Santander UK Group Holdings plc

Resolvability Self-Assessment Disclosure

August 2024

Contents

1. Introduction

Approximately 15 years after the 2007-2008 global financial crisis, the events of the first quarter of 2023 came as a reminder of the importance of having in place a robust and effective framework for dealing with failing financial institutions. They, also, highlighted the significance of ongoing work on behalf of firms, so as to develop appropriate capabilities, embed these into business as usual arrangements, and continue testing them, in order to ensure that they are operational and can be improved over time.

At Santander UK[1], we continue our resolvability journey, which started almost a decade ago. Our Board, which provides ongoing oversight of this work, and I, as the accountable executive for recovery and resolution planning under the Senior Managers Regime, are pleased to present a summary of Santander UK's second resolvability self-assessment. As in 2022, this is published alongside the Bank of England's assessment of the resolvability of the eight major UK firms as part of its Resolvability Assessment Framework.

Since the June 2022 disclosures, we have focused on delivering incremental enhancements to our resolution capabilities and leveraged testing opportunities, so as to ensure that we remain resolution-ready. Our Board continues to be confident that Santander UK has in place capabilities that enable us to meet the Bank of England's resolution outcomes and are sufficiently flexible to support a resolution in practice.

This report sets out an overview of our resolvability capabilities and arrangements. A brief description of the Bank of England's Resolvability Assessment Framework provides necessary context for describing how we expect the resolution of Santander UK to unfold, how our capabilities facilitate this in practice, and how our governance, assurance and testing arrangements provide comfort that resolution readiness will be maintained and, where possible, enhanced on an ongoing basis.

We acknowledge that our capabilities and arrangements will require ongoing refinement and enhancement, so as to remain relevant and fit for purpose, as our business and the wider market environment continue to evolve. However, we believe that we have put in place strong foundations that can support our ongoing work on resolvability. We are encouraged that the Bank of England's updated assessment continues to not identify any material issues in respect of our ability to meet the resolution outcomes.

Angel Santodomingo, Chief Financial Officer

[1] The terms 'Santander UK', 'Santander UK Group' and 'Santander UK Resolution Group' are used interchangeably to refer to Santander UK Group Holdings plc and its subsidiaries.

2. About the UK Resolution Framework and this report

2.1 The UK Resolution Framework

The financial crisis demonstrated the need for both firms and authorities to be prepared to respond to stress events and unforeseen shocks, in order to avoid disorderly bank failure and costly public support. The subsequent package of regulatory reforms introduced recovery planning which requires banks, including Santander UK, to consider how they would restore their balance sheet, capital and liquidity positions in the event of a severe stress. It also introduced resolution frameworks, including the powers and tools that allow authorities to take action in the event that the recovery plan is not successful and the bank fails.

Resolution is designed to impose losses on failed banks' shareholders and creditors and to avoid public support. It aims to ensure that larger banks' core activities can continue to be performed without disruption while they are restructured, sold or wound down in an orderly manner.

The Bank of England (BoE) is the UK's resolution authority and is responsible for managing the failure of financial institutions within its remit. It is responsible for defining the resolution plan for each firm, in cooperation with peer authorities in other jurisdictions.

The Banking Act 2009 provides a series of 'stabilisation tools' that may be used individually, or in combination with each other, to resolve failing firms. These are:

i. the bail-in of liabilities in order to recapitalise the firm;

ii. the transfer of the firm, in whole or in part, to a private sector purchaser, asset management vehicle, or a 'bridge bank';

iii. as a last resort, and with additional restrictions, temporary public ownership.

Bail-in is likely to be the primary resolution tool used for the largest firms. A bail-in aims to restore the solvency of the failed firm and create the time for orderly restructuring that restores the firm to long term viability. During this process the firm continues to provide functions that are critical for the broader economy, thereby supporting financial stability.

The BoE's website provides further detail on the resolution framework and the BoE's approach to resolution.

2.2 The Resolvability Assessment Framework

The BoE's Resolvability Assessment Framework (RAF) defines three outcomes that firms must be able to meet on an ongoing basis, in order to be considered resolvable. It also identifies a series of barriers to resolution in respect of each outcome and sets out policy expectations for how these should be overcome. These are the capabilities that must be in place to support an orderly resolution, as summarised in figure 1. Firms must also consider, and take action to remove, firm-specific impediments to resolution.

Figure 1: RAF outcomes and underpinning capabilities

Resolvability Capability	Objective
Outcome 1 - Financial resources: firms must have adequate financial resource in the context of resolution	
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	Availability of adequate financial resources to absorb losses and recapitalise
Valuations in resolution (ViR)	Capabilities to conduct timely and robust valuations to support resolution
Funding in resolution (FiR)	Ability to estimate, anticipate and monitor potential liquidity needs and mobilise appropriate resources in the approach to and throughout resolution
Outcome 2 – Continuity: firms must be able to continue to do business through resolution and restructuring	
Continuity of financial contracts (Stays)	Ability to assess the risk of early termination of financial contracts
Operational Continuity in Resolution (OCIR)	Ability to ensure operational continuity in resolution (OCIR) of banking services and critical functions
Continuity of access to Financial Market Infrastructure (FMIs)	Ability to maintain access to critical financial market infrastructure
Restructuring	Capabilities to identify, develop and execute post-stabilisation restructuring
Outcome 3 - Co-ordination and Communication: firms must be able to co-ordinate & communicate effectively within the firm and with authorities and markets	
Management	Capabilities to ensure critical job roles would be adequately staffed and incentivised in resolution
Governance	Capabilities to ensure effective decision-making and oversight in resolution
Communications	Capabilities to plan and deliver effective communications

2.3 Resolution planning and this report

Firms are required to conduct a self-assessment of their resolvability, and the capabilities, resources and arrangements that they have in place to support resolution, on a two-yearly cycle, in order to support effective resolution planning. They are also required to submit a detailed self-assessment report to the Prudential Regulation Authority (PRA) as well as to publish a summary of their self-assessment.

This report provides a summary of Santander UK's preparedness for resolution and marks the end of the second (2023/2024) resolvability self-assessment and disclosure cycle. **Our overall conclusion continues to be that our resolvability capabilities are fit for purpose and proportionate to support the resolution of Santander UK, but we acknowledge that resolution is a journey and that capabilities, and links between them, will continue to be improved on an ongoing basis.**

To support our second self-assessment of resolvability, we have conducted a detailed review of each capability and tested that each is appropriately designed and can deliver as expected. Line 2 (Risk) and Line 3 (Internal Audit) have played an active role in this effort. Our senior management and board have continued to participate in end-to-end resolution readiness testing exercises that have helped validate that the capabilities interact with each other as expected to deliver the resolvability outcomes in practice and that Santander UK can produce relevant management information (MI) to support key decisions and actions across the resolution timeline. Banco Santander S.A. has also reviewed work done and participated in internal testing exercises. We have also continued to work closely with, and provide updates to, the BoE, as UK resolution authority, and the Single Resolution Board (SRB), as the resolution authority responsible for Banco Santander SA, the ultimate parent of the global Santander Group.

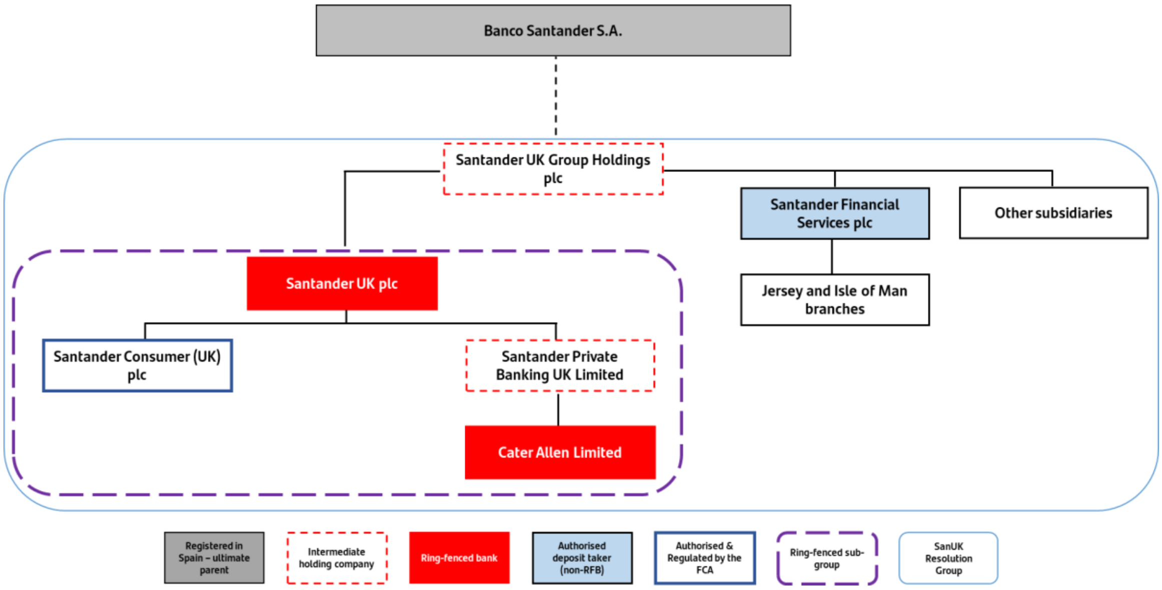
This report is published alongside a statement from the BoE which sets out its views on firms' resolvability.

3. Santander UK Group structure

Santander UK Group Holdings plc, the holding company heading up the Santander UK Group, is a wholly owned subsidiary of Banco Santander SA. The key operating company in the Santander UK Group is Santander UK plc, a ring-fenced bank (RFB) incorporated in England and Wales and authorised and regulated by the PRA and the Financial Conduct Authority (FCA). Santander Financial Services plc is a small non-ring-fenced bank (NRFB), which is also regulated by the PRA and FCA.

Santander UK Group Holdings plc and its subsidiaries are, collectively, the Santander UK Resolution Group.

Figure 2: Simplified structure chart of the Santander UK Resolution Group.



Comprehensive information on the Santander UK Group's activities, operations and balance sheet are available in its annual report and accounts. Additional detail on our approach to capital management is set out in our Additional Capital and Risk Management Disclosures. These can be found here.

The Santander UK Group is independent from its parent. Its financial, legal and operational dependencies on its parent and on the wider Banco Santander Group are limited, monitored and actively managed. There is no presumption of parental support and capital and liquidity are managed on a standalone basis and without parental guarantees. Almost no services are provided to the UK group directly from Banco Santander S.A. and those provided by its service companies fall under service agreements that are designed to withstand resolution.

In keeping with the multiple point of entry (MPE) resolution strategy, the Santander UK Group would be separated from its parent in resolution. It would be resolved by the BoE in its capacity as UK resolution authority. The holding company is the 'resolution entity' (that is the entity at which resolution powers are applied). It was established in 2014 specifically for the purpose of facilitating a bail-in and recapitalisation of the UK Resolution Group. It is 'clean' – that is it has negligible liabilities that do not qualify as MREL – and debt issued from it is fully MREL-compliant.

Santander UK plc is the only entity in the UK group that is sufficiently large to be capable of requiring the resolution of the UK group. This is consistent with the fact that it is the only operating entity in the UK group that the BoE considers material for the purposes of resolution and therefore the only entity in the UK group that holds internal MREL (iMREL).

The simple structure of the Santander UK Group is matched by a straightforward business model. It is primarily a retail bank with some corporate and commercial activity, and it operates almost entirely in the United Kingdom.

4. The Bank of England's Resolution Strategy for Santander UK

4.1 Resolution Strategy

The preferred resolution strategy for the Banco Santander S.A. Group, and within that for the Santander UK Resolution Group, is agreed by the home and host resolution authorities for the global group. The home resolution authority is the SRB. The BoE is the host resolution authority for the Santander UK Group.

The preferred resolution strategy for the Banco Santander S.A. Group is an MPE bail-in. This means that in distress the Banco Santander S.A. Group is resolved in parts with sub-groups subject to resolution locally on a standalone basis. Figure 3 sets out the different resolution groups that make up the Banco Santander S.A. Group.

Figure 3: Resolution groups and resolution entities within the Santander S.A. Global Group

Resolution Group	Resolution Entity
Banking Union	Banco Santander S.A.
Argentina	Banco Santander Rio S.A.
Brazil	Banco Santander (Brazil) S.A.
Chile	Santander Chile Holding S.A.
Colombia	Banco Santander de Negocios Colombia S.A.
Mexico	Grupo Financiero Santander Mexico S.A. de C.V.
Peru	Banco Santander Perú S.A.
Poland	Santander Bank Polska S.A.
United Kingdom	Santander UK Group Holdings plc
USA	Santander Holdings USA, Inc.
Uruguay	Banco Santander, S.A. (Uruguay)

In the UK, the 'resolution entity' is Santander UK Group Holdings plc (also referred to as Santander UK Group Holdings or the HoldCo). This is the entity at which the BoE will apply its resolution powers. In line with the preferred resolution strategy, the application of the bail-in at the level of the HoldCo will lead to a write-down and/ or conversion ('bail-in') of the HoldCo's MREL resources (CET1, AT1, T2 and senior HoldCo instruments) and, to the extent applicable and necessary, other liabilities within the scope of the bail-in, as required to absorb losses and recapitalise the entity. All operating subsidiaries, including Santander UK plc, will remain open and operational during the resolution, as losses will be passed up to, and absorbed by, the

HoldCo, including through the write-down and/or conversion of iMREL issued by Santander UK plc to the HoldCo.

The use of resolution powers at the level of Santander UK Group Holdings will result in the write down and/or conversion of Banco Santander S.A.'s holdings of equity and other instruments issued by Santander UK Group Holdings. This will result in the separation of the Santander UK Group from the Santander S.A. Group. To the extent that the resolution of Santander UK Group (or other resolution group) results in conditions for entry into resolution being met at the level of the resolution group headed by Banco Santander S.A., the SRB will use its bail-in powers at the Banco Santander S.A. level. However, the 'local' recapitalisation of a local group does not necessarily require a bail-in at the level of the parent. This will provide flexibility on the timing of separation of resolution groups.

The objective of the bail-in is to stabilise the firm and buy the time that will enable it to address the issues that have caused it to fail such that it can rebuild viability and return to private sector funding. This is done through the business reorganisation plan. Overall, the objective is for continuity throughout the resolution period and, where appropriate, managed divestment or wind down of targeted portfolios or business lines as part of the execution of the business reorganisation plan.

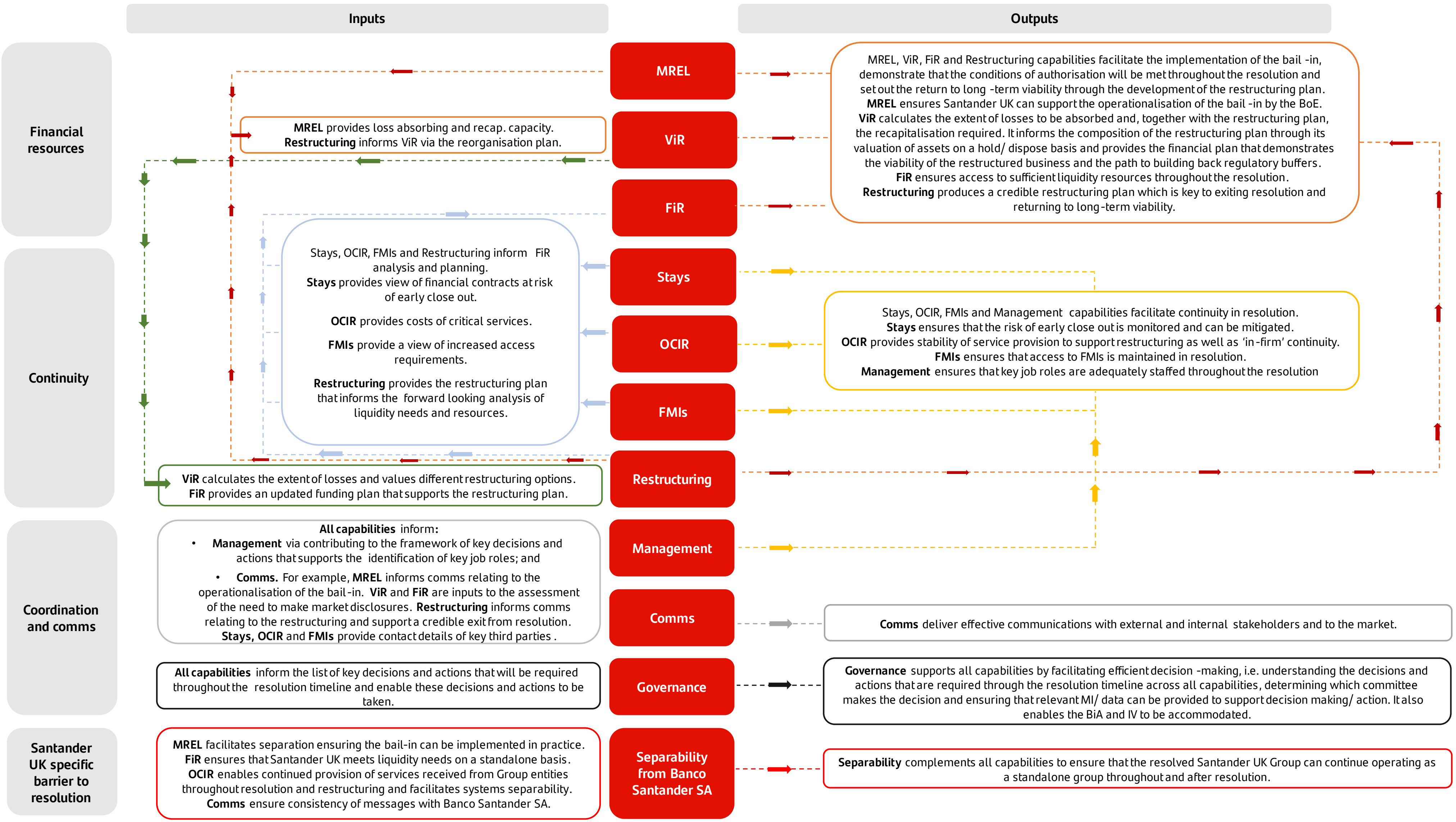
4.2 How resolution is expected to unfold

The RAF includes a 'stylised resolution timeline' that summarises the actions that are likely to be needed in contingency planning, over the resolution weekend and in the 'bail-in period'. We have considered this alongside the capabilities that are required at each stage, as well as how they interact with each other. This is summarised in figures 4 and 5 below.

Figure 4: High level actions and decisions required across the resolution timeline.

Area	Contingency planning	Resolution weekend	Bail-in period	Exit from resolution
MREL	Provide up to date information on eligible liabilities to confirm sufficient MREL and internal MREL resources in place	Reflect write-down/ conversion/ cancellation of internal MREL on internal systems. Coordinate issuance of CEs	Prepare MREL issuance plan	Implement issuance plan
ViR	Support Independent Valuer in carrying out resolution valuations	n/a	Support the Independent Valuer in finalising resolution valuations	Support the Independent Valuer in carrying out post resolution valuations
FiR	Monitor current liquidity position and assess projected position and needs	Request access to the Resolution Liquidity Framework (RLF) if required	Cease accessing RLF if applicable	Transition to private sources of funding and repay Central Bank funding
Stays	Produce data on financial contracts; assess close-out risk		Communicate with financial counterparties impacted by the application of the general or temporary Stays	n/a
FMIs	Approve and implement FMI contingency plans	Communicate with third parties	Implement actions identified in the FMI contingency plans as required	n/a
OCIR	Assess risks to continuity of critical services and need to access segregated liquidity to ensure financial resilience of intra-group entities		Where required, develop TSAs to support restructuring actions	N/A
Restructuring	Prepare draft business reorganisation plan	n/a	Finalise business reorganisation plan. Once approved by the BoE, initiate implementation of the business reorganisation plan	Complete implementation of business reorganisation plan
Management	Prepare to implement retention / succession plans as required	n/a	Submit SMF applications to PRA/ FCA	Amend responsibilities and incentives of key roles to reflect exit from resolution
Governance	Initiate contingency planning for resolution	Accommodate bail-in administrator (BiA) and other new appointments as necessary Submit Change in Control application Transition into resolution governance	Continue to operate resolution governance	Submit Change in Control application reflecting new controllers Define post resolution governance New shareholders vote in new Board
Communications	Approve communications plan to include internal, external and market comms If instructed by the BoE, make pre-resolution comms to specific key third parties, e.g. critical FMIs or key suppliers	Make necessary communications as per comms plan	Continue to deliver communications plan	Continue to deliver communications plan

Figure 5: Interdependencies between resolvability outcomes



4.3 Resolution's effects on shareholders, other creditors and third parties

In a resolution, losses in the Santander UK Resolution Group are passed to the holding company because that is where resolution powers – that is use of the bail-in tool – will be applied. The bail-in imposes losses on shareholders and other creditors, typically holders of MREL instruments, according to the order of their priority in the creditor hierarchy. At the end of the resolution process some MREL holders, who have been bailed-in, are expected to be compensated with common equity, or other instruments, in Santander UK Group Holdings plc. The distribution of equity compensation to bailed-in creditors marks the exit from the resolution process and the return of the firm to private control under new ownership.

The amount of losses that need to be absorbed, and the extent of the recapitalisation required, is calculated through the resolution valuation process, taking into account the business reorganisation plan. This process also calculates the equity valuation of the post-resolution firm, and therefore the value of equity (or other instruments) that will be distributed as compensation.

The amount of MREL and iMREL issued by UK firms is set by the BoE and designed to support the resolution strategy that it has determined. We are therefore satisfied that there is sufficient MREL and iMREL in place to ensure that losses are unlikely to be imposed on other creditors in resolution. Notwithstanding this, the possibility that additional, more senior-ranking liabilities may need to be written down or converted cannot be completely ruled out. If this were the case, many creditors would be protected by the exclusions from bail-in provided for under section 48B of the Banking Act 2009. This includes holders of secured liabilities, depositors that are eligible for protection under the UK Financial Services Compensation Scheme (FSCS), employees in respect of fixed remuneration (and some variable remuneration), pensions schemes and suppliers of non-financial goods and services that are critical to our daily operations.

In addition to this, capabilities are in place to monitor and manage the bank's liquidity needs through the resolution timeline, as described in section 5 of this report. This means that we expect depositors to continue to be able to withdraw funds, make payments and access other banking services as normal throughout the resolution process. We also expect to be able to meet all our other obligations as they fall due. This includes payments to third party suppliers and service providers and payments to providers of financial market infrastructure (FMIs), for which contractual and operational arrangements are in place to ensure the continuity of access throughout resolution.

5. Achieving the Resolution Outcomes

Santander UK is confident in its ability to deliver the outcomes required by the BoE to support an orderly resolution. The capabilities that are in place to underpin each outcome are tailored to support the resolution as it is likely to unfold in practice and sufficiently flexible to be effective across a broad range of circumstances. Our resolution capabilities and overarching arrangements are summarised below. Capabilities are documented, to facilitate their maintenance and their use under stress, and controls are in place to ensure their robustness. In addition to having in place capabilities that enable us to meet each of the resolution outcomes, we have a clear understanding of the interactions and interdependencies between capabilities such that they work together in practical terms. This is also aided by periodic testing exercises, further detail on which is provided in section 6.2.

5.1 Outcome 1: Adequate Financial Resources

Firms must have adequate financial resources in the context of resolution. Santander UK has – and has the mechanisms in place to ensure it continues to maintain – sufficient resources that can credibly and feasibly be used to absorb losses and recapitalise the firm so that it would continue to meet its conditions for authorisation and sustain market confidence throughout the resolution period. It has valuation and funding planning, analysis and management capabilities, that enable it to review and meet its capital, MREL and liquidity needs across the resolution timeline and to support effective restructuring planning. Our self-assessment has not identified any areas which would materially prevent Santander UK from achieving the Adequate Financial Resources outcome set out in the RAF.

MREL: Santander UK has in place sufficient MREL and iMREL resources to meet the BoE's MREL and iMREL requirements on an ongoing basis and holds an additional management buffer on top of this for prudence. It has mechanisms to monitor and maintain the current and projected stock of MREL and iMREL, to review these under stress and to support restructuring planning. Confidence that the instruments issued are MREL/iMREL-eligible stems from a legal review of instrument eligibility that supports the issuance process. As of 30 June 2024, fully eligible MREL resources of Santander UK Group Holdings plc were 35.3% of RWAs; iMREL resources of Santander UK plc were 34.8% of RWAs. Granular detail on the quantum and composition of our MREL, including capital, resources is set out in Santander UK's Additional Capital and Risk Management Disclosures. Obstacles to the effective write-down and conversion of MREL and iMREL have been assessed as non-material. Specifically, the HoldCo is 'clean' and the instruments issued out of Santander UK plc that are potentially an impediment to resolution are sufficiently small to be immaterial in the context of resolution. All iMREL is issued directly from Santander UK plc to the HoldCo and losses arising in Santander UK plc can therefore be passed up to the HoldCo (the resolution entity) in a straightforward fashion. Given the size of other entities in the Santander UK Resolution Group, losses arising elsewhere are unlikely to be sufficient to put the Santander UK Group into resolution.

Valuations in Resolution: robust and timely valuations are required to support the resolution process. A series of valuations prior to, during and after the resolution underpin key resolution decisions and actions. For example, valuations:

i. Provide the basis on which the BoE makes the decision to place the firm into resolution;

ii. Determine the scale of the bail-in and the compensation given to bailed-in creditors at the end of the resolution process;

iii. Support a credible exit from resolution by facilitating any necessary restructuring planning;

iv. Enable the firm to demonstrate that it will meet the conditions for its authorisation throughout the resolution timeline;

v. Demonstrate the path to building back regulatory buffers following exit from resolution;

vi. Ensure that the key resolution safeguard – that no creditor is worse off as a result of the resolution than would have been the case had the whole firm entered insolvency – is respected.

Santander UK has robust capabilities to facilitate these valuations in appropriate timescales and has taken practical steps so that it can effectively support the independent valuer that the BoE is expected to appoint. This includes flexible modelling capabilities to accommodate the views of the independent valuer. Governance arrangements relating to valuations ensure that valuations models, processes and data are maintained and tested on a periodic basis, including to support their use in business as usual, and that roles and responsibilities in resolution are clear.

Funding in Resolution: Firms must be able to estimate, anticipate and monitor their potential liquidity needs and mobilise liquidity resources, in the approach to and throughout resolution. Santander UK's funding capabilities significantly leverage functionality that is in place in business as usual (BAU) and has been proven in a market stress. Our relatively simple business structure and funding model supports our ability to monitor liquidity needs and sources through resolution on an entity, sub consolidated and consolidated basis. The significant majority of Santander UK's assets can be pledged to the BoE as collateral in the ordinary course of our operations and we expect this would be sufficient to support liquidity needs through resolution, including where access to the resolution liquidity framework (RLF) may be necessary. However, mechanisms to ensure that non-standard collateral can be provided as necessary are in place and the process for monitoring asset encumbrance is fully embedded into BAU. Funding planning is an integral part of the financial planning process and sufficiently agile to support restructuring planning.

5.2 Outcome 2: Continuity & Restructuring

Firms must be able to continue to do business throughout resolution and restructuring. This is consistent with a bail-in resolution strategy that seeks to stabilise the firm by absorbing its losses and recapitalising it. The firm remains open for business but must be restructured to address the causes of failure and facilitate its return to long-term viability. Our self-assessment has not identified any areas which would materially prevent Santander UK from achieving the Continuity and Restructuring outcome set out in the RAF.

Stays: Firms should be able to assess the risk of early termination of their financial contracts upon entry into resolution, so as to limit any impact to the stability of the firm or the wider financial system. For Santander UK this risk is negligible. This is because the substantial majority of Santander UK's financial contracts are governed by English law and therefore fall within the scope of the Banking Act's general and temporary stay powers (these powers enable the BoE to impose a general stay on certain financial contracts and to temporarily suspend the failed firm's payment and delivery obligations to protect financial stability in resolution). The risk of early termination of financial contracts that are governed by non-English law, including those that do not fall into scope of the PRA Stays rules, is limited and does not represent a threat to the stability of Santander UK or to the wider financial system, primarily because there are very few such agreements and exposures under those financial contracts are tightly monitored. We are confident that this position will not change because any new contracts are entered into under English law and/ or have appropriate contractual recognition terms contained in them. Detailed records relating to all financial contracts and counterparties are maintained as a matter of course and are readily accessible; these include contact details to facilitate engagement with counterparties through the resolution process.

Operational Continuity in Resolution (OCIR): OCIR rules seek to ensure that firms can maintain continuity of their banking services and continue offering 'critical economic functions' throughout resolution. Santander UK has made operational, organisational and contractual arrangements to ensure this is the case and that it meets the PRA's updated OCIR rules, which came into force on 01 January 2023. We are confident that the risks to operational continuity have been mitigated in respect of both services that may be required to support assets that are sold as part of any restructuring and services that support the ongoing firm. The contractual arrangements which underpin continuity ensure that these services will continue on the same basis throughout resolution, including where a third party acquires some or all of a critical function as part of restructuring, as long as the provider is paid for the service. They include arrangements with the global service companies within the Banco Santander S.A. Group and with third parties of Santander UK. OCIR capabilities are supported by an internal Service Catalogue, which is hosted in an interactive tool, thereby facilitating timely reporting of relevant information on services and underpinning arrangements.

Access to Financial Market Infrastructure (FMIs): in order to do business, banks rely on FMIs to provide payment, settlement and clearing services. This is akin to the plumbing in the financial system and access to it through resolution is required, for example to ensure that the firm continues to be able to process payments. Santander UK has a clear view of the FMIs it has access to and has capabilities in place to support timely data provision on its FMI relationships. We have also assessed the terms of our access to each FMI, have a good understanding of the actions that FMI providers may have discretion to take, if the Santander UK Group were in stress or resolution, and have considered the mitigating actions that would be available to us. To the extent that the enhanced requirements imposed by FMIs include imposing additional funding or collateral requirements, this is factored into the funding capabilities described above.

Restructuring: a credible business reorganisation plan is key to returning the firm to sustainable viability and exiting resolution. Firms must therefore have in place capabilities to support restructuring planning and be able to restructure. Santander UK maintains an inventory of management actions that could be taken to support recovery or restructuring and has undertaken preparatory work to document the impact and execution steps relating to each action. These are reviewed and tested on a regular cycle. Actions are sufficiently flexible that they can be adapted to suit the circumstances, in part thanks to the valuation capabilities described above which enable portfolios of assets to be constructed – and valued – at short notice. Valuation capabilities also inform the production of the financial plan that is an integral part of the business reorganisation plan. In addition, our relatively simple structure means that the management actions that are available to us reflect actions that are available and executed in the ordinary course of our business (for example mortgage sales).

5.3 Outcome 3: Coordination & Communication

Firms must be able to coordinate and communicate effectively within the firm, as well as with authorities and markets, throughout resolution. This means identifying and retaining the people who ensure that the firm can continue to function effectively, and in particular that resolution capabilities continue to be delivered, throughout resolution. It may also mean accommodating and supporting a bail-in administrator appointed by the BoE and appointing and assimilating staff through resolution. It requires governance arrangements that support effective decision making and oversight throughout the firm in what is likely to be a prolonged period of intensive activity. And it demands effective communication plans. Our self-assessment has not identified any areas which would materially prevent Santander UK from achieving the Coordination and Communication outcome set out in the RAF.

Santander UK has developed a framework to support the identification of roles that would be required through resolution, including both senior management and operational roles, and retention and succession arrangements can be tailored to support resolution. Our governance arrangements are designed to function under stress and will remain in place in resolution, albeit that some changes will be required to reflect the fact that Santander UK will no longer be part of the Banco Santander S.A. Group and to reflect the appointment of the bail-in administrator. We have considered the decisions that will need to be made to support the resolution, the committees that will need to make these decisions and the governance required to support the implementation of any restructuring plan. Moreover, we have arrangements to begin contingency planning for resolution well before resolution itself is likely and a clear understanding of what this means in practical terms. A resolution-specific communications plan builds on the experience and infrastructure that supports communications, investor relations and market disclosures on a day-to-day basis.

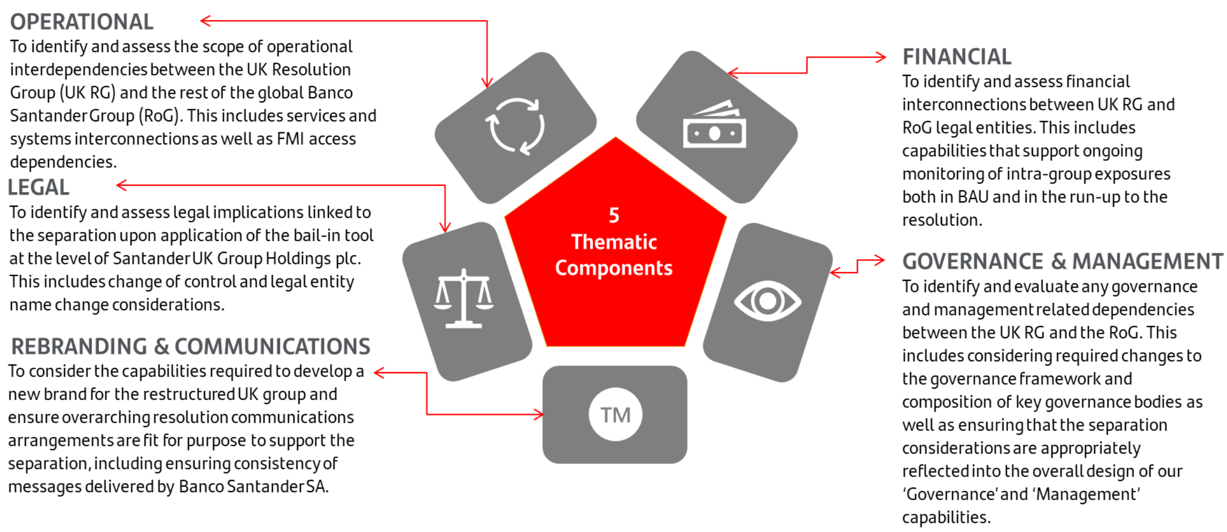
5.4 Separability from Banco Santander S.A.

The RAF requires firms to consider barriers to their resolvability beyond those that it specifies. Santander UK's 'idiosyncratic' barrier to resolvability is its ability to be separated from its parent and the global group in resolution. This is necessary because it is a key underpinning of the MPE resolution strategy which means that the Santander UK Group is separated from its parent at the point of resolution.

The Santander UK Group is by design financially, legally and operationally separable from its parent and the parent group. Interconnections between the UK Group and the parent group are monitored and managed.

Operational interconnections, in specific, are clearly documented and supported by robust resolution-proof contracts and appropriate service level agreements (SLAs). Structural changes to the group are considered in light of their impact on resolvability.

Figure 6: Separability from the Banco Santander S.A. Group



An internal 'separability' playbook sets out further detail on the framework for monitoring and assessing the UK Group's separability from its parent and the rest of the global group in resolution. It also summarises key decisions and actions that will need to be considered across the stylised resolution timeline to support the separation in practice. As expected in the case of a global banking group that seeks efficiencies in BAU, interconnections will naturally exist in BAU. Thereby, we acknowledge that separation would be complex and would last beyond the immediate resolution period. However, we are confident that we have put in place capabilities and arrangements that support the ongoing monitoring of interconnections and can ultimately facilitate a legal and operational separation in resolution. In addition, ongoing close engagement with the parent throughout the development, documentation, maintenance and testing of separability capabilities and arrangements, ensures consistency of approach.

6. Resolution Accountability and Assurance

6.1 Governance Framework

Santander UK's capabilities and arrangements that support resolvability are underpinned by a clear governance and accountability framework and a regular cycle of review, testing and improvement. These arrangements have been approved by the Board and provide reassurance that resolution readiness will be maintained on an ongoing basis. They also give us confidence in the conclusions reached in the self-assessment. And they recognise that resolution capabilities will continue to evolve over time, in order to reflect changes made to the bank and how it operates, to embed improvements that are shown to be needed as a result of testing and to react to enhancements in expectations of the industry as the RAF cycle itself becomes more mature.

The CFO holds the prescribed responsibility for recovery and resolution planning under the Senior Managers Regime. He holds overall responsibility for developing and maintaining the firm's recovery plan and resolution assessment, and for overseeing the internal processes regarding their governance. He is supported by a recovery and resolution office. Responsibility for each resolution capability set out in the RAF, as well for the separability of the Santander UK Group from Banco Santander SA, has been allocated to a specific ExCo member, consistent with their BAU responsibilities. Oversight is provided by Line 2 and independent review and assurance is provided by Line 3.

The Board Audit Committee and the Board are kept sighted on matters relating to resolvability and they monitor risks to resolvability as a matter of routine. The same is also true of the Executive Committees. ExCo, the Board Audit Committee and the Board have been sighted on work to implement resolution capabilities throughout their design and development leading up to the first RAF cycle. In the run up to the second RAF cycle, they have continued to actively monitor the ongoing maintenance of - and, where relevant, targeted enhancements to – our resolution capabilities; they have been engaged in testing exercises and reviewed the conclusions reached in our self-assessment.

6.2 Testing Resolvability

Resolvability capabilities are tested on an annual cycle to ensure that their design is fit for purpose and delivery is effective. Testing is both capability-specific and end-to-end. Where necessary, improvements are made to capabilities, outputs and controls.

Each capability is reviewed against the underlying policy principles and tested to demonstrate that it functions as designed, controls are appropriate and management or other information can be provided in short timescales to support decision making and action in resolution. Accountable executives attest to the adequacy of the capability, controls, documentation and MI on an annual basis. This seeks to ensure that capabilities are maintained and, where necessary, reflect changes to the business and how it operates.

End-to-end testing ensures that capabilities fit together to deliver the resolution outcomes in practice. Delivering on our intention described in the June 2022 version of this report, we have gradually moved away from primarily educational workshops to more interactive resolution simulation testing. We acknowledge the need to maintain, and continue to sharpen, our reflexes and decision making that will be key to support an orderly resolution. As such, we will continue to focus on testing, so as to ensure that our capabilities remain fit for purpose and can be operationalised to support a resolution.

Testing, both at capability specific and at end-to-end level, is a key source for identifying enhancements to resolvability capabilities. In line with our overarching operating model for resolvability, identified enhancements will be owned by the relevant accountable executive and delivered as part of our ongoing work on resolvability.

6.3 Risk Factors

Overall, we continue to be confident that Santander UK has no meaningful impediments to resolvability and that its capabilities are sufficiently flexible to be able to support a resolution whatever its cause and irrespective of how the BoE uses the discretion available to it as resolution authority. We are satisfied that we have prepared to the extent possible given our current understanding of the resolution process and how the resolution authority is likely to act. We are committed to continuing to embed, test and enhance our capabilities so that they are maintained effectively.

We nonetheless recognise that resolution is inherently uncertain and that there will be circumstances outside of Santander UK's control that may make the process more difficult, or less orderly, than is desirable. A systemic banking crisis with multiple firm failures would be more complex for all parties than an idiosyncratic firm failure. More specifically, in relation to FMIs, Santander UK has prepared contingency plans to support our continued access to FMIs through resolution, and we take confidence from the statutory protections in this regard, but it is not in Santander UK's gift to require an FMI to continue to provide us access in resolution.

We are encouraged that, in line with the first RAF cycle, the Bank of England's updated assessment has not found any material issues in our ability to reach the three resolution outcomes. We are committed to keeping our ongoing focus on maintaining, testing and, where possible, enhancing our resolvability capabilities and continuing to engage with the Bank of England in our work on resolution.