

**Santander UK plc, IoM
Branch and Abbey National
Treasury Services plc, IoM
Branch transfer scheme**

Report under Regulation 4(1) of the
Transfer of Business Including Deposit-
Taking Regulations 2013

11 October 2018

Ernst & Young LLP

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Contents

Introduction and summary of our conclusions	2
1. Introduction	3
2. Scope of the IoM Scheme	5
3. Scope and assumptions.....	7
4. Summary of our conclusions.....	8
Financial position, capital adequacy and liquidity	9
5. Financial position, capital adequacy and liquidity	10
Creditor hierarchy and Depositors' Compensation Scheme	18
6. Creditor hierarchy and the Depositors' Compensation Scheme.....	19
7. Additional confirmations required under guidance from the IoM FSA	23
Appendices	24
8. Appendix 1 - Glossary and definitions	25
9. Appendix 2 - Legislative and regulatory background	27
10. Appendix 3 - Information sources	29
11. Appendix 4 - Figure 1: Changes to the legal entity structure after implementation of the Ring-Fencing Plan	30

Introduction and summary of our conclusions

1. Introduction

1.1 The Santander UK Group's Ring-Fencing Plan

In December 2013, the UK Government introduced changes that required major UK banking groups, including the Santander UK Group, to separate their retail and small business banking activities from their investment and global banking activities. UK retail and small business deposits were to be placed into a ring-fenced bank that operates in compliance with the Financial Services and Markets Act 2000 ('FSMA') and associated subordinate legislation.

To enable the Santander UK Group to comply with the ring-fencing legislation by the statutory deadline of 1 January 2019, Santander UK plc ('Santander UK') will become a ring-fenced bank carrying on core UK banking activities as defined by the legislation and Abbey National Treasury Services plc ('ANTS') will be a non-ring fenced bank. To achieve this, amongst other things, Santander UK and ANTS have effected a ring-fencing transfer scheme pursuant to Part VII of FSMA ('the RFTS').

The RFTS was sanctioned by the UK Court on 12 June 2018. Pursuant to the RFTS, the following business transactions were effected:

- ▶ Transfer from ANTS to Santander UK of certain business permitted to be carried out by a ring-fenced bank from 1 January 2019;
- ▶ Transfer from ANTS to Banco Santander S.A., London branch ('SLB') of: (i) certain business which is prohibited from being undertaken within a ring-fenced bank from 1 January 2019; and (ii) specified business permitted to be carried out by a ring-fenced bank from 1 January 2019; and
- ▶ Transfer from Santander UK to SLB of: (i) certain business which a ring-fenced bank is prohibited from undertaking from 1 January 2019; and (ii) specified business permitted to be carried out by a ring-fenced bank from 1 January 2019.
- ▶ Under the RFTS, with effect from 23.59 (London time) on 31 December 2018, all liabilities of Santander UK and ANTS under the existing cross-guarantees issued by each of them in respect of the liabilities of the other will also be released and these cross-guarantees will be unwound.

1.2 The Crown Dependencies' Schemes

Under Article 20 of the FSMA (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080), a ring-fenced bank must not maintain or establish a branch in any country or territory which is not an EEA member state.

Accordingly, in order to comply with the ring-fencing legislation, all activities currently conducted through Santander UK's Jersey and Isle of Man ('IoM') branches need to be transferred outside of Santander UK and its wider ring-fenced bank sub-group prior to 1 January 2019.

Santander UK proposes to transfer all of the business of its Jersey and IoM branches to new Jersey and IoM branches of ANTS. These transfers need to take place under local business transfer schemes which require the approval of the Royal Court of Jersey ('the Jersey Scheme') and the High Court of Justice of the Isle of Man ('the IoM Scheme') respectively (together 'the Schemes'). In a limited number of exceptions, certain Excluded Property, as defined in the respective Schemes, will be retained in Santander UK, transferred separately or terminated.

Following the transfer of business of Santander UK's Jersey branch under the Jersey Scheme ('the Jersey Transfer') and the transfer of the business of Santander UK's IoM branch under the IoM Scheme ('the Transfer' and, together with the Jersey Transfer, 'the Transfers'), Santander UK's Jersey and IoM branches will cease to be deposit taking businesses and will close.

1.3 The IoM Scheme and the role of the Independent Auditor report

The transfer of the banking business of Santander UK's IoM branch (with limited exceptions for certain Excluded Property (as defined in the IoM Scheme)) to a new IoM branch of ANTS ('ANTS, IoM Branch') will be undertaken by application to the High Court of Justice of the Isle of Man, requesting sanction of a relevant transfer scheme under section 3A of, and Schedule 1A to, the Financial Services Act 2008.

The Transfer of Business Including Deposit-Taking Regulations 2013 require that an application to the High Court of Justice of the Isle of Man under section 3A of, and Schedule 1A to, the Financial Services Act 2008 is accompanied by a report by an independent auditor that details the terms of the transfer scheme and its likely effect on the customers of the transferor and transferee concerned. Details of the scope of this independent auditor's report are included in section 3 below.

Ernst & Young LLP (we or EY or Independent Auditor) has been appointed to produce this report.

2. Scope of the IoM Scheme

As noted in section 1.2 above, in order to meet the requirements of the ring-fencing legislation in the UK, all activities conducted through Santander UK's Jersey and IoM branches are required to transfer outside of Santander UK and its wider ring-fenced bank sub-group, prior to 1 January 2019.

The following summarises the scope and timing of these transfers, together with the assumptions we have used in determining the scope of our work as required by the legal process in the IoM.

2.1 Changes to the legal entity structure of the Santander UK Group

The Banco Santander Group operates in the UK through the Santander UK Group. Prior to the implementation of the Santander UK Group's ring-fencing plan ('the Ring-Fencing Plan'), services and products were principally provided by Santander UK, ANTS and Cater Allen Limited.

The legal entity structure of the Santander UK Group is changing as a consequence of the Ring-Fencing Programme. The target legal entity structure of the key operating entities within the Santander UK Group is set out in Figure 1 at Appendix 4. It depicts the position of the Crown Dependencies and their relationship with the Santander UK Group before and after the implementation of the Ring-Fencing Plan, including the proposed Jersey and IoM Schemes.

2.2 Key features of Santander UK plc and ANTS, IoM Branch

If the proposed IoM Scheme is approved, the business of Santander UK's IoM branch (with limited exceptions for Excluded Property, as defined in the IoM Scheme) will be transferred to ANTS, IoM Branch.

Key features of Santander UK are described below:

- ▶ Santander UK is an authorised deposit taking entity. Its regulatory permissions are granted by the Prudential Regulatory Authority ('PRA') and it is regulated in the UK by the PRA and the Financial Conduct Authority ('FCA').
- ▶ Following the transfers of business under the RFTS (as referred to in section 1.1 above) and with effect from 1 January 2019, Santander UK will become a ring-fenced bank and will predominantly undertake retail, SME and corporate banking business in the UK.

Key features of ANTS are described below:

- ▶ ANTS is a UK authorised person within the meaning of FSMA and has permission under Part 4A of FSMA to accept deposits and to carry on various other regulated activities inherent to its business. ANTS is subject to the prudential supervision of the PRA as well as being regulated from a conduct perspective by the FCA.
- ▶ Following the transfer of the substantial part of its assets and liabilities to Santander UK and SLB under the RFTS and the wider Ring-Fencing Plan, ANTS currently holds a portfolio of assets that cannot be held within the ring-fenced bank sub-group. This includes business that will mature both before and after 1 January 2019. ANTS intends to hold this portfolio of assets to maturity.
- ▶ In addition to its business in the UK, ANTS also currently operates an authorised branch in the USA, which will close prior to the end of 2018.
- ▶ ANTS' new Jersey branch ('ANTS, Jersey Branch') will be authorised and regulated by the Jersey Financial Services Commission ('the JFSC') and ANTS, IoM Branch will be authorised and regulated by the Isle of Man Financial Services Authority ('the IoM FSA').
- ▶ Santander UK currently holds all of the shares in ANTS, except for one ordinary share held by Abbey National Nominees Limited. Abbey National Nominees Limited is a wholly owned subsidiary of Santander UK. The shares in ANTS will be transferred to Santander UK Group Holdings plc ('Santander UK HoldCo') so that ANTS sits outside of the ring-fenced bank sub-group. It is intended that this transfer will take place in late October 2018. ANTS is not expected to have any subsidiaries as at the legal effective date of the Jersey Scheme and the IoM Scheme (as shown in Figure 1 at Appendix 4).
- ▶ ANTS will receive capital and funding from Santander UK HoldCo to the extent required to meet its regulatory requirements.

3. Scope and assumptions

3.1 Scope of this Independent Auditor report

This Independent Auditor report has been completed to meet the requirements of the IoM FSA and the High Court of Justice of the Isle of Man under the Transfer of Business Including Deposit-Taking Regulations 2013. In determining the scope of this report, we have considered the specifics of the IoM Scheme, and our experience in addressing the specific areas that we are required to consider. The scope of this report therefore considers:

- ▶ whether the transfer will have a materially adverse effect on the financial position, capital adequacy and liquidity of the transferor (Santander UK's IoM branch) or the transferee (ANTS, IoM Branch);
- ▶ whether the transfer will have a materially adverse effect on the depositor compensation arrangements or creditor hierarchy on a resolution of the transferor or the transferee;
- ▶ whether the transferor and the transferee will have the ability to meet their liabilities immediately after the transfer; and
- ▶ whether the transfer appears to materially disadvantage the customers or creditors of the transferor or the transferee as a whole.

Legal precedent has further determined that the independent auditor is not required to undertake any work to provide a conclusion on the effects of the transfer concerned as it relates to any specific customer or creditor. This is because it has been determined that the customers and creditors of both the transferee and transferor would have a common interest in the financial position, liquidity and capital adequacy of the transferee and transferor after the transfer had taken place.

3.2 Assumptions

This Independent Auditor report has been based on a number of assumptions set out below:

- ▶ Santander UK HoldCo will continue to own and support ANTS and its branches, where applicable, following the completion of the Ring-Fencing Plan, including the Schemes, through 2019.
- ▶ ANTS will continue to meet all regulatory requirements and obligations, as determined by the PRA in the UK and the IoM FSA in the IoM in line with the regulatory permissions that it has in the UK and the IoM.
- ▶ The implementation of the IoM Scheme will be completed prior to 1 January 2019 in order for Santander UK to comply with the ring-fencing legislation in the UK.
- ▶ Existing depositor protections that currently exist in the IoM will not change and will be equally accessible to the customers of ANTS, IoM Branch as they currently are to customers of Santander UK's IoM branch, as provided by the Depositors' Compensation Scheme ('the DCS') in the IoM.
- ▶ Immediately following the Schemes, ANTS will hold a portfolio of assets that will be held to maturity as described in section 2.1 above, as well as cash held at the Bank of England. It will hold deposits from its branches in Jersey and the IoM, as well as a portfolio of IoM mortgage loans.
- ▶ Certain assets and liabilities defined in the IoM Scheme as Residual Assets and Residual Liabilities will be transferred outside of the IoM Scheme. Any potential liability arising in respect of any Residual Assets or Residual Liabilities after the Effective Date (as defined in the IoM Scheme) and prior to the transfer of Residual Assets and Residual Liabilities from Santander UK to ANTS being perfected, will be subject to an indemnity from ANTS to enable Santander UK's IoM branch to meet any such liabilities.
- ▶ Following the Transfer pursuant to the IoM Scheme, Santander UK's IoM branch will cease to be a deposit taking business.

4. Summary of our conclusions

4.1 Financial position, capital adequacy and liquidity

Based solely on the work performed as described in this report and considering the assumptions and data with which we have been provided, we have concluded that immediately after the Transfer:

- ▶ the Transfer will not have a materially adverse effect on the financial position, capital adequacy and liquidity of ANTS, IoM Branch or Santander UK's IoM branch; and
- ▶ ANTS, IoM Branch and Santander UK's IoM branch will have the ability to meet their liabilities.

4.2 Creditor hierarchy and depositor compensation arrangements

Based solely on the work performed as described in this report and considering the assumptions and data with which we have been provided, we have concluded that immediately after the Transfer:

- ▶ the Transfer will not have a materially adverse effect on the depositor compensation arrangements or creditor hierarchy on a resolution of ANTS, IoM Branch or Santander UK's IoM branch.

4.3 Summary

Based solely on the work performed with regard to financial position, capital adequacy, liquidity, creditor hierarchy and depositor compensation arrangements as described in this report and considering the assumptions and data with which we have been provided, we have concluded that immediately after the Transfer:

- ▶ the Transfer does not appear to materially disadvantage the customers or creditors of Santander UK's IoM branch or ANTS, IoM Branch.

Financial position, capital adequacy and liquidity

5. Financial position, capital adequacy and liquidity

5.1 Introduction

The proposed Transfer under the IoM Scheme will impact the financial position of ANTS because of the changes to the size and composition of its balance sheet, profit and loss ('P&L') expectations and underlying risk profiles.

The financial assessment is key in understanding whether the Transfer will have a materially adverse effect on the transferor or the transferee and therefore disadvantage customers and creditors.

This section assesses the changes to the capital, liquidity and funding position of ANTS following the Transfer and the impacts of these changes on the customers and creditors of Santander UK's IoM branch being transferred to ANTS.

Capital adequacy

A bank's capital represents its loss absorbing capacity and is essentially the cushion that is available to cover losses of any kind.

Banks hold different types of capital referred to as Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT 1') and Tier 2. The total of CET1 and AT 1 is referred to as 'Tier 1 capital'. The total of Tier 1 and Tier 2 capital is referred to as 'Total Capital'.

- ▶ **CET1** - the highest quality of capital which can absorb any losses. Only perpetual capital instruments count as CET1 and any dividend payments on these instruments must be discretionary.
- ▶ **Tier 1 capital** - CET1 along with AT1 capital makes up the sum of capital instruments that a bank can use to cover losses while remaining a going concern. AT1 includes perpetual subordinated debt instruments that have conversion or write down features.
- ▶ **Tier 2 capital** can absorb losses once a bank is no longer a going concern, but may not be able to avoid losses while the bank is a going concern. Tier 2 instruments do not need to be permanent and may have non-discretionary coupons.

Regulatory capital requirements are categorised as Pillar 1, Pillar 2 and capital buffers.

- ▶ The Pillar 1 requirements are prescribed in the Capital Requirements Regulation ('CRR') based on the risks associated with the bank's specific assets, referred to as Risk Weighted Assets ('RWAs'). The Pillar 1 requirement is 8%, of which at least 4.5% must be CET1, at least 6 % Tier 1 capital and at least 8% Total Capital.
- ▶ The Pillar 2 requirements are less prescriptive and are agreed between the regulatory supervisor (being the PRA) and the bank. Pillar 2A capital requirements are driven by additional risks not considered under Pillar 1. Pillar 2A requirements must be met by at least 56% of CET1 but no more than 44% of AT1 or 25% of Tier 2 capital.
- ▶ The capital buffers are prescribed in the CRR and the Capital Requirements Directive IV ('CRD IV').
- ▶ Together these represent the minimum amount of capital a bank must hold.

A bank's capital ratio is a measure of a bank's actual capital against its RWAs. The three key capital ratios are CET1, Tier 1 capital and Total Capital.

- ▶ CET1 ratio: calculated as CET1 capital divided by RWAs.
- ▶ Tier 1 ratio: calculated as Tier 1 capital divided by RWAs.
- ▶ Total Capital ratio: calculated as Total Capital divided by RWAs.

A bank is also required to meet the minimum leverage ratio requirements. The Financial Policy Committee ('FPC') sets the leverage ratio for banks. A bank must maintain a minimum Tier 1 leverage ratio of 3.25%. An additional buffer is added to be equivalent to 35% of systemic and countercyclical buffers.

- ▶ Leverage ratio: calculated as a bank's capital measure divided by its total exposure measure.

Liquidity and funding

Liquidity and funding analysis considers a bank's ability to fund its assets and meet its financial obligations.

Liquidity is essential to meet customer withdrawals and compensate for balance sheet fluctuations. Banks are required to hold high quality liquid assets ('HQLAs') to meet potential stressed liquidity requirements over the short term and this is measured by the Liquidity Coverage Ratio ('LCR').

Funding represents a bank's liabilities, including deposits and other borrowings, which are used to finance customer loans, banking-related services and operations. If a bank cannot generate or maintain an appropriate level of funding, it may not be able to finance its products and services.

A key factor in considering a bank's funding position is the stability of its funding, in terms of the maturity of these funds being matched to the bank's assets. This is measured by the Net Stable Funding Ratio ('NSFR'). Stable funding is a reliable source of funds over a one-year time horizon under conditions of extended stress and is especially important for retail banks.

5.2 Approach to assessing financial position, capital and liquidity

5.2.1 Assessment areas

In assessing the effect of the Transfer on the customers and creditors of Santander UK's IoM branch, we have considered a point in time effect of the changes to the balance sheet, P&L, capital, liquidity and funding position of: (i) Santander UK as at 30 June 2018 prior to the Transfer; and (ii) ANTS as at 31 December 2018 following the Transfer.

To assess the effect we have used a number of metrics common in the financial services industry. The results have been used to inform our assessment as to whether the Transfer will result in any significant deterioration of the capital adequacy or liquidity and funding position of ANTS, to which the deposits and other liabilities of the customers and creditors of Santander UK's IoM branch are transferred.

Table 1: Finance, capital and liquidity - assessment areas

Assessment area	Description
Capital adequacy	<ul style="list-style-type: none"> ▶ Capital adequacy is based on ANTS' forecast capital plans, including capital ratios, capital resources, Pillar 1, Pillar 2 and regulatory capital buffer requirements and the bank's own risk appetite. ▶ As part of this report we have used CET1, Tier 1 and Total Capital ratios as core metrics to assess capital adequacy. We have compared the capital ratios of Santander UK as at 30 June 2018 prior to the Transfer and of ANTS as at 31 December 2018 following the Transfer. ▶ We have assessed whether ANTS will maintain sufficient capital resources to meet its minimum regulatory capital requirements immediately after the Transfer.
Liquidity and funding	<ul style="list-style-type: none"> ▶ The liquidity and funding position is based on ANTS' forecast liquidity plans including regulatory ratio requirements, its own liquidity and funding risk appetite settings and the assumptions around liquid asset holdings.

Assessment area	Description
	<ul style="list-style-type: none"> <li data-bbox="491 327 1482 427">▶ As part of this report we have used LCR and NSFR as core metrics to assess the liquidity and funding position. We have compared the liquidity and funding ratios of Santander UK's LCR as at 30 June 2018 and NSFR as at 31 March 2018 prior to the Transfer and of ANTS' LCR and NSFR as at 31 December 2018 following the Transfer. <li data-bbox="491 461 1482 510">▶ We have assessed whether ANTS will maintain sufficient liquidity and funding resources to meet its minimum regulatory requirements immediately after the Transfer.

5.2.2 Information and data provided

In reaching our conclusions, we have reviewed the following key documents and information:

- ▶ Santander UK consolidated Balance Sheet as at 30 June 2018 (unaudited);
- ▶ Santander UK consolidated P&L as at 30 June 2018 (unaudited);
- ▶ Santander UK consolidated liquidity data as at 31 March 2018 (unaudited);
- ▶ Santander UK, IoM Branch Management Accounts as at 30 June 2018;
- ▶ ANTS forecast Balance Sheet including the Transfers as at 31 December 2018;
- ▶ ANTS forecast Income Statement for the period ending 31 December 2018, including the impact of the Transfers;
- ▶ ANTS forecast Income Statement for the period ending 31 December 2019, including the impact of the Transfers;
- ▶ ANTS forecast capital position including the Transfer as at 31 December 2018; and
- ▶ ANTS forecast liquidity and funding position including the Transfer as at 31 December 2018.

Our analysis and conclusions have been completed based on above information provided by management. These documents have been through the bank's own appropriate review, challenge and governance process. We have reviewed the reasonableness of the assumptions provided in the forecast data against the relevant regulatory requirements. The underlying data has not been audited as part of this assessment.

5.3 Changes to financial position, capital adequacy and liquidity

5.3.1 Findings and conclusions

Our assessment indicates that ANTS will be subject to, and will continue to meet, all capital, funding and liquidity requirements set by the PRA (as they exist at the date of this report) and that ANTS will continue to be subject to the ongoing prudential supervision of the PRA.

Customers and creditors of Santander UK's IoM branch and ANTS are not likely to be materially adversely affected as a result of the changes in capital ratios, given: (i) that ANTS is forecast to meet its regulatory requirements; and (ii) the steps that ANTS' management will take to monitor the capital position and options it has available to continue to meet these requirements as at the date of the Transfer.

We also do not expect the changes in ANTS funding and liquidity ratios to result in material adverse effects for customers or creditors.

5.3.1.1 Financial position

Table 2: Changes with no adverse effects - balance sheet

Financial Position	
Description of the change	<ul style="list-style-type: none"> ▶ The customers and creditors of Santander UK's IoM branch will become customers and creditors of ANTS, IoM Branch. ▶ The Transfers will result in an increase in the assets and liabilities of ANTS. Immediately prior to the Transfers, ANTS is forecast to have gross assets in the order of £1.1bn. Gross assets are forecast to increase to £5.4bn following the Transfers. Deposit liabilities of £5bn will be transferred to ANTS from Santander UK's Jersey branch and Santander UK's IoM branch.
Why is the change not adverse?	<ul style="list-style-type: none"> ▶ The ANTS balance sheet as at 31 December 2018 is significantly different and smaller than the Santander UK balance sheet as at 30 June 2018. The following assets and liabilities will be transferred from the Crown Dependencies into ANTS: <ul style="list-style-type: none"> ▶ The liabilities will comprise of deposits from retail and high net worth customers, wealth managers, corporates and trusts. These will be used to fund certain assets of ANTS, comprising of mortgages, loans and advances to banks, funding of other financial assets and deposits with the Bank of England. ▶ The ANTS balance sheet will include cash held with the Bank of England of approximately £4bn. ▶ Having reviewed the forecast balance sheet for ANTS including the Transfers as at 31 December 2018, ANTS is expected to maintain sufficient financial resources to meet its liabilities and its minimum regulatory requirements immediately after the Transfer. This includes ANTS retaining a capital base of £250m. ▶ The forecast income statement for the years ended 31 December 2018 and 2019 for ANTS taking into account the Transfers, shows that ANTS will be making a small loss in both years. Although the change is considered to be adverse, it will not have a material impact on capital ratios. We have also been informed that Santander UK HoldCo, as the parent of ANTS at the date the Transfer takes legal effect, intends to ensure that ANTS will maintain sufficient capital resources to meet its regulatory capital requirements over this period. Therefore, this risk will be sufficiently mitigated. ▶ ANTS intends to maintain a credit rating, which management expects to be investment grade. However, if this is not achieved, then the loss of the ANTS credit rating may also impact the cost of wholesale external funding and costs associated with derivative transactions. Management has confirmed that currently there is no expectation of a requirement for wholesale external funding for ANTS and that derivatives account for a small portion of the balance sheet. Therefore, this risk is not likely to manifest.
Our conclusion	<ul style="list-style-type: none"> ▶ We have considered the impact of the changes to the ANTS forecast balance sheet and income statement and have concluded that the forecast loss would not result in a materially adverse effect on the customers and creditors of Santander UK's IoM branch being transferred to ANTS. ▶ ANTS is projected to maintain sufficient financial resources to meet its liabilities and meet its minimum regulatory requirements.

5.3.1.2 Capital adequacy

Table 3: Changes with no adverse effects – capital ratios, resources and requirements

Capital ratios, resources and requirements	
Description of the change	<ul style="list-style-type: none"> ▶ The customers and creditors of Santander UK's IoM branch will become customers and creditors of ANTS, IoM Branch. ▶ The capital ratio of ANTS is expected to change as a result of the Transfer. The increase in the size of ANTS' balance sheet will result in an increase in the RWAs and capital requirements of ANTS.
Why is the change not adverse?	<ul style="list-style-type: none"> ▶ The following changes were noted in the capital position of ANTS: ▶ ANTS will comprise of CET1 capital only. In the event of a loss of the ANTS credit rating, it is not expected that there will be an impact on the capital position of ANTS. ▶ The capital requirements are driven solely by Pillar 1 RWAs. The Transfer will result in an increase in the Pillar 1 RWAs of ANTS. ▶ Management has confirmed currently there is no Pillar 2A and Pillar 2B capital requirement for ANTS at a solo entity level. ▶ The ANTS balance sheet will include cash held with the Bank of England of approximately £4bn, which has been risk weighted at 0% in line with article 114 of the CRR. ▶ ANTS is forecast to make a small loss in 2018 and 2019. The forecast losses in the forecast income statements would further reduce the capital surplus in both years. However, the impact is not considered material. ▶ ANTS' exposure to its single largest customer is projected to be below the 25% large exposure limit as at 31 December 2018. This large exposure limit has been identified as a constraint on capital resources. Management has confirmed that the large exposure limit will be monitored and will not exceed the CRR limit of 25% of eligible capital. Management has confirmed that a large exposure waiver will not be required for intra-group transactions. ▶ The CET1 and Total Capital ratio of ANTS as at 31 December 2018 is forecast to be above the minimum regulatory requirements and the bank's own risk appetite. ▶ The CET1 ratio of ANTS as at 31 December 2018 is forecast to be higher than the Santander UK CET1 ratio as at 30 June 2018. ▶ The Total Capital ratio of ANTS as at 31 December 2018 is forecast to be lower than the Santander UK Total Capital ratio as at 30 June 2018. However, the difference is not considered to be material, being less than 1%. Having reviewed the forecast capital position of ANTS based on the information provided by management, ANTS is expected to maintain sufficient capital resources to meet its minimum regulatory capital requirements and remain above the bank's own risk appetite immediately following the Transfer. ▶ Management will continue to monitor the impact of any changes to the capital position of ANTS on an ongoing basis. We have been informed that Santander UK HoldCo as the parent of ANTS at the date the Transfer takes legal effect intends to ensure that ANTS

Capital ratios, resources and requirements	
	will maintain sufficient capital resources to meet its minimum regulatory requirements as at the date of the Transfer.
Our conclusion	<ul style="list-style-type: none"> ▶ We have considered the impact of the changes to the capital resources, CET1 ratio and Total Capital ratio of ANTS and have concluded that ANTS is expected to maintain sufficient capital resources to absorb its projected losses and to continue to meet its minimum regulatory requirements for capital adequacy and the large exposure limit as at the date of the Transfer, and that, therefore, this would not result in an adverse effect on the customers or creditors of Santander UK's IoM branch being transferred to ANTS.

Table 4: Changes with no adverse effects - leverage ratios

Leverage ratios	
Description of the change	<ul style="list-style-type: none"> ▶ The customers and creditors of Santander UK's IoM branch will become customers and creditors of ANTS, IoM Branch. ▶ The Transfer will impact the leverage ratio requirements of ANTS as the capital position and balance sheet will change.
Why is the change not adverse?	<ul style="list-style-type: none"> ▶ The leverage ratio of ANTS as at 31 December 2018 is forecast to be higher than the Santander UK leverage ratio as at 30 June 2018. ▶ ANTS is expected to remain above the bank's own risk appetite following the Transfers.
Our conclusion	<ul style="list-style-type: none"> ▶ As ANTS has a higher leverage ratio on an individual basis than Santander UK, this will not result in an adverse effect on the customers or creditors of Santander UK's IoM branch being transferred to ANTS.

5.3.1.3 Liquidity and funding

Table5: Changes with no adverse effects – Liquidity and funding profile

Liquidity and funding profile	
Description of the change	<ul style="list-style-type: none"> ▶ The customers and creditors of Santander UK's IoM branch will become customers and creditors of ANTS, IoM Branch. ▶ The liquidity and funding profile of ANTS is expected to change following the Transfer, as this will result in changes to the composition of liabilities and, therefore, different liquidity holdings.
Why is the change not adverse?	<ul style="list-style-type: none"> ▶ The liquidity and funding profile of ANTS will improve with the transfer of retail and high net worth customer deposits and highly liquid assets comprising of cash and balances with the Bank of England as well as loans and advances to banks, as described in Table 2 above. ▶ ANTS' forecast LCR and NSFR ratios as at 31 December 2018 will be above the minimum regulatory requirements and the bank's own risk appetite. ▶ The LCR and NSFR ratios of ANTS as at 31 December 2018 will be higher than the LCR ratio of Santander UK as at 30 June 2018 and the NSFR ratio of Santander UK as at 31 March 2018. ▶ ANTS will continue to monitor its liquidity and funding profile as per its existing risk management framework and will develop an Internal Liquidity Adequacy Assessment Process ('ILAAP') by the end of Q4 2018. ▶ Management expects that deposits will remain broadly flat over the next three years and that any lack of a credit rating would not have any adverse effect on deposit levels. In the event of a loss of the ANTS credit rating, there may be an impact on the funding position of ANTS in the long term if the outflows on deposits are higher than the management assumptions used to calculate the NSFR as at 31 December 2018. However, as the funds will be deposited with the Bank of England, they will be able to be withdrawn quickly for liquidity and funding purposes. ▶ Having reviewed the forecast liquidity position of ANTS, based on the information provided by management, ANTS is expected to maintain sufficient liquidity resources to meet its minimum regulatory liquidity requirements and remain above the bank's own risk appetite following the Transfer as at 31 December 2018.
Our conclusion	<ul style="list-style-type: none"> ▶ We have considered the forecast liquidity and funding position of ANTS as at 31 December 2018 and have concluded that the Transfer will not adversely affect ANTS' liquidity and funding profile and would not result in an adverse effect on the customers or creditors of Santander UK's IoM branch being transferred to ANTS.

Creditor hierarchy and Depositors' Compensation Scheme

6. Creditor hierarchy and the Depositors' Compensation Scheme

6.1 Introduction

This section assesses changes to the position of the customers and creditors of Santander UK's IoM branch in the creditor hierarchy following the Transfer and in the depositor protection arrangements available to the current depositors of Santander UK's IoM branch.

6.2 Approach to creditor hierarchy and the Depositors' Compensation Scheme

6.2.1 Assessment areas

In assessing the effect of the Transfer on the customers and creditors of Santander UK's IoM branch, we have considered a point in time effect of the changes on the position in the creditor hierarchy and depositor protection arrangements.

Table 8: Creditor hierarchy and depositor protection arrangements - assessment areas

Assessment area	Description
Position of groups of persons creditor hierarchy	<ul style="list-style-type: none"> ▶ A creditor hierarchy is an analysis of where creditors would rank in the event of an insolvency or resolution. The following assessments have been undertaken for the customers and creditors of Santander UK's IoM branch considering: <ul style="list-style-type: none"> ▶ Changes from the current ranking of creditors in the hierarchy and how that ranking might change as a consequence of the Transfer; and ▶ Changes from the current calculated asset coverage across each class of creditor and how that coverage might change as a consequence of the Transfer. ▶ As part of the assessment, we have prepared a memorandum for creditors to outline how the creditors' classification would operate for each respective creditor group. Details regarding insolvency ranking are provided in Appendix 2.
Depositors' Compensation Scheme	<ul style="list-style-type: none"> ▶ Depositor protection is governed by the Depositors' Compensation Scheme ('DCS') established under the Depositors' Compensation Scheme Regulations 2010, as amended. It provides protection of up to £50,000 per person per covered bank, for eligible protected deposits (as defined). The maximum liability of the DCS is capped at £200m.

6.2.2 Information and data provided

In reaching our conclusions, we have reviewed the following key documents and information:

- ▶ Santander UK Creditor Hierarchy as at 31 December 2017; and
- ▶ ANTS forecast Creditor Hierarchy as at 31 December 2018.

Position of groups of persons in the creditor hierarchy

The creditor hierarchy of Santander UK as at 31 December 2017 and the forecast ANTS creditor hierarchy as at 31 December 2018 was provided.

We have determined that the 31 December 2017 creditor hierarchy of Santander UK is the appropriate comparator for our work as the creditors and customers of Santander UK's IoM branch are prohibited from being customers or creditors of Santander UK after 1 January 2019.

We have calculated asset coverage across each class of creditor and assessed whether the customers and creditors of Santander UK's IoM branch will be in a comparable position following the Transfer where they will become customers and creditors of ANTS, IoM Branch.

Information in respect of the applicable laws that determine the application of assets in priority across creditors for the United Kingdom has been provided in Appendix 2.

6.3 Changes to creditor hierarchy and the Depositors' Compensation Scheme

6.3.1 Findings and conclusions

Based on our assessment, the position of customers and creditors in the creditor hierarchy and the depositor compensation arrangements will remain as they are today. The level of assets available for each class of creditor will decrease after the Transfer. However, there will remain an appropriate asset coverage for each class of creditor.

Therefore, customers and/or creditors of Santander UK's IoM branch will not be adversely affected as a consequence of the Transfer to ANTS, IoM Branch.

6.3.2 Changes with no adverse effects

Set out below are the key changes as a result of the Transfer.

6.3.2.1 Creditor hierarchy

Table 9: Changes with no adverse effects – position of groups of persons in the creditor hierarchy

Position of groups of persons in the creditor hierarchy	
Description of the change	<ul style="list-style-type: none"> ▶ The customers and creditors of Santander UK’s IoM branch will become customers and creditors of ANTS, IoM Branch. ▶ ANTS will have a different composition of assets and liabilities in its balance sheet following the Transfer. ▶ Customers and creditors of Santander UK’s IoM branch will continue to rank as the same class of creditor were insolvency or resolution to occur. This would mean that any payment would be received in the same ranking. ▶ The level of assets available for each class of creditor will decrease for the customers and creditors of Santander UK’s IoM branch. ▶ Approximately 80% of ANTS’ forecast Crown Dependencies’ deposits as at 31 December 2018 will be covered by cash held at the Bank of England.
Why is the change not adverse?	<ul style="list-style-type: none"> ▶ We have reviewed the creditor hierarchy analysis of Santander UK for the customers and creditors of Santander UK’s IoM branch as at 31 December 2017, prior to the Transfer. ▶ We have reviewed the creditor hierarchy analysis of ANTS’ forecast balance sheet position for the customers and creditors of ANTS as at 31 December 2018. Customers and creditors of Santander UK’s IoM branch will continue to rank as the same class of creditor were insolvency or resolution to occur. ▶ Our analysis indicates that existing customers and creditors of Santander UK’s IoM branch who will transfer to ANTS under the Scheme are unlikely to be adversely affected because: <ul style="list-style-type: none"> ▶ The ranking of customers and creditors in ANTS, IoM Branch will remain the same for the customers and creditors of Santander UK’s IoM branch; ▶ ANTS is forecast to have assets in excess of 100% available for each class of creditor; and ▶ Approximately 80% of ANTS’ forecast Crown Dependencies’ deposits as at 31 December 2018 will be covered by cash held at the Bank of England.
Our conclusion	<ul style="list-style-type: none"> ▶ We have considered the impact of the changes to the creditor hierarchy and have concluded that the Transfer will not have an adverse effect on the customers or creditors of Santander UK’s IoM branch being transferred to ANTS. ▶ Customers and creditors of Santander UK’s IoM branch will continue to rank as the same class of creditor were insolvency or resolution to occur. This would mean that any payment would be received in the same ranking. ▶ The level of assets available for each class of creditor will decrease for the customers and creditors of Santander UK’s IoM branch. However, ANTS is forecast to have assets in excess of 100% for each class of creditor and approximately 80% of ANTS’ forecast Crown Dependencies’ deposits as at 31 December 2018 will be covered by cash held at the Bank of England.

6.3.3 No change

The following summarises the areas where we have assessed there will be no changes to depositors as a consequence of the Transfer.

Table 10: No change - Depositors' Compensation Scheme

Assessment area	Conclusion
Depositors' Compensation Scheme	<ul style="list-style-type: none"> ▶ The Depositors' Compensation Scheme applies to the customers of Santander UK's IoM branch prior to the Transfer and will continue to apply to those customers following the Transfer, on the assumption that there are no changes to the compensation scheme between the date of this report and the date of the Transfer.

7. Additional confirmations required under guidance from the IoM FSA

Based solely on the work performed as described in this report and considering the assumptions and data with which we have been provided, we have concluded that:

- ▶ the disclosures made in the Scheme documents adequately and accurately cover the likely effect on the customers of ANTS, IoM Branch or Santander UK's IoM branch; and
- ▶ the Scheme documents include the information required by the Schedule ("Information to be included in an application") to the Transfer of Business Including Deposit-Taking Regulations 2013.

Appendices

Appendices

8. Appendix 1 - Glossary and definitions

1 January 2019	The implementation date for ring-fencing
2014 Order	Banks and Building Societies (Depositor Preference and Priorities) Order 2014
2015 Scheme Regulations	The Deposit Guarantee Scheme Regulations 2015
ANTS	Abbey National Treasury Services plc
ANTS, IoM Branch	Abbey National Treasury Services plc's Isle of Man branch
ANTS, Jersey Branch	Abbey National Treasury Services plc's Jersey branch
AT1 capital	Additional Tier 1 Capital
Banco Santander Group	Banco Santander S.A. and its subsidiaries
BRA	Financial Services (Banking Reform) Act 2013
CET1	Common Equity Tier 1
CRD IV	Capital Requirements Directive IV
Crown Dependencies	The branches of Santander UK in Jersey and the Isle of Man
CRR	Capital Requirements Regulation
DCS	Depositors' Compensation Scheme
EEA	European Economic Area
Excluded Property	As defined in the IoM Scheme (in essence certain assets and liabilities as agreed between the parties)
EY, We, Independent Auditor	Ernst & Young LLP
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FSCS	Financial Services Compensation Scheme
FSMA	The Financial Services and Markets Act 2000
HQLAs	High quality liquid assets
ILAAP	Internal Liquidity Adequacy Assessment Process
IoM	Isle of Man
IoM FSA	Isle of Man Financial Services Authority
IoM Scheme	Banking business transfer scheme under the Financial Services Act 2008 that will transfer the banking business of the Isle of Man branch of Santander UK to ANTS, IoM Branch
Jersey Scheme	Banking business transfer scheme under the Banking Business (Jersey) Law 1991 that will transfer the business of the Jersey branch of Santander UK to ANTS, Jersey Branch
Jersey Transfer	The transfer of the banking business of Santander UK's Jersey branch to ANTS, Jersey Branch
JFSC	Jersey Financial Services Commission
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

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%
P&L	Profit & Loss
PRA	Prudential Regulation Authority
RFTS	The BRA introduced an additional form of a transfer scheme, ring-fencing transfer schemes, under Part VII of FSMA. An RFTS gives effect to any transfers of business needed by banking groups to achieve ring-fencing purposes
Ring-fencing legislation	Relevant sections of legislation enacted (together or separately): <ol style="list-style-type: none"> 1. Financial Services (Banking Reform) Act 2013 2. Financial Services and Markets Act 2000 3. Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 4. The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 5. Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2016 6. CRD IV - in relation to the additional buffer RFBs will be subject to, composed of CET1 capital.
Ring-Fencing Plan	Santander UK Group's ring-fencing plan
Ring-Fencing Programme	The programme under which the Santander UK Group will implement its Ring-Fencing Plan
RWAs	Risk weighted assets
Santander UK	Santander UK plc
Santander UK Group	Santander UK HoldCo and its subsidiaries
Santander UK HoldCo	Santander UK Group Holdings plc
the Schemes	The Jersey Scheme and IoM Scheme together
SLB	Banco Santander S.A., London branch
T1/Tier 1 Capital	CET1 and AT1
T2	Tier 2 capital
Transfer	The transfer of the banking business of Santander UK's IoM branch to ANTS, IoM Branch
Transfers	The Transfer and the Jersey Transfer together
Total Capital	Tier 1 and Tier 2 capital together
UK Court	UK High Court of Justice in England and Wales

9. Appendix 2 – Legislative and regulatory background

9.1.1 The IoM Depositors’ Compensation Scheme (‘the DCS’)

The DCS is a fund of last resort for customers of Class 1(1) licensed deposit takers (‘Covered Banks’) in the IoM. It recompenses some depositors if such a Covered Bank is unable, or likely to be unable, to pay claims against it, and as a result is declared by the IoM Treasury to be in default.

The DCS is not designed to act as an unlimited provider of funds in the event of a systemic crisis or to bail out global Covered Banks’ Isle of Man operations. The DCS fund is not a standing fund but is made up as required by levies from the participating Covered Banks and money provided by the IoM Treasury.

In general terms, the DCS provides protection for those individuals with lower value deposits / savings (up to £50,000 in total). It may also deliver a more timely pay out of up to the first £50,000 for depositors (who are individuals) with higher amounts held with the Covered Bank than would be available in the shorter term from the liquidation of the Covered Bank’s assets, depending on the size of the Covered Bank that failed.

A lower level of protection is provided (up to £20,000 in total) for many other types of depositor such as companies, trusts and charities. Monies held in client accounts are not entitled to protection.

The DCS is established under the Financial Services Act 2008 and the most current version of the DCS (the Depositors’ Compensation Scheme Regulations 2010, as amended) came into force on 23 October 2010.

9.2 Creditor hierarchy

The creditor hierarchy refers to the order in which different classes of creditors receive funds during insolvency proceedings. If a creditor’s position in the hierarchy falls, the uncertainty increases as to whether they will receive the payments that are due to them from the bank, should the bank become insolvent.

9.2.1 Creditor hierarchy position on insolvency UK legislation

The creditor hierarchy position that would apply on an insolvency of a UK entity is set out in the Insolvency Act 1986 (IA 1986) and incorporates recent amendments made as a result of the BRA, the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the ‘2014 Order’) and The Deposit Guarantee Scheme Regulations 2015 (the ‘2015 Scheme Regulations’). This creditor hierarchy, as depicted in the Table below, took effect from 1 January 2015 and we are currently unaware of any proposed changes to this. As far as we are aware, there is nothing in the legislation that alters or amends this position for a UK entity.

Creditor hierarchy for a UK entity

Ranking	Creditor hierarchy ¹	Comments
1	Fixed charge holders (i.e. security in the form of mortgage, fixed charge, pledge lien)	This includes capital market transactions (e.g. covered bonds) and trading book creditors (e.g. collateralised positions)
2	Liquidators’ fees and expenses	
3	Preferential creditors (ordinary): i. Employees with labour-related claims	Applies to all protected (eligible) depositors including individuals, micro, small, medium and large sized enterprise up to the FSCS

¹ **Note:** All creditors within each category rank equally amongst themselves.

Ranking	Creditor hierarchy ¹	Comments
	ii. Eligible depositors up to the FSCS protected limit (the equivalent of €100,000; currently £85,000)	protected limit and FSCS taking the place of all protected (eligible) depositors in the event they have been paid by the FSCS.
4	Preferential creditors (secondary): iii. Eligible depositors for amounts in excess of the FSCS protected limit (the equivalent of €100,000; currently £85,000)	Applies to all categories of other deposits set out in section 15BA and 15BB of Schedule 6 of the UK Insolvency Act 1986 (as amended). This includes: <ul style="list-style-type: none"> <li data-bbox="842 510 1447 660">i. as so much of any amount owed at the relevant date by the debtor to one or more eligible persons in respect of an eligible deposit as exceeds any compensation that would be payable in respect of the deposit under the UK financial services compensation scheme to that person or those persons; and <li data-bbox="842 678 1447 857">ii. an amount owed at the relevant date by the debtor to one or more eligible persons in respect of a deposit that: (a) was made through a non-EEA branch of a credit institution authorised by the competent authority of an EEA state, and (b) would have been an eligible deposit if it had been made through an EEA branch of that credit institution.
5	Floating charge holders	
6	Unsecured senior creditors	This includes all ineligible depositors (including large sized enterprises for amounts in excess of the FSCS protected limit)
7	Subordinated creditors	
8	Interest incurred post-insolvency	
9	Shareholders (preference shares)	
10	Shareholders (ordinary shares)	

10. Appendix 3 - Information sources

10.1 Information sources considered

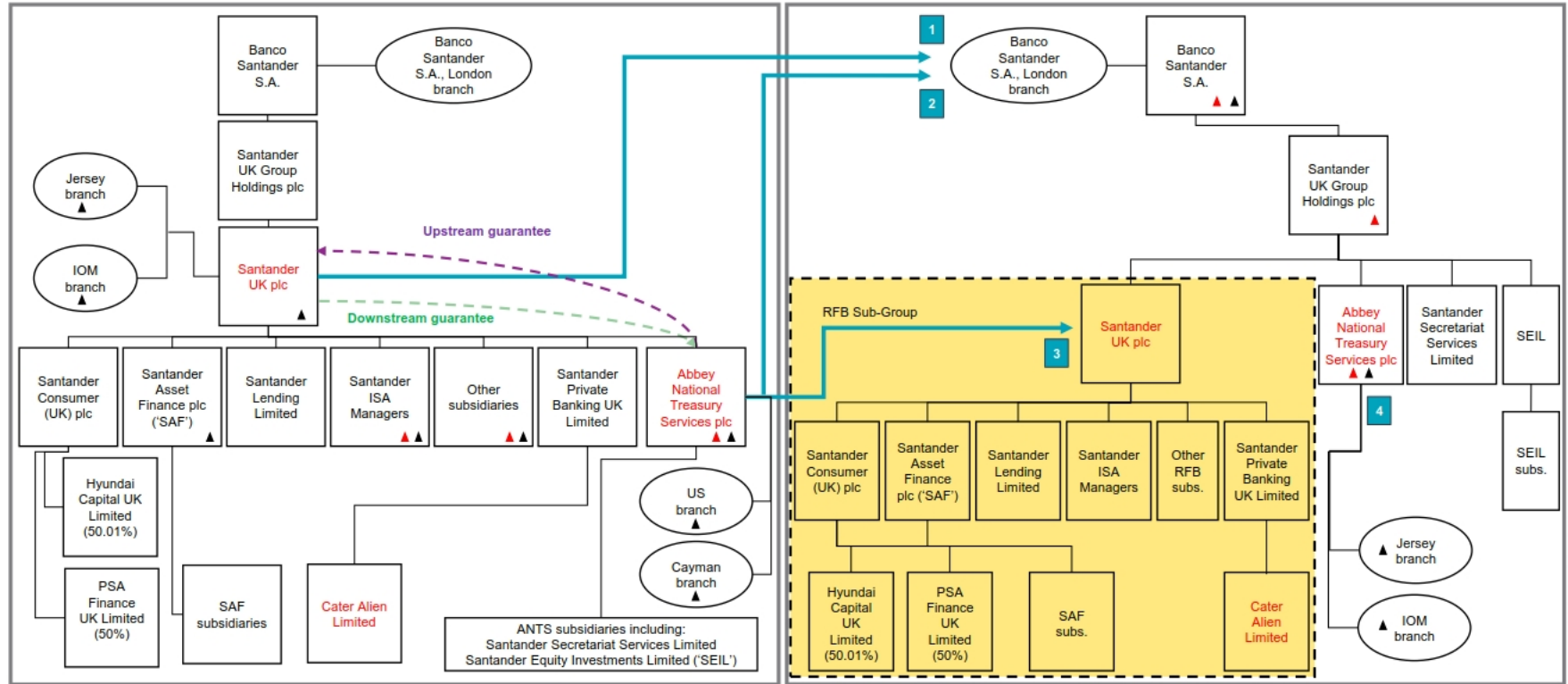
Information sources considered

Assessment area	Evidence considered
Finance - Financial position, capital adequacy and liquidity	<ul style="list-style-type: none"> ▶ Santander UK consolidated Balance Sheet as at June 2018 (unaudited) ▶ Santander UK consolidated Income Statement as at June 2018 (unaudited) ▶ Santander UK, Jersey Branch Management Accounts as at 30 June 2018 ▶ ANTS forecast Balance Sheet including the Transfer at 31 December 2018 ▶ ANTS forecast Income Statement including the Transfer for the year ending 31 December 2018 ▶ ANTS forecast Income Statement including the Transfer for the year ending 31 December 2019 ▶ ANTS forecast capital position including the Transfer as at 31 December 2018 ▶ ANTS forecast liquidity and funding position including the Transfer as at 31 December 2018
Creditor hierarchy	<ul style="list-style-type: none"> ▶ Santander UK Creditor Hierarchy as at 31 December 2017 ▶ ANTS forecast Creditor Hierarchy as at 31 December 2018
Scheme documents	<ul style="list-style-type: none"> ▶ Draft Claim Form as at 8 October 2018 ▶ Draft Scheme Document as at 8 October 2018 ▶ Draft Scheme Summary as at 8 October 2018 ▶ Draft Witness Statement of ANTS as at 8 October 2018 ▶ Draft Witness Statement of Santander UK's IoM branch as at 8 October 2018 ▶ Draft business transfer agreement between Santander UK and ANTS as at 8 October 2018 ▶ Draft client leaflet as at 8 October 2018

11. Appendix 4 - Figure 1: Changes to the legal entity structure after implementation of the Ring-Fencing Plan

Legal entity structure before implementation of the Ring- Fencing Plan

Target legal entity structure after implementation of the Ring- Fencing Plan



Key	
RED	A deposit taker with a Part 4A permission to carry on the regulated activity for accepting deposits
▲	An entity carrying on excluded activities
▲	An entity carrying on prohibited activities

Business transfer under the Scheme	
1	Santander UK business to SLB
2	ANTS business to SLB
3	ANTS business to Santander UK
4	Business of Santander UK's Jersey and IoM branches to ANTS

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