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30 September 2009

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Dear Sir David

A review of corporate governance in UK banks and other financial industry entities

We welcome the opportunity to provide comments on your interim review on behalf of Santander's UK businesses which include Abbey, Alliance & Leicester and the branch network of Bradford & Bingley.

Application to foreign-owned subsidiaries in the UK

We note that your proposals are mainly aimed at UK listed entities but that there may be some broad application to the UK subsidiaries of foreign banks and other financial institutions. As you say, correctly, the application of your proposals, in these latter circumstances, is heavily dependent on progress towards international convergence in corporate governance standards.

There are a number of recommendations which appear not to be relevant for wholly-owned foreign subsidiaries, such as those relating to an assessment of the Board to aid shareholders and recommendations 14-22 relating to the role of institutional shareholders. Similarly, recommendation 26 relating to the assessment of significant acquisitions and disposals is normally more germane to the overseas parent and not the UK subsidiary.

In addition some of the recommendations relating to the time to be devoted by non-executive directors and the chairman appear over-prescriptive.

Remuneration

We have concerns with those recommendations relating to remuneration. This is on two grounds.

First, as an organisation regulated by the FSA, the latter's recently announced code on remuneration is aligned to the FSA's rule books and regulatory approach. The recommendations relating to remuneration in this review adopt a different approach and are difficult to reconcile with the FSA's code. Moreover, the FSA's approach is more risk based and can be applied more appropriately to a largely retail bank operation such as ours. We therefore urge that there is greater alignment of the proposals on remuneration with the FSA's remuneration code.

Secondly, as you are aware, we are part of a major European banking group which operates globally. Many of our senior management have international careers with the Santander Group (Santander) and some, as part of their career, will spend a few years in the UK and are effectively "on loan" to us. Their remuneration is determined by a Remuneration Committee in Madrid and clearly this will comply with both EU and Spanish law and regulations. The pay arrangements will, of course, comply with the UK requirements while they are working in this country.

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These individuals are talented and their services are in demand whether it be in the Group's offices in Norway or Chile or Hong Kong or New York. However, if the proposed measures governing remuneration in the UK exceed those of the EU, and/or other member states, it is highly likely that a posting to the UK will be unattractive.

Santander is one of the few successful banking groups which has successfully avoided the problems of the current financial crisis. This is due to the mixture of good regulation and good management. There is a danger that inappropriate regulation of remuneration, particularly if it goes further than that required by the EU, may turn the UK into a financial services backwater with, in this case, Santander senior managers reluctant to be posted here.

Governance of risk

We agree with the objectives of the review with regards to enhancing the governance of risk within financial institutions. While organisational structures are undoubtedly important the key is how the issue of risk, its mitigation and the risk functions themselves are perceived and their exercise of "authority" within the organisation.

Conclusion

In summary, we support the recommendations in your report, with the one exception mentioned, and we would be happy to discuss any aspect of your proposals and this response.

Yours sincerely

Alan Brener
Director of Regulatory Risk Management

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