Santander

Product Information and Risk Warnings

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Santander UK plc (“**SANUK**”) is required to provide you with this document in accordance with its General Terms of Business.

Any reference in this document to:

- “**we**”, “**us**” or “**our**” refers to SANUK; and
- “**you**” or “**your**” refers to a SANUK client and/or investor.

According to UK Ringfencing Regulation, we are only permitted to deal in financial instruments to hedge risks created by dealing with customers. We will only offer you financial instruments we are permitted to offer under the UK Ringfencing Regulation.

You should not construe or rely upon the information contained in this document as:

- investment advice (because it does not take into account your personal circumstances, financial position, or investment strategy); or
- a recommendation to enter into any particular product detailed in this document.

You should not transact in the products detailed in this document unless you understand:

- their nature and risks; and
- the extent of your exposure to those risks.

This is because different investments involve different levels of risk and not all of the products detailed in this document are suitable for all investors. This document cannot disclose all the risks or all aspects of these products. You should consult an independent financial advisor, accountant, or legal advisor before considering an investment in any of these products if you are unclear about or do not understand any aspect of a product or the risks associated with it.

You must verify, understand and accept the specific aspects of any transaction via the term sheet, contractual documentation or other relevant accepted medium. You must assess the nature and risk of any product in the context of:

- the conditions of the transaction set out in the relevant document; and
- your overall investment strategy and risk tolerance level.

This document provides an overview of the products available to you. However, products may take on different or unique characteristics and risk profiles (including the mitigation of risk) depending on the specific details of the individual transaction and prevailing market conditions, especially when combined.

If you are classified as a professional client or eligible counterparty, we will deem you to be:

- knowledgeable of, sophisticated and experienced in understanding the nature, merits and risks of the products you purchase; and
- capable of evaluating (on your own or through your own advisers) the merits of and assuming the risks of these products. This may include, without limitation, any of (or any combination of) the risks set out in this document.

If you require further information on any of the products detailed in this document, please contact us through our dedicated client email: RSGClientOutreach@Santander.co.uk

Generic Risk Types

Investments provide a return relative to the amount of risk they pose. The value of an investment can go up or down due to a range of factors such as economic, social, political factors, price changes in the underlying instrument and interest rates. It is important to remember that past performance is no indication or guarantee of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, amongst other things, the type of investment being made. This covers risks associated with:

- how the financial products have been created or their terms drafted;
- the needs and objectives of particular investors;
- the manner in which a particular investment is made or offered, sold or traded;
- the location or domicile of the Issuer;
- the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer);
- the complexity of the transaction; and
- the use of leverage.

There are several types of risk which you should be aware of. These are not mutually exclusive and can impact each other.

Credit/Counterparty/Settlement risk

Credit risk is comprised of two elements:

- the risk of loss from borrowers, bond obligors, guarantors or counterparties failing to fulfil their contractual obligations; or
- the risk of these parties' credit quality deteriorating.

Credit risk can take many forms and can be referred to as 'counterparty risk' or 'settlement risk'. Settlement risk increases where different parts of a transaction settle in different time zones or in different settlement systems where netting is not possible. This risk is particularly acute in FX transactions and currency swap transactions. If a transaction does not settle by the settlement date, interest may start to accrue against the party that has failed to deliver.

A variety of measures are used to analyse and assess credit risk. In addition to assessing credit risk upfront, a number of measures can be used to manage and mitigate credit risk. These measures include covenants, credit derivatives, collateralisation, diversification, and credit risk limits.

SANUK as issuer / counterparty.

If you invest in a financial product that we issue or to which we are a counterparty of (a "**Santander Financial Product**"):

- your investment will be subject to the risk that we may not be able to fulfil our obligations on any relevant due date; and
- you may not be able to retrieve or recover the Santander Financial Product you purchased if insolvency proceedings are brought against us or certain Santander Financial Products become subject to bail-in or write down measures imposed by a UK resolution authority. In any event, recovery will likely be substantially delayed.

The value of any Santander Financial Product is likely to be affected by investors' general appraisal of our creditworthiness. Therefore the value of a Santander Financial Product may decrease if our creditworthiness deteriorates.

You should consider all the information provided in the relevant offering documents before investing in any Santander Financial Product in order to assess the associated risks. You should also consult with your own professional advisers if necessary.

Certain Santander Financial Products are rated by independent rating agencies. These ratings reflect our ability to fulfil our obligations in respect of those Santander Financial Products. A rating is not a recommendation to buy, sell or hold financial products. The assigning rating agency may suspend, reduce, or withdraw ratings at any time. This could adversely affect the market price of some financial products where we are the issuer.

Certain investments are sometimes referred to as principal or capital protected on final maturity. If you invest in products that are not principal or capital protected you risk losing your entire investment if the value of the underlying asset(s) does not move in the anticipated direction. Nevertheless, you may lose some or all of your investment even if you invest in principal or capital protected investments. This could happen where:

- the counterparty becomes insolvent; or
- the investment is not held until final maturity or in accordance with the terms of the investment.

Market risk

Market risk is the exposure of investments to movements in market prices. It includes observable variables (such as interest rates, exchange rates and equity market indices) and indirectly observable variables (such as sector, political and economic factors as well as volatilities and correlations).

Liquidity risk

Liquidity risk is financial risk arising from uncertain supply and demand. It also arises indirectly from other factors such as market disruptions (e.g., disruption on an exchange) or infrastructure issues (e.g., a lack of sophistication or disruption in the securities settlement process). It may be difficult or impossible to liquidate or acquire a position under certain trading conditions.

Certain investments are designed to be held to maturity and may not have an established secondary trading market. In these circumstances, the risk that your capital or investment will not be returned before maturity is greater. If a secondary trading market does develop, it may not be very liquid. Therefore, you may not be able to sell or divest from your investment easily or at prices that will provide you with a good rate of return (in comparison to similar investments that have a developed secondary market). This is particularly the case for financial products that:

- are especially sensitive to interest rate, currency, or market risks;

- are designed for specific investment objectives or strategies; or
- have been structured to meet the investment requirements of limited categories of investors.

As such, some investments may be more volatile than others (such as shares) because of their more limited trading market. Early divestment may lead to a reduction in or loss of capital or interest. Such reduction may include market transaction costs, prevailing interest rates and any costs or charges we incur when facilitating early redemption or termination of your investment.

Interest rate risk

Interest rate risk is the risk that the value of an investment will reduce because of rising interest rates. Interest rate risk is especially relevant for bonds, as the price of a bond will worsen due to an increase in rates. This could negatively impact other products as well. Floating and other variable rate and fixed rate instruments entail other interest rate related risks. Interest income on floating rate instruments cannot be predicted. As a result, you will not be able to determine how much a floating or other variable rate instrument will yield at the time you purchase it. This means that your return from floating or other variable rate instruments cannot be compared to that of investments with longer fixed interest periods. You will be exposed to reinvestment risk if market interest rates decline where the terms and conditions of the relevant instruments provide for frequent interest payment dates.

Currency risk

Currency risk is the risk that a movement in exchange rates may have an unfavourable effect on the returns achieved from:

- foreign exchange (**FX**) transactions; and
- transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated.

The weakening of a country's currency relative to a benchmark currency or the currency of your portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a variety of economic, social, and political factors. These valuations can fluctuate greatly, even when the relevant currencies are traded on the same day. Some countries have FX controls which may also affect currency valuations. These could include devaluing the national currency or preventing individuals/corporate entities from exchanging or transferring the national currency. Hedging can increase or decrease exposure to any one currency but may not completely eliminate exposure to changing currency values.

Products and investments

Financial products are usually classified as either 'cash' or 'derivative' instruments:

Cash instruments (e.g. bonds, deposits and foreign exchange) have their value determined directly by markets. Most commonly, investors purchase or sell cash instruments to benefit from changes in their value and to receive related interest. Cash instruments are usually held for investment purposes and include bonds, deposits and foreign exchange assets.

Derivatives are financial instruments which derive their value from the value of an underlying asset. They are used for speculative purposes and as hedges to manage investment or economic risk. If you decide to purchase a derivative, you will enter into an agreement to exchange money, assets or other value at a future date, based on the underlying asset. You may also need to pay a premium to acquire the derivative. Derivatives include swaps, options and forwards.

If you invest in derivatives, it is likely that you will assume a high level of risk. Therefore you should carefully assess the risks before investing in these instruments especially if you have limited investment experience or a limited amount of capital to invest. Derivatives are transacted either on an exchange or OTC (**Over the Counter**). The term OTC simply refers to products that are not traded on an exchange. Instead, counterparties contract with each other either directly or indirectly via intermediaries such as brokers. Exchange traded products tend to be more standardised and vanilla, whereas OTC products tend to be more complex and exotic.

Derivative returns can be complex. Returns may be tied to the investment performance of commodities, currencies, interest rates, or indices. The underlying asset generally entails counterparty risk and may not perform in the manner expected. Therefore, you may suffer greater losses if you invest in derivatives. You are not usually entitled to any legal or beneficial rights of ownership in the underlying asset if you purchase a derivative (such as voting rights, any rights to receive dividends or other distributions or any other rights with respect to the underlying asset). Derivatives therefore do not operate in the same way as direct investments in an underlying asset.

Cash products

Money Markets: Money Markets is a generic term to describe the global financial markets for short term cash borrowing and lending. Short term refers to borrowing for less than 1 year and usually no more than 6 months. In this way, money markets provide liquidity to the global financial system. A number of products are used in the money markets, some of which are described below. Money markets are large and usually highly liquid and are generally viewed as relatively low risk investments. Money-market instruments may be exposed to the major risk types outlined above, in particular credit and interest rate risk. As such, they return a relatively low interest rate and have small bid/offer spreads (in comparison to other products).

Commercial Papers (CP): CP is money-market securities issued primarily by companies with high credit ratings. They represent the largest segment of the money markets. The vast majority of CP is issued as discount instruments in bearer form. CP can be issued for a term up to a year, but most is issued for a term of around a month. This means CP provides companies with a flexible way to obtain funds to meet short term debt obligations. CP yields are quoted on a discount basis. Interest on CP issued in the UK is calculated on an actual/365-day basis, however most other countries use actual/360-day. CP entails credit risk, and major rating agencies rate CP programmes.

Deposits/Loans: Money market deposits are large denomination deposits. Terms range from overnight to one year and interest accrues until maturity. Interest for British pound deposits is calculated on an actual/365-day basis, however most currencies are quoted on an actual/360-day basis. Money market deposits are non-negotiable, which means they cannot be traded or otherwise transferred to another party. Loans work in the opposite manner to deposits.

Certificates of Deposit (CDs): CDs are money market instruments. CDs have a fixed term. At the end of the term, the deposit is returned, together with the interest that has accrued. The vast majority of CDs have terms of less than a year. Interest for most CDs is calculated using a fixed rate, but there are also some floating rate CDs. If you invest in a CD, you will need to pay a fee to withdraw your funds early. The majority of CDs are negotiable, and you can sell unwanted CDs rather than pay to withdraw the funds. CDs are normally issued in bearer form (as this means they are more transferable), but some are registered. Yields depend primarily on a CD's term, prevailing interest rates for the currency it is denominated in, and the credit quality of the issuer. CDs typically require a minimum deposit.

Repos/Reverse Repos: Under a repo (or 'repurchase agreement'), one party (the "**Original Seller**") transfers title in securities to another party (the "**Original Buyer**") at a specified price. In exchange, the Original Buyer promises to return securities of the same issuer and type to the Original Seller at a later date for another specified price. Most repos are overnight transactions, however they can extend for a month or more.

Repos are normally for a fixed term, although open ended deals are also possible. A reverse repo is the opposite side of a repo transaction.

Repos have the same economic effect as secured loans, despite legally being the sale and subsequent repurchase of securities. The Original Seller acts as a borrower, using the securities as collateral for a secured cash loan at a fixed rate of interest. The Original Buyer will return any dividend, coupon, or partial redemption generated by the securities during the repo. This means that there may be additional tax implications to consider. The difference between the sale and repurchase prices paid by the Original Seller for the securities represents interest on the loan. Repos are quoted as interest rates. However, because they are essentially secured loans, repos' interest rates do not depend upon the respective counterparties' credit qualities.

Securities Lending/Borrowing: Owners of securities (e.g., equities or bonds) frequently engage in securities lending. This involves either:

- lending their securities to other parties who may need to cover a short position; or
- delivering them to another party so that party can satisfy another obligation.

Lenders may provide their securities for a fixed or open-ended period of time. In return, the lender receives a fee which depends on how scarce a loaned security is in the marketplace. Borrowers typically provide collateral when borrowing securities as this reduces the lender's credit exposure. The lender retains the market risk of loaned securities. The borrower returns any dividends, coupons or partial redemptions that are generated during the loan to the lender. This means that there may be additional tax implications to consider.

Medium Term Notes (MTNs): MTNs are a form of debt financing by companies. They are usually issued by companies that make frequent, small issuances as the process is faster and less expensive than issuing new debt (which usually requires registration with a supervisory authority such as the London Stock Exchange). The notes are usually issued under an MTN programme. This is a registered funding programme that allows issuers to modify the MTNs' nominal yield or term in response to their needs or market demands (subject to the parameters of the programme as registered). MTNs are usually coupon bearing instruments and maturities vary. There is a secondary market for MTNs supported by issuing dealers.

MTN activity also operates in reverse (i.e., investors may be interested in purchasing notes at a particular term or yield before the notes are actually issued). If an issuer finds an investor's request attractive, it may accept the proposed terms and issue notes. MTNs are rated in the same way as corporate bonds because they entail credit risk.

Foreign Exchange (FX): The FX market is arguably the largest financial market in the world and exists wherever one currency is traded for another. The value of currencies relative to one another changes constantly. Consequently, you must consider FX risk in any transaction where FX is present.

Structured Products: Structured product is a generic term used to describe a broad range of synthetic investments created to meet specific needs that cannot be met by using the standardised products available in the market. Structured products are usually based on derivatives (e.g., options and to a lesser extent, swaps). They can be used:

- as an alternative to a direct investment;
- as part of the asset allocation process to reduce the risk exposure of a portfolio; or
- to take advantage of current market trends.

A typical structured product might combine an element of capital protection (possibly even a capital guarantee) with a degree of participation in the return from a higher performing, but higher risk, underlying asset.

Structured deposits: Structured deposits are similar to traditional deposits in that they protect the depositor's capital. However, they provide investors with interest rates that are usually linked to the price movements of equity securities, indices, currencies or other underlying assets. As a result, by entering into structured deposit schemes, you can participate in the returns from high risk assets and benefit from a degree of capital protection. However, these returns are likely to be lower than those generated from a direct investment in the relevant underlying asset.

Derivative products

Swaps: A swap is a cash-settled OTC derivative agreement between two parties to 'swap' one cash flow for another. Cash flows can be defined in almost any way. Swaps can entail market risk and credit risk.

A vanilla swap (usually an interest rate or currency swap) is any swap with fairly standardised provisions.

Interest Rate Swaps: The most common interest rate swaps are fixed versus floating swaps. These involve exchanging the cash flows of a fixed rate loan for those of a floating rate loan. Fixed rates are established at the beginning of transactions, while a floating rate is based on a reference rate that is determined on periodic reset dates for the duration of the relevant transaction. The majority of floating rate loans that are swapped use a 3-month or 6-month SONIA rate (or EURIBOR). Swaps can also be customised (non-vanilla) and categorised according to the nature of the cash flow streams exchanged.

An interest rate swap is ordinarily based on an amount which is agreed upfront (the **Notional Amount**). However, the Notional Amount can vary over the term of an interest rate swap depending on your interest rate view, hedging and/or cash-flow requirements. The Notional Amount is just the nominal reference amount that is used to calculate the interest payments each party owes to the other under the swap agreement. Therefore, neither party to an interest rate swap agrees to pay over the Notional Amount itself.

Swaps can be used to hedge certain risks such as interest rate risk.

FX Swaps: FX Swaps are foreign exchange swaps. They tend to be used where one currency needs to be exchanged for another currency and then re-exchanged at a later date.

An FX Swap effectively consists of two foreign exchange transactions packaged together:

- In the first stage of the transaction, an amount of one currency (the **First Currency**) is exchanged for a pre-agreed amount of another currency (the **Second Currency**).
- The second stage of the transaction occurs at a later date. On that date, an agreed amount of the Second Currency is exchanged for an agreed amount of the First Currency.

The two currencies to be exchanged are the same in both stages of the transaction and are referred to as the currency pair. The amount of currency to be exchanged at each stage depends on the exchange rates agreed at the time you enter the transaction (the **Trade Date**).

We will apply different exchange rates depending on the stage of an FX Swap and when the transaction is due to settle. We will quote:

- a spot exchange rate if a transaction stage is due to settle two business days after the Trade Date;
- an adjusted spot exchange rate if a transaction is due to settle within two business days of the Trade Date; and
- a forward exchange rate in all other cases.

The exchange rates applying to both stages of the transaction are called the FX Swap Rates.

The value of any currency-linked product (such as FX Swaps) will be affected by variations in the relevant currency's exchange rates (or the rates of one or more of the currencies in a basket of currencies). If you invest in a currency-linked product, you may want to convert the returns into your home currency. However, this conversion process may be affected by variations in the exchange rate between your home currency and the relevant currency (or one or more of the currencies in a basket of currencies).

The value of currencies may be affected by complex political and economic factors, including governmental action to fix or support the value of a currency (or one or more of the currencies in a basket of currencies), regardless of other market forces. Exchange rates may not move in the direction you anticipate. Consequently, you risk losing the entirety of any investment in currency-linked products.

The prices of products or options relating to particular currencies or currency indices in the secondary market vary depending on supply and demand. Therefore, prices could decline significantly if more of these products and options are subsequently issued.

We and/or any of our affiliates (together, the "**Santander Group**") may enter into, unwind, terminate or close-out transactions in whole or in part with third parties (**Third Party Transactions**) either:

- during the ordinary course of our day-to-day FX trading or market making; or
- to manage the risk of our exposure in relation to any products the Santander Group enters into with you.

The Santander Group may enter into Third Party Transactions before, at or after the time at which:

- it determines the value of a product;
- it determines the value of an external market fixing or benchmark to which a product makes reference (a **Fixing**);
- the product becomes due to settle; or
- a party can exercise their rights to require settlement of the product,

all or any of these times being a **Relevant Time**.

It is possible that entry into Third Party Transactions at a Relevant Time may affect currency exchange rates directly or indirectly. This, in turn, may:

- impact the value of the product to you;
- impact the value of a Fixing; and/or
- trigger certain provisions of the product

Financial Instruments linked to Indices: Indices are instruments that track the market performance of an underlying assets (or basket of assets). Although it is not possible to invest in indices directly, you can purchase financial instruments linked to indices. The performance of these instruments is dependent on that of the relevant index/indices. As a result, you could receive from your investment either:

- an amount determined by reference to the value of the relevant index or indices on a given date(s) as compared to other date(s); and/or
- physical delivery of assets linked to the relevant index or indices.

Similarly, any interest or return payable on such investment may be calculated by reference to the value of one or more relevant indices on a given date or dates as compared to another date or dates.

Forwards: In its simplest form, a forward contract is an agreement to purchase an asset in the future for a price agreed at the time the agreement is entered into. Forwards may be settled physically or with cash. In these circumstances the underlying asset is never exchanged. Instead, the contract is settled via a single payment for the market value of the forward at the time of settlement (if positive, the short party pays the long party/if negative, vice-versa).

Forwards are generally quoted as delivery (or ‘forward’) prices. Forward prices fluctuate with market conditions. When a forward is entered into, the contract’s delivery price is equal to the quoted forward price. That delivery price then remains fixed until the forward settles. The price of a forward contract reflects the interest rate differential between the currencies being exchanged. The spot price is adjusted with the differential (or ‘forward points’) to arrive at the forward price.

Options: Options are derivatives that give one party the right, but not the obligation, to buy or sell an underlying asset at a fixed price (the ‘strike’ price) on a specific date in the future. ‘Call’ options give the holder the right to buy the relevant asset and ‘put’ options the right to sell the relevant asset at an agreed strike price. Calls and puts are sometimes called vanilla options to distinguish them from more exotic structures.

We provide options that can only be exercised on the relevant expiry date. These options are typically known as European style options.

Options are valuable to the holder because they grant a right. In contrast, they represent a liability for the issuer. Issuers will charge fees (a 'premium') for issuing options. Options are:

- 'at the money' if the market value of the underlying asset equals the strike price;
- 'in the money' if the market value of the underlying asset exceeds the strike price; or
- 'out of the money' if the market value of the underlying asset is less than the strike price.

Time value is an important factor in options valuation.

An option holder's loss is limited to the fee paid. Issuers have potentially much greater exposure.

SAN UK is not permitted to buy options from its customers under UK Ringfencing Regulation.

Swaptions: A swaption is an OTC option that gives its buyer the right to enter into an interest rate swap on a future date. Under UK Ringfencing Regulation, SAN UK is only permitted to write swaptions that are exercisable on a single date in the future (European Style) with a maximum option period of five years.

We cannot buy swaptions from customers.

The purchaser of the swaption pays an upfront fee. If the swaption is exercised, the two parties either enter into the underlying swap or the deal is cash settled. The swaption holder will decide whether or not to exercise their right by comparing the agreed swap rate against the prevailing market rate.

Combined products

Any combined financial products, such as a bond with an embedded derivative, is exposed to the risk of both those products. Consequently, combined products may entail risk which is greater than that of its individual components parts. Having said this, certain combined instruments may contain risk mitigation features, such as principal protected instruments.

The value of a basket of products (such as shares, indices etc.) may be affected by the number and quality of underlying assets included in the basket. Generally, the value of a basket that includes assets from a number of underlying asset issuers or indices will not be affected as much by changes in the value of any particular reference asset included than a basket that includes fewer assets, or gives greater weight to certain assets.

In addition, the economic, financial, and other factors affecting an industry will impact the value of a basket more if the underlying assets it includes are concentrated in that particular sector. In contrast, factors affecting a particular industry will have less of an impact on the value of a basket which contains reference assets spread across a variety of industries.