will enhance the existing MRM framework through an articulation of risk appetite metrics for model risk management in line with the risk appetite of the bank. The Consultant will prepare working drafts of Santander U.S. MRM policies, charters, procedures, standards, and templates, including an enhanced provisional approval process. The Consultant will circulate the working drafts and subsequently finalize them after incorporating feedback before seeking approval through relevant committees. Finally, the Consultant will adapt the policies, charters, procedures, and standards for the Santander U.S. subsidiaries.

* + - 1. **MRM Training**

The objective of this sub-workstream is to develop training material and provide training sessions for relevant stakeholders across the three lines of defense for MRM. The Consultant will developgeneraltraining material around SR11-7 and launch initial training sessions together with MRMG (Model Risk Management Group). Additionally the Consultant will develop training material around key components of the new MRM framework and run sessions to introduce the new MRM model to key stakeholders across the company. The Consultant will also prepare training materials across MRM components to facilitate “train-the-trainer” sessions aimed at preparing the three lines of defense to execute their responsibilities under the new MRM framework.

* + - 1. **MRM Staffing and Leadership**

The objective of this sub-workstream is to define the size of and the required skillsets for the new MRM organization across the three lines of defense, and to develop a strategy for meeting that staffing plan. The Consultant will size staffing needs for the new organizational structure as articulated in the MRM operating model. The Consultant will also prepare material and define the process for the MRM talent and staffing assessment across the three lines of defense. In addition to supporting the Santander U.S.-led talent and staffing assessment and identifying key staff gaps, the Consultant will use the talent and staffing assessment findings to prepare a staffing/hiring/training/retention strategy and plan**.**

The Consultant will act as an advisor for the Santander U.S.-led workstreams. This will include:

* Best-practice and industry inputs for the sub-workstream execution
* Review and challenge of deliverables

MRM-related Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

**Joint Santander U.S. / the Consultant execution support**

* Lead the execution of the staff assessment
* Facilitate interaction with relevant support departments (e.g. HR, legal) to ensure documents and trainings can be delivered and approved on time
* Actively participate in working group sessions to ensure input from the MRM team can be incorporated into deliverables as early as possible
* Facilitate the socializing of governance documents (charters, policies etc.) within Santander U.S. as well as relevant legal entities
* Schedule relevant training and approval sessions with senior management and the board risk committee and lead presentation of training materials

**Santander U.S. execution**

* Address the legacy model validation backlog through prioritized validation efforts
* Conduct the model validation required for the CCAR 2016 process
* Assess the requirements (policy, process, governance) to improve oversight and governance of SCUSA pricing

Deliverables

The Consultant will deliver the following deliverables over the next 8 months

Oversight of MRM framework

* **By 07/31/2015,** board educational material on SR 11-7, model risk, board responsibilities and updated MRM policies and charters in PowerPoint format
* **By 08/31/2015,** Santander U.S. board and senior committee training sessions

MRM-specific Target Operating Model

* **By 06/30/2015,** target operating model (three lines of defense, organizational structure, roles and responsibilities) in PowerPoint format
* **By 07/15/2015,** governance model in PowerPoint format
* **By 09/15/2015,** requirements for model roll-out across the subsidiaries in PowerPoint format
* **By 10/31/2015,** mapping of critical processes for MRM in PowerPoint format
* **By 11/15/2015,** implementation plan for the target operating model in PowerPoint format

Model Risk Reporting

* **By 07/30/2015,** MRM reporting templates designed for the Model Risk Management Committee, the Santander U.S. Enterprise Risk Management Committee, and the Board Enterprise Risk Committee (short-term solution) in PowerPoint format
* **By 08/15/2015,** requirements for BAU MRM reporting in PowerPoint format
* **By 09/30/2015,** assessment of available MRM data landscape in PowerPoint format
* **By 10/31/2015,** MRM monitoring metrics aligned to overall Santander U.S. risk appetite in PowerPoint format
* **By 11/30/2015,** MRM reporting framework (target state) in PowerPoint format

MRM Capabilities

* **By 06/30/15,** working version of Santander U.S. MRM policy, model development standards, model validation standards, model documentation template and model validation templates in Word format
* **By 07/31/2015,** draft Santander U.S. policies, charters, procedures, standards and templates embodying the new MRM framework in Word format
* **By 07/31/15,** draft Santander U.S.-level risk appetite operational metrics for model risk in PowerPoint format
* **By 08/31/2015,** revised Santander U.S.-level risk appetite operational metrics for model risk and policies, charters, procedures, standards, and templates based on feedback from key stakeholders ready for review by the required governance committees in Word and PowerPoint format
* **By 11/15/2015,** finalized policies, charters, procedures, standards, and templates for Santander U.S. subsidiaries in Word format

MRM Training

* **By 07/31/2015,** SR11-7 training material and trainings in PowerPoint format
* **By 09/15/2015,** educational material for the new MRM framework in PowerPoint format
* **By 10/31/2015,** educational sessions with key stakeholders across the bank on the new MRM framework in PowerPoint format
* **By 11/15/2015,** training material across components of the MRM framework in PowerPoint format
* **By 12/31/2015,** train-the-trainer sessions and preparation for broad roll-out of trainings

MRM staffing and leadership

* **By 10/15/2015,** staffing needs for the new MRM operating model in PowerPoint format
* **By 11/15/2015,** material and process for talent and staff assessment across the three lines of defense for MRM in PowerPoint format
* **By 01/15/16,** execution support for talent and staff assessment across the three lines of defense for MRM across Santander U.S. and its subsidiaries
* **By 01/31/16,** talent and staffing gaps across the three lines of defense for MRM in PowerPoint format
* **By 02/15/16,** staffing/hiring/training/retention strategy and plan in PowerPoint format
  + 1. **Operational Risk Management**

The aim of the Operational Risk horizontal is to address the foundational elements within each of the “four pillars” of the Santander U.S. Operational Risk Management organization: Operational Risk Management (ORM); Information Risk Management (IRM); Vendor Risk Management (VRM); and Business Continuity Management (BCM). To align with the Risk Transformation horizontal, the Operational Risk horizontal has structured its overall efforts using the following workstreams:

* Governance & Organization
  + Target operating model
  + Staffing and transition planning
* Risk Identification & Measurement
  + Issue ID and loss data capture
  + Material event escalation
  + RCSA tools and processes
  + Scenario analysis
  + VRM, IRM, and BCM tools and processes
  + Operational Risk loss forecasting
* Risk Management
  + Operational metrics for ORM risk appetite metrics and internal reporting
* Risk Monitoring
  + External OR Y-14Q reporting

To successfully implement the year 1 priorities for Operational Risk Management, the Consultant proposes to provide targeted execution support for the Governance & Organization workstream. Additionally, the Consultant proposes to act as a review and challenge board across all Operational Risk workstreams to provide input on adequacy and quality of deliverables produced.

The Consultant will work in close coordination with the Operational Risk Management team and the Operational Risk Management PMO to ensure that all deliverables are fully aligned with Santander U.S. needs and priorities.

The following paragraphs describe the Consultant’s key tasks and deliverables for the proposed approach.

Approach: *Joint Santander U.S. / the Consultant execution support*

The Consultant proposes to execute jointly with Santander U.S. the following sub-workstreams of the MRM portion of the CART implementation plan in line with the timelines and deliverables outlined in that plan.

* + - 1. **Target operating model**

The Consultant will assess the as-is state of the Operational Risk Management (ORM), Information Risk Management (IRM), Vendor Risk Management (VRM) and Business Continuity Management (BCM)) set-up in the 1st and 2nd line of defense across Santander U.S. and the legal entities / geographies. Based on findings from this assessment the Consultant will design the target operating model. Specifically, this will include the design of the organizational structure, the definition of roles and responsibilities, the design of the governance structure and the high-level design of key processes, the design of the organizational linkages between Santander U.S. and the legal entities / geographies, and the design of clear enforcement mechanisms to support the ORM framework.

* + - 1. **Staffing and transition planning**

Santander U.S. will perform a staffing assessment with respect to the finalized ORM target operating model to identify hiring needs, and a gap analysis of its staff with respect to the enterprise Operational Risk policies and standards to identify training needs. Santander U.S. will develop a recruitment plan to implement the target operating model and will design training based on the identified needs. Finally, Santander U.S. will complete the necessary recruitment and conduct training on the enterprise ORM policies and standards.

To support the above, Consultant will develop a high-level assessment of staffing needs for the new model and support the assessment of skill and staffing needs (based on discussions with legal entities / geographies and the as-is state assessment) across Santander U.S. and the legal entities / geographies (skill and staff assessment primarily Santander U.S. led). This will result in a high-level staffing/hiring strategy and plan based on staffing/skill gaps. As a last step the Consultant will prepare summary transition and implementation plans for the new models (Santander U.S. and the legal entities / geographies) to ensure Santander U.S. has a clearly defined and agreed roadmap for how to embed the new model within Santander U.S. and especially the legal entities / geographies.

* + - 1. **Remaining Operational Risk development components workstream**

Approach: *The Consultant review and challenge board*

The Consultant will act as a review and challenge board across all sub-workstreams of the Operational Risk Management workstream. The Consultant will schedule and prepare regular review and challenge sessions with the ORM leadership team and the respective sub-workstream leaders. The workstream leaders will submit (interim) deliverables to the Consultant prior to the sessions for review, and the Consultant will prepare a discussion document with independent views from the Consultant subject matter experts to guide and facilitate the review and challenge sessions.

Santander U.S. responsibilities

The following are responsibilities, deliverables, and other obligations of Santander U.S. and its subsidiaries:

**Joint Santander U.S. / the Consultant execution support**

* Facilitate interaction with relevant support departments (e.g. HR, legal) to ensure documents can be delivered and approved on time
* Facilitate interaction and ensure involvement of relevant stakeholders within Santander US as well as relevant legal entities
* Actively participate in working group sessions to ensure input from the MRM team can be incorporated into deliverables as early as possible
* Lead the execution of the staff assessment

**Santander U.S. execution**

* Enhance the framework and process for issue identification and management and loss data capture
* Refine the material event escalation process by defining Santander U.S.-specific high-level requirements for an effective process and the definition of material events
* Develop an approach (i.e. top-down v. bottom-up), process and methodology for the RCSA program as well as and enterprise Operational Risk taxonomy
* Assess and enhance the scenario analysis methodology
* Perform a diagnostic, maturity assessment and gap analysis for VRM, IRM, and BCM Develop recommendations and requirements for risk management improvements, as well as a detailed roadmap for implementation
* Enhance the loss forecasting model, strengthen the modeling of targeted scenarios and improve the estimation of stressed legal losses
* Define key operational metrics and templates for internal ORM reporting to ensure the Board-approved Operational Risk Appetite metrics can be adequately monitored
* Develop timely reporting mechanisms and processes to satisfy Operational Risk Y-14Q requirements

Deliverables

The Consultant will deliver the following deliverables over the next 12 months

Target operating model

* **By 08/15/15,** Assessment of current ORM model across Santander U.S. and legal entities / geographies in PowerPoint format
* **By 08/31/15,** Identification of key gaps in the operating model in PowerPoint format
* **By 09/15/15,** Options for the 3LoD model across Santander U.S. and legal entities / geographies in PowerPoint format
* **By 09/30/15,** Draft target operating model for Santander U.S. and legal entities / geographies in PowerPoint format
* **By 10/31/15,** Agreed target operating model design for Santander U.S. and legal entities / geographies in PowerPoint format

Staffing and transition planning

* **By 10/31/15,** High-level sizing of staffing needs for new target operating model in PowerPoint format
* **By 11/30/15,** High-level skill and staffing assessment based on discussions with key stakeholders across 1st and 2nd LoD (Santander U.S.–led) in PowerPoint format
* **By 12/31/15,** High-level staffing/hiring strategy and plan based on staffing gaps in PowerPoint format
* **By 12/31/15,** Implementation and transition plan in PowerPoint format

The Consultant review and challenge board

* **Periodic,** Discussion document for review and challenge sessions in PowerPoint format
* **Periodic,** Minutes of review and challenge sessions in Word format

* 1. **Model development**

To address a number of identified weaknesses, Santander U.S. plans to enhance its forecasting capabilities over 2015 and beyond as part of the CART program. Consultant has been asked to support the retail loan model development workstream as well as ancillary ‘Corporate Function’ PPNR forecasts. These are expected to cover the following modeling suites:

* + - * 1. Credit loss forecasting models, to support macro-sensitive projections, used primarily for stress testing
        2. PPNR models, to support stress testing and, potentially, strategic planning

Given the limited time available prior to the CCAR 2016 submission and the limited internal development and validation resources, development efforts will be guided by several requirements, including:

* + - * 1. **Prioritization:** Development will be properly prioritized, focusing on fewer, critical models and using simpler approaches / assumptions for the rest
        2. **Model robustness:** Development will strive to deliver robust models that can be used in the long term

If data is not available or robust models cannot be identified, other approaches should be used

Models will not be developed for the sake of having models

* + - * 1. **Robust model documentation:** Development will be thoroughly documented in line with regulatory guidance and internal requirements set by MRM
        2. **Development efforts will consider both short term and long term requirements of the organization:** Development will focus on CCAR 2016 needs given the more pressing timelines, but efforts will consider other requirements (e.g., fundamental credit analysis) to ensure any solution built is scalable for other uses
        3. **Focus on process:** Development will cover both models and process – particularly for PPNR – to ensure a robust and efficient forecasting process is implemented; models will support the process, but do not represent the ultimate product

In particular, the Figure below summarizes the landscape of planned development efforts, broken down into 5 workblocks.



Subsections 2.3.1 to 2.3.5 below provide additional detail for each subsection. Development for each of the workblocks will follow a prioritized schedule involving the use of models and assumptions depending on the criticality of the line item.

* + 1. **PPNR model development**

Approach: Consultant led with Santander U.S. support and accountability for modeling approach definitions

Context and objectives

The objective of this workblock is to improve the PPNR forecasting process through the development of forecasting approaches (models and non-models) for all balance sheet and income statement line items relevant to the retail portfolios, as well as some corporate functions not linked to individual portfolios. In particular, this workblock will cover:

* + - * 1. The complete balance sheet and income statement at SCUSA
        2. All components except deposit balances and associated fees for the Retail line of business at SBNA (i.e., loan balances, loan pricing, fees ex. deposit fees and expenses)
        3. Corporate functions at SBNA, which include funding approaches, allocated expenses, etc.

Consultant responsibilities

The development of PPNR forecasting approaches will be led by Consultant and will follow a three-step process:

* + - * 1. Data gathering and segmentation analysis, including

Assessment of existing models to define required enhancements

Assessment of data availability and data quality to inform viable approaches

Segmentation for modeling across PPNR components and businesses

* + - * 1. Development of the PPNR forecasting approach

Definition of desired forecasting approach

Development / enhancement of forecasting approach

Model development, estimation and testing (including back-testing and sensitivity testing), where appropriate

Calibration of non-modeled approaches

Documentation of forecasting approaches in line with internal and regulatory requirements

* + - * 1. PPNR execution support <jointly with Santander U.S. team>

Execution of PPNR forecasting process as part of the Q4 ’15 dry-run

Documentation of results, and review and challenge process

Potential fine-tuning of forecasting approaches, if appropriate and supported by MRMG

* + - * 1. Extensive knowledge transfer through the whole exercise

The Figure below summarizes the development efforts – and associated priority – planned for 2015. These development efforts are aligned with Santander U.S.’s CCAR model landscape.



Santander U.S. responsibilities

The following are the overall responsibilities of the Santander U.S. team that will support the execution efforts:

* Lead the data gathering, assembly, and cleaning efforts, with advisory support from Oliver Wyman
* Collaborate with specific analyses throughout the modeling definition process
* Access to relevant SMEs, stakeholders and business executives
* Review & challenge of the full model development process to assure a comprehensive understanding of the approach and development details involved
* Jointly execute the implemented models as part of the Q4 ’15 dry-run
* Facilitate basic governance elements throughout the exercise including institutional guidelines, PMO support, documentation templates, and access to any other documents required

Deliverables

Oliver Wyman will provide the following deliverables over the next 7 months:

**By 08/31/2015**, a detailed analysis of the segmentation approach and final definition of forecasting methodology

**By 09/30/2015**, completion of the model and forecasting tools including relevant items used during development (e.g. analyses, coding)

**By 10/30/2015**, completion of the model documentation reports, following SR11-7 guidance and internal SHUSA MRMG development and documentation standards

**By 11/30/2015**, support for the implementation of forecasting approaches for CCAR execution

**By 12/28/2015,** full documentation of forecasting approaches, following SR11-7 guidance and internal SHUSA MRMG development and documentation standards; documentation of dry-run results for PPNR across scenarios

* + 1. **Auto loan and lease loss model development**

Approach: Consultant-led with Santander U.S. support and accountability for modeling approach definitions

Context and objectives

The second workblock under the retail model development effort involves the development of a new Auto loan and lease loss modeling ‘family’ that can ultimately be adapted to meet both fundamental credit analysis and macro-sensitive loss forecasting needs.

The modeling ‘family’ will follow a loan-level framework that includes forecasting of losses as well as prepayment and deferment (to be used for PPNR). The ‘family’ will rely on a component-loss modeling approach to meet the different needs of the organization, and capture the relevant dynamics of loan-level losses at a granular level.

Consultant responsibilities

Consultant will lead and execute the Auto loss modeling development and implementation effort, following a three-step approach

* Foundation setting and model specification
  + Establish specific model applications and business requirements
  + Collect and review internal data and evaluate availability and need for external data
  + Fully articulate all behaviors to be captured by the model and likely key risk drivers for each
  + Finalize model structure
    - Confirm feasibility of proposed structure given data availability
    - Incorporate SCUSA feedback to the modeling framework
    - Ensure model structure can meet multiple needs of the organization (CCAR, Basel, Ratings, etc.) with appropriate adjustments
* Model development
  + Exploratory analysis
  + Model estimation
    - Determine list of potential variables
    - Develop single and multi-factor models for further testing
    - Perform backtesting and stability analysis on single component models as well as the entire model suite
  + Sensitivity analysis
  + Develop and implement linkages to forecasting engine
* Knowledge transfer and implementation support
  + Draft detailed model documentation to the standards of SR 11-7
  + Draft model execution process-flow
  + Implementation of model monitoring process
  + Hand-off of models and development materials to SCUSA model owners, including in-depth training
  + In cooperation with SCUSA personnel, develop a project plan and timeline overview for implementation

The framework will be designed specifically for SCUSA’s business model to improve flexibility and ultimately accuracy of the models. To that end, we will involve key stakeholders and business leads in the decision making process for model development.

Santander U.S. responsibilities

The Santander U.S. team will support the execution efforts and be accountable for the following:

* Lead the data gathering, assembly, and cleaning efforts, with advisory support from Oliver Wyman
* Collaborate with specific analyses throughout the modeling definition process
* Access to relevant SMEs, stakeholders and business executives
* Review & challenge of the full model development process to assure a comprehensive understanding of the approach and development details involved
* Jointly execute the implemented models as part of the Q4 ’15 dry-run
* Facilitate basic governance elements throughout the exercise including institutional guidelines, PMO support, documentation templates, and access to any other documents required

Deliverables

The Consultant will provide the following deliverables over the next four months:

**By 07/31/2015,** the final model conceptual design to cover the required uses and sub-portfolios

**By 09/31/2015,** completion of the models and delivery of tools / code used in development

**By 10/15/2015,** support for the implementation of forecasting approaches for CCAR execution

**By 10/15/2015,** full model documentation, following SR11-7 guidance and internal SHUSA MRMG development and documentation standards

* + 1. **SCUSA personal lending loss model development**

Approach: Execution led by Santander U.S. with Consultant providing advisory support

Context and objectives

The third workblock under the retail model development workstream involves the development of a new macro-sensitive loss forecasting model for the SCUSA personal lending portfolio (which includes LendingClub, BlueStem and NewComLink exposures). Efforts are already underway to develop models for these portfolios within Santander U.S.; as a result, Consultant will provide only advisory support throughout the development of these models.

Consultant responsibilities

Consultant will provide advisory support, and review and challenge the modeling definitions and development.

* + - * 1. Assessment of the planned development efforts, across a number of dimensions including those below *<guidance provided by Consultant, to be discussed and agreed upon with Santander U.S. development team>*

Dataset (e.g. is the portfolio-specific data robust enough?; is industry data required and is it representative of Santander U.S. portfolio?)

Granularity (e.g., is the model sufficiently granular to adequately capture unique characteristics of sub-segments, where applicable?)

Methodology (e.g., does the model have a robust structure/form and components?)

Linkage to macroeconomic factors (e.g., how are all the fundamental economic components of the model output linked to economic drivers?)

Parameterization (e.g., is the model calibration supported by empirical evidence & analysis?)

* + - * 1. Development of detailed, actionable recommendations and guidance to ensure the model development effort remains robust
        2. Review and challenge throughout model development process
        3. Review and challenge of model documentation

Santander U.S. responsibilities

The Santander U.S. team will lead the development of the Personal Lending loss model, with advisory and Review & Challenge support from the Consultant. This includes:

* Lead the data gathering, assembly, and cleaning efforts
* Lead segmentation, model estimation and model testing
* Draft comprehensive model documentation
* Lead implementation of the model
* Execute implemented models as part of the Q4 ’15 dry-run

Deliverables

The Consultant will provide the following items over the upcoming months

* + - * 1. **By 07/15/2015,** completed assessment of development efforts, including actionable recommendations to address gaps
        2. **By 09/15/2015**, completion of on-going support including discussions, advisory, and written opinions sharing our perspectives on modeling and documentation approaches (dependent on internal timelines)
        3. **By 09/15/2015,** completion of review and challenge of documentation developed by Santander U.S. (dependent on internal timelines)
    1. **Residential Real Estate loss model development**

Approach: Joint-execution by the Consultant and Santander U.S.

Context and objectives

Last year, Santander U.S. developed loan-level loss models for its Residential Real Estate portfolio with the support of Moody’s (covering Mortgage, HELOC and HELOAN exposures). The models did not exhibit appropriate macro-sensitivity hence were not fully used in the CCAR 2015 submission: vintage models were developed and used instead to generate the primary loss forecasts. Nonetheless, the loan-level models represent a step in the right direction and, with substantial enhancements such as additional segmentation and more robust methodological approaches (e.g. modeling of defaults, regression specifications, and variable selection) are expected to meet regulatory expectations for stress testing.

Enhancements will focus on the Mortgage and HELOC portfolios (since SHUSA is no longer originating HELOAN products) and will be staggered over the next two years. In particular, the Mortgage and HELOC PD models will be enhanced this year, while the LGD and EAD models will be enhanced next year. Since new, enhanced models will not be available in 2015 for some components, Consultant will support the definition and implementation of a forecasting approach for LGD and EAD for the Mortgage and HELOC portfolios; and PD, LGD and EAD for the HELOAN portfolio. These approaches will either rely on the existing models or new judgment-based approaches.

This statement of work covers 2015 enhancements only.

Consultant and Santander U.S responsibilities

The Santander U.S. methodology team is already working to implement some planned 2015 enhancements, hence a joint-execution model between the Methodology team and Consultant will be used for this workblock. In particular, Consultant and Santander U.S. resources will work together to define potential model adjustments, implement them in SAS, and test the associated outcome.

Most of the activities will be jointly-executed, however some specific responsibilities will be split among the teams. Below is an overview of the responsibilities of Consultant and Santander U.S.

Consultant responsibilities

* + - * 1. Detailed assessment of the existing PD models for Mortgage and HELOC across multiple dimensions including those below *<led by Consultant and supported by Santander U.S.>*

Development data (e.g. are the required definitions in place (prepayment, charge off)?, are there sufficient data integrity checks implemented?)

Granularity (e.g., is the model sufficiently granular to adequately capture unique characteristics of sub-segments, where applicable?)

Methodology (e.g., does the model have a robust structure/form and components?)

Linkage to macroeconomic factors (e.g., how are all the fundamental economic components of the model output linked to economic drivers?)

Parameterization (e.g., is the model calibration supported by empirical evidence & analysis?)

* + - * 1. Development of enhancement plan for existing PD models for Mortgage and HELOC, including detailed, actionable recommendations/modeling adjustments on how to close the gaps across each of the dimensions in the model evaluation *< led by Consultant and supported by Santander U.S.>*
        2. Development and implementation of required enhancements for PD model *< joint-execution by Consultant and Santander U.S. >*
        3. Specification of forecasting approaches for LGD and EAD for Mortgage and HELOC; and PD, LGD and EAD for HELOAN *< led by Consultant and supported by Santander U.S.>*
        4. Support drafting specific sections of relevant model documentation, and providing review and challenge for the remainder of the document *< led by Santander U.S. and supported by Consultant>*
        5. Support implementation of forecasting approaches *< led by Santander U.S. and supported by Consultant>*
        6. Review and challenge throughout model development and implementation effort

Santander U.S. responsibilities

* + - * 1. Data preparation and execution of supporting analysis (e.g. performance analysis by multiple control variables and vintages) *< led by Santander U.S. with guidance provided by Consultant>*
        2. Development and implementation of required enhancements for PD model *<joint-execution by Consultant and Santander U.S. >*
        3. Development of forecasting approaches for LGD and EAD for Mortgage and HELOC; and PD, LGD and EAD for HELOAN *<led by Consultant and Santander U.S.>*
        4. Development of comprehensive model documentation, in line with internal and regulatory requirements *< led by Santander U.S. and supported by Consultant>*
        5. Lead implementation of the model *< led by Santander U.S. and supported by Consultant>*
        6. Lead execution of models as part of the Q4 ’15 dry-run

Deliverables

The Consultant and Santander U.S team will provide the following deliverables:

* **By 07/31/2015,** completed assessment of current model suite and creation of an enhancement plan (PD only)
* **By 09/30/2015,** implementation of required enhancements (PD only); note that date may be subject to change based on nature of enhancements and availability of Santander U.S. internal resources
* **By 09/30/2015,** development of expert based approaches for LGD and EAD
* **By 09/30/2015,** completion of documentation
  + 1. **Other portfolio loss model development**

Last, no substantial loss model development efforts are planned for the remaining portfolios. In fact, expert-based forecast approaches are planned to be leveraged for the majority of these portfolios. Consultant will either support the development and documentation of such expert-based approaches or, if internal resources become available during the year, will provide advisory support for internal development efforts.

# **Staffing, timing, and fees**

We will mobilize our team starting the week of June 15th.  We are very committed to this exercise and will bring our best possible team to this effort.  We believe that our value proposition is enhanced through deep involvement from a seasoned practitioner – Kevin Blakely, a former CRO at multiple CCAR banks with significant risk transformation experience.  In addition to Kevin, Oliver Wyman’s senior team will consist of seven experienced Partners from our Finance and Risk Practice: Anders Nemeth in the lead role, plus Til Schuermann, Michael Duane, Jeff Brown, James Morgan, Paul Mee, and Dan Cope. In addition to being seasoned risk and capital planning advisors, Til and Jeff will bring the regulatory perspectives of the Fed and the OCC respectively. In addition, we will involve other SMEs across the firm as well as Partners actively working with Santander Group in Madrid as necessary.

Our senior team will be supported by a full-time consulting team to support each of the main workstreams described above. Each workstream will be led by a Principal and will be supported by a dedicated team of consultants. As specific tasks and deliverables are known in greatest clarity for the first 6 months, Consultant has prepared the monthly schedule below of full time consultant support over this period. (Note: forecast aggregation engine work is covered under a separate Statement of Work, so resources are not listed here, including one of the Principals who will be supporting the model development workstream). For the remainder of the 12 month period, Consultant will dedicate a total of 15 full-time consulting resources, with deliverables to be agreed jointly by Santander U.S. and Consultant. Throughout the 12 months of work, Consultant will maintain flexibility to redirect resources as needed to different efforts (including those that may not have been specifically contemplated within this Statement of Work). To the extent that total resourcing required to address such changes in scope requested by Santander U.S. exceeds the total FTE counts outlined below, Consultant will work with Santander U.S. to adjust professional fees as appropriate.



The total professional fees for this engagement will be $37,000,000 plus expenses not to exceed 15% of professional fees.

1. Consultant’s support corresponds to a subset of the overall planned deliverables across four of the workstreams defined by CART: Risk Transformation, Operational Risk, Model Risk Management, and Model Development [↑](#footnote-ref-1)
2. Level 1 and Level 2 Risk Committees are defined in Santander U.S.’s Governance Guidelines [↑](#footnote-ref-2)