

Santander UK plc **Abbey National Treasury Services plc**

Ring-Fencing Transfer Scheme Summary

Introduction

Under UK legislation that will establish ring-fencing requirements for certain UK banks, the largest UK banking groups, including the Santander UK group ("**Santander UK Group**"), have to comply with new requirements to ring-fence their retail activities (such as current accounts, savings accounts and payments).

The ring-fencing legislation specifies that:

- (a) if a UK bank group is subject to ring-fencing, only a ring-fenced bank (an "**RFB**") in that group may hold core deposits (essentially deposits made by individuals and small enterprises in accounts at EEA branches) and provide services in relation to those core deposits; and
- (b) such an RFB cannot undertake certain banking services or activities, such as dealing in investments or commodities as principal, incurring exposures (including lending) to "relevant financial institutions" ("**RFIs**"), which term includes banks, investment firms, funds, insurance companies and securitisation and covered bond vehicles) or operating branches, or holding a participating interest in an entity, established in any jurisdiction outside of the EEA, except in accordance with specific exceptions ("**Prohibited Business**").

An RFB is permitted to provide and enter into, products, transactions and arrangements that do not constitute Prohibited Business in addition to taking core deposits, such as: taking deposits from and providing payment services to corporates and financial institutions; making loans, trade and asset finance available to individuals, corporates and financial institutions who are not RFIs ("**EFIs**"); entering into certain "simple" derivatives with corporates and EFIs; and hedging and managing certain risks and liquidity and collateral requirements through derivatives, securities finance transactions and other positions, subject to the limits outlined in the ring-fencing legislation ("**Permitted Business**").

Broadly, this means that the Santander UK Group is required to have operationally and legally separated certain of its wholesale and investment banking activities from its retail and small business banking activities by 1 January 2019.

Santander UK plc ("**Santander UK**") will become the Santander UK Group's main RFB in the UK. It will serve all Santander personal customers in the UK and the majority of its business banking customers.

Santander UK will also broadly, to the extent allowed by the legislation, continue to hold and serve Santander's corporate banking business in the UK. Any products Santander UK can't offer, or customers it can't serve, from within the RFB (which will include some Santander Global Corporate Banking business and Santander Corporate & Commercial customers) will, in most cases, be provided or served by the wider Santander Group, notably Banco Santander, S.A. ("**Banco Santander**") through its London branch ("**SLB**").

Abbey National Treasury Services plc ("**ANTS**") will transfer materially all of its business to either Santander UK or SLB, except for a small portfolio of specific assets that will remain in ANTS and be held until their maturity.

As part of the Santander UK Group's ring-fencing implementation, Santander UK and ANTS are undertaking a ring-fencing transfer scheme (the "**Scheme**") to ensure that the Santander UK Group, will, ahead of 1 January 2019, be compliant with the ring-fencing provisions that will come into force on that date.

The Scheme is a legal process, overseen by the High Court of England and Wales, that gives effect to transfers of business so as to facilitate the creation of the ring-fence.

This document is a summary of the Scheme.

Full versions of the Scheme document, and a report on the effects of the Scheme prepared by an independent expert, John Cole of Ernst & Young LLP (the "**Skilled Person Report**"), as well as a summary of the Skilled Person Report, are available as set out in the 'Further information' section below.

Cater Allen Limited will also be an RFB within the Santander UK Group.

The Scheme

The principal aspects of the Scheme are summarised below.

1 Transfer of business under the Scheme

The Scheme will transfer certain business and transactions of Santander UK and ANTS with certain of the Santander UK Group's corporate and financial institution customers and market counterparties, together with one ANTS SME customer.

Retail, business banking and other SME and corporate customers of the Santander UK Group (nearly all of whom are currently served by Santander UK) will not be transferred under the Scheme and will not be affected by the Scheme.

Customers of the Jersey and Isle of Man branches of Santander UK will also be unaffected by the Scheme. However, Santander UK will not be able to continue to hold such branches under the UK ring-fencing legislation. It is therefore currently intended that Santander UK's Jersey and Isle of Man customers will be transferred to newly established and authorised branches or existing subsidiaries in the Banco Santander Group under separate transfer schemes effected during 2018 under relevant Jersey and Isle of Man law.

The Scheme will effect three transfers of business as set out below.

- (i) The Prohibited Business and specified Permitted Business of Santander UK to SLB (defined in the Scheme as the

'Santander UK Prohibited Business')

The Scheme will effect the transfer by Santander UK to SLB of Santander UK's business, assets and liabilities in respect of:

- (a) products, transactions and arrangements with organisations (such as other financial institutions) that would constitute or give rise to an "excluded activity" or a prohibited "financial institution exposure" for Santander UK under The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (the "EAPO"), principally derivatives and securities finance transactions with financial institutions that are not linked to hedging or management of Santander UK's balance sheet risks or liquidity or collateral requirements, prohibited forms of derivatives with corporates and loans, trade finance and other credit facilities made to entities that are RFIs;
- (b) investments held by Santander UK where holding or dealing in such investments would constitute an "excluded activity" under the EAPO;
- (c) derivatives held by certain corporate customers of the Santander UK Group (referred to in the Scheme as the '**Specified Corporates**') in order to ensure that Santander UK as an RFB would not exceed the limit on permitted customer derivatives; and
- (d) other activities that would be prohibited from being undertaken by Santander UK (as an RFB) on or after 1 January 2019.

It is currently expected that approximately 95 customers and counterparties (including market counterparties) of Santander UK have products, transactions or arrangements that will transfer to SLB under the Scheme (unless they have terminated or transferred before then).

The Scheme would not operate to transfer deposits or payment services and cash management arrangements taken from or provided to financial institutions.

- (ii) The Prohibited Business and specified Permitted Business of ANTS to SLB (defined in the Scheme document as the 'ANTS Prohibited Business')

The Scheme will effect the transfer by ANTS to SLB of ANTS' business, assets and liabilities in respect of:

- (a) products, transactions and arrangements with organisations (such as other financial institutions) that would constitute or give rise to an "excluded activity" or a prohibited "financial institution exposure" for Santander UK under the EAPO, principally derivatives and securities finance transactions with financial institutions that are not linked to hedging or management of Santander UK's balance sheet risks or liquidity requirements, prohibited forms of derivatives with corporates and loans and other credit facilities made to entities that are RFIs;
- (b) investments held by ANTS where holding or dealing in such investments would constitute an "excluded activity" under the EAPO;
- (c) derivatives held by ANTS' EFI and Specified Corporate

customers in order to ensure that Santander UK as an RFB would not exceed the limit on permitted customer derivatives; and

- (d) other activities that would be prohibited from being undertaken by Santander UK (as an RFB) on or after 1 January 2019, such as ANTS' market making, institutional sales and debt capital markets activities.

It is currently expected that approximately 319 customers and counterparties (including market counterparties) of ANTS have products, transactions or arrangements that will transfer to SLB under the Scheme (unless they have terminated or transferred before then).

- (iii) The Permitted Business of ANTS to Santander UK (defined in the Scheme as the 'ANTS Permitted Business')

The Scheme will transfer Permitted Business of ANTS to Santander UK.

This broadly currently includes cash deposits and sterling and cash management services, loan, trade and asset finance facilities (other than with RFIs), structured notes and structured retail products, permitted derivatives with corporate customers of ANTS (other than the Specified Corporates) and derivatives, securities finance transactions and other positions that are linked to hedging or management of Santander UK's balance sheet risks or liquidity or collateral requirements.

The Scheme will therefore effect the transfer by ANTS to Santander UK of:

- (a) ANTS' business, assets and liabilities in respect of activities that are permitted to be undertaken within the RFB sub-group from 1 January 2019 (save for the limited amount of Permitted Business referred to in (i)(c) and (ii)(c) above, which will be transferred to SLB); and
- (b) the rights and obligations of ANTS under contracts with suppliers and other third parties.

It is currently expected that approximately 517 customers and counterparties (including market counterparties) of ANTS have products, transactions or arrangements that will transfer to Santander UK under the Scheme (unless they have terminated or transferred before then), including loan and trade finance facilities of Specified Corporates and the loans, trade finance and permitted derivatives of other corporate customers.

The Scheme also sets out the limited amount of business, assets and liabilities that will not be transferred out of ANTS. This includes cash and security held by ANTS for liquidity adequacy purposes, a total return swap, a receivable transaction and a residual portfolio of equity total return swaps with certain financial institutions, certain trading infrastructure agreements and arrangements that continue to be required by ANTS and services agreements between ANTS and other Banco Santander Group companies. The Scheme will not operate to transfer the business of ANTS, US branch, which is expected to be wound down during the course of 2018.

Descriptions of the businesses to be transferred under the Scheme and the business to be retained by ANTS are set out in the full Scheme document.

Provided the Scheme is sanctioned by the High Court of England

and Wales, the transfers of business under the Scheme as described above will be effected as follows:

- (i) the part of the ANTS Prohibited Business that is with or relates to market counterparties will transfer on 9 July 2018;
- (ii) the part of the ANTS Prohibited Business that is with or relates to a customer (other than market counterparties), and any other business that primarily relates to the ANTS Prohibited Business, will transfer on 16 July 2018;
- (iii) the Santander UK Prohibited Business that is with or relates to the Santander UK Prohibited Business, will transfer on 23 July 2018;
- (iv) the ANTS Permitted Business that is with or relates to a customer, and any other business that primarily relates to the ANTS Permitted Business, will transfer on 30 July 2018; and
- (v) for any business to be transferred under the Scheme not falling within any of (i) to (iv) above, 13 August 2018.

2 Unwinding of existing cross-guarantees between Santander UK and ANTS

Santander UK and ANTS have each guaranteed all of the other's unsubordinated obligations and liabilities under a series of deed poll guarantees (the "**Cross-Guarantees**").

The Cross-Guarantees mean that the credit positions of ANTS and Santander UK are currently inherently interlinked. This will not be permitted with effect from 1 January 2019 under the new ring-fencing requirements coming into force on that date.

Accordingly, under the Scheme, the Cross-Guarantees will be unwound, and each of Santander UK and ANTS will be released from all of their respective liabilities and obligations under the Cross-Guarantees, in each case with effect from 23:59 on 31 December 2018.

3 Changes to contracts, agreements and other documentation

The Scheme will also make certain changes to existing contracts, agreements and other documentation of Santander UK and ANTS where such changes are required or desirable as a result of the effects of the Scheme. For example, the Scheme will update references to Santander UK or ANTS (as applicable) in agreements that transfer under the Scheme, and related notice and similar

Further information

This document is a summary of the Scheme.

The Scheme is explained in more detail in the Scheme document and the effects of the Scheme are set out, in detail, in the Skilled Person Report. A full version and a summary of each of these documents is available to view or download on our dedicated website: santanderringfencing.co.uk.

We recommend that you read, as well as this summary, at least the summary of the Skilled Person Report.

Details of the Scheme process, including court dates and how you may participate in the process (including information on how to object), can be found on santanderringfencing.co.uk.

If you have any further questions or would like to receive a printed copy of the full Scheme document and/or Skilled Person Report, please get in touch with Santander UK by calling us on **(+44) 0800 023 2091** (lines are open Monday to Friday 9am to 5pm), emailing us at ringfencing@santander.co.uk or writing to us at: Santander Ring-fencing Department, 1/3S, 287-301 St Vincent Street, Glasgow, G2 5HN.

provisions. It will also remove references to the Cross-Guarantees if they appear in any existing documents to which Santander UK or ANTS is a party.

The Scheme will suspend any events of default and termination events to the extent that they would otherwise be triggered by the Scheme and, in respect of agreements transferred under the Scheme from either Santander UK or ANTS to either Santander UK or SLB, make certain consequential amendments to reflect the fact that, following the Scheme, those agreements are with either Santander UK or SLB. For example, for transfers by ANTS or Santander UK to SLB, any UK tax representation will be replaced by an equivalent Spanish tax representation, and references to Santander UK's and/or ANTS' UK regulatory requirements, authorisations or permissions will be removed.

Where, following the Scheme, a customer holds products with both Santander UK and SLB in respect of which that customer has provided security, the Scheme will create appropriate security trust and sharing arrangements. These arrangements will be made between Santander UK and SLB in respect of any such existing security that is held by ANTS or Santander UK directly (i.e. with no security trust already in place).

4 Assets not governed by English law

The Scheme will be effective in relation to assets and liabilities that are governed by English law.

Assets and liabilities of Santander UK and ANTS that are not governed by English law will be transferred: (i) through recognition of the Scheme in the applicable jurisdiction; (ii) pursuant to their contractual terms; or (iii) by consent.

If a relevant foreign law asset or liability, or any other relevant asset or liability, cannot be transferred under the Scheme, Santander UK or ANTS (as applicable) will retain it, but the related economic benefit or burden of the asset or liability will be transferred to SLB or Santander UK (as applicable) to the extent permitted by relevant legislation.

5 Other general provisions

The Scheme will be governed by English law.

Santander UK, ANTS and SLB have agreed to take all commercially reasonable steps to give effect to the provisions of the Scheme (including the transfers of business under the Scheme described above).