

# **Santander UK plc and Abbey National Treasury Services plc Ring-fencing transfer scheme**

**Summary of the Scheme Report dated 29 January 2018  
made under s109A of the Financial Services and  
Markets Act 2000 (the ‘Summary’)**

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## 1 Introduction

This is Santander's summary of the scheme report dated 29 January 2018 prepared by John Cole, as the skilled person (the 'Skilled Person'), in relation to the ring-fencing transfer scheme (the 'Scheme' or 'RFTS') of Santander UK plc ('Santander UK') and Abbey National Treasury Services plc ('ANTS').

The purpose of this Summary is to aid readers in understanding the Scheme Report and inform readers, in broad terms, how the Scheme may affect certain persons or types of person. It is not a substitute for the Scheme Report and readers should carefully consider the Scheme Report alongside this Summary. The full Scheme Report is available from [santanderringfencing.co.uk](http://santanderringfencing.co.uk). The Skilled Person has reviewed this Summary and has concluded that it is a clear and fair representation of the Scheme Report.

For readers who believe they may be affected by the Scheme, section 1.5 below sets out how to find further information, including the steps that can be taken to make your views known.

### 1.1 Santander's Ring-Fencing Programme and the Scheme

Since 2014, the Santander UK Group (the 'Santander UK Group') has been designing and running a ring-fencing programme (the 'Ring-Fencing Programme'). This is a programme of work that will enable it to comply with the requirements of the UK ring-fencing legislation by 1 January 2019 (the implementation date for ring-fencing), through the implementation of the Santander UK Group's ring-fencing plan (the 'Ring-Fencing Plan').

One aspect of the Ring-Fencing Plan is that Santander UK and ANTS will undertake the Scheme to transfer certain business, including certain customer and counterparty relationships and transactions, and the corresponding assets and liabilities, as set out below.

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 with effect from 1 January 2019. 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 one ANTS SME customer, which will be transferred from ANTS to Santander UK under the Scheme).

In addition, the Scheme will unwind the existing cross-guarantees in place between Santander UK and ANTS and make certain consequential and related changes to some existing customer and other contracts to which Santander UK or ANTS is a party.

### 1.2 Role of the Skilled Person

The Financial Services and Markets Act 2000 ('FSMA') requires that an application to the High Court (the 'Court') in respect of 'RFTS' must be accompanied by a report on the terms of the RFTS (known as a 'Scheme Report'), by a skilled person. John Cole, a Partner in the Financial Services practice of Ernst & Young LLP and a Fellow of the Institute of Chartered Accountants in England & Wales, is the Skilled Person nominated by Santander UK and author of the Scheme Report. His appointment has been approved by the PRA (in consultation with the FCA). This Summary has been prepared by Santander UK and reviewed by the Skilled Person.

Under FSMA, the Scheme Report must state:

1. whether persons other than the transferor concerned are likely to be adversely affected by the RFTS; 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'.

In reporting on the Scheme, the Skilled Person owes a duty to the Court to assist on matters within the Skilled Person's expertise. This duty overrides any obligation owed by the Skilled Person to Santander UK, and the Skilled Person has confirmed his compliance with that duty in the Scheme Report.

### 1.3 Approach of the Skilled Person

The work undertaken by the Skilled Person is designed to answer the Statutory Question. In general, the Skilled Person's findings and conclusions are based on the Skilled Person's analysis of the changes that are being made as a consequence of the Scheme, followed by a narrowing down to more detailed work on the groups of persons likely to be adversely affected by the Scheme.

The Skilled Person's objective has been to:

- understand the effects of the changes that are being made as a consequence of the Scheme and whether they are adverse; and
- if the effects are adverse, whether they are being mitigated or whether there are alternatives.

Where adverse effects are not being entirely mitigated, and alternatives are not available, the Skilled Person has analysed whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve the Scheme's purposes.

In order to reach his findings and conclusion, the Skilled Person has reviewed a broad scope of information provided by Santander's Ring-Fencing Programme, including extensive documentation provided in response to information requests made by the Skilled Person, as well as interviews with, and presentations from, Santander UK Group's management. The key areas of assessment considered by the Skilled Person were: (i) Communications; (ii) Finance – Business Model Viability, Capital and Liquidity; (iii) Guarantees and Contingent Liabilities; (iv) Governance; (v) Risk management; (vi) Product Types and Customer Services; (vii) Operations, Infrastructure and Shared Services; and (viii) Recovery and Resolution, Operational Continuity and Creditor Hierarchy.

The groups of persons considered by the Skilled Person were not restricted to customers of the Santander UK Group. In particular, the Skilled Person has considered both transferring and non-transferring customers of Santander UK, ANTS, the wider Santander UK Group and SLB, as well as other groups of persons who may have contractual relationships with the transferors (Santander UK and ANTS), such as third party suppliers, guarantors and fiscal stakeholders. Table 1 overleaf indicates the groups of persons considered by the Skilled Person, and further information on the Skilled Person's approach to identifying relevant persons is set out in section 6 of the Scheme Report.

For further information on the assessment methodology of the Skilled Person, please refer to section 7 of the Scheme Report.

#### 1.4 Using this Summary

This Summary provides:

- an overview of the Skilled Person's conclusion on the Statutory Question (section 2);
- an overview of ring-fencing and Santander UK's Ring-Fencing Programme (section 3); and
- the Skilled Person's specific findings in relation to certain groups of customers and other persons (sections 4-6).

For each group of customers or other persons impacted by the Scheme, Table 1 overleaf sets out whether the Skilled Person has identified any adverse effects on that group as a result of the Scheme, together with where more information can be found.

It is recommended that readers consider the Summary alongside the Scheme Report and therefore the relevant parts of the Scheme Report have been identified in relation to each section of this Summary. This Summary does not provide:

- a detailed analysis of any adverse effects which a group of customers or other persons may experience as a result of the Scheme;
- a description of all changes which a group of customers or other persons may experience as a result of the Scheme; or
- full contextual and background information to the Scheme and the Skilled Person's work.

#### 1.5 Court process

The proposed Scheme, together with the Scheme Report, was considered before the Court on 5 February 2018, following which the Court directed Santander UK and ANTS to make notifications about the Scheme, including to certain groups of persons who may be impacted by the Scheme, in line with an agreed communications plan.

Persons who believe they may be impacted by the Scheme have an opportunity to seek further information and also to make written representations about the Scheme to Santander UK/ANTS, the PRA and the Court. Full information on how to participate in the Court process, including information on how to make representations, can be found at [santanderringfencing.co.uk](http://santanderringfencing.co.uk).

The output of the process to capture objections will be an important mechanism to identify any adverse effects not considered in the Scheme Report. The Skilled Person will assess any additional adverse effects identified in a supplementary report which will be considered by the Court at the Scheme Sanction Hearing on 11 (and, if required, 12) June 2018.

**Table 1: Identification of groups of persons and adverse effects:**

Section	Group/Description	Number of customers/ persons in group	Adverse Effect identified?	Page of this summary
4. Findings – All Persons	Summary details of the areas of assessment considered by the Skilled Person in relation to all persons and conclusions on adverse effects.	N/A	No	8
5. Findings – Customers	■ Santander UK Group Retail Banking customers	c. 24 million	No	9
	■ Santander UK Group SME customers (including ANTS SME Customers)	511,106	No	9
	■ Santander UK corporate customers (non-SME) holding permitted products only	21,120	No	9
	■ ANTS corporate customers (non-SME) holding permitted products only.	454	Yes	9
	■ Santander UK corporate customers (non-SME) holding prohibited products, with or without permitted products.	38	Yes	10
	■ ANTS corporate customers (non-SME) holding prohibited products, with or without permitted products.	18	Yes	10
	■ Specified corporate customers of both ANTS and Santander UK.	66	Yes	11
	■ Relevant Financial Institutions of both ANTS and Santander UK.	248	Yes	11
	■ Exempt Financial Institutions of ANTS.	31	Yes	11
	■ Remaining ANTS customers: customers who remain connected to ANTS after the Scheme has been effected.	2	Yes	12
	■ SLB customers	497	No	12
6. Findings – Other Persons	■ Santander UK Group employees in the UK	21,673	Yes	14
	■ Pension scheme members	N/A	Yes	14
	■ Landlords and suppliers (including direct and indirect payments and clearing infrastructure)	N/A	No	14
	■ Bondholders and debtholders	N/A	No	14
	■ Beneficiaries of guarantees, letters of credit or performance bonds of Santander UK and ANTS	N/A	No	14
	■ Market counterparties	34	Yes	14
	■ Shareholders	N/A	No	14
	■ Government and other fiscal persons	N/A	No	14

## 2 Skilled Person's conclusion on the Statutory Question

### 2.1 Introduction

In assessing the Statutory Question, the Skilled Person has considered the effect of changes as a consequence of the Scheme. In some assessment areas, this also includes a consideration of changes arising under the wider scope of the Ring-Fencing Programme as it is not possible to differentiate the two. Where this is the case, this is clearly referenced in this Summary and in the Scheme Report.

When assessing the effect of changes as a consequence of the Scheme, the Skilled Person has considered the effect of changes on groups of persons with similar characteristics, covering Santander UK Group and SLB customers (see further, sections 4 and 5 below) and other groups of persons connected to the Santander UK Group and SLB (see further, sections 4 and 6 below).

The Skilled Person considers that there are no changes being made as a consequence of the Scheme that will affect: (i) the wider Banco Santander Group; (ii) or the customers or any other person or group of persons connected to, the wider Banco Santander Group outside the UK.

In analysing the effects of the identified changes, the Skilled Person has taken into account the guidance published by the PRA and the FCA, together with his own experience and professional judgement.

### 2.2 Conclusions on the Statutory Question

Having completed his work, the Skilled Person has concluded that there are certain groups of corporate customers and other persons who are likely to be adversely affected by the Scheme, as identified in Table 1 above.

However, the Skilled Person is satisfied that the adverse effects identified are not likely to be greater than reasonably necessary in order to achieve the Scheme's purposes.

In January 2018, the Skilled Person was advised of a change to the transfer date of the business of Santander UK's Jersey and Isle of Man branches under local transfer schemes. The Skilled Person has concluded that the proposed change came too late for him to complete his assessment of the Scheme on customers and other persons connected with the Jersey and Isle of Man Branches of Santander UK. Accordingly, the Skilled Person will set out his assessment of the Scheme on these customers in a supplementary report which will be considered by the Court at the Scheme Sanction Hearing on 11 (and, if required, 12) June 2018.

## 3 Ring-fencing – contextual overview

### 3.1 UK Ring-Fencing Legislation

Following the global financial crisis, which resulted in the failure of a number of banks and necessitated large scale government intervention and support, the UK Government prioritised more rigorous regulation in the financial sector.

As a result, the UK Government passed the Financial Services (Banking Reform) Act 2013 which requires that qualifying UK banks separate (or ring-fence) their retail and SME deposit-taking activities (together referred to as a ring-fenced bank) from their wholesale banking activities. This legislation is aimed at protecting retail and small corporate customers from unrelated risks in a wider banking group and the overall financial system; for example, from investment banking activities.

Larger UK banks or banking groups, which hold an average of more than £25bn of 'core' deposits (generally those from individuals and small businesses), are required to have a fully operational ring-fenced structure by 1 January 2019. This includes the Santander UK Group.

### 3.2 Prohibited and Permitted business

Ring-fencing requires affected UK banks such as the Santander UK Group to separate 'prohibited' business and products from 'permitted' retail and corporate banking activities.

Ring-fencing legislation also mandates that certain products and services can only be provided by a ring-fenced bank. These are broadly deposit solutions for retail and/or SME customers (e.g. sterling current accounts, deposit accounts, currency accounts, overdrafts and money market deposits and loans).

Other 'prohibited' services and products must be provided outside of the ring-fenced body ('RFB') – for example certain derivatives and other investments, irrespective of customer type.

The ring-fencing legislation allows a level of discretion for certain products and services, as to whether they are provided within or outside of, an RFB. Some decisions are therefore at the Santander UK Group's own discretion, based on its strategic plans and the need to ensure ongoing viability of all of its businesses.

Please see appendix 6 of the Scheme Report for a more detailed list of permitted and prohibited products and services.

Banks that fall within the ring-fencing legislation may carry out any required reorganisation of their businesses in a number of different ways. One way (alone or combined with others) is to transfer banking business between legal entities using a Court authorised RFTS, as Santander UK and ANTS are doing in the current Scheme. For further details on the RFTS process, please see section 3.4 of the Scheme Report.

### 3.3 Scope of the Santander UK Group Ring-Fencing Programme

In order to meet the legal requirements of the ring-fencing legislation by 1 January 2019, Santander UK and ANTS are proposing a number of changes, including through the Scheme.

- The Scheme will effect 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, the Scheme will unwind the liabilities of each of Santander UK and ANTS (as guarantors) under the existing cross-guarantees between Santander UK and ANTS and make certain changes to existing Santander UK and ANTS contracts and other documentation.
- The broader Ring-Fencing Programme involves, among other things:
  - the closure of ANTS to new business and the transfer out of all existing business in ANTS other than a small portfolio of assets to be held until maturity. Further detail on positions remaining in ANTS is set out in section 26 of the Scheme Report;
  - novation or assignment of contracts for certain persons where novation or assignment is considered more appropriate than transfer under the Scheme, given the nature of the contractual relationship or to mitigate the impact of regulatory changes;
  - the transfer of the business of Santander UK's Jersey and Isle of Man branches under local transfer schemes to newly authorised branches or new or existing subsidiaries within the Banco Santander Group in Jersey and the Isle of Man; and
  - the closure of the ANTS Cayman Islands branch and the transfer of business from the ANTS US branch to Banco Santander New York and subsequent closure of the ANTS US branch.

For more information on the scope of the Scheme, please see section 5.5 of the Scheme Report.

## 4 Findings – all persons

This section presents a summary of the Skilled Person's findings and conclusions in relation to the changes occurring at an entity level as a result of the Scheme (e.g. changes occurring at a Santander UK level). These changes will affect all groups

of persons who are, or will become, connected to that entity at the proposed legal effective dates of the Scheme, so should be considered in conjunction with the group-specific changes identified in sections 5 and 6 of this Summary.

The Skilled Person has linked identified changes to the areas of assessment briefly described in section 4.2 below. Full details of identified changes under those areas of assessment are set out in the Scheme Report.

### 4.1 Summary conclusions

The Skilled Person has not identified (in the areas of assessment described in section 4.2 below) any changes as a result of the Scheme which would have an adverse effect on persons who are, or will become, connected to the relevant entity at the proposed legal effective dates of the Scheme.

This includes the Skilled Person's assessment of the impacts of the proposed transfers of business under the Ring-Fencing Plan, including the Scheme, on the financial positions of Santander UK, ANTS and Banco Santander (including SLB). This financial assessment is a key part of the Skilled Person's conclusion on the Statutory Questions and is discussed in detail in section 10 of the Scheme Report.

### 4.2 Areas of assessment

The Skilled Person considered changes arising as a result of the Scheme at an entity level, which will affect all groups of persons who are, or will become, connected to that entity at the proposed legal effective dates of the Scheme. Different entities are relevant for different areas of assessment. For example, each of Santander UK, ANTS and Banco Santander (including SLB) were assessed in relation to business model viability, capital and liquidity, whereas the Santander UK Group, as a whole, and SLB were assessed in relation to governance. Further information on the entities considered in each assessment area, and any changes identified in those areas, are given in the relevant section of the Scheme Report, as noted below.

The Skilled Person has considered the following areas of assessment:

#### Communications

The Skilled Person has considered whether the Scheme-related communications to be made by Santander UK and ANTS are clear and fairly represent the Scheme, and whether they could be considered misleading. (Section 9 Scheme Report)

#### Finance – Business Model Viability, Capital and Liquidity

The proposed transfers of business between entities as part of the Ring-Fencing Programme, including the Scheme, will impact the financial positions of Santander UK, ANTS and Banco Santander (including SLB) because of the changes to the size and composition of their balance sheets, profit and loss (P&L) expectations, and underlying risk profiles. The assessment includes a review of Santander UK's credit rating (which is not expected to change as a result of the

Ring-Fencing Plan) and an analysis of the capital and liquidity positions of each of the relevant entities. As noted above, the financial assessment of the transfers is a key part of the Skilled Person's conclusion on the Statutory Question. (Section 10 Scheme Report)

### **Guarantees and Contingent Liabilities**

Santander UK and ANTS have guaranteed all of the other's unsubordinated obligations and liabilities under a series of deed poll guarantees. These guarantees will be unwound with effect from 31 December 2018 as part of the Scheme. Generally, debts and liabilities associated with the transferring business will transfer to the recipient of the business and the Skilled Person has considered whether there are any changes to the ability of Santander UK, ANTS and Banco Santander (including SLB) to meet existing or future claims. (Section 11 Scheme Report)

### **Governance**

The Skilled Person has assessed whether the implementation of the Ring-Fencing Plan results in any changes to the governance arrangements in place to manage and control the Santander UK Group and SLB. The assessment is made against a set of principles based on the UK Corporate Governance Code (April 2016) and the relevant ring-fencing legislation and rules relating to governance. (Section 12 Scheme Report)

### **Risk management**

The Skilled Person has assessed whether the implementation of the Ring-Fencing Plan results in any changes to the risk management arrangements in place to manage and control risk in the Santander UK Group and SLB. The assessment is made with reference to the current Santander UK Group risk management governance framework. (Section 13 Scheme Report)

### **Operation, Infrastructure and Shared Services**

The operating model supports the ability of the bank to execute the services it provides to its customers and its interaction with counterparties. The implementation of the Ring-Fencing Plan will result in a number of changes to the way that operations teams, processes, IT systems and infrastructure work and are set up across the Santander UK Group, Banco Santander and SLB. The Skilled Person has carried out an assessment of these changes with reference to a range of criteria, as further described in section 14.2 of the Scheme Report. (Section 14 Scheme Report)

### **Recovery and Resolution, Operational Continuity and creditor Hierarchy**

The proposed transfers of business between the entities as part of the Ring-Fencing Programme, including the Scheme, may affect recovery and resolution planning, operational continuity arrangements and the creditor hierarchy of the relevant entities. During stress situations, recovery plans provide options for a bank to return to financial strength, whereas resolution plans provide information to support the strategy for dealing with a bank failure. The ability of a bank to ensure continuity of critical shared services that are necessary to maintain a bank's critical function in resolution

is referred to as operational continuity. The assessment includes a review of the position of groups of persons (other than the transferor) in the creditor hierarchies of Santander UK and Banco Santander (including SLB) following the implementation of the Ring-Fencing Plan. In this regard, the Skilled Person has concluded that groups of persons will continue to rank as the same class of creditor were insolvency/resolution to occur and the resulting level of available assets means that cover will be at least comparable for every class of creditor. Further detail on this assessment area is given in the Scheme Report. (Section 15 Scheme Report)

## **5 Findings – customers**

This section presents a summary of the Skilled Person's finding and conclusions for all customers of the Santander UK Group and SLB. It describes only the changes arising as a result of the Scheme which the Skilled Person has identified and assessed as being adverse.

Persons in a particular customer group identified in Table 1 need only read section 5.1 and the part of this section 5 (or the relevant section of the Scheme Report) that applies to them in order to understand the impact of the Scheme on them.

### **5.1 Summary conclusions**

The Skilled Person has identified a number of customer groups which will experience adverse effects as a result of the Scheme. The summaries in sections 5.2 to 5.12 below note the adverse effects (if any) which apply to the particular customer group. Further descriptions of relevant adverse effects are given in the glossary of adverse effects in section 5.13.

For each adverse effect identified, the Skilled Person has assessed whether the effect is being mitigated, or whether there are reasonable alternatives to the identified changes available. With the exception of those customers with products or transactions remaining in ANTS and customers experiencing rating trigger changes (where effects are being mitigated), the Skilled Person has concluded that in all cases where a customer group may experience a change having an adverse effect as a consequence of the Scheme, there are no mitigations or reasonable alternatives to the identified changes available. (Whilst the Ring-Fencing Programme is carrying out proactive communications with customers to inform them of the changes and possible effects, the Skilled Person notes that this, in itself, is not a mitigation to the adverse effects identified.)

Therefore, for these adverse effects, the Skilled Person has considered the second limb of the Statutory Question: whether the effect is likely to be greater than is reasonably necessary in order to achieve the Scheme's purposes.

Given the nature of the changes, and the unavailability of mitigations or reasonable alternatives, the Skilled Person has concluded that these adverse effects are not greater than reasonably necessary in order to achieve the purposes of the Scheme.

## 5.2 Santander UK Group Retail Banking Customers

The retail banking customer group consists of individual customers only and not companies, corporations or other financial institutions. These individuals have retail banking products and services which include current accounts, mortgages, unsecured personal loans, saving and investment products with the Santander UK Group.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: c. 24 million
The Skilled Person has not identified any changes as a consequence of the Scheme that will have adverse effects on retail banking customers.

Please refer to section 17 of the Scheme Report for further details.

## 5.3 Santander UK Group SME Customers

This section addresses SME Customers who only hold permitted products in the Santander UK Group.

SME customers include small businesses (with an annual turnover of less than £250,000) and mid-size businesses (with an annual turnover between £250,000 and £6.5m). These customers form part of the 'Santander Business' brand.

### Santander UK Group (excluding ANTS)

Santander UK will continue to provide customers access to all mandated and permitted products. There is therefore no transfer of products of, or transactions with, SME customers of Santander UK or the wider Santander UK Group under the Scheme.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 511,105
The Skilled Person has not identified any changes as a consequence of the Scheme that will have adverse effects on Santander UK Group (excluding ANTS) SME customers.

### ANTS SME Customers

There are two SME customers in ANTS who will have their permitted products (loans and vanilla FX Forwards) migrated to Santander UK through novation and are therefore outside the scope of the Scheme.

In addition, the Ring-Fencing Programme has identified one SME customer of ANTS that will have its permitted transactions booked in ANTS transferred to Santander UK under the Scheme. This customer will become a customer of Santander UK and will continue to access RFB mandated and permitted products and services through the Santander UK Group. There is no impact in the way in which this customer will bank with or access financial services as a consequence of the Scheme.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 1
The Skilled Person has not identified any changes as a consequence of the Scheme that will have adverse effects on ANTS SME customers.

Please refer to section 18 of the Scheme Report for further details.

## 5.4 Santander UK Corporate Customers (non-SME) holding permitted products only

This section addresses non-SME corporate customers of the Santander Corporate and Commercial Banking ('SCCB') and Santander Global Corporate Banking ('SGCB') businesses who hold only mandated and permitted products in Santander UK.

Santander UK will continue to provide customers access to all mandated and permitted products. There is therefore no transfer of products of, or transactions with, non-SME corporate customers of Santander UK or the wider Santander UK Group under the Scheme.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 21,120
The Skilled Person has not identified any changes as a consequence of the Scheme that will have adverse effects on non-SME corporate customers of Santander UK that hold permitted products only.

Please refer to section 19 of the Scheme Report for further details.

## 5.5 ANTS Corporate Customers (non-SME) holding permitted products only

This section addresses non-SME corporate customers of the SCCB and SGCB businesses who hold only mandated and permitted products in ANTS.

These customers and their transactions booked in ANTS will transfer to Santander UK under the Scheme. These customers will therefore be able to access all mandated and permitted products through Santander UK after the Scheme.

There are no proposals to remove or restrict the availability of products or services to which these customers currently have access or the way in which these customers access these products and services, which is through a single relationship manager. All products currently provided through SGCB and made available to SCCB customers (and vice versa) will continue after the Scheme. Where this involves a customer seeking a prohibited product no longer available from Santander UK, this will be effected through the referral model, as further described in the Scheme Report.

#### Adverse effects as a consequence of the Scheme

Total number of customers in this group: 454

The Skilled Person has identified the following change that may have an adverse effect on certain of these customers:

- **Changes to rights of set-off:** Affecting 47 customers. Where a customer's loan is transferred from ANTS to Santander UK, and that customer has a pre-existing deposit with Santander UK, Santander UK will obtain the ability to set-off outstanding unsecured loan amounts under the loan against the deposit, if the customer defaults on the loan. (See also section 5.13)

Please refer to section 20 of the Scheme Report for further details.

### 5.6 Santander UK Corporate Customers (non-SME) holding permitted and prohibited products

This section addresses non-SME corporate customers of the SCCB and SGCB businesses who hold prohibited products in Santander UK, with or without permitted products.

Under the Scheme, all prohibited transactions and products will be transferred out of Santander UK. Therefore, for Santander UK corporate customers holding prohibited products there are changes that the Ring-Fencing Programme is making that will have an effect on their banking relationship and where business will be booked and held in the future.

There are no proposals to remove or restrict the availability of products or services to which these customers currently have access or the way in which these customers access these products and services, through a single relationship manager. All products currently provided through SGCB and made available to SCCB customers (and vice versa) will continue after the Scheme is effective. Where this involves a customer seeking a prohibited product no longer available from Santander UK, this will be effected through the referral model, as further described in the Scheme Report.

Please note that certain corporate customers who have been identified as 'Specified Corporates' are considered in section 5.8, rather than this section. These customers have been notified by Santander UK in advance that they are 'Specified Corporates'.

#### Adverse effects as a consequence of the Scheme

Total number of customers in this group: 38

The Skilled Person has identified the following changes that may have an adverse effect on certain of these customers:

- **Changes to rights of set-off:** Affecting 3 customers. These corporate customers will no longer be able to set-off any early termination amount ('ETA') arising from prohibited derivatives owed by SLB against unsecured (permitted) loans that have been retained in Santander UK.
- **Changes to netting sets.** Affecting 14 customers.
- **Credit Valuation Adjustment.** Affecting 38 customers.

(See also section 5.13)

Please refer to section 21 of the Scheme Report for further details.

### 5.7 ANTS Corporate Customers (non-SME) holding permitted and prohibited products

This section addresses corporate customers of ANTS holding prohibited products, with or without permitted products (other than the Specified Corporates described in section 5.6 above and who are considered in section 5.8 below).

Under the Scheme, these ANTS customers will have their prohibited products and transactions transferred to SLB and their permitted products and transactions transferred to Santander UK. Their overall relationship and permitted products will be provided by Santander UK, with access to prohibited products via the referral model, as further described in the Scheme Report.

Therefore, for ANTS corporate customers holding prohibited products, there are changes that the Ring-Fencing Programme is making that will have an effect on their banking relationship and where permitted and prohibited products will be booked and held in the future.

There are no proposals to remove or restrict the availability of products or services to which these customers currently have access; or the way in which these customers access these products and services, which is through a single relationship manager. All products provided through the SGCB business and made available to SCCB business customers (and vice versa) will continue after the Scheme is effective. This will continue to be through the referral model, as further described in the Scheme Report.

#### Adverse effects as a consequence of the Scheme

Total number of customers in this group with prohibited products transferring to SLB under the Scheme: 18

The Skilled Person has identified the following changes that may have an adverse effect on certain of these customers as a result of the transfer of permitted products to Santander UK and prohibited products to SLB:

- **Changes to rights of set-off:** Affecting 4 customers. Where a customer's loan is transferred from ANTS to Santander UK, and that customer has a pre-existing deposit with Santander UK, Santander UK will obtain the ability to set-off outstanding unsecured loan amounts under the loan against the deposit, if the customer defaults on the loan. Further, these customers will no longer be able to set-off any ETA arising from prohibited derivatives owed by SLB against unsecured loans that have been transferred to Santander UK in the event of a default by either SLB or Santander UK.
  - **Changes to netting sets:** Affecting 10 customers. Where a customer holds permitted and prohibited derivatives in ANTS, netting sets contained within ANTS CSAs will be broken as a consequence of the transfer of permitted derivatives to Santander UK and prohibited derivatives to SLB.
  - **Credit Valuation Adjustment.** Affecting 18 customers.
- (See also section 5.13)

Please refer to section 22 of the Scheme Report for further details.

## 5.8 Santander UK and ANTS Specified Corporate Customers

This section addresses the Specified Corporate Customers of Santander UK and ANTS.

In order to meet the requirements of the ring-fencing legislation, Santander UK and ANTS will transfer the existing permitted derivatives with certain corporate customers to SLB under the Scheme (rather than retain them in Santander UK or transfer them from ANTS to Santander UK). This is to provide Santander UK with appropriate headroom against the risk thresholds set by the ring-fencing legislation in respect of Santander UK, as an RFB, with effect from 1 January 2019.

Relevant customers have been notified by Santander UK that they are 'Specified Corporates'.

There are no proposals to remove or restrict the availability of products or services to which these customers currently have access; or the way in which these customers access these products and services, through a single relationship manager. All products provided through the SGCB business and made available to SCCB business customers (and vice versa) will continue after the final legal effective date. This will continue to be effected through the referral model, as further described in the Scheme Report.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 66
The Skilled Person has identified the following changes that may have an adverse effect on certain of these customers as a result of the transfer of their prohibited and permitted derivatives to SLB:
<ul style="list-style-type: none"> <li>■ <b>Changes to rights of set-off:</b> Affecting 26 customers. These corporate customers will no longer be able to set-off any ETA arising from prohibited derivatives owed by SLB against unsecured loans that have been transferred to, or retained in, Santander UK in the event of a default by either SLB or Santander UK.</li> <li>■ <b>Santander UK / ANTS derivative valuation service.</b> Affecting 14 customers.</li> <li>■ <b>Credit Valuation Adjustment.</b> Affecting 57 customers.</li> </ul>
(See also section 5.13)

Please refer to section 23 of the Scheme Report for further details.

## 5.9 Santander UK and ANTS Relevant Financial Institutions

This section addresses customers of Santander UK and ANTS who are, under the ring-fencing legislation, classified as Relevant Financial Institutions ('RFIs'). RFIs include Financial Institution customers like banks and investment firms, insurance companies, funds and fund managers, and structured finance vehicle ('SFVs').

Under the Scheme, any prohibited exposures to RFIs will be

transferred from Santander UK and ANTS to SLB.

These customers may have certain permitted products with the Santander UK Treasury function such as deposits, sterling cash management deposits, payment services, and products used for hedging, liquidity and risk management transactions. These products will remain in Santander UK and these customers will continue to receive these services from Santander UK.

Therefore, for RFI's of either Santander UK or ANTS, there are some changes that will have an effect on the banking relationship with those entities.

For those RFIs which are part of a financial institution group (a 'FIG') their banking relationship will move to SLB, whereas for non-FIG RFIs the relationship will continue to be held within the Santander UK Group.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 248
The Skilled Person has identified the following changes that may have an adverse effect on certain of these customers as a result of the migration of their loans and derivatives to SLB:
<ul style="list-style-type: none"> <li>■ <b>ANTS derivative valuation service.</b> Affecting 9 customers.</li> <li>■ <b>Capital Valuation Assessment (KVA).</b> Affecting up to 161 customers.</li> <li>■ <b>Ratings triggers.</b> Affecting 8 customers.</li> </ul>
(See also section 5.13)

Please refer to section 24 of the Scheme Report for further details.

## 5.10 ANTS Exempt Financial Institutions ('EFIs')

The section addresses customers of ANTS who are financial institutions that, under the ring-fencing legislation, fall within certain exemptions and are therefore not classified as Relevant Financial Institutions. EFIs include other UK ring-fenced banks, building societies, credit unions, recognised clearing houses and central counterparties and other international banking institutions, e.g. the European Investment Bank.

Under the Scheme, exposures to EFIs will be transferred to SLB, notwithstanding that these exposures are not prohibited in the RFB.

Those EFIs that are credit unions, other Ring-Fenced banks, recognised clearing houses and central counterparties ('CCPs'), and market infrastructure providers will also continue to conduct activities with Santander UK.

Therefore, for ANTS EFIs, there are some changes that the Ring-Fencing Programme are making that will have an effect on banking relationship with those entities.

Notwithstanding that these customers will be transferred to SLB and will be outside of the RFB Sub-Group, certain permitted products which can be retained within the RFB will continue to be provided from Santander UK. This is because they are permitted under the ring-fencing rules and the Ring-Fencing Programme has identified that those products are best provided from Santander UK, for operational and business reasons. Examples of these are: deposits, sterling payment services, hedging, liquidity and risk management transactions that these customers may undertake with Santander UK's Treasury function.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 31
The Skilled Person has identified the following changes that may have an adverse effect on these customers as a result of the migration of their derivatives to SLB:
<ul style="list-style-type: none"> <li>■ <b>Capital Valuation Assessment (KVA).</b> Affecting 22 customers.</li> </ul>
(See also section 5.13)

Please refer to section 25 of the Scheme Report for further details.

### 5.11 Customers remaining in ANTS

This section addresses customers who will remain customers of ANTS after the Scheme has been effected.

Under the Scheme, the liabilities of each of Santander UK and ANTS (as guarantors) under the existing cross-guarantees between Santander UK and ANTS will be unwound with effect from 31 December 2018. Under the Ring-Fencing Plan, including the Scheme, business will be transferred out of ANTS to either Santander UK or SLB, as described in sections 5.5, 5.7, 5.8, 5.9 and 5.10 above.

There are a limited number of residual assets and liabilities which will not be transferred out of ANTS under the Scheme, or otherwise under the Ring-Fencing Plan, before 1 January 2019. Accordingly, ANTS will continue to hold certain business to maturity beyond this date. It is not intended that ANTS will book or provide any new products or services to any customers, existing or new, after the Scheme has been effected. ANTS will be a directly owned subsidiary of, and controlled by, Santander UK Group Holdings plc and will be outside of the RFB sub-group. For further details, please refer to section 26 of the Scheme Report.

Customers remaining in ANTS will comprise two financial institutions holding asset facilities with ANTS, maturing after 1 January 2019.

In addition there are 18 beneficiaries of instruments (guarantees, letters of credit or performance bonds) that have been issued by ANTS on behalf of SGCB customers expiring after 1 January 2019.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 2
The Skilled Person has identified the following changes that may have an adverse effect on these customers as a result of the transfers of business out of ANTS and implementation of the Santander UK Group plan for ANTS:
<ul style="list-style-type: none"> <li>■ <b>The loss of cross-guarantees and ANTS no longer having a credit rating:</b> The customers and counterparties who remain in ANTS after 1 January 2019 will no longer have recourse to the cross-guarantee with Santander UK in the event of ANTS not being able to meet its liabilities. The Skilled Person has assessed that this change will have an adverse effect on one of the customers remaining in ANTS, and that customer has agreed through bilateral discussions an acceptable mitigation to address the effect.</li> </ul>

Please refer to section 26 of the Scheme Report for further details.

### 5.12 Existing SLB customers

This section addresses existing customers of SLB, typically being customers of the SGCB business.

To the extent these customers are also customers of ANTS or Santander UK, any changes arising as a consequence of the Scheme and which affect them in that capacity are addressed above. No existing customers of SLB will be transferred under the Ring-Fencing Plan, including the Scheme.

These customers may hold both permitted and prohibited products and they will continue to access those products in line with current arrangements. Where this involves a customer seeking a permitted product which is not available from SLB, this will be effected through the referral model, as further described in the Scheme Report. There is no impact in the way in which these customers bank with or access financial services as a consequence of the Ring-Fencing Plan, including the Scheme.

Adverse effects as a consequence of the Scheme
Total number of customers in this group: 497
The Skilled Person has not identified any changes as a consequence of the Scheme that will have adverse effects on existing customers of SLB.

Please refer to section 26 of the Scheme Report for further details.

## 5.13 Glossary of adverse effects

The adverse effects noted in the summaries in sections 5.2 to 5.12 above have the following meanings:

Adverse effect	Description
<b>Changes to rights of set-off</b>	<p>Broadly, either or both (specified below):</p> <ul style="list-style-type: none"> <li>■ where loans are transferred from ANTS to Santander UK, Santander UK will obtain the ability to set-off outstanding unsecured loan amounts against deposits that the customer holds with Santander UK. However this change will only affect customers who also have an existing deposit in Santander UK and who default on the loan; and/or</li> <li>■ where prohibited derivatives are transferred to SLB, customers will no longer be able to set-off any Early Termination Amount ('ETA') arising from prohibited derivatives owed by SLB against any unsecured loans that have been retained or transferred to Santander UK. This will only result in an adverse effect on customers in the event that SLB or Santander UK defaults on its obligations to the customer.</li> </ul>
<b>Changes to netting sets</b>	<p>Where prohibited derivatives are transferred to SLB and permitted derivatives are retained in Santander UK, netting sets contained within a Santander UK credit support annex ('CSA') will be broken (or within an ANTS CSA, where permitted and prohibited derivatives are transferred out of ANTS). As a consequence, customers will no longer be able to net any ETA arising from the prohibited derivatives held in SLB against ETA arising from the permitted derivatives held in Santander UK. This will only result in an adverse effect on customers in the event of a default by either SLB or Santander UK on its obligations to the customer.</p>
<b>Credit Valuation Adjustment ('CVA')</b>	<p>There are possible adverse, or positive, effects on CVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) compared with the credit rating of 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 likely based on a range of variables of which the credit rating is but one.</p>
<b>Santander UK/ ANTS derivative valuation services</b>	<p>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 effects described above, it is not possible to validate the actual effect until the point of legal transfer.</p>
<b>Capital Value Assessment ('KVA')</b>	<p>There are possible adverse, or positive, effects on the KVA calculations as a consequence of a lower credit rating of Banco Santander (and therefore SLB) compared with the credit rating of 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 likely based on a range of variables of which the credit rating is but one.</p>
<b>Ratings triggers</b>	<p>Financial institution customers with swaps transferring to SLB that have ratings triggers embedded in their swap documentation may be adversely affected as a result of the lower credit rating of Banco Santander (and therefore SLB), when compared to ANTS and Santander UK.</p> <p>This may result in the customer being required to take action as a result of the lower credit rating of SLB, including potentially requiring the customer to hold additional capital or to terminate the agreement.</p> <p>As a mitigation, SLB will provide any additional collateral required under the documentation as a result of the lower credit rating. Any events of default clauses in contracts that would otherwise be triggered will be overridden by the Scheme. The Skilled Person has therefore concluded that as a consequence of the mitigations offered, the adverse effect identified will be adequately mitigated for affected customers.</p>

## 6 Findings – other persons

The Skilled Person has considered the following groups of persons who are not customers of the Santander UK Group but who may have other relationships (contractual or otherwise) with Santander UK or ANTS:

Group	Adverse Effect identified?	Scheme Report – Relevant Content
Santander UK Group employees in the UK	Yes	Section 27
Pension scheme members	Yes	Section 28
Landlords and suppliers (including direct and indirect payments and clearing infrastructure)	No	Section 29
Bondholders and debtholders	No	Section 30
Beneficiaries of guarantees, letters of credit or performance bonds of Santander UK and ANTS	No	Section 31
Market counterparties	Yes	Section 32
Shareholders	No	Section 33
Government and other fiscal persons	No	Section 34

The Skilled Person has identified changes as a consequence of the Scheme that may have an adverse effect on: (i) employees; (ii) pension scheme members; and (iii) market counterparties, as summarised below.

The Skilled Person has not identified any changes as a consequence of the Scheme that will have an adverse effect on the other groups of persons listed above, and these groups of persons are not discussed further in this Summary. Please refer to the relevant sections of the Scheme Report (as indicated above) for further details of these groups of persons.

## 6.1 Employees

The Skilled Person has assessed the effects of the Ring-Fencing Plan, including the Scheme, on different groups of employees who are employed in the Santander UK Group (including Santander UK) and SLB. The assessment separates branch employees from call centre and corporate office staff.

Isolating changes relating to employees as a consequence of the Scheme, for example as a result of business transferring under the Scheme rather than by novation or assignment under the Ring-Fencing Plan, was not practical. Therefore, the assessment considered all changes to employees as a consequence of the Ring-Fencing Plan, including the Scheme.

Adverse effects as a consequence of the Scheme
<p>The Skilled Person has identified the following change that may have an adverse effect on employees as a result of the transfers of certain business from Santander UK and ANTS to SLB:</p> <ul style="list-style-type: none"> <li> <b>One employee being made redundant:</b> As part of the Ring-Fencing Plan, including the Scheme, certain business of the SGCB division will transfer from Santander UK and ANTS to SLB. As a consequence, three employees within the SGCB division were identified as being at risk of redundancy and went through the standard Santander UK consultation process. Two of those employees have accepted other roles within the Santander UK Group that they have moved to. The third employee has been made redundant.         </li> </ul> <p>The Skilled Person has concluded that Santander UK has done everything that can reasonably be expected of it to support employees to identify new roles, and the redundancy package that has been offered compensates the affected employee and provides a good level of financial and non-financial support (e.g. job placement support) to help them identify new roles in other organisations.</p> <p>Whilst it is not possible to fully mitigate the effect of being made redundant on an individual, the Skilled Person has concluded that the change is a necessary consequence of the Scheme and the adverse effect is not greater than reasonably necessary as a consequence of the Scheme.</p> <p>There are no other changes as a consequence of the Scheme that will have an adverse effect on employees of the Santander UK Group or SLB.</p>

Please refer to section 27 of the Scheme Report for further details.

## 6.2 Pension scheme members

The Skilled Person has assessed whether there are any changes to the current pension schemes in the UK as a consequence of the Ring-Fencing Plan, including the Scheme. These are: (i) one defined benefit pension scheme, the Santander UK Group Pension Scheme ('SUKGPS'); and (ii) three defined contribution schemes.

Isolating changes relating to pension scheme members as a consequence of the Scheme, for example as a result of business transferring under the Scheme rather than by novation or assignment under the Ring-Fencing Plan, was not practical. Therefore, the assessment considers all changes to pension scheme members as a consequence of the Ring-Fencing Plan, including the Scheme.

Adverse effects as a consequence of the Scheme
<p>The Skilled Person has identified the following change that may have an adverse effect on pension scheme members as a result of the transfers of certain business from Santander UK and ANTS to SLB:</p> <ul style="list-style-type: none"> <li> <b>11 employees will become deferred members of SUKGPS:</b> As part of the Ring-Fencing Plan, including the Scheme, certain business of the SGCB division will transfer from Santander UK and ANTS to SLB. As a consequence 11 members of the SUKGPS will be transferring to Banco Santander (including SLB), which is not a sponsoring and/or participating member of the SUKGPS. As a result, these 11 employees will become deferred members of the SUKGPS, who no longer have the benefit of ongoing entitlements/contributions.         </li> </ul> <p>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 three 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.</p> <p>The Skilled Person has 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.</p> <p>There are no other changes as a consequence of the Scheme that will have an adverse effect on members of Santander UK Group or SLB pension schemes.</p>

Please refer to section 28 of the Scheme Report for further details.

### 6.3 Market counterparties

Market counterparties are counterparties of ANTS and Santander UK who currently contract with the Santander UK Group CFO Division Treasury function. These counterparties are financial institutions and include central clearing counterparties and payments systems.

These counterparties may also have a customer relationship with either Santander UK or ANTS in relation to the transactions and services that they conduct or undertake for themselves or on behalf of their own customers, and sections 5.9 and 5.10 above set out details relating to counterparties in this capacity.

Market counterparties will continue to transact with the Santander UK Group Treasury function. However, certain existing exposures with ANTS will transfer to SLB, whilst others will transfer from ANTS to Santander UK under the Ring-Fencing Plan, including the Scheme, depending on whether the transaction is permitted to remain in the RFB under certain exemptions in the ring-fencing legislation (the 'EAPO exemption').

Counterparty transactions with Santander UK that do not fall within the EAPO exemption, and which are not transferred by novation or assignment in advance of the Scheme, will be transferred from Santander UK to SLB under the Scheme.

Counterparty transactions with Santander UK that fall within the EAPO exemption because they are hedging transactions conducted by Santander UK in support of debt issuance by Santander UK, will remain in Santander UK. Please see section 32 of the Scheme Report for a description of the transactions which will transfer outside of the Scheme.

#### Adverse effects as a consequence of the Scheme

The Skilled Person has identified the following changes that may have an adverse effect on these counterparties as a result of the transfer of transactions from ANTS to Santander UK and/or SLB:

- **Changes to netting set** Affecting 27 persons.
- **Credit Valuation Adjustment.** May affect persons with transactions transferring from ANTS to SLB.

(See also section 5.13 for further information on these terms)

Please refer to section 32 of the Scheme Report for further details.

### 7 Other changes under the Ring-Fencing Programme

For completeness, the Scheme Report notes certain changes arising in parallel but not as a consequence of the Scheme. These are:

- the transfer of the business of Santander UK's Jersey and Isle of Man branches under local transfer schemes to newly authorised branches or new or existing subsidiaries within the Banco Santander Group in Jersey and the Isle of Man;
- changes to IBAN codes for customers of Cater Allen Limited;
- changes in ownership of Banco Santander Group service entities (providing operational services to the Santander UK Group);
- enhancements to existing and proposed operational continuity arrangements of the Banco Santander Group;
- certain changes to the SUKGPS;
- withdrawal of products for certain RFIs;
- novation and assignment of prohibited business from legal entities that are not transferors under the Scheme;
- certain changes to intra-group lending positions; and
- consolidation of non-core subsidiaries under Santander UK Group Holdings plc.

Please refer to section 35 of the Scheme Report for further information.

### 8 Further information

Further information regarding the Scheme and Santander's ring-fencing implementation, including copies of the Scheme, a summary of the Scheme and the full Scheme Report are available from [santanderringfencing.co.uk](http://santanderringfencing.co.uk). Alternatively, you can contact Santander UK by telephone on **(+44) 0800 023 2091** (lines are open Monday to Friday 9am to 5pm) or by writing to Santander UK at Santander Ring-fencing Department, 1/3S, 287-301 St Vincent Street, Glasgow, G2 5HN.







All information and figures correct as at 12/12/17.

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