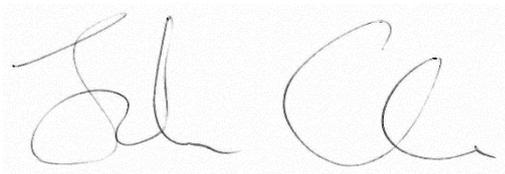


# Santander UK and ANTS ring-fencing transfer scheme

Supplementary Report

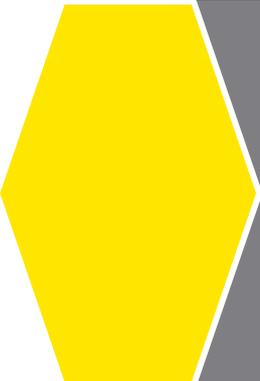
31 May 2018

A handwritten signature in black ink, appearing to read 'John Cole', is displayed on a light grey background.

Prepared by John Cole FCA, MCSI

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Part 1 – Introduction,  
background and approach to  
the Supplementary Report

# 1. Introduction

## 1.1 The Santander UK Group's Ring-Fencing Plan, including the Scheme

When an application is made to the UK High Court of Justice in England and Wales (the High Court), in respect of a Ring-fencing Transfer Scheme (the Scheme), it has to be accompanied by a report on the terms of the Scheme (a Scheme Report) from an independent skilled person. This is a requirement of Section 109A of the Financial Services and Markets Act 2000 (FSMA). The Scheme Report must be made in a form approved by the Prudential Regulation Authority (PRA), having consulted the Financial Conduct Authority (FCA).

Santander UK plc (Santander UK) and Abbey National Treasury Services plc (ANTS) will undertake a Scheme to transfer certain business, including customer and counterparty products, transactions and arrangements, and the corresponding assets and liabilities. The primary purpose of the Scheme is to enable Santander UK to carry on core activities as a ring-fenced body in compliance with ring-fencing legislation.

Santander UK and ANTS have applied to the High Court for the sanction of the Scheme in line with the ring-fencing legislation, such applications having been accompanied by a Scheme Report.

## 1.2 The role of the Skilled Person

Santander UK has nominated me to act as the Skilled Person and has funded the costs of my appointment, the production of the Scheme Report and this Supplementary Report. The PRA has approved my appointment after consultation with the FCA.

As part of my approval as Skilled Person, a detailed exercise was undertaken to ensure my independence and ability to prepare a Scheme Report and Supplementary Report. Procedures were put in place by me and the Banco Santander Group following my appointment to ensure that independence was maintained between me, my team from Ernst & Young LLP (EY) and the Banco Santander Group. I was formally appointed and approved as Skilled Person originally in 2016 and reconfirmed in February 2017.

Under this section of FSMA, the Scheme Report must state:

1. Whether persons other than the transferor concerned are likely to be adversely affected by the Ring-fencing Transfer Scheme; and
2. If so, whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve whichever of the purposes mentioned in Section 106B(3) of FSMA is relevant.

This is referred to as the 'Statutory Question'.

As the Skilled Person, I am responsible for authoring the Scheme Report and this Supplementary Report, required under section 109A of FSMA. Alongside the Scheme Report, the Supplementary Report addresses the Scheme of Santander UK and ANTS. Santander UK has funded the costs of my nomination and the production of these reports.

On 29 January 2018, my Scheme Report was submitted to the High Court, and was considered during the Directions Hearing held on 5 February 2018.

Following the Directions Hearing, I have produced this Supplementary Report which serves to confirm or update the conclusions reached in my Scheme Report. It will be published and will also be submitted to the High Court for the Sanction Hearing, scheduled for 11 and (if required) 12 June 2018. Following the date of the Supplementary Report, I will continue to monitor communications and other activity related to the Scheme, and the implementation of the Scheme, up to the Sanction Hearing. Please see section 1.7.1 for further detail on the scope of this Supplementary Report.

## 1.3 The Santander UK Group's Ring-Fencing Plan (including the Scheme)

Since 2014, the Santander UK Group has designed and been running a Ring-Fencing Programme in order to implement the Ring-Fencing Plan. The Ring-Fencing Plan outlines the changes to enable the Santander UK Group to comply with the requirements of the ring-fencing legislation by 1 January 2019 (the implementation date for ring-fencing).

One aspect of the Ring-Fencing Programme is that Santander UK and ANTS will carry out the Scheme in order to transfer certain business, including customer and counterparty products, transactions and arrangements, and corresponding assets and liabilities, as set out below.

Under the Scheme, certain business will be transferred:

- ▶ From ANTS to Santander UK;
- ▶ From ANTS to Banco Santander S.A. London Branch (SLB); and
- ▶ From Santander UK to SLB.

The business to be transferred does not include any Retail or Small and Medium Enterprise (SME) business (other than the business of 1 ANTS SME customer, which will be transferred from ANTS to Santander UK under the Scheme).

Santander UK and ANTS have applied to the High Court for the sanction of the Scheme in line with the ring-fencing legislation.

## 1.4 Skilled Person statement of truth

I confirm that I have made clear which facts and matters referred to in this Supplementary Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

## 1.5 Skilled Person duty to the High Court

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the relevant Practice Direction, and the Guidance for the Instruction of Experts in Civil Claims 2014.

In reporting on the Scheme as the Skilled Person, I recognise that I owe a duty to the High Court to assist on matters within my expertise. This duty overrides any obligation to Santander UK or the PRA and the FCA. I confirm that I have complied with this duty.

## 1.6 Skilled person's reliance on partners and employees of EY

I confirm that in preparing this Supplementary Report, I have relied on relevant subject matter resources who are partners and employees of EY, appropriately qualified in their respective fields, and under my supervision.

## 1.7 Background and scope of the Supplementary Report

### 1.7.1 Scope of the Scheme Report

On 29 January 2018, my Scheme Report was submitted to the High Court, and was considered during the Directions Hearing held on 5 February 2018. Following the Directions Hearing, I have produced this Supplementary Report that seeks to address matters not covered in my Scheme Report, update the Scheme Report as a consequence of new information becoming available since the date of my Scheme Report (29 January 2018), and confirm whether the conclusions reached in my Scheme Report remain valid.

The implementation of the Ring-Fencing Programme is ongoing and within a business-as-usual (BAU) operating environment. It is in this context that this Supplementary Report has been produced.

As with the Scheme Report, this Supplementary Report does not consider wider changes or progress being made under the Santander UK Group's overall Ring-Fencing Programme, because that is not my role under FSMA. However, I believe it is necessary to describe, broadly, any additional information regarding the Ring-Fencing Programme that I believe is relevant, to inform the reader and provide a clear and unambiguous Supplementary Report.

In producing this Supplementary Report I have taken into account the guidance published by the PRA and the FCA, together with my own experience and professional judgement. Please see section 7 of my Scheme Report, for more information regarding my approach.

#### 1.7.1.1 Specific areas of focus

- ▶ The effect of the Scheme on customers and other persons connected to the Jersey and Isle of Man (IoM) branches of Santander UK;
- ▶ Communications, queries or objections to the Scheme received by the Santander UK Group from customers or other persons; and
- ▶ I was asked to consider or clarify the following 3 matters by the High Court at the Directions Hearing, held on 5 February 2018:
  1. Some customers with derivatives transactions transferring under the Scheme from ANTS to SLB, as set out in table 129 of my Scheme Report, were identified as being adversely affected. This was because their documentation, relating to certain derivative transactions with ANTS, requires ANTS (or any transferee of ANTS) to have minimum credit ratings on entry into the transaction, and to provide collateral if it ceases to have the applicable minimum credit ratings. The lower credit rating of Banco Santander (and therefore SLB) relative to ANTS would mean that the minimum rating entry condition would not be met in all cases. The Scheme would operate to disapply any minimum rating entry condition, but not the requirement for SLB to provide collateral in accordance with the terms of the applicable documentation. This means that if a rating trigger is activated as a consequence of the transfer of the derivative transaction to SLB, requiring SLB to provide collateral, SLB would continue to honour that collateral requirement.

Mr Justice Hildyard asked whether I could consider the impact of this requirement of SLB on the viability of Banco Santander (including SLB). I have therefore considered this in section 3.1 of this Supplementary Report.
  2. For customers remaining in ANTS, Mr Justice Hildyard asked whether I could clarify why I considered that 1 individual customer remaining in ANTS after 31 December 2018 was adversely affected by the loss of ANTS' credit rating, but the other individual customer was not. I have therefore clarified the effect of this change on the remaining ANTS customers in section 3.2 of this Supplementary Report.

3. 11 members of the Santander UK Group Pension Scheme (SUKGPS) were identified as being adversely affected as a result of becoming deferred members of the SUKGPS. I had considered Santander UK Group's mitigation, of replacing their defined benefit scheme membership with defined contribution scheme membership alongside additional 20% salary contributions to their defined contribution scheme for 3 years, to be sufficient.

Mr Justice Hildyard asked whether The Pensions Regulator (TPR) or pension scheme trustees had been consulted in relation to these arrangements, and whether these 11 members had received personalised written correspondence informing them of the proposals.

I have therefore provided further information on consultation with TPR and the pension scheme trustees, together with greater clarity of the effect of the change on these 11 members. I have also provided an update on the written correspondence with these 11 members, in section 3.3 of this Supplementary Report.

Whilst this Supplementary Report has been prepared as a standalone document, it should be read together with my Scheme Report to understand the detail of my analysis, findings and conclusions. All definitions are the same as those used in my Scheme Report (unless otherwise noted) and a list of those definitions used in this Supplementary Report is at Appendix 1.

This Supplementary Report, alongside my Scheme Report and Santander UK's Summary of my Scheme Report, are all available to view or download from the Santander UK Group's dedicated ring-fencing website (<https://www.santanderringfencing.co.uk>).

Printed copies are available by calling, emailing or writing to Santander UK (whose details can also be found by visiting the website above).

This Supplementary Report, and the Scheme Report, are intended to be in plain English, concise and sufficiently detailed to allow customers or other persons to understand how the Scheme may affect them. Together, the Scheme Report and Supplementary Report are designed to enable the reader to consider why adverse effects may affect them and whether there are reasonable alternatives available to the Santander UK Group which could reduce any adverse effect that may be caused.

I assume no responsibility whatsoever in respect of, or arising out of or in connection with the contents of this Supplementary Report to parties other than the High Court, the PRA and the FCA. If other parties choose to rely in any way on the contents of this Supplementary Report, they do so entirely at their own risk and neither I, nor EY, its partners and staff will owe or accept any duty to any other party and shall not be liable for any loss, damage or expense (including interest) of whatever nature caused by any other party's reliance on this report. No liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.

## 1.8 Approach to assessing the Statutory Question

Section 109A(4) of FSMA sets out the Statutory Question for me to answer throughout my work in respect of the Scheme, my Scheme Report and this Supplementary Report. My approach has therefore been designed to answer that question.

My findings and conclusions are based on an analysis of changes that the Ring-Fencing Programme is making as a consequence of the Scheme, followed by more detailed work on the groups of persons likely to be adversely affected by the Scheme.

Where I have already reached a conclusion in my Scheme Report, my objective has been to validate whether my conclusions are affected by any changes to the Scheme, progress or changes in the implementation of the Scheme, new information made available to me, or other relevant developments that have happened in the period following the Directions Hearing and the date of this Supplementary Report. I have carried out this assessment by the review of documents and information provided by the Ring-Fencing Programme, including governance papers for the Ring-Fencing Programme Steering Committee and for the PRA and FCA.

For the Santander UK Jersey and IoM branches, my objective has been to understand the effect of the Scheme on the customers and other persons connected to these branches, whether the effects are adverse, and if adverse whether they are being mitigated or whether there are alternatives. Where adverse effects are not being entirely mitigated, and alternatives are not available, I have analysed whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve the Scheme's purposes.

For further details regarding my approach, please see section 7 in my Scheme Report.

## 1.9 Key assumptions

### 1.9.1 EU referendum vote (Brexit)

Central to the design of the Ring-Fencing Plan (including the Scheme) is the ongoing permission to operate SLB as a branch of Banco Santander in the UK, which will be the receiving entity for transferring prohibited and certain permitted business from ANTS and Santander UK under the Scheme.

Banco Santander is a European Economic Area (EEA) authorised credit institution, and SLB is currently a UK branch of Banco Santander established pursuant to the exercise of single market passporting rights under the European Union (EU) CRD IV and MiFID II Directives. On 29 March 2017, the UK formally gave notice under Article 50(2) of the Treaty on European Union of the United Kingdom's intention to withdraw from the European Union such that, unless otherwise agreed, the UK will cease to be a member of the European Union (and, it is envisaged, of the EEA) by no later than 29 March 2019. As a consequence, those firms (such as Banco Santander) currently exercising EU Directive rights, to establish a branch or provide financial services into the UK ('inbound firms'), are expected to need to seek PRA authorisation to carry on PRA and FCA regulated activities in the UK.

On 20 December 2017, Sam Woods, Deputy Governor, Prudential Regulation and CEO PRA wrote a "Dear CEO" letter to those firms that would potentially be impacted by a loss of single market passporting rights, including inbound firms. The letter sets out the basis on which inbound firms carrying on banking and investment business in the UK should approach seeking PRA-authorisation and highlights that: "In seeking authorisation to carry on PRA-regulated activities, firms will need to meet the Threshold Conditions for authorisation, and we will consider the extent and nature of a firm's presence in the UK, including in relation to mind and management and premises, in determining whether these conditions are met."

The PRA issued a consultation paper on 20 December 2017 which sets out the PRA's approach to branch authorisation and supervision (CP29/17)<sup>1</sup> which provides further details of the proposed approach, as outlined above. Further, the PRA issued a policy statement on 28 March 2018 which provides feedback on responses on CP29/17<sup>2</sup>.

SLB does not, and under the proposed Ring-Fencing Plan is not planning to, undertake retail banking or investment business and accordingly is eligible to seek, and is seeking, to continue to operate as a UK branch of Banco Santander, notwithstanding the UK's withdrawal from the European Union. Furthermore, as part of the Ring-Fencing Plan, SLB is planning to maintain levels of local governance and control in line with those of Santander UK.

My Scheme Report included a comparison of the proposed levels of governance and control of SLB and Santander UK. Given the PRA's approach summarised above, I am satisfied that the use of SLB does not create an additional execution risk over and above any existing risks and that the option chosen by the Ring-Fencing Plan continues to be the best option available.

On 23 March 2018, the UK and EU reached a political agreement on the terms of a Brexit implementation period. It should enter into force following the UK's formal withdrawal from the Union on 29 March 2019 and remain in place until the end of 2020. During the implementation period, the UK will effectively remain part of the EU single market and legal order but lose its seat at EU institutions. For business, this should mean no change to UK/EU cross-border trading arrangements, and financial services firms should continue to benefit from cross-border passporting permissions during the implementation period.

On 28 March 2018 Sam Woods wrote to firms again and advised, that in the light of the agreement and the UK Government's statement on temporary permissions, that firms could plan on the assumption that PRA authorisation will only be needed by the end of the implementation period. This approach was also confirmed by a statement from the FCA on 28 March 2018. Notwithstanding these announcements, the Banco Santander Group is continuing to progress an application for a third party branch authorisation for SLB with the PRA, FCA and European Central Bank (ECB), with a full application planned to be submitted at the end of June 2018.

<sup>1</sup> [PRA Consultation Paper CP29/17 - International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision](#)

<sup>2</sup> [PRA Policy Statement 3/18 - International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision](#)

## 1.9.2 Santander UK's Jersey and IoM branches

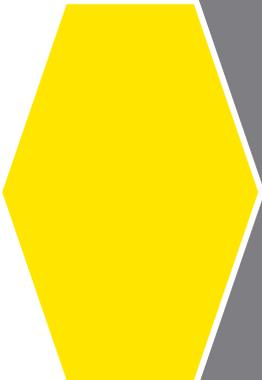
Under Article 20 of the FSMA 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080), a ring-fenced body must not maintain or establish a branch in any country or territory which is not an EEA member state. In order to meet this requirement, all activities (including customer relationships and products currently held) conducted through Santander UK's Jersey and IoM branches are required to transfer outside of Santander UK (and the wider Ring-fenced bank (RFB) Sub-Group) prior to 1 January 2019.

For the purposes of my assessment, it is noted that Santander UK's Jersey and IoM branches are expected to remain branches of Santander UK immediately after the final legal effective date of the Scheme (13 August 2018). The planning assumption made by the Ring-Fencing Programme is that by the deadline of 1 January 2019 the transfer of the business of Santander UK's Jersey and IoM branches, including the related assets, liabilities and connected customers and other persons of each of these branches, will have taken place outside of the Scheme.

I am satisfied that this planning assumption is reasonable for the Ring-Fencing Programme to base its plan on. I have reached this conclusion following an assessment of the Ring-Fencing Programme's plan to implement the transfer of the business of Santander UK's Jersey and IoM branches to a member of the Banco Santander Group outside of the RFB Sub-Group by 1 January 2019. I consider the plan to be achievable, for the following reasons:

- ▶ The Ring-Fencing Programme is running two parallel plans (preferred and contingency) to transfer the Santander UK Jersey and IoM branches to different entities outside of the RFB Sub-Group. There is a preferred destination for the business of the branches, approved by the Banco Santander Board, with the other option being progressed as a contingency.
- ▶ The key delivery risk to achieving the 1 January 2019 deadline is the authorisations required from the relevant regulators. The Ring-Fencing Programme is managing the risk of delay in 3 ways:
  - Planning on a 6 month approval process, which in my experience I believe is sufficient time to achieve the required authorisations. This is further validated by the relevant local regulator's guidelines for bank licence applications, which suggests a 6 month authorisation period from submission of a completed application, which the Ring-Fencing Programme has factored in;
  - Running a preferred and contingency plan with different regulators, to mitigate the risk of delays with one regulator's authorisation process, as noted above; and
  - Engaging early with the regulators. I am aware that all affected regulators have been written to and that meetings have been held with them to discuss the proposed plans. It is my view that early engagement with regulators is in itself a way of mitigating risk, as it provides an early opportunity to test timescales and identify delivery risks and issues that may not have otherwise been considered.
- ▶ In my view, both plans are complete and adequately resourced, with senior management commitment and oversight.

I understand that in the event the transfer of the business, assets and liabilities connected to the Jersey and IoM branches, to another member of the Banco Santander Group outside of the RFB Sub-Group, will be carried out under separate local Jersey and IoM transfer schemes (the Jersey Scheme or IoM Scheme) that are outside the scope of this Supplementary Report, or otherwise under agreements that are outside the provisions of FSMA Part VII.



## Part 2 – Update to the conclusions in my Scheme Report

## 2. Summary of my conclusions

### 2.1 Introduction

The Supplementary Report is intended to confirm whether the conclusions that I reached in answering the Statutory Question, as detailed in my Scheme Report, have been affected by changes to the Scheme, the ongoing implementation of the Ring-Fencing Plan (including the Scheme) and new information made available to me or other relevant developments in the period between the Directions Hearing and the date of this Supplementary Report. Any new findings or conclusions reached are detailed in this Supplementary Report.

Where new information has come to light or where additional work has been performed, these have been assessed against the Statutory Question, in the same way as in my Scheme Report.

### 2.2 My conclusion on the Statutory Question as expressed in my Scheme Report

Having completed my work for this Supplementary Report, with the exception of 1 additional potential adverse effect that I have identified and address below (please refer to sections 2.2.1.4 and 4.3.6 for additional details), I have concluded that the findings and conclusions in my Scheme Report remain unchanged and complete, namely:

- ▶ There are groups of customers and other persons who are likely to be adversely affected by the Scheme as detailed in my Scheme Report. There are no new groups of customers or other persons adversely affected other than those identified in my Scheme Report.
- ▶ Since the publication of my Scheme Report, there is 1 new potential adverse effect that I have identified for the existing group of Relevant Financial Institution (RFI) customers. I have concluded that this new adverse effect is not more than reasonably necessary to achieve the Scheme's purposes.

Accordingly, taking this into account alongside the other adverse effects identified in my Scheme Report, I remain satisfied that the adverse effects identified are not likely to be greater than reasonably necessary in order to achieve the Scheme's purposes.

#### 2.2.1 Changes to note

The following summarises the main changes that have taken place since the Scheme Report was published.

##### 2.2.1.1 Customer numbers

There are some limited differences in the numbers of customers affected within specific groups of customers. These changes do not affect my conclusions, rather the numbers of customers who may be affected. These are detailed in section 4.2 of this Supplementary Report.

##### 2.2.1.2 Credit rating changes

Since the Scheme Report was published, the long- and short-term credit ratings of Banco Santander have been upgraded one notch by S&P and Moody's. The S&P credit rating and Moody's short-term credit rating of Santander UK/ANTS and Banco Santander is now the same and the differential between the Moody's long-term credit rating of Santander UK/ANTS relative to Banco Santander has narrowed.

In my Scheme Report I noted that credit ratings were one factor used by counterparties in calculating Credit Valuation Adjustment (CVA) and Capital Valuation Adjustment (KVA) and that without access to the counterparties own calculations, it would not be possible to estimate the effect.

Whilst the change in ratings does not of itself necessarily change any of my findings or conclusions, it is worth noting that this narrowing in the differences between the ratings of Santander UK/ANTS and Banco Santander may reduce the risk of the adverse effects relating to CVA and KVA calculations from materialising, given that the adverse effects are only theoretically created by the lower credit rating of Banco Santander relative to that of Santander UK and ANTS (please see section 6.6 for further details).

#### 2.2.1.3 Market counterparty cohort – US or US Affiliated Swap Dealers

In section 32 of my Scheme Report (relating to the market counterparties), I had been advised that cleared transactions with the London Clearing House (LCH) would be transferred by the LCH to Banco Santander and/or SLB prior to the implementation of the Scheme and therefore these transactions were not considered in my Scheme Report.

At the date of this Supplementary Report, I have been advised that there are 4 US or US affiliated swap dealers with open interest rate swaps transactions that may not clear through the LCH prior to the Scheme as planned, and as a consequence will become subject to transfer under the Scheme. As a result, these transactions will become subject to clearing under the mandatory clearing rules of Title VII Dodd-Frank Act (D-FA).

I have considered the effect of this change on the effects already identified in the market counterparties section of my Scheme Report and the conclusions I had reached. I have concluded that this change will have no additional effect on the 4 US or US affiliated swap dealers to those already identified in my Scheme Report (section 32).

#### 2.2.1.4 Santander UK and/or ANTS Relevant Financial Institution cohort – Credit Valuation Adjustment

As set out in my Scheme Report, for a number of customer groups, I referenced a change relating to credit valuation adjustment(s) (CVA) that may have an effect on customers who hold derivative positions transferred under the Scheme from Santander UK and/or ANTS to SLB.

At that time, the Ring-Fencing Programme had identified that, as a result of the lower credit rating of Banco Santander (including SLB) when compared to the credit rating of Santander UK and/or ANTS, there may be a wider credit spread being applied to the CVA calculations for those affected customers.

However, I noted that it was not possible to assess the exact effect on CVA for individual customers as the valuation models used by customers are complex, contain a number of variables (of which credit spread is only one) and are specific to each individual customer. I was advised by the Ring-Fencing Programme that the derivatives positions being transferred under the Scheme would be subject to collateral provisions in the associated Credit Support Annex (CSA) between Santander UK/ANTS and for those customers. Under the terms of the CSAs, Santander UK or ANTS would provide collateral in the event that there is a net mark to market (MTM) liability in relation to those derivatives which would mitigate any CVA effect caused by changes in credit ratings.

Since the publication of the Scheme Report, I have been made aware that there are also RFI customers who do not have CSAs, whose derivatives are being transferred to SLB under the Scheme. These RFI customers may be potentially affected by the change in credit rating and the potential adverse effect on their CVA calculations may not be mitigated.

I have therefore had to assess whether this change to my findings, impacts my conclusions regarding the Statutory Question for this group of customers. I have concluded that there is a potential adverse effect regarding CVA calculations for this group of customers, which is in addition to that already identified in my Scheme Report covering KVA calculations for the same group of customers.

I am satisfied that this potential adverse effect for this group of customers is not more than reasonably necessary to achieve the Scheme's purposes. I am further satisfied that the Ring-Fencing Programme has been in ongoing dialogue with this group of customers through their relationship directors (RDs) (relating to their transfer), as well as the formal notifications sent in March following the Directions Hearing. As a result, I am satisfied that the customers have had adequate time to consider the effect of the Scheme on themselves, including effects on CVA and KVA calculations.

Further details of my assessment is set out in section 4.3.6 of this Supplementary Report.

#### 2.2.1.5 Santander UK's Jersey and IoM branches

As set-out in section 2.1 of my Scheme Report, I was not in a position to assess the Statutory Question for customers and other persons connected to the Santander UK Jersey and Isle of Man branches at the time of finalising my Scheme Report. I have considered the Statutory Question for these groups of persons in this Supplementary Report. Please refer to sections 7 and 8 for my findings.

#### 2.2.1.6 Transactions and positions remaining in ANTS

In my Scheme Report, section 26 included an assessment of the effect of the Scheme on customers with transactions or arrangements that would remain in ANTS after the implementation of the Scheme. At the date of my Scheme Report, the assumption was that the following would remain in ANTS at the end of 2018:

- ▶ 2 asset facilities for 2 Financial Institutions (FIs); and
- ▶ 18 instruments issued on behalf of 6 Santander Global Corporate Banking division of Banco Santander Group (SGCB) customers to beneficiaries of guarantees, letters of credit (LOC) or performance bonds.

Since the publication of the Scheme Report, I have been made aware, by the Ring-Fencing Programme, that there will be an increase in the number of transactions and arrangements remaining in ANTS, compared to what was originally anticipated. Subsequently, I have had to assess whether these additions affect my findings and conclusions. Further details of the additional positions and arrangements are set out in section 4.3.1 of this Supplementary Report.

I have considered the effect of these additions on my findings and conclusions regarding this group of persons, and I am satisfied that the additions do not change my findings and conclusions summarised below and set out in detail in section 26 of my Scheme Report.

## 2.2.2 No adverse effects

I confirm that there are no adverse effects as a consequence of the Scheme on the following groups of customers and other persons. Further information on the effects of the Scheme on these groups of customers are set-out in Parts 3 and 4 of my Scheme Report.

Table 1: Summary groups of customers and persons where there are no adverse effects

### Summary groups of customers and persons where there are no adverse effects

#### Groups of customers

- ▶ Santander UK Group Retail Banking customers
- ▶ Santander UK Group SME customers
- ▶ Santander UK Corporate Customers (non-SME) holding permitted products only
- ▶ SLB customers
- ▶ Banco Santander customers

#### Other groups of persons

- ▶ Santander UK Group Retail and Small Business Banking branch employees
  - ▶ Members of Santander UK defined contribution pension schemes
  - ▶ Santander UK Group landlords
  - ▶ Santander UK Group suppliers (including direct and indirect Payments and Clearing Infrastructure)
  - ▶ Bondholders of Santander UK
  - ▶ Debtholders of Santander UK and ANTS
  - ▶ Beneficiaries of guarantees, letters of credit or performance bonds of Santander UK and ANTS
  - ▶ Santander UK and ANTS shareholders
  - ▶ Tax authorities
  - ▶ Bank and FSCS Levy
-

## 2.2.3 Summary of adverse effects of the Scheme on groups of customers

Since the publication of my Scheme Report, I have identified 1 new possible adverse effect, as a consequence of the Scheme or as a consequence of the implementation of the Scheme, on Santander UK and ANTS RFIs with derivative transactions that transfer to SLB. This potential adverse effect is an addition to the conclusions reached in my Scheme Report dated 29 January 2018.

With the exception of the RFIs (please see section 4.3.6 for further details on this possible adverse effect), I confirm that for the other groups of customers, the changes that may have adverse effects on groups of customers, as a consequence of the Scheme and as detailed in my Scheme Report, remain unchanged.

In the table below I have summarised my assessment and conclusions for each adverse effect and the groups of customers affected. Further information on the effects of the Scheme on these groups of customers are provided in Part 3 of my Scheme Report.

Table 2: Summary of adverse effects identified by the Skilled Person on groups of customers

### Summary of adverse effects identified – groups of customers

**ANTS Corporate Customers (non-SME) holding permitted products only (i.e. permitted products being those which may be provided by a RFB after 1 January 2019):** adverse effect identified as a consequence of the ANTS to Santander UK business transfer under the Scheme.

- ▶ Changes to rights of set-off: Santander UK (the RFB) will obtain the ability to set-off outstanding unsecured loan amounts against deposits that the customer holds with Santander UK (the RFB). This change will only affect customers who default on an unsecured loan.

No mitigations or reasonable alternatives are available. However, given the nature of the change and the default event required to trigger the adverse effect, I am satisfied that any adverse effect is not likely to be greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

**Santander UK Corporate Customers (non-SME) holding permitted and prohibited products (i.e. prohibited products being those which may not be offered by a RFB after 1 January 2019):** adverse effects identified as a consequence of the Santander UK to SLB business transfer under the Scheme.

- ▶ Changes to netting sets: Santander UK corporate customers will no longer be able to net any Early Termination Amount (ETA) arising from prohibited derivatives that are transferred to SLB against any ETA arising from permitted derivatives retained in Santander UK (the RFB). This change will only result in an adverse effect on customers in the event of a default by either SLB or Santander UK.
- ▶ Changes to rights of set-off: Santander UK corporate customers will no longer be able to set-off any ETA owed by SLB in relation to prohibited derivatives transferred to SLB against any unsecured loans that have been retained in Santander UK. This change will only result in an adverse effect on customers in the event that SLB or Santander UK defaults.
- ▶ Credit Valuation Adjustment (CVA): possible adverse (or positive) effects on the CVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) relative to Santander UK and ANTS. It is not possible to assess the effect of the change in credit rating on actual calculations, given that calculation methods are determined by each customer and are likely to be based on a range of variables of which the credit rating is but one.

Whilst the Ring-Fencing Programme has carried out proactive communications with customers to inform them of the changes and possible effects, this action in itself is not a mitigation to the adverse effects identified above.

No mitigations or reasonable alternatives are available. However, given the nature of the changes, I am satisfied that any adverse effects are not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

ANTS Corporate Customers (non-SME) holding permitted and prohibited products: adverse effects identified as a consequence of both the ANTS to SLB and the ANTS to Santander UK business transfers respectively, under the Scheme.

- ▶ Changes to rights of set-off: Santander UK (the RFB) will obtain the ability to set-off outstanding unsecured loan amounts that are transferred to it under the Scheme against deposits that the customer holds with Santander UK (the RFB) that are not subject to security. However this will only adversely affect customers should the customer themselves default on such unsecured loan(s). Further, corporate customers will no longer be able to set-off any ETA arising from prohibited derivatives transferred to SLB against the unsecured loans that have been transferred to Santander UK (the RFB). This change will only result in an adverse effect on customers in the event of a default by either SLB or Santander UK.
- ▶ Changes to netting sets: corporate customers will no longer be able to net any ETA arising from prohibited derivatives held in SLB against ETA arising from permitted derivatives held in Santander UK (the RFB) (including those transferred from ANTS). This will only result in an adverse effect on customers in the event of a default by either SLB or Santander UK.
- ▶ CVA: possible adverse (or positive) effects on the CVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) to ANTS. It is not possible to assess the effect of the change in credit rating on actual calculations, given that calculation methods are determined by each customer and are likely to be based on a range of variables of which the credit rating is but one.

Whilst the Ring-Fencing Programme has carried out proactive communications with customers to inform them of the changes and possible effects, this action in itself is not a mitigation to the possible adverse effects identified above.

No mitigations or reasonable alternatives are available. However, given the nature of the changes, I am satisfied that any adverse effects are not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

Santander UK and ANTS Specified Corporate Customers: adverse effects identified as a consequence of both the ANTS to SLB and the Santander UK to SLB business transfers respectively, under the Scheme.

- ▶ Changes rights of set-off: specified corporate customers will no longer be able to set-off any ETA arising from permitted and/or prohibited derivatives transferred to SLB against unsecured loans or deposits held in, or transferred to, Santander UK (the RFB). This change will only result in an adverse effect on customers in the event of a default by either SLB or Santander UK. In addition, for those specified corporate customers who hold deposits with Santander UK which are not the subject of security, Santander UK will obtain the ability to set off those deposits against any loans transferred to Santander UK under the Scheme if the customer defaults on the loan.
- ▶ Santander UK and ANTS derivative valuations service: SLB uses a different discount curve to value derivatives in its valuation service compared to that used by ANTS and Santander UK. This may have a negative (or positive) effect on the valuation of derivative positions. However it is not possible to validate the actual effect until the point of legal transfer.
- ▶ CVA: possible adverse (or positive) effects on the CVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) to Santander UK and ANTS. It is not possible to assess the effect of the change in credit rating on actual calculations, given that calculation methods are determined by each customer and are likely to be based on a range of variables of which the credit rating is but one.

Whilst the Ring-Fencing Programme has carried out proactive communications with customers to inform them of the changes and possible effects, this action in itself is not a mitigation to the possible adverse effects identified above.

No mitigations or reasonable alternatives are available. However, given the nature of the changes, I am satisfied that any adverse effects are not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

Santander UK and ANTS Relevant Financial Institutions: adverse effects identified as a consequence of both the ANTS to SLB and the Santander UK to SLB business transfers respectively, under the Scheme.

Note: Since the publication of my Scheme Report, I have identified an additional potential adverse effect related to CVA that may impact this group of persons. Please see section 4.3.6 for further details on this additional potential adverse effect.

- ▶ ANTS derivative valuations service: SLB uses a different discount curve to value derivatives in its valuation service compared to that used by ANTS and Santander UK. This may have a negative (or positive) effect on the valuation of derivative positions. However, as with the CVA and KVA effects, it is not possible to validate the actual effect until the point of legal transfer. Santander UK is undertaking proactive communications with customers to explain the changes. Although no mitigation is being made available, I am satisfied that the change is a necessary consequence of the Scheme.
- ▶ KVA and CVA: possible adverse (or positive) effects on KVA and CVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) to Santander UK and ANTS. It is not possible to assess the effect of the change in credit rating on actual calculations, given that calculation methods for both KVA and CVA are determined by each customer and likely based on a range of variables of which the credit rating is but one.

Whilst the Ring-Fencing Programme has carried out proactive communications with customers to inform them of the changes and possible effects, this action in itself is not a mitigation to the possible adverse effects identified above.

No mitigations or reasonable alternatives are available. However, given the nature of the changes, I am satisfied that any adverse effects are not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

- ▶ Ratings Triggers: certain customers have derivatives that have ratings triggers embedded in their documentation that may be triggered as a result of the lower credit rating of Banco Santander (and therefore SLB), when compared to ANTS and Santander UK.

This lower credit rating may breach a minimum counterparty rating entry condition, trigger a requirement for SLB to provide collateral on a one-way basis to the RFI customer or, in extremis, result in a termination of the agreement. The Scheme will override any minimum rating condition or events of defaults in contracts that would be infringed or triggered, as a result of the transfer to Banco Santander, through the Scheme. As a mitigation, SLB will provide any additional collateral required by the contracts. I have therefore concluded that as a consequence of the mitigations offered, the adverse effect identified will be adequately mitigated for the affected customers.

Exempt Financial Institutions of ANTS: adverse effect identified as a consequence of the ANTS to SLB business transfer, under the Scheme.

- ▶ KVA: possible adverse (or positive) effects on the KVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) to ANTS. It is not possible to assess the effect of the change in credit rating on actual calculations, given that calculation methods are determined by each customer and are likely to be based on a range of variables of which the credit rating is but one.

Whilst the Ring-Fencing Programme has carried out proactive communications with customers to inform them of the changes and possible effects, this action in itself is not a mitigation to the possible adverse effects above.

No mitigations or reasonable alternatives are available. However, given the nature of the change, I am satisfied that the adverse effect is not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

Customers remaining in ANTS after 1 January 2019: adverse effect on 1 customer with a Total Return Swap (TRS) who will remain connected to ANTS. This as a consequence of the termination of the cross-guarantee between ANTS and Santander UK under the Scheme.

- ▶ The loss of downstream-guarantees from Santander UK and ANTS no longer having a credit rating: customers and counterparties who remain in ANTS after 1 January 2019 will no longer have recourse to Santander UK through its downstream-guarantee in the event of ANTS not being able to meet its liabilities.

1 affected customer with an open TRS has agreed through bilateral discussions an acceptable mitigation to address the adverse effect and maintain the transaction in run-off within ANTS.

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## 2.2.4 Summary of adverse effects of the Scheme on other groups of persons

I confirm that the changes that may have adverse effects on groups of persons, other than customers, as a consequence of the Scheme and as detailed in my Scheme Report remain unchanged.

There have been some changes to the number of Santander UK Group defined benefit pension scheme members who I had identified as being adversely affected and to the mitigation proposed by Santander UK for the adverse effect identified. Neither of these changes alter the conclusion I reached in my Scheme Report. Please refer to sections 3.3 and 4.3.3 for further details.

In the table below I have summarised my assessment and conclusions for each adverse effect and the groups of persons affected. Further information on the effects of the Scheme on these groups of customers are provided in Part 4 of my Scheme Report.

Table 3: Summary of adverse effects identified by the Skilled Person on other groups of persons

### Summary of adverse effects identified – other groups of persons

Santander UK Group non-branch employees in the UK: adverse effect identified as a consequence of the overall Ring-Fencing Plan, including the Scheme.

- ▶ A total of 3 UK based employees were initially identified as being at risk of redundancy and went through the standard Santander UK consultation process, where Santander UK looks for alternative roles within the Banco Santander Group on their behalf. Of those, 2 have identified other roles within the UK that they have moved to.
- ▶ The third employee has been made redundant following the consultation process. A role was identified which matched the employee's specialist skillset. However the role was turned down because it was based in Madrid. Following completion of the Santander UK consultation process, the 1 employee has been made redundant on standard Santander UK redundancy terms and conditions.

Despite the consultation process, no reasonable alternatives were available, from the perspective of the employee made redundant and the employee has been compensated through the standard Santander UK redundancy package. Given the nature of the changes, and the efforts made to identify alternative employment options, I am satisfied that it was mitigated as much as possible and is a necessary consequence of the Scheme.

Santander UK Group defined benefit pension scheme members: adverse effect identified as a consequence of the overall Ring-Fencing Plan, including the Scheme.

Note: Since the publication of my Scheme Report, the number of affected pension scheme members, in this group of persons, has changed from 11 to 10. Please refer to sections 3.3 and 4.3.3 for further details on this change.

- ▶ 10 members of the Santander UK Group Pension Scheme (SUKGPS): 10 active members of the SUKGPS will be transferring under TUPE to Banco Santander (including SLB), which is not a sponsoring and/or participating member of the SUKGPS. As a result, these 10 employees will become deferred members of the SUKGPS, who no longer have the benefit of ongoing entitlements/contribution.

The Santander UK Group will be replacing these defined benefit contributions with membership and participation in a defined contribution scheme, with an additional contribution of 20% of their salary for a period of 6 years. This is forecast to result in a net positive financial outcome for these members through to their estimated retirement age when compared to the continued receipt of defined benefit contributions.

I have therefore concluded that the adverse effect will be mitigated in full and the adverse effect is no more than reasonably necessary in order to achieve the statutory purposes of the Scheme.

Market counterparties transferring from ANTS to Santander UK (the RFB): adverse effect identified as a consequence of the ANTS to Santander UK business transfer under the Scheme.

- ▶ Changes to netting sets: market counterparties will no longer be able to net any ETA arising from prohibited derivatives with SLB against any ETA arising from permitted derivatives with Santander UK (to the extent that their permitted transactions transfer to Santander UK and their prohibited transactions transfer to SLB). This will only result in an adverse effect on market counterparties in the event that SLB or Santander UK defaults.

Whilst the Ring-Fencing Programme carried out proactive communications with market counterparties to inform them of the changes and possible effects, this action in itself is not a mitigation to the possible adverse effects above.

No mitigations or reasonable alternatives are available. However, given the nature of the changes and the default event required to trigger the adverse effect, I am satisfied that they are necessary consequences of the Scheme.

Market counterparties transferring from ANTS to SLB: adverse effects identified as a consequence of the ANTS to SLB business transfer under the Scheme.

- ▶ Changes to netting sets: market counterparties will no longer be able to net any ETA arising from prohibited derivatives with SLB against any ETA arising from permitted derivatives with Santander UK (where their prohibited transactions are migrated to SLB and permitted derivatives are migrated to, or remain in Santander UK).

This will only result in an effect on market counterparties in the event that SLB or Santander UK defaults, and is being mitigated through early and proactive communications with counterparties and is without reasonable alternatives.

- ▶ KVA: possible adverse (or positive) effects on the KVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) to ANTS. It is not possible to assess the effect of the change in credit rating on actual calculations, given that calculation methods are determined by each counterparty and are likely to be based on a range of variables of which the credit rating is but one.

Whilst the Ring-Fencing Programme carried out proactive communications with market counterparties to inform them of the changes and possible effects, this action in itself is not a mitigation to the possible adverse effects above.

No mitigations or reasonable alternatives are available. However, given the nature of the changes, I am satisfied that the adverse effects are not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.

## 2.3 My conclusion on the Statutory Question in regard to Santander UK's Jersey and IoM branches

As detailed in section 6.4 of my Scheme Report, changes to the wider Ring-Fencing Plan resulted in the customers and other persons connected to Santander UK's Jersey and IoM branches coming into the scope of my work. As reported in my Scheme Report and at the Directions Hearing, these changes happened too late for me to complete my assessment of the effects of the Scheme on these customers and other persons and include them within my Scheme Report, and so I would consider the effects of the Scheme on them in this Supplementary Report.

Please note that in my Scheme Report I had used the term 'Crown Dependencies' to refer to the branches of Santander UK in Jersey and the IoM. In this Supplementary Report, I shall use the term 'Santander UK's Jersey and IoM branches' to refer to these.

Below is a summary of my findings for those customers and other persons connected to Santander UK's Jersey and IoM branches.

### 2.3.1 No adverse effects

Having completed my work for this Supplementary Report, I have concluded that there are no groups of customers or other persons connected to the Santander UK Jersey and IoM branches, who are likely to be adversely affected by the Scheme.

Table 4: Santander UK Jersey and IoM branch customers and other persons where there are no adverse effects

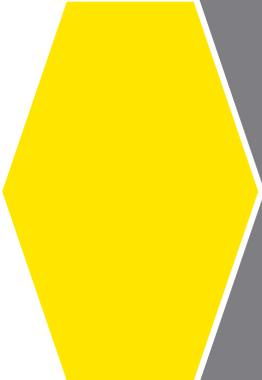
#### Summary groups of customers and persons where there are no adverse effects

##### Groups of customers

- ▶ Santander UK Jersey branch Retail, SME, Corporate and RFI customers
- ▶ Santander UK IoM branch Retail, SME, Corporate and RFI customers

##### Other groups of persons

- ▶ Santander UK Jersey and IoM branch employees
- ▶ Members of Alliance & Leicester International (ALIL) Services Limited (Santander) Group Personal Pension
- ▶ Members of Abbey National International Pension Scheme
- ▶ Santander UK Jersey branch landlords
- ▶ Santander UK Jersey and IoM branch suppliers



Part 3 – Actions from the  
Directions Hearing (5 February  
2018)

### 3. Actions requested in Directions Hearing

During the Directions Hearing, Mr Justice Hildyard asked me to further consider, or provide additional information regarding my conclusions on, 3 matters. These are elaborated upon below.

#### 3.1 Ratings Triggers and Collateral Provision

Mr Justice Hildyard asked that I consider the impact on Banco Santander (including SLB) of SLB having to provide collateral to certain customers with derivatives transferring from Santander UK or ANTS to SLB under the Scheme, as a consequence of rating trigger clauses in those derivatives being activated by the lower credit rating of Banco Santander (including SLB). This is referred to in section 1.7.1 above and described in detail in section 24.3.3 of my Scheme Report.

At the date of my Scheme Report, Banco Santander had a lower long-term credit rating than that of Santander UK and ANTS. I concluded in my Scheme Report that this may have an adverse effect on these customers, but this adverse effect would be mitigated by SLB providing the additional collateral required under the contractual documentation, in the event of a credit rating trigger being activated.

It should be noted that both long-term and short-term ratings from S&P and Moody's have been upgraded for Banco Santander since the Scheme Report was published (see section 6.6 of this Supplementary Report), reducing the risk of this adverse effect materialising. However the potential adverse effect still exists, and the Fitch credit ratings of Banco Santander remain one notch below that of Santander UK and ANTS.

As a mitigation to this potential adverse effect, SLB has confirmed it would provide the additional collateral over the life of the transactions, in line with the terms of the existing documentation. In the event that the ratings triggers are activated, SLB will post additional collateral to cover volatility buffers, specific to each of the rating agencies, for market valuation changes on the derivatives.

Current regulatory requirements mean that Banco Santander must retain liquid assets, to cover 100% of the associated liquid asset buffer requirement (consistent with the liquidity coverage ratio) of the additional collateral, for any downgrade up to and including a 3-notch downgrade of its credit rating. This regulatory requirement, in itself, acts as a mitigant for any potential adverse effect.

Whilst it is difficult for the Ring-Fencing Programme to precisely calculate the liquidity requirements to cover collateral required under the derivatives with the affected customers at a point in time in the future, the Ring-Fencing Programme has estimated the maximum exposure that SLB would need to cover for the 15 transferring derivative positions for the affected RFIs. The estimated total liquidity required would be in the order of £240mn (as at 9 April 2018). Senior SLB leadership have confirmed to me that Banco Santander holds, and will continue to hold, sufficient liquid assets to cover this exposure.

Given the financial analysis I have carried out on the viability and sustainability of Banco Santander, I am satisfied that this additional potential exposure would not be significant in the context of the overall financial resources of Banco Santander, and therefore SLB.

## 3.2 Customers remaining in ANTS

Mr Justice Hildyard asked that I further clarify why I had concluded that only 1 of the remaining ANTS customers as at 1 January 2019, and not both, would be adversely affected by the loss of ANTS' credit rating.

ANTS will no longer have a credit rating as at 1 January 2019, as a result of the transfer of business from ANTS and the cross-guarantees between ANTS and Santander UK being unwound by the Scheme (with effect from 23.59 (London time) on 31 December 2018). Any positions or arrangements held with ANTS from 1 January 2019 will potentially be adversely affected by the loss of the benefit from the Santander UK downstream-guarantee, and the consequence that Santander UK (the RFB) would no longer be required to meet the liabilities of ANTS in the event that ANTS was unable to meet them.

At the time of writing my Scheme Report, only 2 positions were due to remain within ANTS for 2 RFI customers after 31 December 2018, those being a TRS with a market counterparty and a secured annuity transaction with an insurance company.

Under the terms of the TRS, ANTS pays the market counterparty the principal and interest it receives on a portfolio of securities that it holds, whilst the market counterparty pays ANTS USD LIBOR amounts calculated by reference to a notional amount that reduces as principal is paid on the underlying securities. The market counterparty is exposed to ANTS if the value of the securities exceeds the present value of the amounts it must pay to ANTS under the transaction. The transaction is currently guaranteed by Santander UK under the cross-guarantees and is collateralised on a two way basis under the terms of an International Swaps and Derivatives Association (ISDA) credit support annex.

Under the terms of the secured annuity transaction, ANTS sold a portfolio of mortgages to the insurance company and in return receives a fixed schedule of quarterly Sterling (GBP) payments over the period to 31 December 2059. The payment obligations are guaranteed and secured through a title transfer of collateral (a combination of gilts and bonds transferred to ANTS) and a fixed charge over a separate portfolio of gilts held in a custodian account with another bank. In other words, it is the customer (rather than ANTS) that has the principal payment obligations to ANTS under the transaction. Should ANTS default prior to the maturity of the transaction, the customer has the right to set off and apply what it owes to ANTS against the collateral it has transferred to ANTS. It has no additional exposure or increased risk as a consequence of the Scheme, meaning there is no adverse effect on that customer.

In my Scheme Report, I concluded that the market counterparty with the open TRS transaction would be adversely affected because of the ongoing exposure to ANTS after 31 December 2018 and the loss of the Santander UK guarantee, although this had been appropriately mitigated by ANTS with the agreement of the market counterparty. I concluded that the customer with the secured annuity transaction will not be adversely affected as it has no additional exposure or increased risk as a consequence of the Scheme.

For the reasons set-out above, the transfer of ANTS' business and the unwinding of the cross-guarantees therefore only affects 1 of the 2 individual customers with remaining positions in ANTS considered in my Scheme Report.

Since publishing my Scheme Report, the Ring-Fencing Programme has identified a number of additional transactions and arrangement that will remain with ANTS after implementation of the Scheme. These additional positions will not be transferring to Santander UK or SLB under the Scheme. I have considered the effects of the Scheme on these additional positions, and in particular this specific effect, and concluded that there are no adverse effects on those additional transactions and arrangements as a consequence of the Scheme, as they constitute assets held by ANTS. Further details of these positions can be found in section 4.3.1 of this Supplementary Report.

## 3.3 Pension scheme members

Mr Justice Hildyard asked whether TPR and/or the SUKGPS pension scheme trustees were consulted in relation to those original 11 members of the SUKGPS, as set out in my Scheme Report, who would become deferred members of the SUKGPS.

Further, Mr Justice Hildyard enquired as to whether the original 11 deferred pension scheme members had received personalised written correspondence to inform them of the proposals regarding their pension scheme membership.

In my Scheme Report, I had considered Santander UK Group's mitigating actions of replacing the affected pension scheme members' defined benefit scheme membership with defined contribution membership with an additional 20% employer contribution to their defined contribution scheme for 3 years. I concluded that these mitigating actions were sufficient based on analysis which had been undertaken by the Ring-Fencing Programme.

Since the publication of my Scheme Report, I have been made aware of 3 changes to the active members of the SUKGPS who become deferred members of the SUKGPS as a consequence of the Ring-Fencing Plan (including the Scheme). This has reduced the total number to 10 active members affected. Please refer to table 5 and section 4.3.3 for further details.

### 3.3.1 Consultation with the TPR and/or the SUKGPS pension scheme trustee

The Ring-Fencing Programme engaged with the SUKGPS pension scheme trustee and TPR in July 2017. This included setting out their approach to provide alternative defined contribution pension arrangements to the pension scheme members who become deferred members of the SUKGPS.

Subsequently, there was engagement with both the SUKGPS pension scheme trustee and TPR, through meetings and written correspondence, regarding the Ring-Fencing Programme and the SUKGPS, as part of which references were made to the original 11 pension scheme members having their benefits deferred.

Arrangements for these pension scheme members in the short-term, to retain their benefits until July 2018 prior to their employment transferring to an entity outside of the RFB Sub-Group, were agreed with the SUKGPS pension scheme trustee. Amendment of SUKGPS pension scheme deeds was agreed and signed-off by both Santander UK and the SUKGPS pension scheme trustee to facilitate this.

### 3.3.2 Notifications and updated compensation package offered to the deferred pension scheme members

The Ring-Fencing Programme issued initial individual notifications, to the original 11 pension scheme members becoming deferred members of the SUKGPS, over the period 28 July 2017 to 1 December 2017.

On 27 March 2018 a formal notification of the Scheme was issued to the 9 then remaining employees who will transfer to SLB as a consequence of the Ring-Fencing Plan (including the Scheme) and therefore, as a consequence of their transfer to SLB, will each become a deferred member of the SUKGPS.

On 29 March 2018, a notification was issued to a newly identified employee who will transfer to SLB as a consequence of the Ring-Fencing Plan (including the Scheme) and therefore, as a consequence of that employee's transfer to SLB, will become a deferred member of the SUKGPS. A personal pension illustration (as described below) was sent to this employee on 12 April 2018.

All notifications issued provide the following information:

- ▶ Background to their membership of the SUKGPS and the reasons for their employment being transferred to SLB, and as a consequence, the requirement to defer their membership to the SUKGPS;
- ▶ Confirmation of the consultation with Advance (as the relevant recognised trade union for SGCB) on the proposed compensation package presented for their consideration, prior to the notification;

- ▶ An offer for Santander UK to provide up to £500 for independent financial advice;
- ▶ An offer for individual, one-to-one feedback with a technical expert at Santander UK; and
- ▶ A personal illustration of the compensation package (including underlying assumptions), compared to an illustration of what they would have received should they have remained active members of the SUKGPS.

### 3.3.2.1 Independent financial advice

Each affected pension scheme member in the original group of 11 affected employees had individual meetings with a pension expert from the Santander UK pensions team. The meetings were for the pension expert to explain the compensation package and answer any initial questions that the members had. All meetings were held before 21 September 2017.

As part of the meeting, each affected pension scheme member was offered a contribution of £500 towards independent financial advice, with no time limit placed on that offer. 3 of the affected pension scheme members are known to have taken up the offer, to date.

As referred to in section 3.3.2 above, I note that there is 1 recently identified employee who is transferring to SLB. In this case, the employee has been communicated to in line with the above and offered the same contribution towards independent financial advice. This was formally communicated before the end of March 2018.

### 3.3.2.2 Compensation package

Santander UK have provided a compensation package for all affected pension scheme members to reflect the following:

- ▶ An additional 20% employer contribution to their defined contribution scheme contribution for a period of 6 years (previously 3 years);
- ▶ Revised investment return assumption used in financial modelling to 3% per annum pre- and post-retirement; and
- ▶ Additional funding for ill-health protection via a cash allowance of 1% salary per annum.

### 3.3.2.3 My conclusions

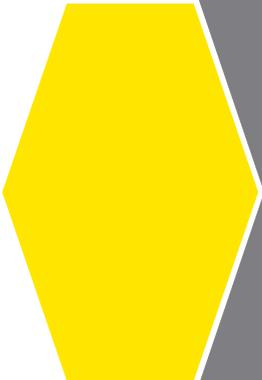
As set out in section 28.4.1 of my Scheme Report, I have concluded that the affected pension scheme members of the SUKGPS who will become deferred members will be adversely affected. I have considered Santander UK Group's mitigation of replacing their defined benefit scheme membership with defined contribution scheme membership alongside additional 20% salary contributions to their defined contribution scheme for 3 years, and was satisfied that the mitigation is sufficient to offset the adverse effect on each affected pension scheme member.

I am satisfied that the updated compensation package has taken into account and adequately reflected feedback and concerns raised by affected employees and results in a forecast net positive outcome for all of those deferred pension scheme members when compared to their continued receipt of entitlements/contributions to the SUKGPS through to their forecast retirement age.

I am satisfied that the updated compensation package will provide a sufficient mitigation to the adverse effect for the deferred pension scheme members, when compared to their continued receipt of entitlements to the SUKGPS through to their estimated retirement age (should these employees have remained active members of the SUKGPS). Accordingly, the conclusion presented in my Scheme Report remains unchanged.

Further, for the 1 transferring employee and pension scheme member identified since the publication of the Scheme Report, I am satisfied that the Ring-Fencing Programme intends to offer the same compensation package. Therefore I have concluded that this pension scheme member, whilst also adversely affected due to their benefits being deferred as a result of their transfer to SLB under the Ring-Fencing Plan (including the Scheme), will be sufficiently compensated through the compensation package being offered to them.

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## Part 4 – Updates to the Scheme and my Scheme Report

## 4. Updates to the Scheme

### 4.1 Changes in the scope of the Scheme

As at the date of this Supplementary Report, I am not aware of any changes to the scope and design of the Scheme, from that presented to the High Court at the Directions Hearing on 5 February 2018 and as summarised in my Scheme Report that affect any of the conclusions set out in my Scheme Report.

As part of a wider Ring-Fencing Programme, the Scheme will effect a number of business transfers as follows:

- ▶ Permitted business from ANTS to Santander UK (this is defined as “ANTS Permitted Business” in the Scheme);
- ▶ Prohibited and certain, specified permitted business from ANTS to SLB (this is defined as “ANTS Prohibited Business” in the Scheme); and
- ▶ Prohibited and certain, specified permitted business from Santander UK to SLB (this is defined as “Santander UK Prohibited Business” in the Scheme).

In addition, on and with effect from 11.59pm on 31 December 2018, the Scheme will unwind the existing cross-guarantees between Santander UK and ANTS.

### 4.2 Customers and other persons affected

There are updates to some of the numbers of customers and other persons affected by the Scheme, as previously detailed in my Scheme Report.

The changes to customer numbers are summarised in table 5 below.

None of the changes to customer numbers listed below affect the findings and conclusions in my Scheme Report in any way. Instead, there are differences to the number of customers affected by the Scheme and who may be adversely affected in specific ways. These are given below and further details of the effects can be found in specific sections of my Scheme Report.

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Table 5: Summary of customers and other persons affected as at 25 May 2018

Customer or other person	Reported in my Scheme Report at 29 January 2018	Reported in this Supplementary Report, as at 25 May 2018	Commentary on difference (where applicable)
<b>Groups of customers</b>			
ANTS Corporate Customers (non-SME) holding permitted products only	454	367	Reduction accounted for by novation of loans in accordance with their terms, refinancing of loans by customers or novation of derivatives due to customer preference for novation rather than transfer via the Scheme.
Santander UK Corporate Customers (non-SME) holding permitted and prohibited products	38	33	Reduction due to customer preference for novation rather than transfer via the Scheme or the early termination of derivatives by the customer.
ANTS Corporate Customers (non-SME) holding permitted and prohibited products	18 <sup>3</sup>	28	Increase due to new prohibited derivatives with existing corporate customers.
Santander UK and ANTS Specified Corporate Customers	66	47	Reduction due to customer preference for novation rather than transfer via the Scheme, novation of derivatives governed by foreign law with customer consent or early termination of derivatives by the customer.
Santander UK and ANTS Relevant Financial Institutions	248	194	Reduction due to customer preference for novation or clearing rather than transfer via the Scheme (including novation to Banco Santander rather than SLB), re-classification or early termination of derivatives by the customer.
ANTS Exempt Financial Institutions	31	28	Reduction due to customer preference for novation or clearing of derivatives rather than transfer via the Scheme or early termination of transactions by the customer.
Customers remaining in ANTS after 1 January 2019	2	2	No difference to the number of customers remaining, but there are additional positions being retained in ANTS. Please see section 4.3.1 for further information.

<sup>3</sup> Note: in my Scheme Report, I had reported the number of ANTS Corporate Customers (non-SME) holding permitted and prohibited products as 472. This number was the sum of 454 ANTS Corporate Customers (non-SME) holding permitted products only and 18 ANTS Corporate Customers (non-SME) holding permitted and prohibited products, and so reflected the total number customers holding permitted products alone and in conjunction with prohibited products. By way of comparison, as at 25 May 2018, there are 395 ANTS Corporate Customers (non-SME) holding permitted products. This is the sum of 367 holding permitted products only, and 28 holding permitted and prohibited products.

## Groups of other persons

Market counterparties of Santander UK and ANTS	34	29	Reduction due to market counterparty preference for novation or clearing rather than transfer via the Scheme and clearing to address mandatory clearing rules under D-FA.
Santander UK Group non-branch employees in the UK <sup>4</sup>	213	222	An additional 9 employees identified to transfer from Santander UK to SLB.  See 4.3.2 below for more information on the changes.
Santander UK defined benefit pension scheme <sup>5</sup>	11	10	See 4.3.3 below for detail of individual pension scheme member changes.

<sup>4</sup> Employees are transferring as a consequence of the Ring-Fencing Plan (including the Scheme) and it has not been possible for the Ring-Fencing Programme to differentiate between transfers due to the Ring-Fencing Plan and transfers due to the Scheme. Therefore all transfers under the Ring-Fencing Plan have been considered for the purpose of answering the Statutory Question.

<sup>5</sup> As per footnote 4 (above), for pension scheme members.

## 4.3 Updates to my Scheme Report

### 4.3.1 ANTS

As set-out in section 26.1 of my Scheme Report, ANTS will continue to operate within the Santander UK Group following the implementation of the Scheme. ANTS does not intend to book or provide any new products or services to any existing or new customers. However, it will continue to hold certain transactions and positions until they mature (due to the nature of the transactions and/or the cost or the complexity of moving the transactions or positions), and expects to continue to enter into transactions with other Banco Santander group members to hedge and manage the residual risks related to those transactions or positions.

ANTS will be a directly owned subsidiary of, and controlled by, Santander UK HoldCo. It will sit outside of the RFB Sub-Group and will require ongoing capital and funding from Santander UK HoldCo. It must demonstrate to the PRA that it will maintain adequate financial and non-financial resources, that it is viable, and that it can meet its minimum regulatory capital and liquidity requirements.

Since publishing my Scheme Report, the Ring-Fencing Programme have identified a number of additional positions and arrangements that will remain in ANTS after the implementation of the Scheme and which are expected to continue to be held in ANTS after 1 January 2019. These transactions, positions and arrangements are set out below:

- ▶ A limited partnership interest in an SME loan fund that will be transferred from Santander UK to ANTS through a sale and purchase agreement. This will be held as an asset of ANTS with the counterparty having no exposure to changes being made to ANTS.
- ▶ A portfolio of bonds in the legacy Social Housing portfolio with a latest maturity of 2024. The intention is to sell the portfolio before the implementation of the Scheme. However the bonds are illiquid and in some cases require further due-diligence to ensure all documentation is in place to enable a sale. No market counterparties would be affected by the bonds remaining in ANTS. The total notional value of the portfolio as at 24 May 2018 is approximately £18mn.

In addition, the transferring business of ANTS includes 23 non-English law (foreign law) governed transactions or instruments which, are a combination of derivative transactions, trade finance instruments and 1 loan transaction which, as at the date of this Supplementary Report, have not yet been transferred to Santander UK (in the case of the trade finance instruments) or SLB (in the case of the derivative transactions and loan transaction) as planned by the Ring-Fencing Programme. These instruments are governed by foreign law which will not recognise the effect of the Scheme. Under English law (or the laws of a jurisdiction in which the Scheme is recognised), the economic benefit and burden associated with these transactions or instruments will transfer under the Scheme to Santander UK or SLB (as applicable) on the relevant effective date (if they have not been novated before that date).

There are also English law governed loans and derivatives with associated transaction documents governed by foreign law, including guarantees and/or security granted to ANTS. In relation to these transactions, the English law elements will transfer under the Scheme on the relevant effective date, with the foreign law elements retained in ANTS to the extent that the relevant foreign law does not recognise the effect of the Scheme. In this way, an English law governed agreement will transfer to Santander UK or SLB on the relevant effective date but may become “de-linked” from the supporting security, guarantees or other transaction elements which are governed by a foreign law and which will therefore remain in ANTS as a matter of such foreign law.

As required by the Scheme, steps will be taken by the Ring-Fencing Programme, subsequent to the Scheme, in order to perfect the transfer of the foreign law elements. Pending perfection of such transfer, under the Scheme, any residual guarantees and/or security will be held on trust by ANTS for the benefit of Santander UK or SLB (as applicable). As the security provided by the customer does not change, and under the terms of the Business Transfer and Implementation Agreement (BTIA) and provisions included in the Scheme, Santander UK or SLB (as appropriate) indemnify ANTS for any liabilities associated with this business from the relevant effective date under the Scheme until the date of the actual transfer to Santander UK or SLB (as applicable), I do not consider that there is an adverse effect arising as a result of this change.

In my Scheme Report, I noted that the basis of my assessment was that the 'worst case scenario' advised to the Santander UK Board Risk Committee for the ANTS balance sheet would be approximately £900mn. I have been advised that including the positions and arrangements detailed above, the revised ANTS balance sheet would now be approximately £1.1bn. The revised balance sheet, together with the updated positions and arrangements, have been raised to the ANTS Board.

Having considered the changes, including the effect of the increase in the size of the balance sheet of ANTS to £1.1bn, I have concluded that there are no adverse effects in respect of these additional positions and arrangements as a consequence of the Scheme.

Further details regarding my assessment and my findings are set-out in sections 26.1.4.2 and 26.1.4.3 of my Scheme Report.

#### 4.3.2 Santander UK Group non-branch employees in the UK

I have been made aware of some changes to the numbers of employees transferring from Santander UK to SLB as a consequence of the Ring-Fencing Plan (including the Scheme). The changes in numbers relate to the same group of employees detailed in my Scheme Report, performing roles and functions that will be required in SLB to support the transferring customers under the Ring-Fencing Plan (including the Scheme).

In my Scheme Report I reported that 213 employees were transferring. This has now risen to 222 employees.

Following discussions with the Ring-Fencing Programme, I am satisfied that the changes in numbers are necessary to provide the support and service to customers transferring to SLB. Further, I am satisfied that these employees will experience no changes to their role, terms and conditions of employment, or location of employment.

For further details of my assessment and my findings and conclusions, see section 27.4 of my Scheme Report.

#### 4.3.3 Santander UK defined benefit pension scheme

As referenced in section 3.3 above, since the publication of my Scheme Report I have been made aware of 3 changes to the active members of the SUKGPS who are becoming deferred members as a consequence of the Ring-Fencing Plan (including the Scheme).

In my Scheme Report, I reported that 11 active members of the SUKGPS would become deferred members of the SUKGPS. This number has now changed to 10 affected pension scheme members as a result of the following:

- Further to additional analysis undertaken by the Ring-Fencing Programme, the role of 1 employee of the original 11 affected employees (who are also pension scheme members) is no longer required to transfer to SLB and the employee will remain in their current role. This employee will therefore remain an active member of the SUKGPS;
- 1 employee in the original group of 11 affected pension scheme members is now leaving Santander UK for another role in a different organisation on 30 June 2018. Therefore this employee will no longer be impacted by the Scheme; and
- 1 new employee was identified in March 2018, as being required to transfer to SLB, following further analysis of requirements in SLB to support transferring business under the Ring-Fencing Plan (including the Scheme). They received a notification of the Scheme on 29 March 2018 and their individual pension illustration on 12 April 2018. Therefore this employee is adversely affected, in line with the findings as set out in my Scheme Report and summarised in 3.3.2 above.

#### 4.3.4 SLB customer onboarding

In my Scheme Report I commented on the likely effect on those customers who have products and transactions transferring to SLB under the Scheme, which may require those customers to be formally onboarded as customers of SLB. This onboarding is the result of a regulatory requirement for SLB to evidence that it has conducted due-diligence on, and identified, all new customers transferring to it from Santander UK and/or ANTS.

I concluded in my Scheme Report that whilst this process will result in a change for those customers with products and transactions transferring to SLB, the effect will not be adverse, provided that SLB takes mitigating actions to ensure the smooth transfer of customers. Notwithstanding that KYC and due-diligence information on the transferring customer may not be fully completed prior to the transfer taking place, all products and transactions due to be transferred under the Scheme will still do so.

The Ring-Fencing Programme continue to source all required documentation to fully onboard customers transferring from Santander UK and/or ANTS as part of a broader exercise to harmonise the KYC and due-diligence processes and standards across the Banco Santander Group, outside of the Ring-Fencing Programme itself. As part of transferring customers to SLB under the Scheme, the Banco Santander Group is taking the opportunity to accelerate this harmonisation, including any gaps in existing documentation, before SLB will enter into a new transaction or provide new services to those customers.

I am satisfied that requests to some customers for some additional information are to meet the broader Banco Santander Group KYC and due-diligence processes, and are not as a consequence of the transfer of customer positions and transactions to SLB under the Scheme.

### 4.3.5 US or US affiliated swap dealers

In section 24 of my Scheme Report (relating to the RFI customer group), I noted that ANTS cleared transactions within LCH would be transferred by the LCH to Banco Santander and/or SLB prior to the implementation of the Scheme and therefore these transactions were not considered in my Scheme Report.

At the date of this Supplementary Report, I have been advised that there are 4 US or US affiliated swap dealers who still have open interest rate swaps with ANTS. As I noted in my Scheme Report, these interest rate swaps will become subject to clearing under the US mandatory clearing rules that apply to these US or US affiliated swap dealers, if they transfer through the Scheme. Given this, the Ring-Fencing Programme has planned to reach agreement with each of them to clear their interest rate swaps through LCH ahead of the Scheme. However, there remains a portfolio of interest rate swaps which may not clear through LCH, as planned, ahead of the Scheme. They will become subject to transfer under the Scheme, unless agreement is reached prior to the Sanction Hearing to clear the transactions as originally proposed through the LCH.

The Ring-Fencing Programme is continuing to work with the 4 US or US affiliated swap dealers to agree the timing and terms of the transfer the transactions through clearing at LCH ahead of the Scheme. Discussions with them will continue up to the relevant effective date under the Scheme, given that the process of clearing through the LCH requires preparatory work.

I considered the effects of the transactions becoming subject to clearing under the US mandatory clearing rules as a consequence of transfer through the Scheme and included in table 134 of my Scheme Report, in the event that they become subject to transfer under the Scheme:

Table 6: Changes with no adverse effects – OTC Derivative Clearing for Non-EU Counterparties

 <b>OTC Derivative Clearing for Non-EU Counterparties</b>	
Description of the change	<ul style="list-style-type: none"> <li>▶ The transfer of positions under the Scheme may trigger the loss of grandfathering provisions that preserve the exemption for clearing under the D-FA for Over-The-Counter (OTC) derivatives. This may not be the case in relation to OTC derivatives that are subject to equivalent requirements in other jurisdictions.</li> <li>▶ The resulting effect on both Banco Santander Group and their customers is a requirement to comply with mandatory clearing for all in-scope derivatives.</li> <li>▶ The derivatives with 5 US affiliated swap dealers that are subject to mandatory clearing under the D-FA will transfer through the Scheme and may therefore be affected by the clearing requirement rules.</li> </ul>
Why is the change not adverse?	<ul style="list-style-type: none"> <li>▶ SLB have confirmed that it will cover and/or remediate any associated clearing costs incurred by these counterparties.</li> </ul>
My conclusion	<ul style="list-style-type: none"> <li>▶ I have assessed the change in arrangements and I have concluded that that this change will have no adverse effect for counterparties who are required to clear OTC derivatives.</li> </ul>

### 4.3.6 Santander UK and/or ANTS Relevant Financial Institutions

In section 24 of my Scheme Report (relating to the Santander UK and/or ANTS RFI customer group), I had not identified RFI customers who have derivatives that will transfer to SLB under the Scheme as potentially having their CVA calculation affected by the lower credit rating of Banco Santander (including SLB) relative to Santander UK/ANTS as it was determined at the time that all RFI customers' derivative positions would be transferring under the terms of a CSA and as such, any impact would be fully mitigated.

I have now determined that RFI customers, whose derivatives are being transferred to SLB, may potentially be adversely affected by the change in credit rating and the potential impact on their CVA calculation.

I have revised my findings and conclusions, having determined that for those RFIs who have derivatives transferring under the Scheme, who do not have a CSA under which Santander UK or ANTS provides collateral in the event that there is a net mark to market (MTM) liability in relation to those derivatives, the difference in credit rating may have a potential adverse effect on the customers' own CVA calculations. Table 7 outlines my assessment of this potential impact on their CVA calculations for RFI customers whose derivatives will be transferred to SLB under the Scheme.

Table 7: Changes with adverse effects that are not mitigated – Credit Valuation Adjustment (CVA)

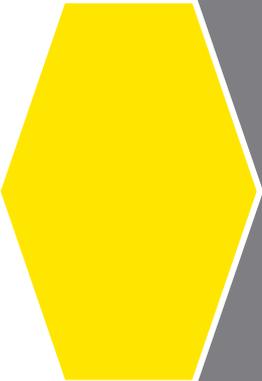
 <span style="color: #ffc107;">Credit Valuation Adjustment (CVA)</span>	
Description of the change	<ul style="list-style-type: none"> <li>▶ There may be a change to CVA for RFI customers whose derivatives will be transferred to SLB under the Scheme. This is as a result of the lower credit rating of Banco Santander (including SLB), compared to the credit rating of Santander UK and/or ANTS, resulting in a wider credit spread being applied to the CVA calculations.</li> <li>▶ Of the 194 RFIs, there are 110 RFIs who have derivatives transferring to SLB from Santander UK and ANTS under the Scheme. Of those, 56 RFIs have CSAs under which Santander UK or ANTS provides collateral in the event that there is a net MTM liability in relation to those derivatives and 54 do not have CSAs.</li> <li>▶ Customers' CVA calculations are complex, with a number of variables within the calculation and there is no standard method used across all customers. It is an activity carried out by the customer in accordance with their own valuation design, with credit spread being but one variable used.</li> <li>▶ There will be a reduced CVA effect if trades are collateralised with CSA's because netting and collateral arrangements will help mitigate the CVA effect.</li> </ul>
Why is this adverse?	<ul style="list-style-type: none"> <li>▶ The exact effect on CVA for individual customers is not possible to assess, because the valuation models used by customers for CVA calculations are specific to them and unknown to Santander UK, or to me.</li> <li>▶ However, the Ring-Fencing Programme has previously carried out its own Debt Valuation Adjustment (DVA), and using that as a proxy for CVA, there may be changes in CVA for some customers whose derivatives are transferred to SLB, as a consequence of the lower credit rating. Some may be positive, others may be negative and this will depend on the valuation method used and the timing of the calculation. This is impacted by market rates at the time of the calculation.</li> <li>▶ There is no defined methodology to calculate CVA. The Ring-Fencing Programme has previously used proxy credit default swap (CDS) spread (an average of Lloyds Bank, HSBC and Banco Santander) in DVA to estimate the CVA effect. Although this calculation cannot provide precise estimates of CVA, this analysis has evidenced to me that the CVA effect may be either positive or negative. This is dependent upon the constituents of the customer's portfolio, market data at the time of transfer and the customer's accounting policy.</li> <li>▶ Potential changes to CVA affected customers may require customers to apply additional economic regulatory capital to cover their positions, incurring additional costs of capital. It should be noted that equally they may require less capital and therefore less cost.</li> </ul>



## Credit Valuation Adjustment (CVA)

Mitigations or alternatives available	<ul style="list-style-type: none"><li>▶ For those RFIs who have CSAs under which Santander UK or ANTS provides collateral in the event that there is a net MTM liability in relation to those derivatives, the change to CVA is likely to be significantly reduced, if not entirely. The long-term and short-term credit ratings of Banco Santander (including SLB) issued by S&amp;P and Moody's, have been upgraded since the Scheme Report was published (see section 6.6 of this Supplementary Report). These upgrades may reduce the risk of the credit rating change altering a customer's CVA calculation. However the possibility of an adverse effect still exists.</li><li>▶ Santander UK is required to move the prohibited products outside of the RFB Sub-Group as a consequence of the ring-fencing legislation.</li><li>▶ Given the unwinding of the cross-guarantee, and without the creation of a new A-rated banking entity in the UK or the withdrawal or termination of certain products, there is no reasonable alternative to the consequential impact of the rating change from Santander UK/ANTS to SLB on CVA calculations.</li><li>▶ Beyond that, and given inherent uncertainty of the actual effect of the change, positive and negative, on a customer's position, Santander UK/ANTS are not proposing to offer compensation as a mitigation for additional capital costs that cannot at this point be quantified.</li></ul>
Is this sufficiently mitigated?	<ul style="list-style-type: none"><li>▶ Where there are MTM movements in the period between a counterparty's default and the closure of the derivatives under the ISDA, for those RFIs who have CSAs, Santander UK or ANTS provides collateral in the event that there is a net MTM liability in relation to those derivatives, the change to CVA is likely to be significantly reduced, if not entirely.</li><li>▶ For those customers who do not have a CSA, the risk of loss on default is greater (than for those who have a CSA).</li><li>▶ Accordingly, I have assessed that the adverse effect is not entirely mitigated by actions that are or could be taken by the Santander UK Group.</li></ul>
My conclusion	<ul style="list-style-type: none"><li>▶ I have concluded that it would be unreasonable for Santander UK/ANTS to commit to providing some form of compensation to customers, when the effect (adverse or positive) will only become clear on transfer when each customer runs their own CVA calculation, which will be influenced by market data at the time of transfer and may result in a positive or negative effect on CVA.</li><li>▶ Whilst communication cannot mitigate an adverse effect, it can ensure that customers are aware of the potential effect of a change, and I am satisfied that the communications approach adopted by Santander UK/ANTS resulted in dialogue between customers and their RDs concerning the Scheme.</li><li>▶ I have concluded that no appropriate alternatives are available that would reduce the adverse effect and that the Santander UK Group is being transparent through their communications approach.</li><li>▶ Therefore, I have concluded that although this group of customers may be adversely affected by this change under the Scheme, the adverse effect is not greater than reasonably necessary in order to achieve the statutory purposes of the Scheme.</li></ul>

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Part 5 – Communications,  
including customer and other  
person queries, concerns and  
objections

## 5. Communications

### 5.1 Introduction

The communications approach, that the Ring-Fencing Programme is implementing, aims to:

- ▶ Notify customers and other persons of the Scheme;
- ▶ Provide them with the information needed to understand what changes the Santander UK Group is making under the Scheme, and how they might be adversely affected by the changes being made; and
- ▶ Provide them with information on how they can make their views known.

At a court hearing on 26 May 2017, which was heard prior to the application for sanction of the Scheme being issued, the High Court made provisional directions for the communications in relation to ring-fencing transfer schemes of all relevant UK banks (other than RBS), which included that relevant notifications must be made at least 42 calendar days prior to the Representation Date (which was defined in the Santander UK/ANTS order as 14 May 2018). This would mean that for the purposes of the Scheme, relevant notifications should have been made by 2 April 2018, though this was subject to any further directions made by the High Court. A specific communications plan was later approved by the High Court at the Directions Hearing on 5 February 2018, with a 'Communications Plan Schedule' appended to the order from the High Court made on that date. This Communications Plan Schedule set the scope and requirements for communications to all customers and other persons that the Ring-Fencing Programme were to deliver following the Directions Hearing. It also covers the communication channels and the timing of communications through each channel, for each group of customers or other persons. I have used the actual communications delivered, compared against those specified in the Communications Plan Schedule, as the basis of assessing outbound communications activities following the Directions Hearing.

### 5.2 Approach to assessing communications activity following the Directions Hearing

My assessment of communications between the Ring-Fencing Programme, customers and other persons following the Directions Hearing covered both outbound and inbound communications.

#### 5.2.1 Outbound communications from the Santander UK Group to customers and other persons

I have reviewed outbound communications from the Ring-Fencing Programme included within the Communications Plan Schedule approved by the High Court (as part of the order following the Directions Hearing). These outbound communications included:

- ▶ Individual formal notifications to a defined set of customers and market counterparties with business transferring under the Scheme on one or more transfer dates, as set out in section 5.6.1 of my Scheme Report. These are required to provide notification of the transfer in a clear, fair and not misleading way and to provide the required time to enable the customer or market counterparty to consider the effect, seek clarifications and make objections;
- ▶ Individual letters to customers of ANTS who have business that will remain in ANTS, advising them that such business will be remaining in ANTS and will not be transferring under the Scheme. These are required to provide notification of the transfer in a clear, fair and not misleading way and to provide the required time to enable the customer to consider the effect, seek clarifications and make objections;
- ▶ Individual letters to corporate customers (non-SME) who hold only permitted products, advising them that their business will not be transferring under the Scheme;
- ▶ Public notices in gazettes and newspapers, as defined in table 9;

- ▶ Scheme related documents on the dedicated ring-fencing website ([www.santanderringfencing.co.uk](http://www.santanderringfencing.co.uk)) including my Scheme Report, the Summary of my Scheme Report, the Scheme and the Summary of the Scheme;
- ▶ Any additional communications or amendments made to existing communications platforms (e.g. websites, automated teller machine (ATM) messaging and bank statement messages); and
- ▶ Communications made to Jersey and IoM branch customers and other persons, specifically covering the Scheme.

I compared these outbound communications delivered by the Ring-Fencing Programme, against those specified in the Communications Plan Schedule. This enabled me to assess to what extent the Ring-Fencing Programme deviated from the Communications Plan Schedule (section 5.3), and consider the effect of any deviations from this on groups of customers or other persons (section 5.4).

## 5.2.2 Inbound communications from customers and other persons to Santander UK or ANTS

I have reviewed the detailed management information (MI) and detailed spreadsheets recording communications from customers and other persons, used by the Ring-Fencing Programme to monitor all communications received by the Santander UK Group through the different communications channels, including:

- ▶ Telephone calls to the dedicated ring-fencing contact centre (directly or transferred from other Santander UK Group contact centres), or directly to RDs and bankers;
- ▶ Emails directly to the dedicated ring-fencing e-mail address ([ringfencing@santander.co.uk](mailto:ringfencing@santander.co.uk)) or via the PRA, FCA or High Court; and
- ▶ Letters directly to Santander UK or ANTS or via the PRA, FCA or High Court.

I note that the Ring-Fencing Programme has operated a communications plan that involved communications with customers and other persons commencing in the summer of 2017. Inbound communications, including some queries and concerns, have been raised since then, and not just in the period after the formal notification letters were sent (following the Directions Hearing). This is a natural consequence of the extended communication approach adopted by the Ring-Fencing Programme and I consider it appropriate that my assessment covers the entire period, as reflected in the MI presented.

In order to check that all inbound communications have been captured and addressed adequately, I have reviewed whether the Ring-Fencing Programme has the necessary controls and processes in place and has recorded and managed those inbound communications in a coordinated way.

Since the Directions Hearing, on a fortnightly basis, I have met with the Ring-Fencing Programme communications team to review MI detailing the volume and type of communications received, and understand the volume of contacts, the type of questions raised and the effectiveness of the responses to customers and other persons.

As part of recording and managing incoming contacts, the Ring-Fencing Programme has categorised contacts as per table 8, which also gives my assessment against each category.

Table 8: Categorisation of contacts from customers or other persons

Contact type	Skilled Person assessment
Non-ring-fencing transfer scheme (RFTS) related, BAU query directed through the RFTS specific contact sites or phone number.	<ul style="list-style-type: none"> <li>▶ Not applicable – calls not related to the Scheme.</li> </ul>
Request that the Santander UK Group confirms no action is required by the customer or other person.	<ul style="list-style-type: none"> <li>▶ Review the detailed register of contacts maintained by the Ring-Fencing Programme to assess that adequate responses have been given and reported to Santander UK Group management as part of MI.</li> <li>▶ This register, together with the summary MI, has been reviewed at fortnightly meetings with the Ring-Fencing Programme communications team.</li> </ul>
Request that Santander UK Group clarifies why the customer or other person has already been written to.	
Request for hard copy documents or additional copies to be sent by email/post/fax.	
Request that Santander UK Group clarifies communications or documents already provided or a request for additional related information.	<ul style="list-style-type: none"> <li>▶ Review the detailed register of contacts maintained by the Ring-Fencing Programme to assess that adequate responses have been given and reported to Santander UK Group management as part of MI.</li> <li>▶ Check that additional material provided, as recorded on the register, is appropriate and the right response to meet the request.</li> <li>▶ Discuss this register, together with the summary MI, at fortnightly meetings with the Ring-Fencing Programme communications team.</li> </ul>
Query or concern.	<ul style="list-style-type: none"> <li>▶ Review the detailed register of contacts maintained by the Ring-Fencing Programme, to assess that adequate responses have been given and reported to Santander UK Group management as part of MI.</li> <li>▶ Assess the response and any follow up enquiries in full, including the themes of similar queries or concerns.</li> <li>▶ Consider whether the query relates to an adverse effect identified in my Scheme Report or other impact or matter.</li> <li>▶ Review full audit trail of communications relating to the query and consider whether the final response and/or any additional material provided is appropriate and the right response to meet the request.</li> <li>▶ Discuss the register, together with the summary MI, at fortnightly meetings with the Ring-Fencing Programme communications team.</li> </ul>
Objections (those that meet the definition of an objection in s110(5) FSMA 2000).	<ul style="list-style-type: none"> <li>▶ Consider the objection for relevance to the Scheme, determine whether it is covered in my Scheme Report and whether I believe that the objection (made by the customer or other person) raises reasonable and valid issues that the Santander UK Group should address (including providing mitigations or changes to the Scheme).</li> <li>▶ Review the Santander UK Group's process to record and assess objections, including the governance over the process and actions taken to respond to customers or other persons objecting.</li> <li>▶ Consider any mitigations, offers or solutions proposed by the Santander UK Group to address the objection.</li> </ul>

Contact type

Skilled Person assessment

- ▶ Consider and discuss with the Santander UK Group other options that should be considered as possible mitigations to address the objection.
- ▶ Review full audit trail of communications relating to the objection and consider whether the final response and/or any additional material provided is appropriate and a reasonable response in an effort to address the objection.
- ▶ Review objections and any supporting documentation, together with any proposed mitigations or offers to the customer or other person objecting, with the Ring-Fencing Programme leadership.
- ▶ Finally, decide whether the objection or objections raised require me to reconsider my previous conclusion, when answering the Statutory Question.

## 5.3 Findings and conclusions: Communications issued following the Directions Hearing

Since the date of my Scheme Report, and as a consequence of the permission to proceed following the Directions Hearing, the Ring-Fencing Programme has implemented the communications plan as detailed below.

As part of my approach, and to reach my conclusions in both the Scheme Report and this Supplementary Report, I have reviewed the processes, systems and controls in place to assess whether the Ring-Fencing Plan has been as effective as could be reasonably expected in identifying every relevant customer and other person to communicate to within the different parts of the Communications Plan Schedule. In addition, I have had extensive and regular reviews with the Ring-Fencing Programme leadership team to review progress in developing and delivering the Communication Plan Schedule, including reviewing data extracts.

As a result, I am satisfied that all the Ring-Fencing Programme has taken all reasonable steps to identify all relevant customers and other persons to communicate with, as set out in the Communications Plan Schedule. I note that as part of the Communications Plan Schedule there are comprehensive general communications through newspapers, gazettes and other notices, details of which are listed in table 9 below.

I am satisfied that the Ring-Fencing Programme has implemented the communications as approved by the High Court at the Directions Hearing on 5 February 2018 and set out in the Communications Plan Schedule (included in the order from the Directions Hearing), with the exception of a number of deviations. I have set these out in more detail in section 5.4, together with my assessment of the effect of the deviations on customers and other persons.

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Table 9: Information and notifications following the Directions Hearing

Source: Santander UK Group's Corporate Communications Team

Detail and assessment of information and notifications provided following the Directions Hearing

Formal notification letters sent to customers and market counterparties with products, transactions or arrangements transferring under the Scheme and/or remaining in ANTS

- ▶ Formal notification letters have been sent to 1,136 customers and market counterparties (including 12 letters sent in error to US customers, see section 5.4) by mail, based on the contact details available.

Migration date or dates	Number of notification letters
Customers and market counterparties transferring on migration date: 9 July 2018	19
Customers transferring on migration date: 16 July 2018	249
Customers transferring on migration date: 23 July 2018	90
Customers transferring on migration date: 30 July 2018	633
Customers and market counterparties who have a broad range of positions or transactions held across Santander UK and/or ANTS, resulting in their positions and transactions being transferred across more than one transfer date.	133

- ▶ Each formal notification letter has been tailored to reflect their positions and assets held with the Santander UK Group and to advise of the migration date or migrations dates on which they will have their positions and assets transferred under the Scheme (and, where applicable, indicated if they would have transactions that would remain in ANTS).
- ▶ Letters were sent on 1 March 2018, based on an initial list of customers. There was a refresh of customer data and additional letters were sent on 21 March 2018.
- ▶ The Ring-Fencing Programme monitored, and continues to monitor, any returned post, as an indication that letters had not arrived.
- ▶ I am satisfied that the formal notification letters are clear and not misleading. With the exception of 1 transferring customer (who was sent their formal notification letter on 4 May 2018), I am satisfied that the formal notification letters have been sent to all other transferring customers and within the timeframe outlined in the Communication Plan Schedule, and accordingly prior to the 42 calendar day notification period referred to in the court order dated 26 May 2017.
- ▶ Furthermore, the letters provide customers with a clear notification of transfer on single or multiple dates, provide the information necessary to enable them to start to consider the effects of the Scheme and support further dialogue with their RDs about the effect of the Scheme on them (should they wish to discuss further).
- ▶ As noted above, 1 transferring customer was not sent their formal notification letter until 4 May 2018. However, they were sent an email by their RD, advising that their ISDA and Global Master Repurchase Agreements (GMRA) master services agreements would transfer under the Scheme from ANTS to Santander UK (the customer has no active products or transactions), on 29 March 2018. I consider this further in section 5.4 of this Supplementary Report.

#### Tailored Information Packs sent to some customers and market counterparties with products, transactions or arrangements transferring under the Scheme

- ▶ In addition to the formal notification letters sent, the Ring-Fencing Programme also sent 721 tailored information packs outlining the products, transactions and arrangements that each relevant transferring customer or market counterparty holds with Santander UK and/or ANTS.
- ▶ These information packs were designed to provide additional information to the formal notification letters previously sent to transferring customers and market counterparties. These packs outlined the specific products, transactions and arrangements that would be transferred under the Scheme, and facilitated any necessary dialogue with RDs. Those customers and market counterparties with only transferring framework agreements (such as ISDAs, GMRAs) and no active products, transactions and arrangements would only have received a formal notification letters.
- ▶ I have concluded that whilst the information provided addition detail to that required in the Formal Notification Letters, the information provided was not required to enable customers and market counterparties to consider the effect of the Scheme on themselves, nor decide whether to contact Santander UK or ANTS to raise queries, concerns or objections.
- ▶ With the exception of 5 information packs, all were sent by 31 March 2018. I am satisfied that they have been sent to all other transferring customers and market counterparties within the end of March 2018 timeframe, outlined in the Communication Plan Schedule. (Note: please see section 5.4 below covering deviations and corrections from the Communication Plan Schedule for information on the 5 information packs sent after the end of March).
- ▶ I have considered the circumstances and the effect of the delay in sending the information pack to these customers in section 5.4 of this Supplementary Report.

#### Beneficiaries of guarantees, letters of credit or performance bonds

- ▶ A tailored notification letter providing details of the Scheme was sent to 60 beneficiaries of guarantees, letters of credit or performance bonds issued by Santander UK and/or ANTS by 28 March 2018.
- ▶ An additional 67 tailored notifications were sent via SWIFT by 27 March 2018 to correspondent banks, where the guarantee, letter of credit or performance bond was issued through the correspondent bank.
- ▶ A further tailored notification letter was sent to 1 beneficiary and 3 additional SWIFT notifications were sent on 11 May 2018 as a consequence of an extension to the maturity date of the transactions beyond the relevant effective date of the Scheme, and therefore requiring them to transfer under the Scheme.
- ▶ I have considered the circumstances and the effect of the delay in sending the information pack to these customers in section 5.4 of this Supplementary Report.

#### Non-transferring customer letters and leaflets sent to Santander UK Corporate customers holding permitted products only (non-SME)

- ▶ Letters and leaflets were sent to all Santander UK Corporate customers (non-SME) who only hold permitted products, confirming that they will not be transferring under the Scheme.
- ▶ I have been advised that a total of 70,094 of these letters and leaflets were sent to customers (68,705 on 19 March 2018, 1,370 on 28 March 2018 and 19 on 29 March 2018).
- ▶ I am satisfied that these non-transferring customer letters are clear and not misleading and have been sent to all non-transferring customers and within the end of March 2018 timeframe, outlined in the Communication Plan Schedule.

#### Non-transferring market counterparty letters and leaflets sent to market counterparties not transferring under the Scheme

- ▶ Letters and leaflets were sent to all those Santander UK market counterparties with products, transactions and arrangements that are not transferring under the Scheme.
- ▶ I have been advised that a total of 143 of these letters and leaflets were sent to market counterparties on 28 March 2018.
- ▶ I am satisfied that these non-transferring market counterparty letters are clear and not misleading and have been sent to all non-transferring market counterparties by the end of March 2018 as set out in the Communication Plan Schedule.

#### Newspaper, gazette and other notices

- ▶ A Regulatory News Service announcement providing general information about the Scheme and the High Court process was released on 6 February 2018.
- ▶ Notices have been published in the Daily Mail, Sun, City A.M., Guardian and Financial Times and the downloadable digital tablet PDF editions of the Daily Mail Tablet, Financial Times Tablet, Sun Tablet and Guardian Tablet on 8 February 2018.
- ▶ Notices have been published in the print edition of the London Gazette, Edinburgh Gazette and the Belfast Gazette on 9 February 2018.
- ▶ Notices have been published in the Sunday Times, print and digital editions, on 11 February 2018.
- ▶ Notices have been published in the print edition of the Estate Gazette on 17 February 2018.
- ▶ Notices have been published in Isle of Man Examiner and a Jersey Gazette notice in the Jersey Evening Post on 27 March 2018.
- ▶ I am satisfied that all public notices in gazettes and newspapers have been made in the required timeframe and form specified in the Communications Plan Schedule.

#### Summary of the Scheme, available to all customers and other persons

- ▶ A summary of the Scheme, produced by the Santander UK Ring-Fencing Programme, which summarises the full Scheme document.
- ▶ Made available on the dedicated microsite [www.santanderringfencing.co.uk](http://www.santanderringfencing.co.uk), or on request as a printed copy or in alternative formats (braille, audio, large print).
- ▶ I am satisfied that the Summary of the Scheme has been made available in the required timeframe, form and channels specified in the Communications Plan Schedule.

#### Summary of the Scheme Report, available to all customers and other persons

- ▶ A summary of the Scheme Report, produced by the Santander UK Ring-Fencing Programme and approved by me, which summarises my full Scheme Report.
- ▶ Made available on the dedicated microsite ([www.santanderringfencing.co.uk](http://www.santanderringfencing.co.uk)), or on request as a printed copy or in alternative formats (braille, audio and large print).
- ▶ I am satisfied that the Summary of the Scheme Report has been made available in the required timeframe, form and channels specified in the Communications Plan Schedule.

#### General factsheets available through branches and contact centres

- ▶ Factsheets were originally made available to all customers on request at all Santander UK Group branches and contact centres from 26 April 2017. These were updated following the Directions Hearing on 6 February 2018.
- ▶ 2 factsheets were provided; 1 aimed at Retail and SME customers, and 1 aimed at Corporate customers.

#### Updated online banking, statement messages and ATM for all UK Retail and SME customers of the Santander UK Group

- ▶ Updated online banking statement messages were published from 6 February 2018 for non-dormant customers.
- ▶ Updated statement messages were included on customer statements from 15 February 2018 for non-dormant customers.
- ▶ Updated ATM messages were present on all ATMs from 6 February 2018.
- ▶ I am satisfied that the updates to the online banking, statement and ATM messaging have been made available in the required timeframe specified in the Communications Plan Schedule.

#### Updated online banking and statement messages for Santander Corporate and Commercial (SCCB) customers only

- ▶ Online banking statement messages for those SCCB customers using Santander Connect were published from 6 February 2018.
- ▶ Statement messages were included on SCCB statemented accounts from 15 February 2018.
- ▶ I am satisfied that the updates to the online banking and statement messaging have been made available in the required timeframe specified in the Communications Plan Schedule.

#### Ring-Fencing communications to customers of Santander UK's Jersey and IoM branches

- ▶ Online banking messages were displayed since 23 March 2018 for Jersey and IoM branch customers.
- ▶ Letters providing general information about ring-fencing, including the Santander UK Group Ring-Fencing Plan (including the Scheme), were sent to all 29,267 customers of Santander UK's Jersey and IoM branches. Letters were sent on 26 March 2018, as agreed in the Communications Plan Schedule, due to the changes to the timing of the transfer of the business of the Jersey and IoM branches. This is covered in more detail in section 7 of this Supplementary Report.
- ▶ These letters provided clear direction to customers who may want to find out more about the Santander UK Scheme and how they can be involved, including details of the dedicated ring-fencing call centre and the [santanderringfencing.co.uk](http://santanderringfencing.co.uk) microsite.
- ▶ Messages advising of the Ring-Fencing Plan and how to find out more were added to all customer statements from 26 March 2018.
- ▶ A branch notice has been displayed in the 1 IoM banking branch since 19 April 2018 and on 1 ATM in the IoM since 6 February 2018. Note: there are no banking branches or ATMs on Jersey.
- ▶ Details of the Scheme have been provided as part of new customer onboarding packs for new customers of the Jersey and IoM branches since 27 March 2018.
- ▶ I am satisfied that the communications made to customers and other persons connected to Santander UK Jersey and IoM branches were clear, fair and not misleading and provide customers and other persons with the contact information to enable them to find out more, and how to engage in the High Court process.
- ▶ Further, I am satisfied that the communications made meet the requirements set out in the Communications Plan Schedule.

#### New customers who will transfer under the Scheme

- ▶ New customers to ANTS or Santander UK after 5 February 2018, who have acquired or entered into products, transactions or arrangements that will transfer under the Scheme, have been provided with an onboarding factsheet that provides information on the Scheme and how to find out more through their RD and the ring-fencing microsite.
  - ▶ As at 29 May 2018, I have been advised that 3 factsheets have been sent as part of the onboarding process.
  - ▶ I am satisfied that the factsheets are clear, fair and not misleading and that full disclosure of the Scheme has been made to new customers, as set out in the Communications Plan Schedule.
  - ▶ Further, I am satisfied that these factsheets have been sent as soon as practically possible to provide as much opportunity to consider the effect of the Scheme, given they relate to new products, transactions and arrangements.
-

#### Existing customers or market counterparties who booked prohibited or other business after formal notification letters were sent

- ▶ Existing customers or market counterparties of ANTS and Santander UK who were not transferring under the Scheme at the time of the Directions Hearing (5 February 2018), but have subsequently acquired or entered into products, transactions or arrangements that will transfer under the Scheme, have been provided with a factsheet (as per new customers) providing information on the Scheme and how to find out more through their RD and the ring-fencing microsite.
- ▶ As at 29 May 2018, I have been advised that 6 factsheets have been sent at the time the customer acquired or entered into the new product, transaction or arrangement.
- ▶ I am satisfied that the factsheets are clear, fair and not misleading and that full disclosure of the Scheme has been made to these customers and market counterparties, as set out in the Communications Plan Schedule.
- ▶ Further, I am satisfied that these factsheets have been sent as soon as practically possible, to provide as much opportunity to consider the effect of the Scheme, given that they relate to new products, transactions and arrangements.

#### General communication to employees of the Santander UK Group

- ▶ Updated communications regarding the approval of the Communications Plan Schedule and the Sanction Hearing were provided on the dedicated employee intranet site on 7 February 2018, available to all employees of Santander UK and ANTS.
- ▶ In addition, specific training and information has been provided to employees in the business units servicing customers and market counterparties most affected by the Scheme. Meetings were held with SGCB and SCC teams on 22 February 2018 and 14 March 2018 respectively to prepare them to deal with queries from customers and market counterparties. Meetings provided details and guidance in respect of the Scheme, the Directions Hearing and the communications plan.
- ▶ Audio recordings were made available through internal systems for those unable to attend in person.
- ▶ I am satisfied that general communications to employees of the Santander UK Group have been made available in the required timeframe, form and through the channels specified in the Communications Plan Schedule.

#### Pension Scheme Members

- ▶ Emails to the trustees of the LifeSight and the Woodchester Investments Group Pension Schemes were sent on 22 March 2018, providing copies of the formal notice of the Scheme published in the newspapers and gazettes detailed above.
- ▶ An email to the trustees of the SUKGPS was sent on 22 March 2018, providing the formal notice published in the London Gazette.
- ▶ Emails were sent to 9 of the transferring employees, who are SUKGPS pension scheme members, on 27 March 2018 and on 29 March 2018 to the final 1 transferring employee. These emails provided a link to information on the Scheme and their right to participate in it.
- ▶ I am satisfied that these communications have been made in the required time and in the form specified in the Communications Plan Schedule, to those original pension scheme members identified as being affected by the Ring-Fencing Programme (including the Scheme).

#### Government, other fiscal persons and corporate bodies

- ▶ Letter to the Association of Corporate Treasurers on 13 February 2018.
- ▶ Letters to the Bank of England, the Financial Services Compensation Scheme (FSCS) and Her Majesty's Treasury (HMT) on 13 March 2018.
- ▶ Letter to Her Majesty's Revenue and Customs (HMRC) on 14 March 2018.
- ▶ I am satisfied that these communications have been made in the required time and in the form specified in the Communications Plan Schedule. (I note that the letter to the Association of Corporate Treasurers was not specified in the Communications Plan Schedule).

### Suppliers supporting critical operations of Santander UK or ANTS

- ▶ By 26 March 2018, a tailored letter has been sent to 88 suppliers who have been identified as providing critical operational services to;
  - Santander UK, advising them that their current contractual arrangements are not affected or transferring under the Scheme; or
  - ANTS, informing them about the novation process of their relevant contracts to Santander UK.
- ▶ I am satisfied that these communications have been made in the required time and in the form specified in the Communications Plan Schedule.

### Sub-participants

- ▶ 1 letter sent to a counterparty in respect of a sub-participation arrangement, on 13 March 2018.
- ▶ I am satisfied that this communication has been made in the required time and in the form specified in the Communications Plan Schedule.

### Agents, trustees and other administrative parties

- ▶ 146 letters were sent to a number of agents, trustees and administrative parties confirming the transfer of arrangements from ANTS to Santander UK and/or SLB and 56 tailored letters detailing transferring derivative products were sent by 29 March 2018.
- ▶ A total of 11 letters were sent after the end of March. I have considered the circumstances and the effect of the delay in sending the 11 letters. See 5.4 below covering deviations and corrections from further details and my conclusions.
- ▶ I am satisfied that this communication has been made in the form specified in the Communications Plan Schedule.

### Disclosures in other documents

- ▶ Disclosures have been made in the Santander UK 2017 annual report (published on 28 February 2018) and in the quarterly management statements (published 31 January 2018 and 24 April 2018).
  - ▶ I am satisfied that these disclosures have been made in accordance and in the form outlined in the Communications Plan Schedule.
-

## 5.4 Findings and conclusions: Deviations and corrections from the Communications Plan Schedule

In a number of specific instances, the Ring-Fencing Programme has deviated from the Communications Plan Schedule, included in the order of 5 February 2018 from the Directions Hearing.

I have reviewed all of the deviations to the Communications Plan Schedule set out in the order from the Directions Hearing, together with any corrections made, as detailed below. In reaching my conclusions, I have considered the individual deviations and corrections in the context of the wider communications plan carried out for the affected customer or person.

Following my review, I am satisfied that none of the deviations or corrections cause an adverse effect on a customer or person and their ability to properly consider the effects of the Scheme on them and participate in the High Court process (should they wish to do so).

The details of the deviations or corrections from the Communications Plan Schedule are listed in the table below together with my assessment of the deviation and my conclusions as to the effect of the deviation on the customer or other person.

Table 10: Summary of deviations from the Communications Plan Schedule

Communication type	Description of deviation and Skilled Person assessment
Returned mail – formal notification letters sent to transferring customers	<ul style="list-style-type: none"> <li>▶ As at 25 May 2018, a total of 49 formal notification letters to customers have been returned. I have been advised by the Ring-Fencing Programme that new addresses have been obtained for 44 customers and new formal notification letters sent by the date of this Supplementary Report.</li> <li>▶ I am satisfied that the efforts made by the Ring-Fencing Programme to identify correct addresses and re-issue letters was carried out quickly and with best endeavours once corrected names and/or addresses were identified:               <ul style="list-style-type: none"> <li>· 17 letters were re-issued before 31 March 2018;</li> <li>· 17 letters were re-issued before the end of April 2018;</li> <li>· 5 letters were re-issued before 11 May 2018;</li> <li>· 6 letters were re-issued before 30 May 2018; and</li> <li>· 4 letters have not been re-issued as the relevant customers are no longer within the scope of the Scheme.</li> </ul> </li> <li>▶ I have reviewed the list of customers with returned mail, who would have received the new letter later than the end of March. In all cases they are corporate customers or market counterparties who have been having ongoing and proactive dialogue with their RDs about the Ring-Fencing Plan (including the Scheme) since summer 2017.</li> <li>▶ I am therefore satisfied that the formal notification letters to these transferring corporate customer groups are not the first time they would have been made aware of the Scheme and the effect of it on them, and that the delay in getting the letters to these customers would not have affected their level of awareness of the Scheme or consideration of the effect of the Scheme on them.</li> <li>▶ I note that at the date of this Supplementary Report, none of the 44 customers have raised any queries or concerns regarding the Ring-Fencing Plan (including the Scheme).</li> </ul>

Formal notification letter sent to 1 transferring customer

- ▶ 1 formal notification letter was not sent to a transferring corporate customer until 4 May 2018. I have been advised that this customer, who has an ISDA and GMRA master agreement but no active products or transactions, was omitted, due to human error, from the dataset used to send the formal notification letters. However, the error was identified and later remedied as part of the assurance processes put into place by the Ring-Fencing Programme, in relation to the formal notification letter mailings.
- ▶ On its own, this deviation from the Communication Plan Schedule (and 42 day notification period referred to in the court order dated 26 May 2017) may have caused an adverse effect on the persons ability to properly consider over an appropriate period of time the effect of the Scheme and if they consider it necessary to ask questions, raise concerns or issues.
- ▶ However, the customer is a corporate customer who was sent by its RD an email on 29 March 2018 advising that their ISDA and GMRA master services agreements would transfer under the Scheme from ANTS to Santander UK, which I have reviewed, and therefore is not reliant on the formal notification letter as the first time they would have been informed of the Scheme.
- ▶ I note that based on the information provided to me, this customer has not raised any queries, concerns or objections at the time of publication of this Supplementary Report.
- ▶ I am therefore satisfied that through that email, together with the ongoing discussions with their RD, they have had the appropriate information with enough time to consider the effect of the Scheme on them and that in that context, the delay in sending the formal notification letter has in itself not created an adverse effect on the customer.

Letters to 12 ANTS US branch customers

- ▶ Between 1 March 2018 and 21 March 2018, 12 ANTS US branch customers were sent formal notification letters advising them of their transfer under the Scheme, in error. I have been advised that this was caused by the customers being incorrectly flagged in the data extract from a system shared by both short-term markets (STM) and Treasury functions.
- ▶ The issue was identified when a reconciliation was performed of formal notification letters sent and as a result, on 29 March 2018, further letters were sent to these customers advising them of the error and that they would not be transferring under the Scheme.
- ▶ In considering the effect on these customers, I note that no queries have been raised by the 12 customers who received the letters in error.
- ▶ Following discussions with the Ring-Fencing Programme, I am satisfied that the error in the data was limited to the 12 affected customers and was corrected quickly with a clear, second letter, and do not believe that the sending of the formal notification letter in itself has created an adverse effect on the customers.

<p>Letters to 11 agents and/or security trustees under loan transactions</p>	<ul style="list-style-type: none"> <li>▶ Against the timings in the Communications Plan Schedule, there was a delay in sending formal notification letters, or corrections to formal notification letters originally sent on 29 March 2018, to 10 agents and/or trustee entities under loan transactions and 1 letter of credit in favour of ANTS.</li> <li>▶ Formal notification letters to the 11 agents or trustees, were as follows: <ul style="list-style-type: none"> <li>· Letters were sent on 6 April 2018 to 2 agents and/or trustee entities due to 2 loan transactions booked or renewed in late 2017 or early 2018 requiring due-diligence.</li> <li>· Letters were sent on 11 April 2018 to 6 agents and/or trustee entities (3 letters relating to loans that rolled over and 3 follow-up letters relating to derivative products not mentioned in the original communication to these agents and/or trustees that were sent on 29 March 2018).</li> <li>· A letter was sent on 18 April 2018 to 1 agent and 1 trustee because due-diligence needed to be conducted in respect of the transaction.</li> <li>· ANTS is a counterparty to 1 receivables finance transaction that will transfer to Santander UK under the Scheme. The trustee in respect of ANTS' participation in this transaction was sent a communication via letter providing detail on the Scheme on 18 April 2018. The delay in sending this letter was due to the unusual nature of the transaction, which required additional due-diligence to be conducted to confirm that the transaction could transfer to Santander UK as a permitted product.</li> </ul> </li> <li>▶ No queries or questions have been raised by the affected persons and I am satisfied that no adverse effect has been caused by the delay.</li> </ul>
<p>Letters to 2 parties with which ANTS has current proceedings</p>	<ul style="list-style-type: none"> <li>▶ Letters were sent on 14 March 2018 to 2 parties with which ANTS and Santander UK has current proceedings, advising that their proceedings would transfer from ANTS under the Scheme. The letters provided details of the Scheme and the transfer date of proceedings under the Scheme.</li> <li>▶ A second letter was then sent to the same 2 parties on 30 April 2018 correcting a mistake in the original letter by amending the transfer date of the proceedings from 13 August 2018 to 30 July 2018 and confirming that the proceedings would transfer from ANTS to Santander UK (which is already a party to these proceedings).</li> <li>▶ Having reviewed both letters, I am satisfied that no adverse effect has been caused by the correction. The original letters provided the parties with the necessary information to enable them to consider the effect of the Scheme on themselves and provided the time to consider the effect and raise any questions or concerns, including objections. The correction of the transfer dates does not, in my view, affect their ability to do that.</li> <li>▶ Further, neither party has, at the date of this Supplementary Report, raised a concern or objection to the Scheme.</li> </ul>
<p>Communication to issuer of a letter of credit in favour of ANTS</p>	<ul style="list-style-type: none"> <li>▶ ANTS is the beneficiary of 1 standby letter of credit that will transfer to Santander UK under the Scheme. This transaction was identified at a late stage due to its unusual nature and required due-diligence to confirm that it could transfer to Santander UK as a permitted product.</li> <li>▶ Once this due-diligence was complete, on 13 April 2018, a letter was sent to the issuer of this letter of credit providing detail on the Scheme and advising that the benefit of the letter of credit would be transferring under the Scheme to Santander UK.</li> <li>▶ No queries or questions have been raised by the affected person and there are no adverse effects on the issuer as a consequence of the transfer under the Scheme.</li> <li>▶ I am satisfied that the delay in sending the letter was a necessary consequence of needing to complete due-diligence and to therefore be certain of the transfer under the Scheme and I am satisfied that there is no adverse effect caused by the delay in sending the letter detailed here.</li> </ul>

Delay to tailored information packs sent to 5 transferring corporate customers

- ▶ 5 customers were sent their tailored information packs after the end of March 2018, all of whom were sent formal notification letters before the end of March 2018.
- ▶ A tailored information packs were sent to 1 of these customers on 6 April 2018. The delay was caused by human error, but was corrected through the controls put in place for such an eventuality.
- ▶ The other 4 customers were sent tailored information packs on 17 May 2018 and 18 May 2018, when the need to complete the transfer by the Scheme rather than the preferred option of novation became a consideration, given deadlines for the Scheme. I note that all 4 customers are entities within the Banco Santander Group.
- ▶ All 5 customers had been sent formal notification letters before the end of March 2018 and, as corporate customers, are engaged in ongoing discussions regarding their transfer under novation or the Scheme. I am therefore satisfied that any deviation from the Communications Plan Schedule, in receiving their tailored information pack, will not have affected their knowledge of the Scheme or their involvement in it, nor has it prevented them from considering the implications of the Scheme and raising any concerns or issues (including formal objections).
- ▶ No queries or questions have been raised by the affected persons and I am satisfied that there is no adverse effect on these customers as a consequence of the timing of the sending of their tailored information packs.

## 5.5 Findings and conclusions: Communications from customers and other persons

The Ring-Fencing Programme has enabled customers and other persons to ask questions and raise concerns through a number of channels into Santander UK and ANTS. These include:

- ▶ A dedicated Ring-Fencing telephone number and email address;
- ▶ Existing RD relationships for corporate customers;
- ▶ Letter, fax or by personal visits to any branch or corporate office; and
- ▶ Via the High Court, PRA and FCA.

The following provides my assessment and conclusions regarding the handling and management of these communications, together with the volumes and types of communications received up to the date of this Supplementary Report.

### 5.5.1 Adequacy and performance of the Ring-Fencing Programme's communications processes and controls

During Q4 2017, the Ring-Fencing Programme set up a comprehensive approach, process and team to coordinate and respond to customer and other person queries, concerns and objections regarding the Scheme and the wider Ring-Fencing Programme. This has comprised of the following main parts:

- ▶ A dedicated customer support team to address customer and other person queries and questions. This team uses the established facilities and infrastructure at the Corporate and Commercial Contact Centre in Glasgow and has adopted the processes, controls and expertise in the handling, management and reporting of customer related calls and contacts. This is the team that can be reached via the dedicated Ring-Fencing telephone number and the dedicated Ring-Fencing email address and post related to 'banking reform' is also redirected to this centre;
- ▶ As set out in the overall communications plan, RDs have continued to engage in conversations with their corporate and institutional customers about the Scheme and the transfer of transactions, products and arrangements under the Scheme. All conversations have been recorded within the RDs' contact tools and, as part of the Ring-Fencing Programme's processes, these conversations have been included in the communications MI and supporting documentation that I have reviewed; and
- ▶ A central communications team within the Ring-Fencing Programme have been accountable for the management and timely response to issues, concerns and objections, as they arise. The team comprises senior Santander UK and ANTS management, together with legal advisors and communications team specialists.

Through document review, meetings and walkthroughs of processes and procedures by the teams above, I have assessed the adequacy of the processes, procedures and management oversight of customer and other person's communication to the Ring-Fencing Programme.

Following completion of initial reviews of processes and procedures proposed by the Ring-Fencing Programme, my work has been an ongoing process of review and engagement with the teams, including reviews of MI presented and detailed discussions about individual queries. As a result, I am able to conclude the following:

- ▶ I am satisfied that the processes, controls and team set up in the Corporate and Commercial Contact Centre in Glasgow is based on tried, tested, experienced and knowledgeable customer support capabilities and has worked effectively since its inception.
- ▶ The team was set up during Q4 2017 and so was operational and reporting customer contacts in advance of the Directions Hearing. This meant that it was well prepared for customer and other persons contacting them, following the mailing of the formal notification letters. I am satisfied, based on all my contact with them and the review of MI throughout the period beginning in January 2018, that all communications from customers and other persons that have been made to either the dedicated Ring-Fencing phone number or dedicated email address, have been captured, reported and responded to appropriately and in a clear, fair and not misleading manner.
- ▶ In line with their responsibilities and as set out in the overall communications plan, RDs have continued to engage with their corporate and financial institution customers throughout the period since the Directions Hearing, and have been the first point of contact for all communications with their customers, reporting any queries or concerns that customers have through to the Ring-Fencing Programme (who in turn have reviewed, agreed actions and recorded the contact within MI for communications reporting).
- ▶ I have been advised that the relevant heads of business have provided assurance to the Ring-Fencing Programme that all customer and market counterparty queries and concerns, raised through their RDs and bankers in their business areas, have been recorded accurately and that the information provided is up to date and complete as at the date of this Supplementary Report. I am satisfied with this assurance.
- ▶ I am satisfied that, through the comprehensive MI and ongoing engagement of the senior management of Santander UK and ANTS, all queries, concerns and ultimately objections from customers and other persons have been properly considered and have been or are being responded to.
- ▶ The process to consider concerns and the objection raised has been coordinated by the Ring-Fencing Programme leadership team, supported by external legal advisors together with senior business management, up to and including the leadership of the business divisions (where applicable) with the intention of finding solutions and resolving any concerns ahead of the Sanction Hearing.
- ▶ See section 5.5.3 and 5.5.4 for more details of queries and concerns raised and how they have been resolved together with section 5.5.5 for the 1 objection raised at the date of this Supplementary Report.

## 5.5.2 Communications from customers and other persons

The reporting of contacts from customers and other persons, through the channels detailed earlier, was initiated in the first week of January 2018. There was reporting to senior Ring-Fencing Programme leadership, together with the PRA and FCA. It has been provided to me each week and I have reviewed this MI and the supporting details of the communications from customers and other persons, at a fortnightly meeting with the Ring-Fencing Programme leadership, since I started to receive this information.

Using this information, supported by the regular meetings, I have completed my assessment of contacts from customers and other persons and how they have been responded to (depending on the type of concern or query raised) between the Directions Hearing and the date of this Supplementary Report. The following table summarises the number and type of contacts from customers and other persons, through all channels specified earlier.

At the point of publishing this Supplementary Report, I have been advised that no inbound communications have been received from persons that are not customers (e.g. suppliers), with the exception of 1 objection raised (see section 5.5.5).

Of the 1,733 customer inbound communications received, the majority (1,487) related to BAU matters, i.e. general calls regarding existing products and services within no relevance or connection to the Ring-Fencing Plan (including the Scheme).

Of the total, 231 inbound communications related to ring-fencing and were a combination of administrative questions, technical queries (e.g. regarding the RFTS legal mechanism), and requests for further information.

At the time of publication of this Supplementary Report, a total of 57 queries or concerns have been raised and 1 formal objection (see section 5.5.5).

Table 11: Summary of Scheme-related contacts from customers and other persons by type (as at 29 May 2018)

Contact type	Total contacts from 10 May 2017 to 29 May 2018	Description of communications and Skilled Person assessment
Total number of Scheme-related contacts from customer and other persons	1,733	<ul style="list-style-type: none"> <li>▶ Of which there were a total of 15 missed calls to the dedicated call centre helpline.</li> <li>▶ The missed calls all happened on the same day, caused by adverse weather conditions preventing significant numbers of employees getting to work for 1 day.</li> </ul>
Non-RFTS related, BAU query directed through the RFTS specific contact sites or phone number.	1,570	<ul style="list-style-type: none"> <li>▶ 1,487 calls relate to other services provided or offered by the Santander UK Group, and were passed from the dedicated Ring-Fencing Call Centre to other contact areas with the Santander UK Group.</li> <li>▶ 83 calls relate to queries regarding changes to Santander UK's Jersey and IoM branches due to the Ring-Fencing Plan (but not due to the Scheme). These were received by the dedicated Ring-Fencing Call Centre.</li> <li>▶ None of these calls or emails were related to the Scheme.</li> </ul>
Request that the Santander UK Group confirms no action is required by the customer or other person.	24	<ul style="list-style-type: none"> <li>▶ Clarification from customers checking whether they are required to do anything in response to the general communications made by the Santander UK Group relating to ring-fencing.</li> <li>▶ I am satisfied that all queries and questions in this category are resolved.</li> </ul>
Request that Santander UK Group clarifies why the customer or other person has been written to.	8	<ul style="list-style-type: none"> <li>▶ Clarification from customers (or representatives) as to why they have been written to.</li> <li>▶ Questions resolved through the call centre, no further action required.</li> <li>▶ I am satisfied that all queries and questions in this category are resolved.</li> </ul>
Request for hard copy documents or additional copies to be sent by email/post/fax.	1	<ul style="list-style-type: none"> <li>▶ Documentation sent in response to request. No further action required.</li> <li>▶ I am satisfied that all queries and questions in this category are resolved.</li> </ul>
Request that Santander UK Group clarifies communications or documents already provided or a request for additional related information.	57	<ul style="list-style-type: none"> <li>▶ Clarification provided on specific questions relating to documents received (for example formal notification letters or factsheets).</li> <li>▶ All queries resolved through the call centre, any additional information provided.</li> <li>▶ I am satisfied that all queries and questions in this category are resolved.</li> </ul>
Query or concern.	57	<ul style="list-style-type: none"> <li>▶ 3 customers have raised queries through the call centre.</li> <li>▶ 54 customers have communicated directly to RDs (14 concerns, 40 queries).</li> <li>▶ See sections 5.5.4 and 5.5.5 below for further analysis and my conclusions.</li> </ul>
Objections.	1	<ul style="list-style-type: none"> <li>▶ See section 5.5.5 below.</li> </ul>

### 5.5.3 Findings and conclusions: customer queries

I have examined the queries raised by customers directly with their RDs and as recorded by the Ring-Fencing Programme. A query is defined as a customer or counterparty question or request for further information in relation to Santander UK's ring-fencing transfer scheme.

The following details the themes emerging from these queries, the action taken by Santander UK or ANTS to resolve the query, and/or the current status. I note that 17 customers raised queries which included multiple themes, and so the total number of themes (and their status) does not equal the total number of queries (40) recorded (and their status).

Having completed my assessment, I am satisfied that the Ring-Fencing Programme has taken, or is taking, appropriate steps to respond to the customers and address their queries and that they have provided customers with sufficient information to answer their questions.

Regarding the 1 open query, I am satisfied that Santander UK and ANTS are taking the steps necessary to resolve this query, and as at the time of publication of this Supplementary Report, are waiting for a response from the customer, before the matter can be closed. Please refer to table 13 for more information regarding this open query.

Table 12: Ring-fencing related queries recorded by the Ring-Fencing Programme

Subject	Description	Open	Closed	Total
Query	Where a customer or counterparty has asked a question or requested further information in relation Santander UK's ring-fencing transfer scheme.	1	39	40

Table 13: Themes arising from customer queries

Theme	Santander UK/ANTS response	Open	Closed	Total
Specific products Queries specific to the product, or combination of products, held by the customer.	Open: Santander UK remains in an ongoing discussion regarding their approach to the transfer of a customer's foreign exchange (FX) transactions, with a response from the customer outstanding (since 10 May 2018) as at the date of this Supplementary Report. We understand that the customer's legal team is assessing this and is due to revert to the Ring-Fencing Programme.  Closed: Santander UK/ANTS have answered customers' specific product related questions e.g. which types of products could remain in the RFB, the migration dates for their products, what would happen to live transactions on the effective dates.	1	20	21
Part VII or novation requirements Enquiries regarding the requirements for migration by either Part VII or novation, as well as expressing preference for either mechanism. These also included queries regarding subsequent changes to ISDA agreements/documentation.	Closed: Santander UK and ANTS have clarified the requirements and timings of the Part VII or novation mechanisms of transfer. Customers have expressed preference for Part VII in some circumstances (e.g. to avoid triggering mandatory clearing requirements), and some have asked about the impacts of novation on their ISDA agreements. Santander UK and ANTS have noted their preferences and continued engagement until the customers have stated their preferences.	0	11	11

<p>Administrative e.g. IT systems access, recipient of BAU requests, legal costs for banking reform.</p>	<p>Closed: Santander UK and ANTS have clarified (amongst other things) which entities should be referenced in contract documentation (after implementation of the Ring-Fencing Plan), that they are unable to pay for a customer's legal costs in relation to banking reform, that the customer's relationship director would not change, and that any requests made to ANTS would be redirected to Santander UK (where appropriate).</p>	0	6	6
<p>Ring-fencing legislation Enquiries from customer regarding the ring-fencing legislation and its impact on them as a customer.</p>	<p>Closed: Santander UK and ANTS have confirmed to customers what changes the ring-fencing legislation would bring for them, and what (if any) action is required. They have explained the Ring-Fencing Plan to the customers, and have explained the wide ring-fence model to them.</p>	0	4	4
<p>Brexit Enquiries regarding the impact of Brexit on ring-fencing.</p>	<p>Closed: Santander UK and ANTS have informed customers that there is still political uncertainty in regards to Brexit, and that SLB operates via passporting.</p>	0	3	3
<p>Credit rating difference and credit risks Queries regarding the impact of Banco Santander (including SLB)'s lower credit rating relative to Santander UK, and customer requirements for credit limits for interactions with Banco Santander (as a Spanish entity).</p>	<p>Closed: Certain customers have had to seek risk approvals for exposure to Spain (due to products transferring to SLB), and Santander UK and ANTS have agreed to work with these customers' credit teams to provide information that they require to set the customers' risk limits.</p>	0	2	2

## 5.5.4 Findings and conclusions: customer concerns

These are where a customer or market counterparty has expressed a concern arising from Santander UK's ring-fencing transfer scheme.

The majority of concerns raised about the Scheme have been raised by corporate customers transferring under the Scheme directly with their RDs. I have examined all 14 concerns raised by customers directly with their RDs and as recorded by the Ring-Fencing Programme.

The following details the themes emerging from these concerns, the action taken by Santander UK or ANTS to resolve the concern, and/or the current status. Please note that 10 of the 14 concerns raised included multiple themes, and so the total number of themes (and their status) does not equal the total number of concerns raised (and their status).

Having completed my assessment, I am satisfied that the Ring-Fencing Programme has taken, or is taking, appropriate steps to respond to the customers and address their concerns and that Santander UK and ANTS have engaged with customers and provided them with sufficient information and assistance to resolve their issues.

Regarding the 5 open concerns, I have been advised that Santander UK and ANTS are in ongoing discussions with the customers, in an effort to resolve these concerns. Please refer to table 15 for additional information regarding these open concerns.

Table 14: Ring-fencing related concerns recorded by the Ring-Fencing Programme

Subject	Description	Open	Closed	Total
Concern	Where a customer or counterparty has expressed a concern with Santander UK's ring-fencing transfer scheme.	5	9	14

Table 15: Themes arising from customer concerns

Theme	Santander UK/ANTS response	Open	Closed	Total
Compensation Requests from RFIs for compensation due to the impacts of KVA, differential discounting and netting.	Open: In order to mitigate these impacts, ANTS began novating its population of non-mandatory clearable trades ahead of September 2017. Negotiations are ongoing with these customers to resolve any remaining clearable trades ahead of the relevant effective date of the Scheme.	4	1	5
Credit rating difference Impact of Banco Santander (including SLB)'s lower credit rating relative to Santander UK.	Closed: Santander UK and ANTS have informed customers of the recent change to Banco Santander (including SLB)'s credit rating and SLB's posting of collateral required under the terms of existing documentation, as a mitigating action for this potential adverse effect.	0	4	4
Ring-fencing legislation Customers raising concerns about prohibited and permissible product combinations (and subsequent transfer destinations), where they are classified as a RFI.	Open: Santander UK and ANTS outlined the definitions of a RFI, permissible and prohibited products. They explained to the customer that it is the combination of entity status and product type that determine whether the business could be transacted from the RFB or not. As at the date of this Supplementary Report, discussions are ongoing with the customer regarding business that could not be transacted from the RFB.  Closed: Santander UK and ANTS explained why they did not believe the customer was adversely affected more than reasonably necessary to meet the Scheme's purposes, and offered to provide the customer with further information for their management to review.	1	1	2

Theme	Santander UK/ANTS response	Open	Closed	Total
<p>Exposure to Spain</p> <p>The consequences of transactions being transferred to SLB, and subsequent exposure to Banco Santander as a Spanish entity.</p>	<p>Open: Santander UK and ANTS are in an ongoing discussion with a customer whose risk appetite restricts them from exposure to Spain (amongst other countries), in regards to possible amendments to documentation and their ISDA agreement.</p>	1	0	1
<p>Hedge accounting</p> <p>Customer considered that their transfer to SLB would compromise the hedge accounting treatment of products and transactions.</p>	<p>Closed: Santander UK and ANTS engaged in a discussion with the customer, who agreed to transfer via Part VII (rather than by novation) as this would not compromise the hedge accounting treatment.</p>	0	1	1

## 5.5.5 Findings and conclusions: Objections filed

In accordance with section 110(5) of FSMA, and supplemented by the guidance approved at the Directions Hearing, any person alleging to be adversely affected by the Scheme is entitled to be heard by the High Court. This is provided that they file with the Court a written statement of representation that they wish the High Court to consider, and serve a copy of such statement on the PRA and on Santander UK or ANTS (as applicable). These written statements of representation will be referred to as the “objections filed”.

At the date of publishing this Supplementary Report, 1 objection has been filed with the High Court and served on the PRA and Santander UK. This is detailed below, together with my assessment and conclusions regarding the objection.

### 5.5.5.1 Objection raised by Mr R. A. Brown on 19 February 2018

Mr Brown alleges that as a result of the ring-fencing legislation, Jersey residents (of which he is one) cannot have a relationship with a ring-fenced bank, and so must have a relationship with a non-ring-fenced bank. By virtue of having a relationship with a non-ring-fenced bank, it is his view that there is an increased risk of financial loss should the non-ring-fenced bank fail. This would result, in the view of Mr Brown, in Jersey residents and the wider Jersey economy being negatively impacted. Further, a failure of the non-ring-fenced bank in his view would reduce the already limited providers of retail banking services to individuals and small businesses in Jersey.

Mr Brown does not state in his letter of objection that he has any transactions, products or arrangements with Santander UK’s Jersey branch or that he is otherwise connected to Santander UK or ANTS in any way. Furthermore, Santander UK have not identified any record of Mr Brown.

I understand that Mr Brown has made representations at sanction hearings for all of the ring-fencing transfer schemes of the other UK banking groups who are subject to ring-fencing legislation. I understand that on those occasions, the alleged objection is consistent in substance to the basis as set-out above. It may also relate to the fact that Jersey residents, who do not have postcodes in the UK, typically cannot open an account or have access to banking facilities with an on-shore branch.

Under Article 20 of the FSMA 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080), a ring-fenced body must not maintain or establish a branch in any country or territory which is not an EEA member state. It is as a result of this prohibition that Santander UK is unable to maintain its current branch in Jersey after 31 December 2018.

I have considered Mr Brown’s objection and alleged adverse effect(s) set out in his representation. Whilst Mr Brown has no transactions, products or arrangements with Santander UK, this does not in-itself result in Mr Brown not having the right, under the legislation, to allege that he will be adversely affected by the Scheme.

I am aware and have reviewed the letter sent by Santander UK in response to Mr Brown’s objections. It acknowledges Mr Brown’s objection and sets out clearly Santander UK’s position. I also note that at the time of writing this Supplementary Report, Mr Brown has confirmed by email to Santander UK that he will not be attending the Sanction Hearing in person, but his objection remains on record for the consideration of the High Court.

#### 5.5.5.2 My conclusions

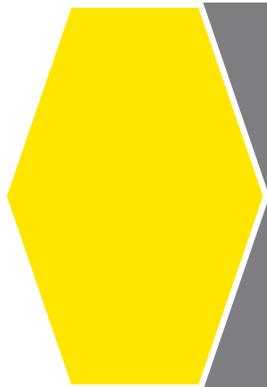
As set-out in sections 7 and 8 of this Supplementary Report, the outcome of my analysis has identified no adverse effects as a consequence of the Scheme on any customers or other persons connected with Santander UK's Jersey and IoM branches.

I consider the impacts that Mr Brown has identified are as a consequence of the ring-fencing legislation rather than the Scheme and are therefore outside of my scope, as the Skilled Person, to consider.

Furthermore, the Santander UK Group has not permitted persons resident in Jersey or the IoM to hold retail banking products and accounts directly with Santander UK and is not proposing to change this policy, as part of the design of the wider Ring-Fencing Plan, in order to comply with the ring-fencing legislation. It is not my role to identify a preferred way for Santander UK to structure its business to meet the ring-fencing legislation.

Accordingly, I am satisfied that the objection filed by Mr Brown does not change the conclusions I have arrived at in sections 7 and 8 of this Supplementary Report.

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Part 6 – Analysis completed  
following the Directions  
Hearing (5 February 2018)

## 6. Update on the financial positions of Santander UK and Banco Santander (including SLB)

### 6.1 Introduction

The proposed transfers of business under the Ring-Fencing Plan (including the Scheme) will impact the financial positions of Santander UK and Banco Santander (including SLB).

As set-out in section 10 of my Scheme Report, I have assessed and considered at an entity level all changes to business model viability, capital adequacy, liquidity and funding as a consequence of the Ring-Fencing Plan (including the Scheme) against the Statutory Question.

In the period between the Directions Hearing and this Supplementary Report I have compared the analysis I performed in my Scheme Report to updated financial information made available to me. I then considered whether this information has any impact on the conclusions I reached in my Scheme Report.

### 6.2 Approach to updating my financial assessments

#### 6.2.1 Summary of assessment performed in my Scheme Report

As outlined in section 10 of my Scheme Report, my approach to assessing business model viability, capital and liquidity was based on my analysis of:

- ▶ The effect of the proposed changes over the forecast period 2017 to 2020; and
- ▶ Point in time changes to the balance sheet, Profit & Loss (P&L), capital, liquidity and funding position of Santander UK (the RFB) and Banco Santander (including SLB).

This involved the analysis of the Santander UK Group's annual operating plan (2017 to 2020) as at 30 June 2017 (known as the 'P20'), the Santander UK Group's 2016 accounts and the Santander UK Group's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

As part of the assessment in my Scheme Report, I considered the:

- ▶ Business model of Santander UK (the RFB) remaining the same as it is today, notwithstanding the transfers of business from Santander UK (the RFB) to Banco Santander (including SLB) and from ANTS to Santander UK (the RFB) and Banco Santander (including SLB). Based on my point in time analysis, I assessed the size of the business being transferred to be not significant as a percentage of Santander UK's net equity and concluded that this would not adversely affect the financial position of Santander UK (the RFB);
- ▶ Potential impact of the transferring business to Banco Santander (including SLB) on its financials, based on the quantum of business being transferred as a percentage of the current Banco Santander financial position. I concluded that the business being transferred into Banco Santander would not have a significant impact on the overall financial position of Banco Santander when compared to the size of its current balance sheet, P&L and Risk Weighted Assets (RWAs);
- ▶ Reasonableness of the assumptions provided in the P20 by comparing the business and macroeconomic forecasts against the projections set out in the EY ITEM Club macroeconomic forecasts. This was supported by analysis that I conducted comparing Santander UK to industry benchmarks and ratios; and
- ▶ Robustness of the P20 by compiling the raw data into analytical tools I have developed and preparing a set of performance metrics using different calculation methodologies. I considered the P20 assumptions to be in line with current macroeconomic forecasts and industry peers. To support my conclusions, financial information and data provided by Santander UK and Banco Santander was reviewed and compiled into analytical tools against a series of prudential, risk and business-specific tests and measures.

The results were used to inform my assessment as to whether the Ring-Fencing Plan (including the Scheme) would result in any significant deterioration in Capital, Liquidity or Business Model Viability for the Santander UK Group and Banco Santander (including SLB), using recognised financial measures.

## 6.2.2 Approach to updating the financial assessment for this Supplementary Report

At the time of preparing of this Supplementary Report, the Santander UK Group's update to the 3 year plan and budget for the period 2019 to 2021 (P21) is not updated nor available in time for me to consider for this Supplementary Report.

### 6.2.2.1 Santander UK Group

My approach, therefore, to updating the financial assessment has been to compare the actual 2017 financial performance of the Santander UK Group, as detailed in the Santander UK Group Financial Statements as at 31 December 2017, against that which was forecast for 2017 in the P20. Further, following publication of the EY ITEM Club 'Spring' forecast<sup>6</sup> in April 2018, I have revisited the macroeconomic assumptions underpinning the P20 for the environment and outlook that the Santander UK Group operates.

By performing the actual v.s. forecast 2017 analysis across a number of key financial metrics and ratios, I am able to consider whether the the Santander UK Group performed in line with the 2017 figures and metrics forecast in the P20. This analysis has provided assurance that the P20 plan remains reasonable, robust and a credible source of financial projections for the business, and therefore remains a valid financial input for the conclusions detailed in my Scheme Report.

I have outlined below in table 16, those metrics and ratios I have considered as part of my assessment of the the 'actual' 2017 financial performance against that which was forecast for 2017 in the P20:

Table 16: Assessment areas for Santander UK

Assessment area	Ratios and metrics considered
Capital Adequacy	▶ Common Equity Tier 1 (CET1); Tier 1; Total Capital; and Pillar 1 RWAs.
Liquidity and Funding	▶ Liquidity Coverage Ratio (LCR); and Net Stable Funding Ratio (NSFR).
Business Model Viability and Sustainability	▶ Net Interest Margin (NIM); and Cost-Income Ratio.
Risk Position	▶ Long-term Wholesale Ratio; Loan to Deposit Ratio; Deposits to Total Funding Ratio; and Non-Performing Loans (NPL) Ratio.
Performance Metrics	▶ Return on Equity (ROE); Return on Tangible Equity; Return on Assets (ROA); Dividends as a proportion of: Profits After Tax (PAT), pre Non-Controlling Interests (NCI) and pre Additional Tier 1 (AT1) distributions; and Dividend Payout Ratio.

<sup>6</sup> [EY ITEM Club Spring Forecast 2018](#)

### 6.2.2.2 Banco Santander (including SLB)

My approach to updating my financial assessment of Banco Santander has been to assess the financial performance of Banco Santander (including SLB) in 2017, reported in the financial statements as at 31 December 2017, which were not available to me at the time the Scheme Report was published.

By performing this analysis across a number of key financial metrics and ratios, I have been able to consider whether there were any significant point in time changes to the balance sheet, P&L, capital, liquidity and funding position of Banco Santander. This has allowed me to assess whether what is being transferred to SLB under the Ring-Fencing Plan (including the Scheme) will have a significant impact on the overall financial position of Banco Santander when compared to the size of its current balance sheet, P&L and RWAs.

I have outlined below in table 17, those metrics and ratios I have considered as part of my assessment of the the financial performance as at 31 December 2016 against the financial performance as at 31 December 2017.

On 7 June 2017, Banco Santander announced the acquisition of 100% of the share capital of Banco Popular Español, S.A. (Banco Popular). The consolidation of Banco Popular into Banco Santander, for reporting purposes, is reflected in the financial statements of Banco Santander as at 31 December 2017.

Table 17: Assessment areas for Banco Santander

Assessment area	Ratios and metrics considered
Capital Adequacy	▶ CET1; Tier 1; Total Capital; and Pillar 1 RWAs.
Liquidity and Funding	▶ LCR.
Business Model Viability and Sustainability	▶ NIM; and Cost-Income Ratio.
Risk Position	▶ Loan to Deposit Ratio; Deposits to Total Funding Ratio; NPL Ratio; and Provision Coverage (as a percentage of NPLs).
Performance Metrics	▶ ROE; Return on Tangible Equity; Return on RWAs; ROA; Dividend Cover; and Dividend Payout Ratio.

## 6.3 Findings of my updated financial analysis

### 6.3.1 Santander UK

Having completed my assessment, I am satisfied that my conclusions in the Scheme Report remain unchanged. I am satisfied that Santander UK Group Holdings plc should meet its minimum capital and leverage ratio requirements over the forecast period.

Having reviewed the newly available 2017 Santander UK Group Holdings plc ICAAP, the base case capital and leverage ratios have increased when compared to the 2016 ICAAP. I am also satisfied that capital and leverage ratios should also remain above the regulatory minimum under the stressed scenarios, as concluded in my Scheme Report.

### 6.3.2 Banco Santander (including SLB)

Whilst there are some variances across the ratios and metrics I have considered, I am satisfied that these variances can be attributable to the consolidation of the recently acquired Banco Popular Español, S.A. into Banco Santander in the 2017 Financial Statements.

I am satisfied that this acquisition in 2017 has not adversely affected the financial position of Banco Santander against which I carried out my original assessment and that the scale of business transfers as a consequence of the Ring-Fencing Plan (including the Scheme) will not have a significant impact on Banco Santander. I am therefore satisfied that the conclusions reached in my Scheme Report remain unchanged.

## 6.4 SLB market risk model

Since publishing my Scheme Report, Banco Santander continues to seek approval from the ECB to extend Banco Santander's market risk model to SLB. Banco Santander have requested a temporary approval for the extension of the market risk model to SLB until full approval is given. Until approval is received from the ECB, SLB has adopted the standard approach to report its regulatory market risk capital.

Market risk positions are being transferred to SLB prior to the execution of the transfers under the Scheme and, where agreed with customers and market counterparties, through novations. In order to migrate customers and market counterparties, while keeping the associated market risk in one entity at all times for each migrating book of business, mirror hedging transactions are being executed between SLB and ANTS. These transactions will be unwound as or immediately after the Scheme is implemented. To minimise the operational risk associated with these transfers of positions and the execution of mirror hedging transactions, the Ring-Fencing Programme is utilising the same processes that have been successfully tested (as part of the end-to-end 'Dress Rehearsals') in preparation for the business transfers on the Scheme's proposed effective dates. Please see section 9.1.1.2 for further information.

Whilst adopting this hedging strategy to manage the market risk in SLB, such a strategy increases the intragroup counterparty credit exposure between Banco Santander (which includes SLB) and ANTS. To maintain any ANTS exposure against Banco Santander within approved internal (intragroup credit limit) and regulatory limits (large exposure limit), Banco Santander has been and will continue to collateralise such exposure.

The additional collateral, which covers any potential future exposure of the relevant transactions, is made available by Banco Santander to ANTS under an existing multi-branch ISDA/Credit Support Annex (CSA) and held in a segregated account. The form of this collateral is held as Spanish government bonds, amongst other high quality sovereign bonds. All amounts of collateral will be sourced and funded by Banco Santander, with associated costs covered by ANTS.

Santander UK has calculated the amount of collateral to cover any future exposure to be in the region of €3.5bn being posted to ANTS immediately before the relevant legal effective date under the Scheme. As the mirror hedging transactions between SLB and ANTS are un-wound, and to the extent collateral has not been drawn, this will be released to Banco Santander.

Senior SLB leadership have confirmed to me that Banco Santander holds and will continue to hold sufficient assets to cover this collateral requirement. I am satisfied that this would not be significant in the context of the overall financial resources of Banco Santander and therefore SLB.

## 6.5 Creditor Hierarchy

### 6.5.1 Introduction

As set-out in section 15 of my Scheme Report, I had assessed and considered at an entity level whether the current position of groups of persons in the creditor hierarchies of Santander UK and Banco Santander was comparable to their positions following the implementation of the Ring-Fencing Plan (including the Scheme).

I also assessed whether the level of assets available to each class of creditor (or groups of persons) of Santander UK and Banco Santander following the implementation of the Ring-Fencing Plan (including Scheme) would remain at least the same.

In the period between the Directions Hearing and this Supplementary Report I have compared the analysis I performed in my Scheme Report to updated financial information made available to me. I have then considered whether this had any impact on the conclusions I reached in my Scheme Report.

### 6.5.2 Approach to updating the creditor hierarchy assessment for this Supplementary Report

At the time of preparing my Scheme Report, the audited financial statements for both Santander UK and Banco Santander to the period ended 31 December 2017 were not available. I have reviewed the creditor hierarchy analysis performed by the Ring-Fencing Programme for Santander UK and Banco Santander to the balance sheet positions as at 30 June 2017.

Following the Directions Hearing, the audited financial Statements for Santander UK and Banco Santander to the period ended 31 December 2017 have been made available to me. Accordingly, I have reviewed the updated creditor hierarchy analysis performed by the Ring-Fencing Programme, for Santander UK and Banco Santander, using the balance sheet positions as at 31 December 2017.

### 6.5.3 Findings of my updated creditor hierarchy assessment

#### 6.5.3.1 Santander UK

Having completed my assessment for Santander UK, I am satisfied that my conclusions, as set out in section 15.4.3 of my Scheme Report, remain unchanged. I remain satisfied that groups of persons transferring to, and connected with, Santander UK will continue to rank in the same class of creditor, before and after implementation of the Ring-Fencing Plan (including the Scheme), were insolvency/resolution to occur.

The resulting level of available assets means that the asset cover will be at least comparable for each class of creditor, before and after implementation of the Ring-Fencing Plan (including the Scheme).

#### 6.5.3.2 Banco Santander

Having completed my assessment for Banco Santander, I am satisfied that my conclusions, as set out in section 15.5.3 of my Scheme Report, remain unchanged. I remain satisfied that groups of persons transferring to, and connected with Banco Santander will continue to rank as the same (or at least equivalent if transferring under the Scheme) class of creditor, before and after implementation of the Ring-Fencing Plan (including the Scheme), were insolvency/resolution to occur.

The resulting level of available assets means that the asset cover will be at least comparable for each class of creditor, before and after implementation of the Ring-Fencing Plan (including the Scheme).

## 6.6 Credit Ratings

I have considered whether the credit ratings agencies have issued any revisions to their outlooks for Santander UK (the RFB), ANTS or Banco Santander, since the publication of my Scheme Report.

Any changes to the credit rating outlook for Santander UK (the RFB) or Banco Santander could result in changes to my findings across a number of assessment areas outlined in my Scheme Report. Below I have summarised the current credit rating outlooks for all 3 ratings agencies used in my Scheme Report, with any updated rating reports (since the publication of my Scheme Report) indicated by bold text.

Although the credit ratings for Santander UK HoldCo and Santander UK (including ANTS) have remained the same since publication of my Scheme Report, it should be noted that there have been recent upgrades to the ratings (S&P and Moody's) of Banco Santander (including SLB). This means that any adverse effects that I had identified in my Scheme Report, as being driven by a lower credit rating of Banco Santander (including SLB) relative to the credit rating of Santander UK and ANTS (e.g. ratings triggers), may now be partially alleviated. Nevertheless, the Ring-Fencing Programme's proposed mitigations remain, and so I am satisfied that the conclusions presented in my Scheme Report remain valid and correct.

Please refer to Appendix 5 of my Scheme Report, for more information on the interpretation of credit ratings.

## 6.6.1 Banco Santander including SLB

Table 18: Banco Santander credit ratings

Source: Ratings provided by each agency.

Note: Bold text indicates an updated rating report has been provided by the agency, in the period between submission of my Scheme Report and the date of publication of this Supplementary Report.

	S&P	Moody's	Fitch
Date of rating report	<b>6 April 2018</b>	17 April 2018	5 December 2017
Long-term rating	<b>A</b>	A2	A-
Long-term rating outlook	<b>Stable</b>	Stable	Stable
Short-term rating	<b>A-1</b>	P-1	F2

Both S&P and Moody's rating agencies have increased their short- and long-term ratings of Banco Santander by one notch, since the date of submission of my Scheme Report. SLB does not have a separate credit rating. As a branch of Banco Santander, it has the same credit rating as Banco Santander.

## 6.6.2 Santander UK HoldCo

Table 19: Santander UK HoldCo credit ratings

Source: Ratings provided by each agency.

Note: Bold text indicates an updated rating report has been provided by the agency, in the period between submission of my Scheme Report and the date of publication of this Supplementary Report.

	S&P	Moody's	Fitch
Date of rating report	<b>25 May 2018</b>	2 August 2017	24 January 2018
Long-term rating	<b>BBB</b>	Baa1	A
Long-term rating outlook	<b>Stable</b>	Stable	Stable
Short-term rating	<b>A-2</b>	P-2	F1

Please note that although new reports were made available by the S&P and Fitch ratings agencies after my Scheme Report was published, there were no changes to any ratings or outlooks given.

## 6.6.3 Santander UK including ANTS

Table 20: Santander UK credit ratings

Source: Ratings provided by each agency

Note: Bold text indicates an updated rating report has been provided by the agency, in the period between submission of my Scheme Report and the date of publication of this Supplementary Report.

	S&P	Moody's	Fitch
Date of rating report	<b>25 May 2018</b>	2 August 2017	24 January 2018
Long-term rating	<b>A</b>	Aa3	A
Long-term rating outlook	<b>Stable</b>	Stable	RWP
Short-term rating	<b>A-1</b>	P-1	F1

Please note that although new reports were made available by the S&P and Fitch ratings agencies after my Scheme Report was published, there were no changes to any ratings or outlooks given.

Currently ANTS has the same credit rating as Santander UK as a result of the cross-guarantees in place (the deed poll guarantees of Santander UK and ANTS under which each bank has guaranteed the obligations and liabilities of the other bank).

## 7. Customer analysis – Santander UK’s Jersey and Isle of Man (IoM) branch customers

### 7.1 Introduction

Under the UK ring-fencing legislation (as noted in section 1.9.2) Santander UK, as an RFB, may not retain its Jersey and IoM branches beyond 1 January 2019. For this reason the Ring-Fencing Programme’s intention is that the activities undertaken by Santander UK’s Jersey and IoM branches will be transferred ahead of the implementation of the ring-fencing requirements on 1 January 2019.

The transfer of the business of Santander UK’s Jersey and IoM branches to another member of the Banco Santander Group outside the RFB Sub-Group will be conducted under separate Jersey and IoM transfer schemes that are outside the scope of this Supplementary Report, or under agreements that are outside the provisions of FSMA Part VII. It had been originally intended that these transfers would have completed prior to the final legal effective date of the Scheme.

At the date of this Supplementary Report, I understand that the customers of Santander UK’s Jersey and IoM branches will still be customers of Santander UK at the final legal effective date of the Scheme. Whilst no Jersey or IoM customer will transfer under the Scheme, I am required to consider whether the Scheme is likely to have any effect on them and other persons connected to the Jersey and IoM branches. See section 8 for the analysis for other persons connected to the Jersey and IoM branches.

As part of my assessment, I have had particular regard to whether the customers of Santander UK’s Jersey and IoM branches will be affected by the proposed transfer of prohibited products and services from Santander UK and ANTS to SLB under the Scheme, and the proposed transfer of permitted products and services from ANTS to Santander UK under the Scheme. The transfer of business and the change in business model for Santander UK is scheduled to commence in July 2018, and so there is a potential impact for customers remaining in Santander UK, were they no longer able to access their products and services.

### 7.2 Customers of Santander UK’s Jersey and IoM branches

I have reviewed the likely impact of the Scheme on customers of Santander UK’s Jersey and IoM branches. The following table summarises the type of customers and products provided to them.

Table 21: Jersey and IoM branch customer type and products held

Customer type	Products held	Total number of customers as at 31 December 2017
<b>Santander UK Jersey branch</b>		
Retail Customers (including personal, select and high net worth individuals (HNWIs))	<ul style="list-style-type: none"> <li>▶ Current accounts</li> <li>▶ Call accounts</li> </ul>	15,459
SME Customers	<ul style="list-style-type: none"> <li>▶ Term Deposits</li> </ul>	152
Non-SME Corporate Customers (including trusts)	<ul style="list-style-type: none"> <li>▶ Notice Accounts</li> <li>▶ Debit cards</li> <li>▶ Spot FX</li> </ul>	192
RFI Customers (including life insurance companies, fund managers, and investment managers)	<ul style="list-style-type: none"> <li>▶ Deposits</li> <li>▶ Loans</li> <li>▶ FX</li> </ul>	1005

Customer type	Products held	Total number of customers as at 31 December 2017
<b>Santander UK IoM branch</b>		
Retail Customers (including personal, select and high net worth individuals (HNWIs))	<ul style="list-style-type: none"> <li>▶ Current accounts</li> <li>▶ Call accounts</li> </ul>	16,151
SME Customers	<ul style="list-style-type: none"> <li>▶ Term Deposits</li> <li>▶ Notice Accounts</li> </ul>	5
Non-SME Corporate Customers (including trusts)	<ul style="list-style-type: none"> <li>▶ Debit cards</li> <li>▶ Spot FX</li> <li>▶ Residential mortgages (for IoM residents)</li> </ul>	121
RFI Customers (including life insurance companies, fund managers, and investment managers)	<ul style="list-style-type: none"> <li>▶ Deposits</li> <li>▶ Loans</li> <li>▶ FX</li> </ul>	12

Note: I am satisfied that there is no overlap between the RFIs transferring under the Scheme from ANTS or Santander UK to SLB and those RFIs who are customers of either Santander UK Jersey or IoM branches.

### 7.3 Approach to assessing the effect of the Scheme on customers of Santander UK's Jersey and IoM branches

In assessing the effect of the Scheme on Jersey and IoM branch customers, I have considered the following assessment areas (outlined in table 22 below) where potential changes may have affected customers, notwithstanding that no business of the Jersey or IoM branches will be transferring under the Scheme.

My assessment has taken into account the actions proposed by the Santander UK Group to mitigate any adverse effect on customers and whether alternative approaches have or should be considered. Where relevant these are referenced as part of my assessment.

Further, my assessment has assumed that Santander UK will have transferred the business of Santander UK's Jersey and IoM branches no later than 1 January 2019. Therefore my assessment only covers the effects of the Scheme, on customers and other persons connected with the Santander UK Jersey and IoM branches, in the period from the first effective date of the Scheme (9 July 2018) to 1 January 2019.

Table 22: Customers of Santander UK's Jersey and IoM branches - assessment areas

Assessment area	Description
Contractual Rights	Changes to any terms and conditions, including: the ability to transfer deposits or investments or switch to other providers, termination rights, events of default or change of control provisions.
Coverage and Channels (e.g. online banking, branch network, call centres, dedicated relationship managers)	The means by which customers access products and services e.g. directly through a digital platform, via a call centre, via a branch, or through a relationship manager.
Credit Availability (e.g. access to loans, credit cards)	The circumstances for, and access customers have to, credit facilities e.g. loans, mortgages, credit cards, trade finance and trading credit limits.
Product Availability and Access (full access to products and services as available currently)	The provision of current products and services and whether some will be discontinued or provided through a different channel, platform or legal entity.
Regulatory Protection	The provision of protections afforded to different customer types by virtue of a bank's status as a regulated financial institution in the UK, including access to the local FSCS equivalent.
Finance - Business Model Viability, Capital and Liquidity	Assessment of the ongoing financial viability of Santander UK, whether the entity will have sufficient capital and liquid assets to meet its obligations to its creditors (including customers) and whether it will continue to generate and/or maintain an appropriate level of funding to support its products and services.
Governance	Ongoing management and control of Santander UK, to ensure a safe and well managed bank and protect the rest of the Santander UK Group. This includes adherence to applicable UK regulations and specific policies and procedures.
Risk Management	How much risk the business is prepared to take to meet its strategic objectives, is a key component of the bank's governance structure. Risk management should protect the bank, its customers, the rest of the Santander UK Group and other relevant groups of persons from exposure to unmanaged risk and loss.
Operations, Infrastructure and Shared Services	The operation, robustness and performance of operations teams, processes, systems and infrastructure to the same standards as customers currently receive from the bank.
Recovery and Resolution, Operational Continuity and Creditor Hierarchy	The ability of the RFB and RFB Sub-Group to recover from a crisis or 'stress' through its recovery and resolution planning and the effect on creditors (e.g. customers of the bank) in the event of a failure.

## 7.4 Findings and conclusions: Customers of Santander UK's Jersey and IoM branches

This section addresses changes arising as a consequence of the Scheme which may affect the customers of Santander UK's Jersey and IoM branches, and the conclusions of my assessments.

No customers of Santander UK's Jersey and IoM branches will be transferring to a different legal entity under the Scheme.

Having completed my assessments, I am satisfied that there are no changes that affect customers of Santander UK's Jersey and IoM branches taking place as a consequence of the Scheme. There will be no changes as a consequence of the Scheme to customers' existing relationship with Santander UK Jersey and IoM branches including access to, and the key features of, products and services through existing brands, channels and locations.

The Santander UK Jersey and IoM branches will continue to rely on Santander UK for FX pricing and as a liquidity provider until the point of legal separation. However this will not have an impact on customers' access to product or services or the nature of their relationship with either branch.

I note that there are other changes that are being made as a consequence of the wider Ring-Fencing Programme that will affect customers of Santander UK's IoM branch. These include the transfer of accounts onto new systems and changes to account numbers and sort codes. These changes are taking place outside of the Scheme and are, as a result, not part of the scope of my review and conclusions. These customers have been notified of these changes via letters sent on 30 November 2017.

### 7.4.1 Changes with adverse effects

I have identified no changes as a consequence of the Scheme that will have adverse effects on customers of Santander UK's Jersey and IoM branches.

## 7.4.2 Changes with no adverse effects

I have identified changes as a consequence of the Ring-Fencing Plan (including the Scheme) that do not result in an adverse effect on customers of Santander UK's Jersey and IoM branches.

The following details these changes and the rationale for why I have concluded that customers will be affected, but not adversely affected.

Table 23: Changes with no adverse effects

Assessment area	Conclusion
Finance – Business Model Viability, Capital and Liquidity	 <ul style="list-style-type: none"> <li>▶ Throughout 2018, there will be changes to the balance sheet, P&amp;L, capital and liquidity position of Santander UK from the transfer of business, as a result of the Ring-Fencing Plan (including the Scheme).</li> <li>▶ During that period Santander UK (the RFB) is expected to remain viable and sustainable and meet its minimum regulatory capital and liquidity requirements over the forecast period. I have concluded that these changes do not result in an adverse effect on customers of Santander UK's Jersey and IoM branches.</li> <li>▶ For further details of my findings, and how I have reached them through my work, please refer to section 10 of my Scheme Report.</li> </ul> <p>Note: I have assumed that the transfer of the Santander UK Jersey and IoM branches outside of the Santander UK RFB will have been completed by the end of 2018 to meet the ring-fencing requirements. This means that the changes summarised above, and covered in more detail in section 10 of my Scheme Report, are only applicable for 2018.</p>
Creditor Hierarchy (as part of Recovery and Resolution)	 <ul style="list-style-type: none"> <li>▶ As at the final legal effective date of the Scheme, the creditor hierarchy ranking of customers of Santander UK's Jersey and IoM branches will remain unchanged.</li> <li>▶ Santander UK (the RFB) will have a different composition of assets and liabilities, which makeup its balance sheet, following the transfer of business. This is driven by the transfer of permitted business to Santander UK from ANTS and the transfer of prohibited business (and a small amount of permitted business) from Santander UK to SLB. Whilst there will be a decrease in total assets and liabilities, for the purposes of the creditor hierarchy, this reduction in assets and liabilities will not have a significant difference in the level of assets available to those creditors of Santander UK (the RFB). Accordingly, I have concluded that these changes do not result in an adverse effect on the customers of Santander UK's Jersey and IoM branches.</li> <li>▶ For further details of my findings, and how I reached them through my work, please refer to sections 10 and 15 of my Scheme Report.</li> </ul>

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### 7.4.3 No change

Table 24 summarises the areas where I have assessed there will be no change to customers of Santander UK's Jersey and IoM branches as a consequence of the Scheme.

Table 24: No change

Assessment area	Conclusion
<b>Contractual Rights</b>	
<ul style="list-style-type: none"> <li>▶ Customers' ability to transfer products as a result of the Scheme</li> <li>▶ Rights of set-off/netting</li> </ul>	<ul style="list-style-type: none"> <li>▶ There will be no change to existing policies, rights or processes as a consequence of the Scheme.</li> </ul>
<b>Coverage and Channels</b>	
<ul style="list-style-type: none"> <li>▶ Relationship management</li> <li>▶ Sales process</li> <li>▶ E-commerce platforms and services</li> <li>▶ Online banking</li> <li>▶ Branch availability</li> <li>▶ Telephony services</li> <li>▶ Sort codes</li> <li>▶ Bank Identification Numbers (BINs)</li> <li>▶ Bank Identifier Codes (BICs)</li> </ul>	<ul style="list-style-type: none"> <li>▶ There will be no change to existing policies or processes as a consequence of the Scheme.</li> </ul>
<b>Credit Availability</b>	
<ul style="list-style-type: none"> <li>▶ Credit assessments</li> <li>▶ Credit partner support</li> </ul>	<ul style="list-style-type: none"> <li>▶ There will be no change to existing policies or processes as a consequence of the Scheme.</li> </ul>
<b>Product and Services Availability</b>	
<ul style="list-style-type: none"> <li>▶ Product and Services Availability</li> </ul>	<ul style="list-style-type: none"> <li>▶ There will be no change to existing policies or processes as a consequence of the Scheme.</li> </ul> <p>Note: there are changes taking place, as previously noted (e.g. customer account numbers and sort codes in the IoM branch), which affect customers. These are taking place outside of the Scheme and therefore are not part of the scope of my review and this Supplementary Report.</p>

## Regulatory Protection

- ▶ Jersey Depositors Compensation Scheme (DCS) and IoM DCS protection schemes
- ▶ Pursuit of complaints, legal and other proceedings
- ▶ Jersey Financial Services Commission (JFSC) and IoM Financial Services Authority (FSA) Client money rules

- ▶ There will be no change to existing policies, rights or processes as a consequence of the Scheme.

## Governance

- ▶ Governance

- ▶ There will be no change to the governance of Santander UK Jersey and IoM branches or the performance of risk management as a key control in Santander UK and its subsidiaries, including the Jersey and IoM branches, as a consequence of the Scheme.

## Risk Management

- ▶ Risk Management

- ▶ There will be no change to the governance of Santander UK Jersey and IoM branches or the performance of risk management as a key control in Santander UK and its subsidiaries, including the Jersey and IoM branches, as a consequence of the Scheme.

## Operations, Infrastructure and Shared Services

- ▶ Operations, Infrastructure and Shared Services

- ▶ There will be no change to the operations that will function or the technology that will support the business of Santander UK's Jersey and IoM branches, as a consequence of the Scheme.

Note: there are changes taking place, as previously noted, to the systems in the IoM branch that will affect customers. These are taking place outside of the Scheme and so are not part of the scope of my review or this Supplementary Report.

## Recovery & Resolution Planning and Operational Continuity

- ▶ Recovery & Resolution Planning and Operational Continuity

- ▶ Santander UK's Jersey and IoM branches will remain part of the Santander UK Group Recovery and Resolution Plan (RRP) and operational continuity arrangements for the time that they remain under the Santander UK Group structure, assumed to be until the end of 2018.
- ▶ There will be no change to the recovery, resolution and operational continuity arrangements as a consequence of the Scheme.

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## 8. Other persons analysis – other persons connected to Santander UK’s Jersey and IoM branches

### 8.1 Introduction

I refer to the introduction at section 7.1.

I note that ALIL Services Limited employs staff, which in turn work at Santander UK’s IoM branch. Although these individuals indirectly work for the IoM branch, I will still refer to these individuals as the ‘employees of the IoM branch’ in this Supplementary Report.

### 8.2 Other persons connected to Santander UK’s Jersey and IoM branches

I have identified the following groups of other persons who are connected to Santander UK’s Jersey and IoM branches and have reviewed the likely impact of the Scheme on them:

Table 25: Other persons connected to Santander UK’s Jersey and IoM branches

Other person type	Nature of connection
<b>Santander UK’s Jersey branch</b>	
Employees of Santander UK’s Jersey branch	86 permanent employees of the Jersey branch as at 31 March 2018.
Pension scheme members	Employees and ex-employees of the Jersey branch with pension rights and benefits in the Abbey National International Pension Scheme.
Landlords	1 commercial landlord arrangement with the Jersey branch, contracted to the Jersey branch as at 31 March 2018.
Suppliers, including outsourced arrangements	259 suppliers of goods and services, including outsourcing arrangements directly into the Jersey branch, contracted to the Jersey branch as at 31 March 2018.
Other person type	Nature of connection
<b>Santander UK’s IoM branch</b>	
Employees of Santander UK’s IoM branch	58 permanent employees of the IoM branch as at 31 March 2018.
Pension scheme members	Employees and ex-employees of the IoM branch with pension rights and benefits in the ALIL Services Limited (Santander) Group Personal Pension.
Landlords	As at 31 March 2018 there are no external landlords to the IoM branch.
Suppliers, including outsourced arrangements	83 suppliers of goods and services, including outsourcing arrangements directly into the IoM branch, contracted to the IoM branch as at 31 March 2018.

## 8.3 Approach to assessing changes to other persons connected to Santander UK's Jersey and IoM branches

### 8.3.1 Assessment areas

The following sets out the assessment areas covered by my work:

Table 26: Other persons connected to Santander UK's Jersey and IoM branches – assessment areas

Assessment area	Description
Assessment areas in this section specific to the employees of Santander UK's Jersey and IoM branches	
Location of employment	Changes to the locations in which employees conduct/carry out their roles.
Core terms and conditions of employment	Changes made to the core terms and conditions of employment, including the employing entity and base employment terms e.g. pay, notice periods, holiday entitlement, rights and obligations.
Employment benefits	Changes to employment benefits e.g. the provision of childcare, healthcare, savings plans, bonus schemes, transport season ticket loans and employee pension contributions.
Employment representation	Continuity of employment representation (union and any other).
Transfer or redundancy	To confirm whether any employees are transferring or being made redundant as a consequence of the Scheme. If so, to understand whether: <ul style="list-style-type: none"> <li>▶ The rationale for transfer of employment is relevant and justified to the terms of the Scheme;</li> <li>▶ They will have had sufficient support throughout the transfer (e.g. relocation costs); and</li> <li>▶ There has been consultation throughout the process, including with union representatives.</li> </ul>
Assessment areas in this section specific to pension scheme members	
Abbey National International Pension Scheme	Any changes to the terms and conditions of the current defined contribution pension scheme (i.e. levels of employer funding), for Jersey branch employees.
ALIL Services Limited (Santander) Group Personal Pension	Any changes to the terms and conditions of the current defined contribution pension scheme (i.e. levels of employer funding), for IoM branch employees.

Assessment areas in this section specific to Suppliers and Landlords connected to Santander UK's Jersey and IoM branches

Terms and Conditions	Assessment of any terms and conditions changes proposed to be made under the Scheme including: commercial terms, rights, payment terms, termination, preferred supplier status (if applicable) and guarantees (if applicable).
Landlord and Supplier Service Model, Management and Governance	<p>Assessment of the effect of changes to the service model to determine whether these are likely to directly affect landlords and suppliers e.g. changing the location, delivery or nature of the service provided by the supplier.</p> <p>Assessment of the management of suppliers under the proposed service model, to include: assessment of any changes in the processes, controls, governance and risk management of the landlords or suppliers.</p>

Other assessment areas in this section specific to all other persons connected to Santander UK's Jersey and IoM branches

Finance – Business Model Viability, Capital and Liquidity	Assessment of the ongoing financial viability of the Santander UK Group, whether they will have sufficient capital and liquid assets to meet their obligations to creditors.
Governance	Ongoing management and control of the Santander UK Group to ensure a safe and well managed bank. This is to ensure that staff are not put at unnecessary risk or stress through weakened leadership or unclear responsibilities.
Recovery and Resolution, Operational Continuity and Creditor Hierarchy	Ability of an entity to recover from a crisis or 'stress' through its recovery and resolution planning and the effect on creditors (e.g. suppliers of the bank) in the event of a failure. An assessment of the position in the creditor hierarchy in Santander UK.

## 8.4 Findings and conclusions: Other persons connected to Santander UK's Jersey and IoM branches

This section addresses changes arising as a consequence of the Scheme which may affect other persons connected to Santander UK's Jersey and IoM branches, and the conclusions of my assessment.

No other persons connected to Santander UK's Jersey and IoM branches will be transferring to a different legal entity under the Scheme.

Having completed my assessments, I am satisfied that there are no adverse effects for other persons connected to Santander UK's Jersey and IoM branches taking place as a consequence of the Scheme. There will be no changes as a consequence of the Scheme to other persons' existing relationships or rights with Santander UK's Jersey and IoM branches.

### 8.4.1 Changes with adverse effects

I have identified no changes as a consequence of the Scheme that will have adverse effects on other persons connected to Santander UK's Jersey and IoM branches who are covered by this section of the Supplementary Report.

## 8.4.2 Changes with no adverse effects

I have identified changes as a consequence of the Ring-Fencing Plan (including the Scheme) that do not result in an adverse effect on other persons connected to Santander UK's Jersey and IoM branches.

The following details these changes and the rationale for why I have concluded that other persons will be affected, but not adversely affected.

Table 27: Changes with no adverse effects

Assessment area	Conclusion
Finance – Business Model Viability, Capital and Liquidity	 <ul style="list-style-type: none"> <li>▶ There will be changes to the forecast financial position of Santander UK as set out in section 10.3 of my Scheme Report.</li> <li>▶ I have concluded that the changes will not result in an adverse effect on other persons connected to the Santander UK's Jersey and IoM branches.</li> <li>▶ For further details of my findings, and how I have reached them through my work, please refer to section 6 above and section 10.3 in my Scheme Report.</li> </ul>
Creditor Hierarchy	 <ul style="list-style-type: none"> <li>▶ As at the final legal effective date of the Scheme, the creditor hierarchy ranking of other persons connected to Santander UK's Jersey and IoM branches remains unchanged.</li> <li>▶ Santander UK (the RFB) will have a different composition of assets and liabilities, which make up its balance sheet, following the transfer of business. This is driven by the transfer of permitted business to Santander UK from ANTS and the transfer of prohibited business (and a small amount of permitted business) from Santander UK to SLB.</li> <li>▶ Whilst there will be a decrease in total assets and liabilities, for the purposes of the creditor hierarchy, this reduction in assets and liabilities will not have a significant difference in the level of assets available to those creditors of Santander UK (the RFB). Accordingly, I have concluded that these changes do not result in an adverse effect on other persons connected to Santander UK's Jersey and IoM branches.</li> <li>▶ For further details of my findings, and how I reached them through my work, please refer to sections 10 and 15 of my Scheme Report.</li> </ul>

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### 8.4.3 No change

The following summarises the areas where there will be no change to other persons connected to Santander UK's Jersey and IoM branches as a consequence of the Scheme.

Table 28: No change

Assessment area	Conclusion
<b>Employees of Santander UK's Jersey and IoM branches</b>	
Location of employment	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to the location of employment for any employees under the Scheme.</li> </ul>
Core terms and conditions of employment	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to the terms and conditions of employment for any employees under the Scheme.</li> </ul>
Employment benefits	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to employment benefits for any employees under the Scheme.</li> </ul>
Employment representation	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to how employees are represented under the Scheme.</li> </ul>
Transfer or redundancy	 <ul style="list-style-type: none"> <li>▶ There are no plans to transfer or make redundant any employees under the Scheme.</li> </ul>
<b>Members of Santander UK's Jersey and IoM branch pension schemes</b>	
Abbey National International Pension Scheme (Jersey pension scheme members)	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to the Abbey National International Pension Scheme under the Scheme and therefore no effects on members of the pension scheme.</li> </ul>
ALIL Services Limited (Santander) Group Personal Pension (IoM pension scheme members)	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to the ALIL Services Limited (Santander) Group Personal Pension under the Scheme and therefore no effects on members of the pension scheme.</li> </ul>
<b>Landlords and Suppliers connected to Santander UK's Jersey and IoM branches</b>	
Terms and Conditions	 <ul style="list-style-type: none"> <li>▶ There are no changes planned to the terms and conditions of any landlords, suppliers, payments or market infrastructure suppliers under the Scheme.</li> </ul>
Landlords and Supplier Service Model, Management and Governance	 <ul style="list-style-type: none"> <li>▶ There are no change planned to the service model, management or governance over any landlords, suppliers, payments or market infrastructure suppliers as a consequence the Scheme.</li> </ul>

Assessment areas relevant to all other persons connected to Santander UK's Jersey and IoM branches

Governance



- ▶ There are no changes planned to the governance and management of the Santander UK Jersey and IoM branches as a consequence of the Scheme.
- ▶ This includes management controls and risk management processes and functions across the Jersey and IoM branches and in the way that they interact with Santander UK.

Recovery and Resolution,  
Operational Continuity



- ▶ Until transferred, other persons connected to the Santander UK Jersey and IoM branches will remain part of the Santander UK Group RRP and operational continuity arrangements.
- ▶ There will be no changes to the recovery, resolution and operational continuity arrangements as a consequence of the Scheme, and therefore no effect on the other persons connected to Santander UK's Jersey and IoM branches, as a consequence of the Scheme.

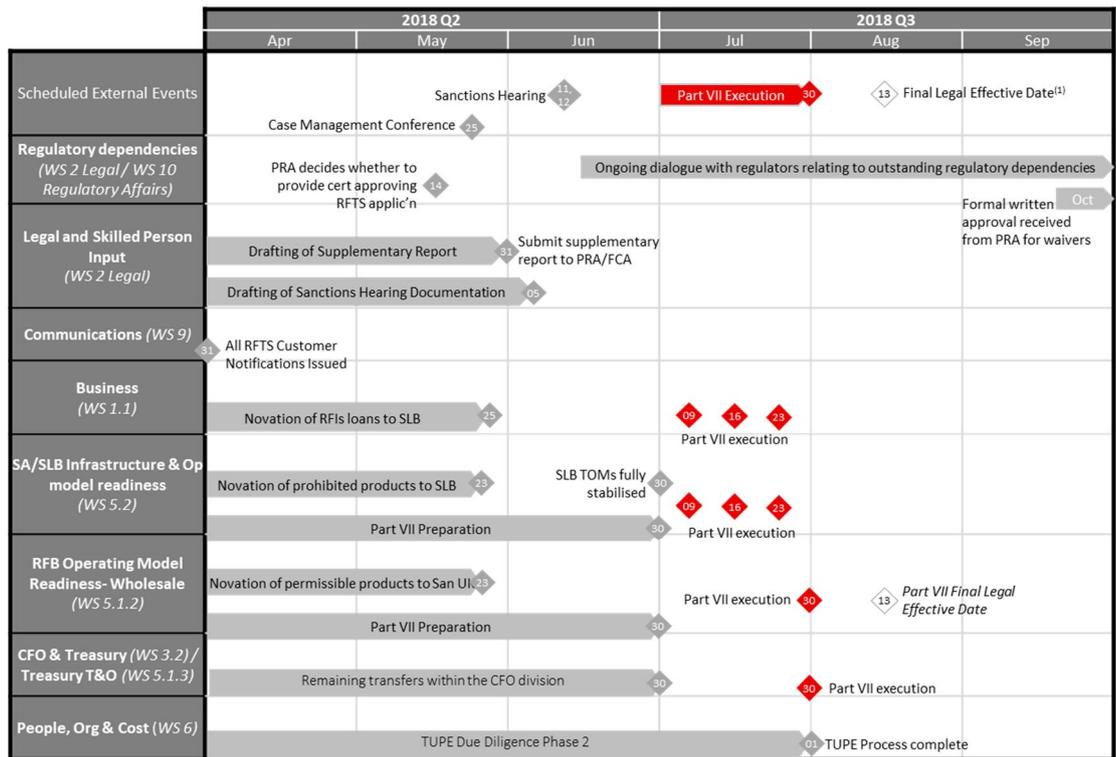
## 9. The Santander UK Group's Ring-Fencing Programme

### 9.1 Update on status of the Santander UK's Banking Reform Programme

Figure 1 summarises the current implementation plan and status for the Santander UK Group's Ring-Fencing Programme, as at 30 May 2018.

Figure 1: Updated roadmap as at 30 May 2018

Source: Santander UK Group Ring-Fencing Programme Roadmap Summary



(1) This includes 1 final Part VII drops (13/Aug/18), if required

As set out in section 5.6 of my Scheme Report, there were a number of key dates which marked the readiness of the main entities to conduct business aligned to the transfers under the Scheme, alongside legal entity changes being made to meet ring-fencing requirements.

There are a number of milestones between the Directions Hearing and the final legal effective date which remain key to the successful implementation of the Scheme. These are outlined in table 29 below.

Table 29: Milestones for the Scheme

Milestone	Date	Description
Period between Court Hearings	Between the Directions Hearing and Sanction Hearing	Execution of the Communications Plan Schedule, including: <ul style="list-style-type: none"> <li>Individual formal notification letters to transferring persons and persons remaining in ANTS; and</li> <li>Scheme notices in gazettes, newspapers and other publications.</li> </ul>
Completion of customers transferring outside of the Scheme (through novation)	Up to 30/06/2018	Completion of all transfers outside of the Scheme to take place by 30 June 2018, unless agreed and specified with individual customers.
Employee transfers under TUPE	30/07/2018	Those employees who are affected by the Ring-Fencing Plan and are being transferred to new employing entities will do so under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).
Supplementary Report	31/05/2018	Completion of this Supplementary Report for the Sanction Hearing. See section 1.7.1 for more detail of the scope of this Supplementary Report.
Sanction Hearing	11/06/2018 & 12/06/2018 (if required)	The High Court will consider the Scheme, the Supplementary Report and feedback, queries, concerns and objections received from persons regarding the Scheme.  In light of the above, the High Court will consider the 'sanction' of the Scheme.
SLB Operating Model Readiness	30/06/2018 through to the end of Q4 2018	Completion of all activity to enable SLB to support the business transferring from Santander UK and ANTS is expected to take place by 30 June 2018. This includes enhancement to all controls, governance, systems and processes to enable full volumes and reporting.
Effective dates	09/07/2018, 16/07/2018, 23/07/2018, 30/07/2018, 13/08/2018	Transfer dates: 4 effective dates have now been communicated to customers through the formal notification process. As part of those communications, the relevant effective date(s) for each market counterparty or customer has been included in the notifications.  The Scheme includes a final legal effective date of 13 August 2018 for the transfer of any assets/liabilities not transferred on any of the dates above.

## 9.1.1 Skilled Person's assessment of current execution risk

### 9.1.1.1 Findings and conclusions

In conducting my assessment of the ongoing implementation of the Scheme, and the execution risk of it not being implemented on time, I have considered whether the Ring-Fencing Programme has maintained appropriate plans, resourcing and governance to ensure that any issues or risks identified are effectively managed, that dependencies outside of the Ring-Fencing Programme's control are highlighted and that there are contingency plans in place.

Since the Directions Hearing, the focus of the Ring-Fencing Programme has been on a number of key tasks, detailed below.

Notwithstanding that there remains residual risk relating to a number of external dependencies, the level of execution risk at this stage in the implementation is consistent with any large restructuring programme of this scale and complexity. I am satisfied that the Ring-Fencing Programme continues to deliver according to the plan (figure 1). Furthermore, there is continued senior management leadership and focus, to ensure that the business transfers under the Scheme will be effected in a high quality, low risk manner.

### 9.1.1.2 Key areas of focus

#### SLB implementation

The Ring-Fencing Programme has been completing the changes required to make SLB fully operational, enable it to receive transferring business on the migration dates and operate effectively for that transferring business going forward. This has included:

- ▶ Onboarding transferring customers. Onboarding of customers to SLB is taking longer than originally planned and has required the Ring-Fencing Programme to allocate additional resources to support the process. Notwithstanding there is some information due from certain customers, I am satisfied that the work is being managed effectively and has the appropriate level of senior management oversight and control. This additional effort does not create a risk to the implementation of the Scheme;
- ▶ Co-location of SLB administrative employees in a new office from the end of June 2018. This will be in the same office complex in central London as other SLB employees, and will enable a greater level of cohesion and control over SLB as an entity; and
- ▶ The novation of business to SLB outside of the Scheme. This has continued over the period since the Directions Hearing, enabling SLB to become operational and integrate processes and people into the branch, ahead of the transfers under the Scheme.

I am satisfied that the overall SLB implementation and preparation for the transfers under the Scheme is progressing to plan and has significant levels of management control, focus and oversight.

## Regulatory authorisations

Good progress has been made to obtaining the necessary regulatory approvals to operate under the new structure, namely:

- ▶ The Spanish Ministry of Economy has provided approval for the transfer of business to SLB under the Ring-Fencing Plan (including the Scheme)
- ▶ The ECB have provided the required Certificate of Financial Resources of Banco Santander (including SLB) required for the Sanction Hearing.

Discussions are ongoing with the regulators in regard to certain waivers, as well as the transfer of the business of Santander UK's Jersey and IoM branches outside of the RFB Sub-Group by 1 January 2019.

I am satisfied that as at the date of the Supplementary Report, SLB has all the required authorisations to operate and service all transferring business from Santander UK and ANTS under the Scheme, on the legal effective dates of the Scheme.

## Implementation of the communications plan

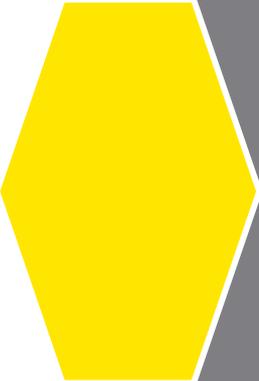
A focus on inbound and outbound communications, responding to customers and other persons contacting Santander UK and the preparations for the Sanction Hearing. For further details, please see section 5 of this Supplementary Report.

## Customer and market counterparty migration

Preparation for the transfer of business under the Scheme on the agreed effective dates, and communications to affected customers and market counterparties via the formal notification letters, is well underway. Volume testing has progressed well and has proved the capacity in the processes and systems to cope with the business transfers under the Scheme.

Testing the end-to-end transfer of business has been successful to date, with two 'Dress Rehearsals' completed successfully and a final Dress Rehearsal planned to conclude by June 2018.

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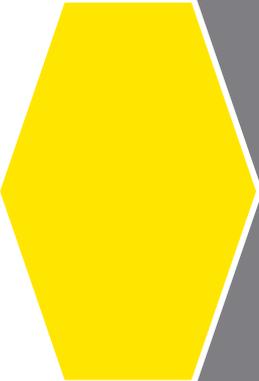


## Part 7 – Skilled Person duty to the High Court

## 10. Skilled Person duty to the High Court

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the relevant Practice Direction, and the protocol for Instruction of Experts to give Evidence in Civil Claims.

In reporting on the Scheme as the Skilled Person, I recognise that I owe a duty to the High Court to assist on matters within my expertise. This duty overrides any obligation to Santander UK or the PRA and FCA. I confirm that I have complied with this duty.

A yellow hexagonal graphic with a white outline, positioned on the left side of a dark grey horizontal bar. The bar has rounded corners on the right side.

## Part 8 – Appendices

## 11. Appendix 1 – Glossary and definitions

1 January 2019	The implementation date for ring-fencing.
ALIL	Alliance & Leicester International Limited.
ALIL Services Limited	A service company in the Isle of Man, that employs the staff who work at the Santander UK IoM branch.
ANTS	Abbey National Treasury Services plc. The objective is to empty Abbey National Treasury Services plc of business. However, it is expected that a small portfolio of business will remain in ANTS following the Scheme. This is referred to as ANTS in run-off (where applicable). No new business will be carried out in ANTS, aside from transactions required for risk management purposes.
AT1 capital	Additional Tier 1 Capital.
ATM	Automated Teller Machine.
Banco Popular	Banco Popular Español, S.A.
Banco Santander	Banco Santander S.A.
Banco Santander Group	Banco Santander and its subsidiaries.
Bank Levy	A tax imposed on banks in addition to normal corporate taxes, designed to limit employee bonuses, maintain financial discipline and deter overly risky banking practices.
Banking reform	Domestic and international changes to banking regulation to improve the conduct standard, resilience and resolvability of banks (e.g. Banking Reform Act 2013).
BAU	Business-as-usual.
BIC	Bank Identifier Code is a unique identifier used by banks which contains a 4-character bank code, a 2-character country code, a 2-character location code and an optional 3-character branch code.
BIN	Bank Identification Number is used to identify an issuing bank and helps to match transactions to a bank. It contains the initial four to six numbers that appear on a debit or credit card.
Brexit	“British exit”, as the UK’s decision on 23 June 2016 to leave the EU.
BTIA	Business Transfer and Implementation Agreement.
Business Banking	Existing SME customers of Santander UK with turnover < £0.25mn.
CDS	Credit Default Swap.
CEO	Chief Executive Officer.
CET1	Common Equity Tier 1.
CFO	Chief Financial Officer.
Chosen Model	The model under which Santander UK retains its retail and corporate banking business in the UK ring-fence (to the extent permitted), with Santander Global Corporate Banking business spread between Santander UK and Banco Santander (including SLB) as approved by the Santander UK Board on 22 December 2016. This is also known as the ‘wide RFB’ model.
Clearing	Activities undertaken post-trading and pre-settlement of a transaction. These can be undertaken via an exchange, such as London Clearing House (LCH), which acts an intermediary to match trades.
Client money	Monies held by a firm for and on behalf of a client, in accordance with FCA client money rules.
Communications Plan Schedule	A communications plan was approved by the High Court at the Directions Hearing on 5 February 2018 and a Communications Plan Schedule was appended to the order from the High Court on that date. This set the scope and requirements for communications to all customers and other persons, that the Ring-Fencing Plan were to deliver, following the Directions Hearing. It outlined the communication channels, and timing of communications through each channel, for each group of customers or other persons.

Contingent Liabilities	Liabilities that depend on an uncertain future event occurring e.g. redress or compensation payments that may or may not arise.
CRD IV	Capital Requirements Directive IV.
Credit Partner	Currently, the Santander UK Credit Partner model covers all Santander UK customers whose exposure is greater than £2.5mn on a secured basis or £1mn on an unsecured basis. The Credit Partner model combines risk management functions with customer-facing responsibilities including informing customers on the financial viability of their credit applications and helping prepare all necessary documentation.
Cross-guarantees	The deed poll guarantees of Santander UK and ANTS under which each bank has guaranteed the obligations and liabilities of the other bank.
Crown Dependencies	The branches of Santander UK in Jersey and the Isle of Man. In this Supplementary Report I refer to them as 'Santander UK's Jersey and IoM branches'.
CSA	Credit Support Annex – a legal document which regulates credit support (collateral) for derivative transactions.
CVA	Credit Valuation Adjustment. The Basel Committee on Banking Supervision defines this as an adjustment to the fair value (or price) of derivative instruments to account for counterparty credit risk (CCR). The calculation of this price takes into account both counterparty credit spreads and the market risk factors that drive derivatives' values.
D-FA	Dodd-Frank Wall Street Reform and Consumer Protection Act.
Directions Hearing	A hearing to allow a Judge to examine and consider a bank's RFTS application and decide on how it should proceed. This can include setting a deadline for notification of affected persons and confirming the date of the Sanction Hearing. The Directions Hearing for this Scheme was held on 5 February 2018.
Dress Rehearsal	The Santander UK Group created a segregated front-to-back test environment, with appropriate levels of static and market data, to simulate the execution of transfers. This allowed them to test the process for the transfers of business on the Relevant Effective Dates. As at the time of writing this Supplementary Report, 2 Dress Rehearsals have been performed.
DVA	Debt Valuation Adjustment. This is the other side of CVA and captures the benefit that a bank would derive in the event of its own default. It is applicable to uncollateralised derivatives liabilities.
EAPO	The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014.
ECB	European Central Bank.
EEA	European Economic Area.
Effective Date(s)	The date or dates on which the RFTS becomes effective, as sanctioned by the High Court, and Santander UK and/or ANTS, transfer relevant transferring business. The final date of transfer of relevant business, referred to as the 'final effective date', means 13 August 2018.
EMEIA	Europe, Middle East, India and Africa.
ETA	Early Termination Amount.
EU	European Union.
Excluded activity	The regulated activity of dealing in investments as a principal, which ring-fenced bodies are not permitted to perform (in accordance with FSMA section 142D) except in circumstances specified by the Treasury.
EY	Ernst & Young LLP.
EY ITEM Club	EY sponsors the ITEM Club, which is a non-governmental forecasting group using HMT's model of the UK economy to produce detailed economic analyses and forecasts.
FCA	Financial Conduct Authority.
FI	Financial Institution.
FSCS	Financial Services Compensation Scheme, as the UK's statutory fund of last resort that can pay compensation to customers when a financial services firm is unable/unlikely to be able to pay claims against it.

FSCS Levy	A proportional contribution made by each firm authorised by the PRA and FCA, used to finance FSCS compensation payments.
FSMA	Financial Services and Markets Act 2000.
FX	Foreign Exchange.
GBP	Great British Pounds (Sterling).
GMRA	Global Master Repurchase Agreement.
High Court	UK High Court of Justice in England and Wales.
HMRC	Her Majesty's Revenue and Customs.
HMT	Her Majesty's Treasury.
HNWIs	High Net Worth Individuals.
HSBC	HSBC Holdings plc.
ICAAP	Internal Capital Adequacy Assessment Process.
ILAAP	Internal Liquidity Adequacy Assessment Process.
Inbound firm	A firm (such as Banco Santander) currently exercising EU Directive rights, to establish a branch or provide financial services into the UK ('inbound firms'), via single market passporting rights.
IoM	Isle of Man.
IoM DCS	Isle of Man Depositors' Compensation Scheme.
IoM FSA	Financial Services Authority in the Isle of Man.
IoM Scheme	Bank business transfer scheme under the Financial Services Act 2008 that will transfer the business of the Isle of Man branch of Santander UK to a member of the Banco Santander Group outside of the RFB Sub-Group.
IPO	Initial Public Offering.
ISDA / ISDA Master Agreement	International Swaps and Derivatives Association - a trade organisation for participants in the over-the-counter derivatives market. The term 'ISDA' can also be used to refer to the ISDA Master Agreement - an agreement that sets out the standard terms to be applied to over-the-counter derivatives transactions between two parties.
IT	Information Technology.
Jersey DCS	Jersey Depositors Compensation Scheme.
Jersey Scheme	Bank business transfer scheme under the Banking Business (Jersey) Law 1991 that will transfer the business of the Jersey branch of Santander UK to a member of the Banco Santander Group outside of the RFB Sub-Group.
JFSC	Jersey Financial Services Commission.
KPI	Key Performance Indicator.
KVA	Capital Valuation Adjustment is the cost of additional regulatory capital banks are required to manage large unexpected credit, market or operational risk losses.
LCH	London Clearing House.
LCR	Liquidity Coverage Ratio. Please note that Article 412(1) of Regulation (EU) No 575/2013 imposes a liquidity coverage requirement for credit institutions to hold liquid assets to cover liquidity outflows, less the liquidity inflows, under stressed conditions <sup>7</sup> .
LIBOR	London Interbank Offered Rate.
LOC	Letter of credit.
Margin	The difference between the selling price and cost of a product, expressed as a percentage of the selling price.
MI	Management Information.
MiFID II	The second Markets in Financial Instruments Directive, which came into effect on 1 January 2018.

<sup>7</sup> [Regulation \(EU\) No 575/2013 of the European Parliament and of the Council of 26 June 2013](#)

MREL	Minimum Requirement for own Funds and Eligible Liabilities.
MTM	Mark to Market – a measure of the fair value of accounts that can change over time, such as assets and liabilities. MTM aims to provide a realistic appraisal of an institution's or company's current financial situation.
NCI	Non-Controlling Interests.
NIM	Net Interest Margin.
Novation	Replacing one counterparty in a contract with another, requiring the consent of all parties involved. The novation replaces the original contract.
NPL	Non-Performing Loans.
NSFR	Net Stable Funding Ratio. The net stable funding is equal to the ratio of an institution's available stable funding to the institution's required stable funding over a one year period. Institutions shall maintain a net stable funding ratio of at least 100% <sup>8</sup> .
Objection	In accordance with section 110(5) of FSMA, supplemented by guidance approved at the Directions Hearing, any person believing they may or will be adversely affected by the Scheme who wishes to be heard by the High Court must file with the Court a written statement of representation that they wish the High Court to consider, and serve a copy of such statement on Santander UK or ANTS (as applicable) and the PRA. These written statements of representation will be referred to as the "objections filed".
OTC	Over-The-Counter.
P&L	Profit & Loss
P20 or P20 plan	The annual operating plan, 2017 to 2020, as at 30 June 2017. The starting date for the plan is the 31 December 2016 actuals.
P21 or P21 plan	The annual operating plan, 2018 to 2021. This was not available for my analysis, as at the date of preparation of this Supplementary Report.
Part VII Scheme/Part VII Transfer	A business transfer scheme to move a portfolio of insurance or banking business between legal entities via a court sanctioned process, as defined under Part VII of FSMA.
Passporting	Subject to its fulfilment of conditions under the relevant single market directive, a firm authorised in an EEA state is entitled to carry on permitted activities in any other EEA state by either exercising the right of establishment (of a branch and/or agents) or providing cross-border services <sup>9</sup> .
PAT	Profit After Tax.
Permitted business	All assets, transactions or arrangements held by a Santander UK Group entity from time to time which does not constitute Prohibited Business.
Permitted products	Products which may be provided under the ring-fencing legislation, by either the RFB or SLB.
Persons	A group with homogenous features that enables the skilled person to classify and consider them as one group.
PRA	Prudential Regulation Authority.
Prohibited business	All assets, transactions and arrangements held by ANTS or Santander UK or to which ANTS and/or Santander UK is a party from time to time prior to the effective date(s) which would constitute, involve or give rise to (i) an excluded activity for the purposes of section 142D of FSMA and the EAPO and/or (ii) an exposure to an RFI, that would be prohibited under the EAPO once Part 9B of FSMA is brought fully into force.
Prohibited products	Products which cannot be provided under the ring-fencing legislation, by the RFB.
RCP	Recovery plan.
RD	Relationship director – the relationship manager of Santander UK Group's Retail, Corporate and Financial Institution customers.
Referral Model	The cross-entity straddling Referral Model which operates, and will continue to operate, between Santander UK and Banco Santander, including SLB, by which

<sup>8</sup> [Regulation of the European Parliament and of the Council amending Regulation \(EU\) No 575/2013](#)

<sup>9</sup> [Bank of England – Prudential Regulation Authority – Authorisations – Passporting](#)

	customers of Santander UK will be able to access the product offering of Banco Santander, SLB and vice versa.
Regulated activity	An activity that cannot be carried out, unless a person is exempt or authorised. These activities are set out in FSMA (and its subsequent amendments).
Representation Date	The date by which persons wishing to have their views heard in Court should submit any written statement of representation. For the Scheme, this was defined as 14 May 2018. The Court may restrict the way it hears any representation made after this date.
RFB	Ring-fenced bank.
RFB Mandated	Products and services that can only be provided from the RFB, e.g. deposit solutions for Retail/SME customers.
RFB Permitted	Products and services that may be provided from the RFB or from outside the RFB e.g. trade finance for corporate customers.
RFB Prohibited	Products and services that cannot be provided from the RFB e.g. lending to RFIs.
RFB Sub-Group	Santander UK and its subsidiaries (including CAL) as a ring-fenced group, following implementation of the Ring-Fencing Plan.
RFI	A Relevant Financial Institution, as defined under the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014. Those financial institutions that are not RFIs, are Exempt Financial Institutions (EFIs).
RFTS	The Financial Services (Banking Reform Act) 2013 introduced an additional form of a transfer scheme, ring-fencing transfer schemes, under Part VII of the FSMA. An RFTS gives effect to any transfers of business needed by banking groups to achieve ring-fencing purposes.
Ring-fenced bank	Generic term for a bank that meets the requirements of a ring-fenced bank as defined by the ring-fencing legislation.
Ring-fencing legislation	Relevant sections of legislation enacted (together or separately): <ol style="list-style-type: none"> <li>1. Financial Services (Banking Reform) Act 2013;</li> <li>2. Financial Services and Markets Act 2000;</li> <li>3. Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014;</li> <li>4. The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014;</li> <li>5. Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions)(Amendment) Order 2016; and/or</li> <li>6. CRD IV – in relation to the additional buffer RFBs will be subject to, composed of CET1 capital.</li> </ol>
Ring-Fencing Plan	Santander UK Group's Ring-Fencing Plan as submitted to the PRA and FCA on 28 February 2017.
Ring-Fencing Programme/Banking Reform Programme	The programme under which the Santander UK Group will implement its Ring-Fencing Plan.
ROA	Return on Assets.
ROE	Return on Equity.
RRP	Recovery and Resolution Plan.
RSP	Resolution plan.
RWAs	Risk weighted assets.
RWP	A credit rating which could stay at its present level but has a heightened probability of being upgraded.
S&P	Standard & Poor's, a credit rating agency.
Sanction Hearing	The final court hearing, at which the Court is asked to approve the RFTS. For this Scheme, the Sanction Hearing will be held on 11 June 2018 (and 12 June 2018 if required).
Santander UK	Santander UK plc.
Santander UK (the RFB)	Santander UK plc, as a ring-fenced body.

Santander UK Group	Santander UK Group Holdings plc and its subsidiaries.
Santander UK HoldCo	Santander UK Group Holdings plc.
SCC	Santander Corporate and Commercial; the Santander Corporate and Commercial Banking division of the Santander UK Group.
Scheme	<p>The Santander UK and ANTS ring-fencing transfer scheme under which:</p> <ol style="list-style-type: none"> <li>1. The ANTS permitted business is transferred to Santander UK (defined as “ANTS Permitted Business” in the Scheme);</li> <li>2. The ANTS prohibited and certain permitted business is transferred to SLB (defined as “ANTS Prohibited Business” in the Scheme);</li> <li>3. The Santander UK prohibited and certain permitted business is transferred to SLB (defined as “Santander UK Prohibited Business” in the Scheme);</li> </ol> <p>Further, the term ‘Scheme’ where relevant, in this Scheme Report, will also include:</p> <ul style="list-style-type: none"> <li>- The cross-guarantees being unwound and all liabilities under them released; and</li> <li>- Certain changes are made to existing contractual documentation of Santander UK and ANTS.</li> </ul>
Scheme Report	The skilled person’s report, as required under section 109 of FSMA. My Scheme Report, dated 29 January 2018, is available to view at <a href="https://www.santanderringfencing.co.uk/">https://www.santanderringfencing.co.uk/</a> or on request from Santander UK.
SGCB	The Santander Global Corporate Banking division of Banco Santander Group.
SLA	Service Level Agreement.
SLB	Banco Santander, S.A. London Branch.
SME	Small and medium sized enterprises.
Specified Corporate Customers	In order for Santander UK (the RFB) to meet the requirements of Article 12 of EAPO, Santander UK and ANTS will transfer some permitted derivatives to SLB as part of the Scheme in order to provide headroom against the threshold set by the EAPO. To minimise the impact, those customers with the largest and most complex permitted derivatives and who already hold prohibited products with Banco Santander will be transferred to SLB. Other permitted products will remain in Santander UK (the RFB) for applicable Santander UK customers or transfer to Santander UK (the RFB) for applicable ANTS customers. Santander UK and ANTS refer to these customers as the ‘Specified Corporate Customers’, and these customers will have been contacted by their relationship director already and will be aware that they are a Specified Corporate Customer.
SSCs	Shared Service Companies are the Banco Santander Group companies and branches that provide shared services and facilities to Banco Santander Group members.
Statutory Question	<p>In respect of an RFTS:</p> <ol style="list-style-type: none"> <li>a. Whether persons other than the transferor concerned are likely to be adversely affected by the scheme; and</li> <li>b. If so whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve whichever of the purposes mentioned in section 106B(3) is relevant.</li> </ol> <p>Section 106B(3) of FSMA states the purposes as:</p> <ol style="list-style-type: none"> <li>a. Enabling a UK authorised person to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions;</li> <li>b. Enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions;</li> <li>c. Making provision in connection with the implementation of proposals that would involve a body corporate whose group includes the body corporate to whose business the scheme relates becoming a ring-fenced body while one or more other members of its group are not ring-fenced bodies; and/or</li> <li>d. Making provision in connection with the implementation of proposals that would involve a body corporate whose group includes the transferee becoming a ring-fenced body while one or more other members of the transferee’s group are not ring-fenced bodies.</li> </ol>
STM	Short-term markets.
SUKGPS	Santander UK Group Pension Scheme, as a defined benefit pension scheme.
SWIFT	Society for Worldwide Interbank Financial Telecommunication – a secure financial messaging service, used by financial institutions across the globe.

Supplementary Report	A report submitted to the Court ahead of the Sanction Hearing, which provides a confirmation that the conclusions reached in the Scheme Report remain valid, or provides any updated conclusions (if necessary). The Supplementary Report also considers any developments to the Scheme in the period between the Directions Hearing and Sanction Hearing, as well as commenting on the status of any unresolved items from the Scheme Report.
T&O	Technology and Operations.
TOM	Target Operating Model – a high level representation of how an organisation can be best organised to more efficiently and effectively deliver and execute on the organisation's strategy.
TPR	The Pensions Regulator.
TRS	Total Return Swap.
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014. These regulations protect the terms and conditions of UK employees when a business (or part of a business) changes owner or when service providers change.
Unsecured loan	A loan that is not supported by any underlying assets.
USD	US Dollars.
VDR	Virtual Data Room.

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## 12. Appendix 2 – The Skilled Person and Independence Declaration

### 12.1 Explanation of experience of the Skilled Person

- ▶ As part of qualifying for the role of the Skilled Person, I have provided a written confirmation of my independence from the Banco Santander Group, as a requirement of my appointment, as follows:
  - I, John Cole of Ernst & Young LLP agreed to act as the skilled person for the Scheme. Ernst & Young LLP is part of the global network of EY firms.
  - I am a Partner in the Financial Services Transaction Advisory team of EY, having been admitted to the partnership in 1988. I was formerly an elected representative on EY's Global EMEIA Boards and chaired the Audit and Finance Committees. I have led on a number of high profile business restructuring projects, initial public offerings (IPOs), acquisitions and bid defences.
  - As part of my approval as the Skilled Person, a detailed exercise was undertaken to ensure my independence and capability to prepare my Scheme Report and Supplementary Report. Regular processes were put in place following my appointment to ensure that independence was maintained between me, my team, Ernst & Young LLP and the Banco Santander Group.
  - I was provided approval as Skilled Person by the PRA, following consultation with the FCA, on 22 September 2016.

### 12.2 Skilled Person (and their employer's) independence declaration

Independence is freedom from conditions and relationships which make it probable that an objective, reasonable and informed third party will conclude that objectivity either is impaired or could be impaired. Independence is related to and underpins objectivity.

In assessing the independence of myself as Skilled Person, my team who have assisted me with my duties, and that of the wider EY firm, the following were undertaken:

- ▶ My independence as skilled person - assessment of my own independence to act as the Skilled Person;
- ▶ Individual Team Members - assessment each of my team members before their onboarding and ongoing throughout the engagement;
- ▶ Professional relationship - assessment of independence as a EY firm in relation to work we had completed or were undertaking for the Banco Santander Group; and
- ▶ Corporate relationship - assessment of banking and other relationships of the EY firm with the Banco Santander Group.

I can confirm that in respect of the Banco Santander Group, I have no financial interest. Nor do I have other financial dealings, or prior or existing significant professional relationships. I have not worked as an employee of the institution or am aware of any other matters which impacted my independence.

The team who assisted me with the discharge of my duties declared no significant financial interests, employment or other relationships, and have not previously performed services that impacted on their independence.

As a firm we concluded that we were independent of the Banco Santander Group for my appointment as the Skilled Person, having not completed any work related to the products or processes in the scope of this review. We reviewed all ongoing work and work we had completed for the Banco Santander Group, and concluded that none of our work had highlighted any independence or conflict concerns relating to my role.

The EY firm has banking relationships with Santander in the UK and elsewhere in the world. In the UK, the firm has an overdraft facility and a Revolving Credit Facility with a number of banks, of which the Santander UK Group is one. Furthermore, there are 22 EY Partners whose Partner Capital loans are

with the Santander UK Group. Given the nature of these relationships, we concluded that they did not present a conflict.

The PRA, in consultation with the FCA, approved my appointment as the Skilled Person, in part due to the demonstration my independence, on 22 September 2016.

On 3 April 2017 the PRA, in consultation with the FCA, confirmed that their previous decision to approve my appointment as the Skilled Person was unaffected by the Santander UK Group adopting the Chosen Model.

## 12.3 Maintaining independence

To maintain independence, processes have been in operation throughout the engagement, in regards to Personal, Professional and Corporate independence. Please see Appendix 7 of my Scheme Report for more details.

## 13. Appendix 3 – Information and analysis process

### 13.1 Virtual Data Room (VDR) authorisation process for documentation supplied

Please see Appendix 9 of my Scheme Report for more information regarding the information and analysis process followed during the preparation of my Scheme Report, which also applies to this Supplementary Report.

### 13.2 Information sources considered

Throughout my assessments, I have considered a variety of written and oral evidence, in addition to the Ring-Fencing Plan, Design Integrity Document, Scheme Document and Santander UK Group's own impact assessments. Any oral evidence was documented and subject to attestation from appropriate Banco Santander Group/Santander UK Group stakeholders that the content accurately reflected the matters discussed. Tables 30 and 31 outline the evidence considered, across the assessment areas and groups of persons featured in this Supplementary Report. Please note that any other sources of evidence considered or work undertaken, specific to a type of person, are outlined in the assessment approach in the respective sections of this Supplementary Report.

Table 30: Information sources considered per assessment area

Assessment area	Evidence considered
Communications	<ul style="list-style-type: none"> <li>▶ Steering Committee and Regulator briefing papers;</li> <li>▶ Ring-fencing communications plans;</li> <li>▶ Employee briefing papers and communications covering both the impact of the Scheme on them and information for those employees engaging with ANTS and Santander UK's customers (e.g. relationship managers and branch staff);</li> <li>▶ Individual communications (internal and external);</li> <li>▶ Drafts and designs for the micro-site, including content;</li> <li>▶ Draft MI and reporting templates that support the capture of queries and objections from customers and other persons;</li> <li>▶ Objections received from customers or other persons;</li> <li>▶ Drafts of Santander UK and Banco Santander's Witness Statements submitted to the High Court; and</li> <li>▶ Weekly MI reports for ring-fencing communications.</li> </ul>
Finance – Business Model Viability, Capital and Liquidity	<ul style="list-style-type: none"> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and 31 December 2017;</li> <li>▶ Moody's, S&amp;P and Fitch Ratings Credit Rating assessment of Santander UK HoldCo and Santander UK's credit rating;</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ Consolidated 31 December 2017 Santander UK HoldCo ICAAP document;</li> <li>▶ Santander UK plc RFB Sub-Group ICAAP (as at 31 December 2017);</li> <li>▶ June 2017 Bank of England stress test results;</li> </ul>

Assessment area	Evidence considered
	<ul style="list-style-type: none"> <li>▶ Minimum Requirement for Funds and Eligible Liabilities (MREL) plan;</li> <li>▶ The September 2016 ILAAP for Santander UK HoldCo and the Santander UK March 2017 ILAAP update specifically for Santander UK (the RFB);</li> <li>▶ Banco Santander S.A. 2016 annual report;</li> <li>▶ Banco Santander S.A. 2017 annual report; and</li> <li>▶ Banco Santander S.A. 2017 Auditor's report and Annual Accounts.</li> </ul>
Guarantees and Contingent Liabilities	<ul style="list-style-type: none"> <li>▶ BTIA;</li> <li>▶ Programme implementation plans including senior programme governance material;</li> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and 31 December 2017;</li> <li>▶ P20 Santander UK Group Annual Operating Plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ June 2017 Bank of England stress test results;</li> <li>▶ Banco Santander ICAAP at 31 December 2016, ILAAP as at 2017 and SLB P20;</li> <li>▶ Santander UK deed poll guarantee executed on 11 May 2017; and</li> <li>▶ ANTS deed poll guarantee executed on 11 May 2017.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>▶ Annual Reports for Banco Santander, Santander UK and ANTS;</li> <li>▶ Corporate Governance Framework for the UK and proposed changes to SLB structure;</li> <li>▶ Management Responsibility Maps and Statements of Responsibilities for the current and proposed structures;</li> <li>▶ Terms of Reference for key committees in the current structure including the UK Country Committee; and</li> <li>▶ Key policies relating to remuneration, conflict of interest and training and development.</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>▶ Annual Reports for Banco Santander, Santander UK and ANTS;</li> <li>▶ Risk management frameworks across the divisions within the UK and applicable frameworks for SLB set by Banco Santander;</li> <li>▶ Risk appetite frameworks and statement; and</li> <li>▶ Current and Target Operating Models (TOMs) for the applicable risk management and control functions, including first line of defence, Risk, Compliance, Legal and Internal Audit.</li> </ul>
Operations, Infrastructure and Shared Services	<ul style="list-style-type: none"> <li>▶ Details of proposed IT architecture for Santander UK (the RFB) and SLB;</li> <li>▶ TOMs for divisions within Santander UK (the RFB) and the RFB Sub-Group where there is change (including SGCB and the Chief Financial Officer (CFO) Division highlighting the future state functions);</li> <li>▶ Target state operating models for SLB (including several divisional TOMs for front, middle and back office operations as well as details of critical compliance processes);</li> </ul>

Assessment area	Evidence considered
	<ul style="list-style-type: none"> <li>▶ TOMs for specific areas changing as a consequence of the Scheme: Santander UK Link Desk, Santander UK short-term markets desk, Santander UK Treasury middle office and Santander UK Treasury MI and controls function;</li> <li>▶ Documented details of the payment arrangements Santander UK is making to enable isolation of ANTS from the RFB from a payments perspective;</li> <li>▶ Proposed Key Performance Indicators (KPIs) and Service Level Agreements (SLAs) between Santander UK, ANTS, SLB and Banco Santander as part of the Service Model performance management to highlighting if there are any changes from the current KPIs and service levels;</li> <li>▶ As-is and to-be Servicing Models for Santander UK, ANTS and Banco Santander (including the Shared Service Companies (SSCs));</li> <li>▶ Implementation plans for changes to Santander UK (the RFB), SLB and Banco Santander;</li> <li>▶ Future product catalogue; and</li> <li>▶ Technical and functional architectures.</li> </ul>
Recovery and Resolution, Operational Continuity and Creditor Hierarchy	<ul style="list-style-type: none"> <li>▶ Santander UK June 2017 Recovery plan (RCP);</li> <li>▶ Santander UK June 2017 Resolution plan (RSP);</li> <li>▶ Operational continuity plans;</li> <li>▶ Creditor hierarchy analysis;</li> <li>▶ Supporting project papers and source documentation; and</li> <li>▶ Meetings with UK Company Secretariat team, UK Recovery and Resolution Office teams, Spanish Office of Recovery and Resolution teams, Operational Continuity project team and Legal and Financial teams supporting the creditor hierarchy analysis.</li> </ul>
Product Types and Customer Services	<ul style="list-style-type: none"> <li>▶ Product Availability Matrix;</li> <li>▶ Revisions to the Referral Model;</li> <li>▶ Specific product documentation and designs;</li> <li>▶ Operating Models detailing the planned changes to operations, technology and customer interaction channels across Banco Santander Group entities impacted by the Scheme;</li> <li>▶ Relationship director model;</li> <li>▶ Migration strategy and plans by customer type;</li> <li>▶ Communications plans and approach for customer engagement and management;</li> <li>▶ Legal analysis and due-diligence prepared by Santander UK Group to assess the changes required to customer documentation (ISDAs and CSAs) to scope the changes to documentation to be included under the Scheme;</li> <li>▶ Implementation plans for changes to Santander UK (the RFB), SLB and Banco Santander;</li> <li>▶ Santander's derivatives valuation analysis (including valuation service provided to customers);</li> <li>▶ Santander's tax impact analysis;</li> </ul>

Assessment area	Evidence considered
	<ul style="list-style-type: none"> <li data-bbox="695 304 1455 383">▶ ANTS in run-off documentation, including Santander UK Group Board Papers and analysis of retained customers/counterparties in ANTS after 1 January 2019;</li> <li data-bbox="695 405 1342 427">▶ Interviews with key stakeholders and business representatives;</li> <li data-bbox="695 450 1161 472">▶ Attestation from the Head of Retail Banking;</li> <li data-bbox="695 495 1374 517">▶ Steering Committee and Executive Committee papers and reports;</li> <li data-bbox="695 539 1118 562">▶ Foreign law wholesale contract register;</li> <li data-bbox="695 584 1455 640">▶ Estimations of collateral obligation for RFIs that might be adversely affected due to ratings triggers;</li> <li data-bbox="695 663 1086 685">▶ Prudential return for the IoM branch;</li> <li data-bbox="695 707 1455 763">▶ Jersey Financial Services Commissions COREBRANCH return for Jersey branch; and</li> <li data-bbox="695 786 1445 808">▶ Product types and customer description for the Jersey and IoM branches.</li> </ul>

Table 31: Information sources considered per group of persons

Group of persons	Evidence considered
Other customer groups	<ul style="list-style-type: none"> <li>▶ Santander UK Group plan for ANTS;</li> <li>▶ BTIA;</li> <li>▶ Santander UK deed poll guarantee executed on 11 May 2017;</li> <li>▶ ANTS deed poll guarantee executed on 11 May 2017;</li> <li>▶ Governance structures of ANTS;</li> <li>▶ Management Responsibility Maps and Terms of Reference for the key committees;</li> <li>▶ Operating Models detailing the planned changes to operations, technology and customer interaction channels across the Santander UK Group entities;</li> <li>▶ Prospectus documents of debt instruments;</li> <li>▶ ANTS audited accounts as at 31 December 2016 and half year accounts as at 30 June 2017;</li> <li>▶ ANTS forecast balance sheet position as at 1 January 2019;</li> <li>▶ ANTS forecast P&amp;L position from 1 January 2019;</li> <li>▶ Detailed list of positions of counterparties (including maturity dates of positions) between June 2018 and 31 December 2018;</li> <li>▶ List of counterparties remaining in ANTS beyond 1 January 2019;</li> <li>▶ Santander UK Group June 2017 RCP;</li> <li>▶ Santander UK Group June 2017 RSP;</li> <li>▶ Steering Committee and Executive Committee papers and reports;</li> <li>▶ Operational continuity plans; and</li> <li>▶ Creditor hierarchy analysis.</li> </ul>
Employees	<ul style="list-style-type: none"> <li>▶ Organisation design documentation covering employees and pensions, including presentations to senior Santander leadership outlining the impact of the Ring-Fencing Plan, including the Scheme, and Santander's own assessment of employees affected;</li> <li>▶ Consultation papers with union representatives; and</li> <li>▶ Papers submitted to regulators and the pension trustee.</li> </ul>
Pension scheme members	<ul style="list-style-type: none"> <li>▶ Employee pension modelling for deferred defined benefits and enhanced defined contributions;</li> <li>▶ Confirmation of the final terms and feedback from employee consultation;</li> <li>▶ Correspondence between the Santander UK Group, the PRA and TPR regarding the SUKGPS structure and funding position given the Ring-Fencing Plan; and</li> <li>▶ Individual written correspondence and pension illustrations to affected employees.</li> </ul>
Landlords and Suppliers (including direct and indirect payments and clearing infrastructure)	<ul style="list-style-type: none"> <li>▶ Programme implementation plans including senior programme governance material;</li> <li>▶ Lists of third-party contracts for the relevant entities;</li> <li>▶ The approach for review of these contracts;</li> <li>▶ The governance arrangements surrounding these contracts;</li> </ul>

Group of persons	Evidence considered
	<ul style="list-style-type: none"> <li>▶ Timescales to support the work necessary to address required contractual changes;</li> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and 31 December 2017;</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ June 2017 Bank of England stress test results;</li> <li>▶ The September 2016 ILAAP for Santander UK HoldCo and the Santander UK March 2017 ILAAP update specifically for Santander UK (the RFB);</li> <li>▶ Santander UK Group June 2017 RCP;</li> <li>▶ Santander UK Group June 2017 RSP;</li> <li>▶ Operational continuity plans; and</li> <li>▶ Creditor hierarchy analysis.</li> </ul>
Beneficiaries of guarantees, letters of credit or performance bonds of Santander UK and ANTS	<ul style="list-style-type: none"> <li>▶ Programme implementation plans including senior programme governance material;</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ June 2017 Bank of England stress test results;</li> <li>▶ The September 2016 ILAAP for Santander UK HoldCo and the Santander UK March 2017 ILAAP update specifically for Santander UK (the RFB);</li> <li>▶ Moody's, S&amp;P and Fitch Ratings Credit Rating assessment of Santander UK HoldCo and Santander UK's credit rating;</li> <li>▶ BTIA;</li> <li>▶ Santander UK deed poll guarantee executed on 11 May 2017;</li> <li>▶ ANTS deed poll guarantee executed on 11 May 2017; and</li> <li>▶ Creditor hierarchy analysis.</li> </ul>

Group of persons	Evidence considered
Bondholders and debtholders of Santander UK	<ul style="list-style-type: none"> <li>▶ Detailed list of debt and bondholders for Santander UK and ANTS, including issuer, type, issue date, maturity date and value;</li> <li>▶ Documented plans supported by Santander management's confirmation and plan for the transfer of ANTS debtholders to Santander UK, including planned dates for communication and completion;</li> <li>▶ Notifications to issuers to advise of the assignment of ANTS instruments to Santander UK;</li> <li>▶ Prospectus documents of debt instruments;</li> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and 31 December 2017;</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ ILAAP (September 2016 for Santander UK HoldCo, March 2017 for RFB);</li> <li>▶ June 2017 Bank of England stress test results;</li> <li>▶ BTIA;</li> <li>▶ Santander UK deed poll guarantee executed on 11 May 2017;</li> <li>▶ ANTS deed poll guarantee executed on 11 May 2017;</li> <li>▶ Moody's, S&amp;P and Fitch Ratings Credit Rating assessment of Santander UK HoldCo and Santander UK's credit rating, having taken into account the impact of the Ring-Fencing Plan, including the Scheme;</li> <li>▶ Santander UK Group June 2017 RCP;</li> <li>▶ Santander UK Group June 2017 RSP;</li> <li>▶ Operational continuity plans; and</li> <li>▶ Creditor hierarchy analysis.</li> </ul>
Market counterparties	<ul style="list-style-type: none"> <li>▶ Scheme design documents including presentations to regulators and senior management;</li> <li>▶ Operating Models detailing the planned changes to operations, technology and customer interaction channels across Banco Santander Group entities impacted by the Scheme;</li> <li>▶ Output of a legal analysis undertaken by the Santander UK Group to identify changes to counterparty documentation;</li> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and half year accounts as at 30 June 2017;</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ June 2017 Bank of England stress test results;</li> <li>▶ The September 2016 ILAAP for Santander UK HoldCo and the Santander UK March 2017 ILAAP update specifically for Santander UK (the RFB);</li> <li>▶ Banco Santander ICAAP at 31 December 2016, ILAAP as at 2017 and SLB P20;</li> <li>▶ Moody's, S&amp;P and Fitch Ratings Credit Rating assessment of Santander UK HoldCo and Santander UK's credit rating, having taken into account the impact of the Ring-Fencing Plan, including the Scheme; and</li> <li>▶ Creditor hierarchy analysis.</li> </ul>

Group of persons	Evidence considered
Shareholders	<ul style="list-style-type: none"> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and 31 December 2017;</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020;</li> <li>▶ Consolidated 31 December 2016 Santander UK HoldCo ICAAP document;</li> <li>▶ June 2017 Bank of England stress test results;</li> <li>▶ The September 2016 ILAAP for Santander UK HoldCo and the Santander UK March 2017 ILAAP update specifically for Santander UK (the RFB);</li> <li>▶ ANTS September 2017 Board Risk Committee Paper; and</li> <li>▶ Santander UK's own impact assessment of shareholders.</li> </ul>
Government and other fiscal persons	<ul style="list-style-type: none"> <li>▶ Santander UK audited annual accounts as at 31 December 2016 and 31 December 2017; and</li> <li>▶ The P20 Santander UK Group annual operating plan 2017 to 2020.</li> </ul>

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