Santander UK Group Holdings plc

Resolvability Self-Assessment Disclosure
June 2022

Contents

1. Introduction

Over the last decade Santander UK has invested significant resources to simplify and strengthen its structure, funding model and operating arrangements. It now routinely issues fully loss absorbing capital (MREL) from the UK holding company such that it could effectively absorb losses and be recapitalised in the event of failure. We have also streamlined our structure and operating arrangements, consistent with the UK's ringfencing regime, and enhanced our relationships with third party providers and other counterparties. As the accountable executive for resolution under the Senior Managers Regime I have a particular interest in ensuring that we are resolution-ready and am assisted in this by a recovery and resolution office that reports to the Treasurer. Our Board provides oversight of this work and it regularly considers the risks to our resolution readiness.

The PRA requires firms to conduct a self-assessment of their resolvability, consistent with the Bank of England's Resolvability Assessment Framework (RAF), and to publish a summary of that assessment and their preparedness for resolution, on a two-yearly cycle. The public summary aims to foster transparency in, and build understanding of, the UK's resolution regime and ensure that market participants and other stakeholders understand the risks to which they may be exposed in resolution. Santander UK's first resolvability self-assessment was submitted to the PRA in October 2021 and we are pleased to present a summary of the findings in this report. They reflect the position as at end-September 2021 and updates to that made by end-December 2021. Financial aspects reflect the position at end-March 2022.

Our Board is confident that the Santander UK Group (that is, Santander UK Group Holdings and its subsidiaries) has in place the capabilities that enable us to meet the Bank of England's resolution outcomes and sufficient flexibility that these can be adapted to the specifics of failure as it unfolds. This includes the ability to separate from our parent at the point of resolution. Our resolvability capabilities are underpinned by a comprehensive governance, assurance and testing framework that supports the continued maintenance of resolution readiness and facilitates the ongoing monitoring of risks to resolvability.

We acknowledge that resolution is inherently uncertain, that success can never be guaranteed and that the best form of protection is to avoid failure. But, should the worst happen, we believe that we can support an orderly and well managed process. Notwithstanding this, the challenge for both firms and authorities is to build on the momentum of the first 'RAF cycle' and to embed and enhance resolvability capabilities.

This report sets out how we anticipate a resolution of the Santander UK Group would unfold, how the Santander UK Group meets the resolution outcomes, and the assurance and testing arrangements that are in place to ensure that resolution readiness is maintained on an ongoing basis. It recognises that maintaining resolution readiness is dynamic and acknowledges ongoing work to continue to improve and embed capabilities as our business evolves. It is published alongside a statement from the Bank of England with its judgements on each major UK firm's resolvability. We are encouraged that it has not identified any material issues in respect of our ability to meet the resolution outcomes.

Madhukar Dayal

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, that is the powers and tools that allow the 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 services can continue to be provided 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 helping create financial stability.

The BoEs website provides further detail on the resolution framework and its approach to resolution.

2.2 The Resolvability Assessment Framework

The BoE's resolvability assessment framework defines three outcomes that firms must be able to reach 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	
MREL	Availability of adequate financial resources to absorb losses and recapitalise
Valuations	Capabilities to conduct timely and robust valuations to support resolution
Funding in resolution	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
OCIR	Ability to ensure operational continuity in resolution (OCIR) of banking services and critical functions
Continuity of access to 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.

To support our first 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 and Line 3 have played an active role in this effort. Our senior management and board have participated in end-to-end resolution readiness workshops that have helped validate that the capabilities interact with each other as expected and deliver the resolvability outcomes in practice. Banco Santander S.A. has also reviewed work done and participated in the resolution readiness workshops.

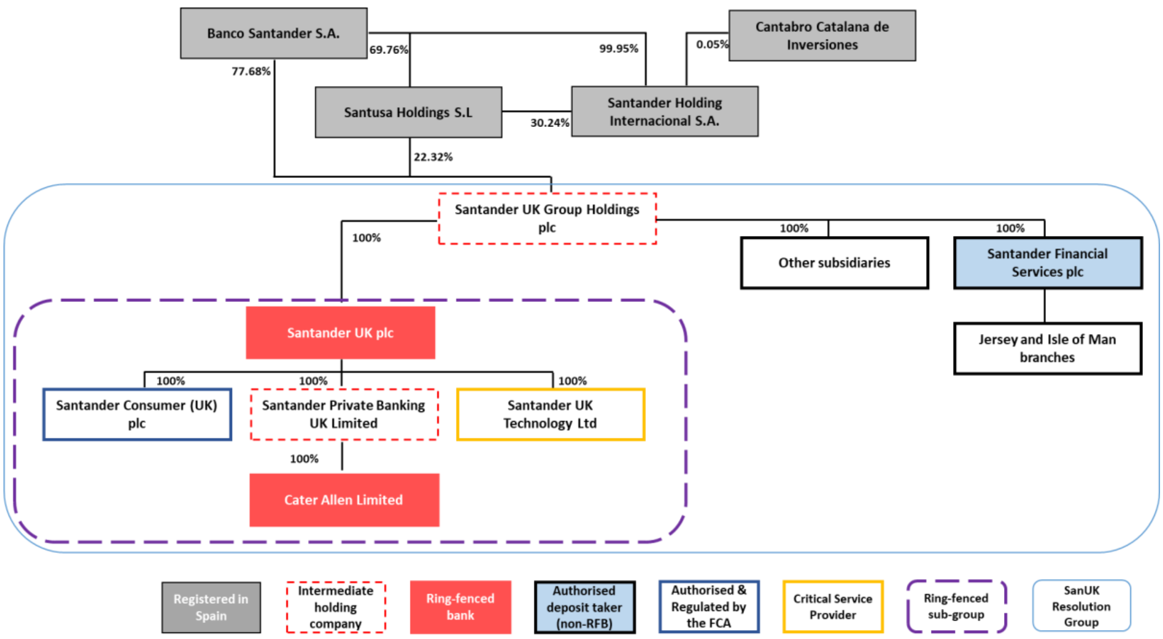
This report is a summary of Santander UK's preparedness for resolution. It is published alongside a statement from the BoE which sets out its views on firms' resolvability.

3. Santander UK Group structure

The Santander UK Group is a wholly owned subsidiary of Banco Santander SA. Santander UK Group Holdings plc is the Santander UK Group's holding company. The key operating company is Santander UK plc, a ring-fenced bank (RFB) which is incorporated in England and Wales and authorised and regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). Santander Financial Services plc is a small non-ring-fenced bank (NRFB), which along with certain other companies in the Santander UK Group 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: Ownership and legal entity structure 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 the Pilar III disclosure. 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 group that is sufficiently large to be capable of requiring the resolution of the group. This is consistent with the fact that it is the only operating entity in the group that the BoE considers material for the purposes of resolution and therefore the only entity in the 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

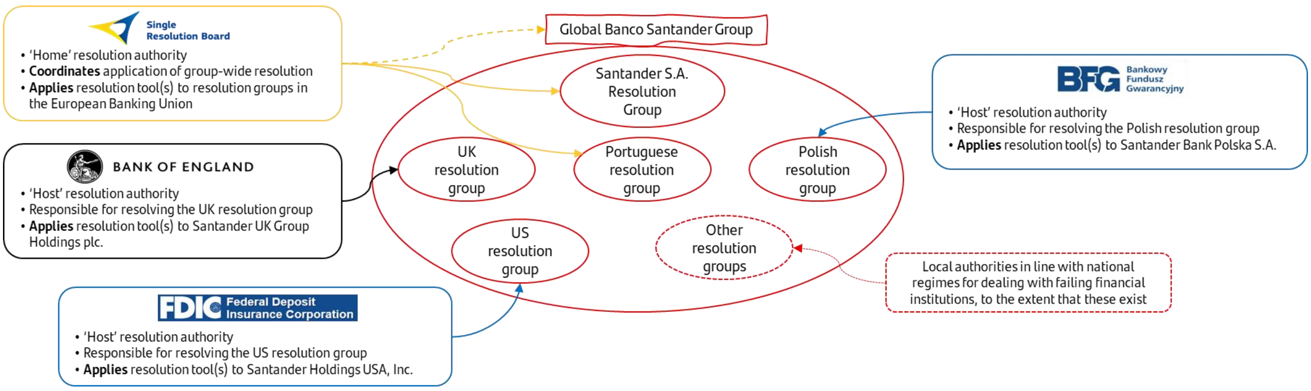
4.1 Resolution Strategy

The preferred resolution strategy for the 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 Single Resolution Board (SRB). The BoE is the host resolution authority for the Santander UK Group.

The preferred resolution strategy for the Santander S.A. Group is a multiple point of entry (MPE) resolution. This means that in distress the Santander S.A. Group is resolved in parts with sub-groups subject to resolution locally on a standalone basis. As such, at resolution it is assumed that the Santander S.A. Group can be broken up with each part resolved separately by the local resolution authority, as necessary.

The Santander S.A. Group is made up of a series resolution groups which can be resolved independently by the relevant local resolution authority. The principal resolution authorities are set out in figure 3.

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



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 resolution powers are applied. The BoE will therefore apply its resolution powers to Santander UK Group Holdings to absorb losses incurred within the Santander UK Resolution Group, through the write-down and/or conversion ('bail-in') of the HoldCo's MREL (CET1, AT1, T2 and senior HoldCo instruments) and, to the extent necessary, other liabilities eligible for 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 which will, in turn, down-stream capital and liquidity to the subsidiaries (including through the write-down and/or conversion of externally issued capital instruments and iMREL of Santander UK plc).

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 holding in the Santander UK Group. 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.

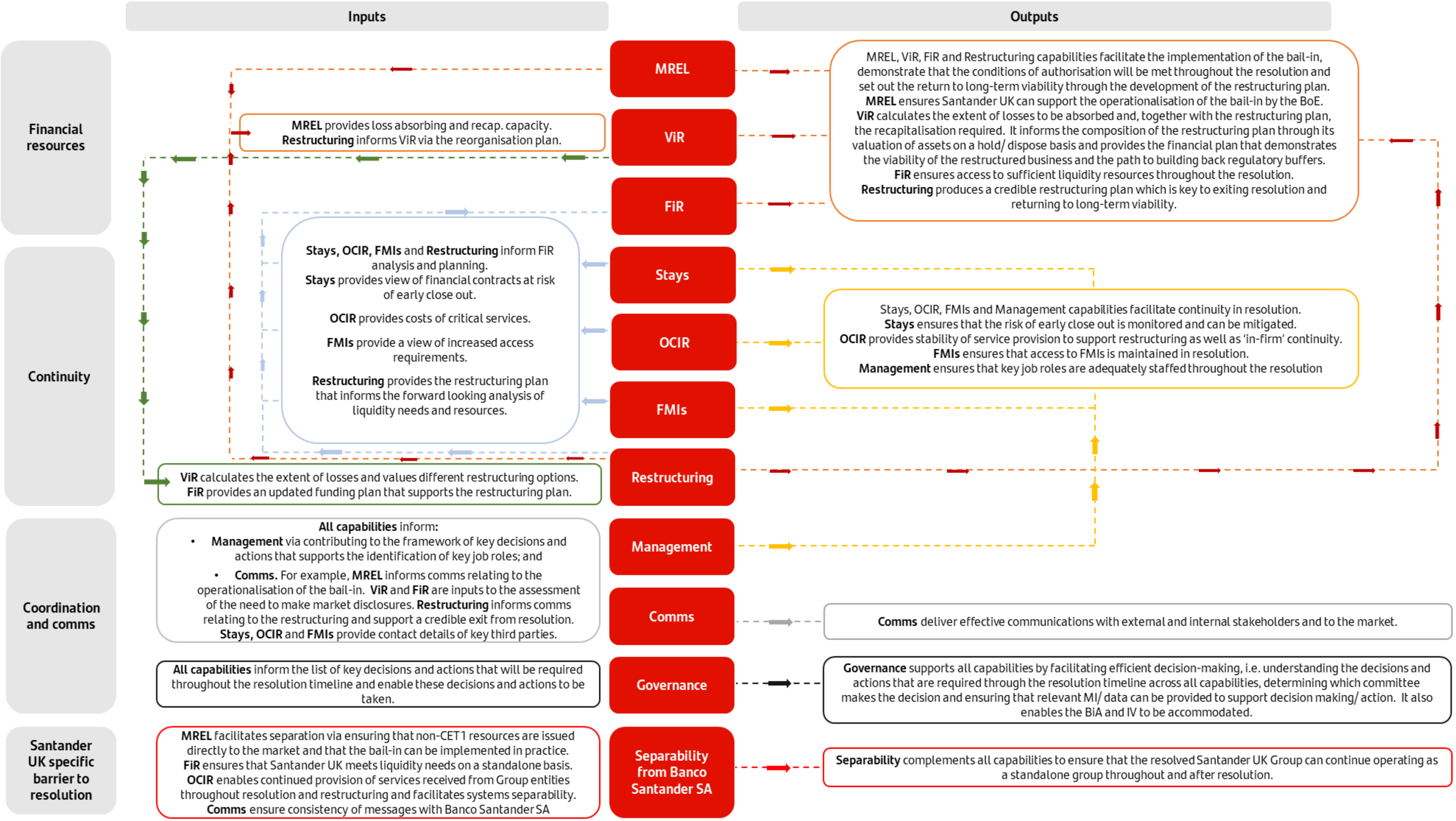
4.2 How resolution is expected to unfold

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
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 or essential services/ assets and need to access segregated liquidity		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	Accommodate BiA and other new appointments as necessary	Submit SMF applications to PRA/ FCA.	Amend responsibilities and incentives of key roles to reflect exit from resolution
Governance	Initiate contingency planning for resolution	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, according to the order of their priority in the creditor hierarchy. At the end of the resolution process 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 reach 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. The capabilities, resources and arrangements that are in place to support each of the resolution outcomes, and the separability of the Santander UK Group from its parent, 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.

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 31 March 2022, fully eligible MREL resources were 35.6% of RWAs; iMREL resources were 35.1% of RWAs. Granular detail on the quantum and composition of capital resources, including MREL and iMREL, and on the governance relating to these is set out in Santander UK's Pillar III disclosure. 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 and without detrimental consequential impacts. 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 enhanced its valuations 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 enhancing the flexibility in modelling capabilities to accommodate the views of the independent valuer. Governance arrangements relating to valuations have also been enhanced to 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 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. 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 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 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. We are confident that this position will be maintained because new contracts are written 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.

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 made operational, organisational and contractual arrangements to ensure this is the case prior to January 2019 and has embedded the processes and governance that support their maintenance. Work is underway to broaden these arrangements to reflect the PRA's updated OCIR rules which come into force on 1 January 2023. We are confident that the risks to operational discontinuity 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 UK and Group service companies and with third parties of Santander UK and the respective service companies.

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. For the most part Santander UK accesses FMIs directly (it also accesses two FMIs via its parent). We have 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 collateral requirements or otherwise making available further liquidity resources, 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 produce the financial plan that is an integral part of the business reorganisation plan. We are confident in our ability to plan for restructuring in truncated timescales because the systems, processes and governance that facilitate planning were repeatedly tested in the early stages of the Covid-19 pandemic. 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 having 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.

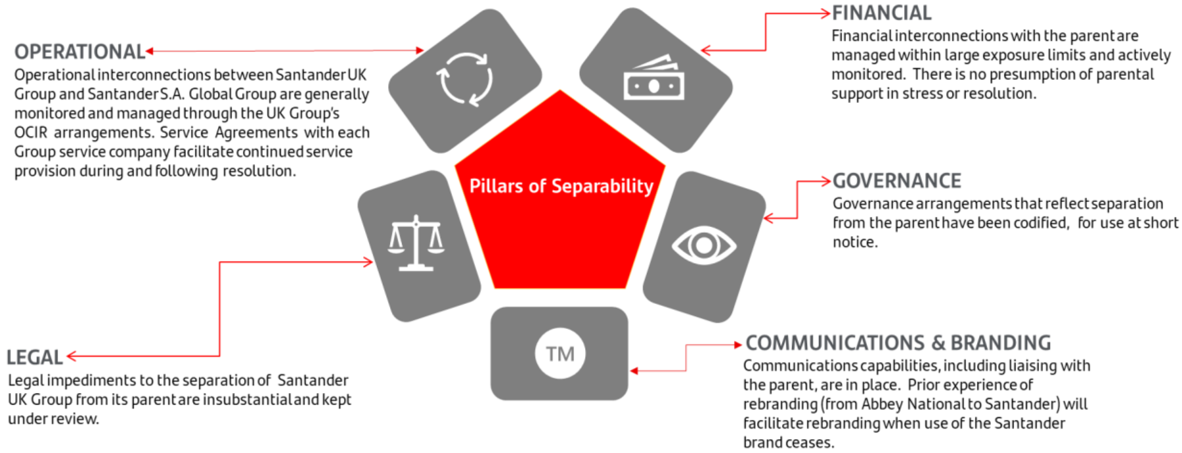
Santander UK has codified the roles that would be required through resolution, including both senior management and operational roles, and retention and succession arrangements can be tailored to support resolution. Our governance arrangements are designed to function under stress and will remain in 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. 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, from a capital as well as from a liquidity perspective, legally and operationally separable from its parent and the parent group. Interconnections between the UK Group and the parent group are monitored and managed and operational interconnections are clearly documented and supported by robust resolution-proof contracts. Structural changes to the group are considered in light of their impact on resolvability.

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



Work is underway to operationalise separability. This takes the form of a separability playbook that sets out detailed plans for separating Santander UK from its parent group that could be followed in resolution. This acknowledges that separation would be complex and would last beyond the immediate resolution period.

6. Resolution Accountability and Assurance

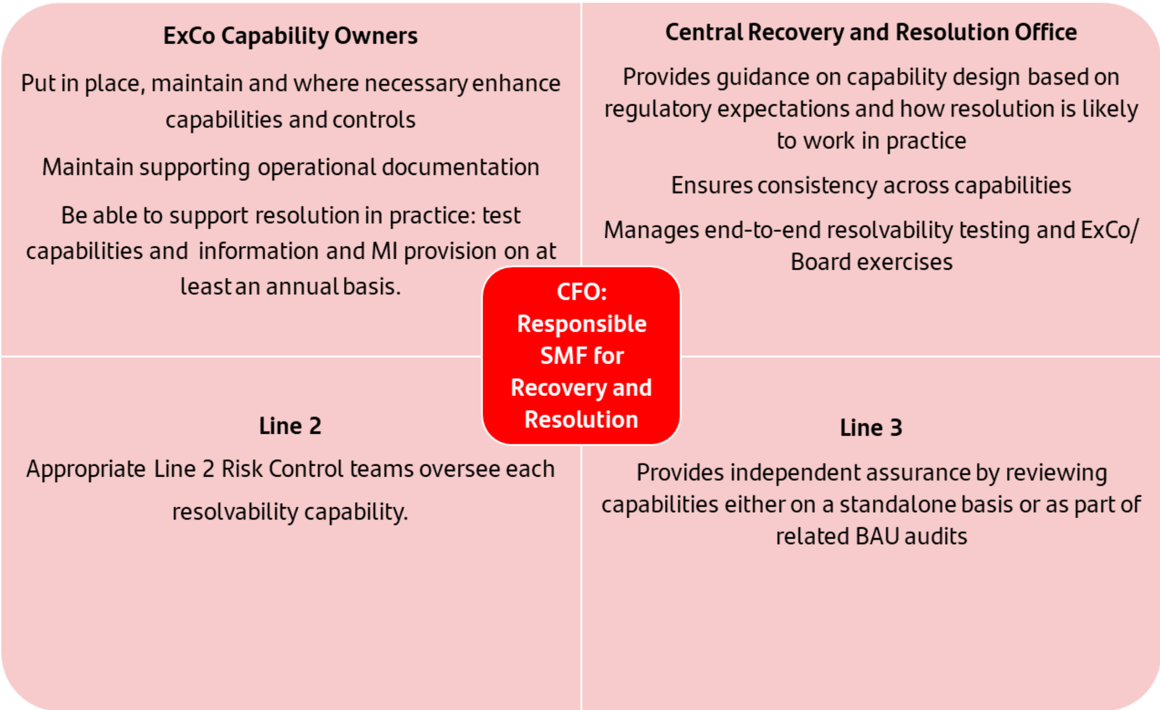
6.1 Governance Framework

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 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 Manager's Regime. He holds overall responsibility for developing and maintaining the firm's recovery plan, resolution pack and resolution assessment, and for overseeing the internal processes regarding their governance. He is supported by a recovery and resolution office, reporting to the Treasurer. Responsibility for each resolution capability set out in the RAF, as well for the separability of the Santander UK Group from Banco Santander S.A., 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. This is summarised in figure 7.

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 development; they reviewed the testing done to support our self-assessment of resolvability, as well as the conclusions reached in it, prior to its submission to the PRA.

Figure 7: Roles and responsibilities relating to resolution



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. To support the self-assessment of resolvability completed in 2021, this took the form of an ExCo and a Board resolution readiness workshop, both of which were moderated by an independent expert. We expect to build on these workshops with further resolution fire drills, the first of which is scheduled for H2 2022. This acknowledges the need to maintain, and periodically sharpen, our reflexes and decision making and that support for an orderly resolution takes practice at all levels in the organisation.

Testing is expected to ensure that changes in the organisation and how it operates are reflected in resolution capabilities. It is also likely to trigger enhancements to resolvability capabilities and, where this is the case, these enhancements are owned by the relevant accountable executive. The most significant enhancements that are in train, and expected to be delivered by end-2022, relate to separability from the Banco Santander S.A. Group and work to implement the PRA's updated OCIR rules.

6.3 Risk Factors

Overall we are 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 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 its review of our self-assessment of resolvability, the BoE has not found any material issues in our ability to reach the three resolution outcomes. We will continue to engage with them in our work on resolution.