

## REGULATORY REMUNERATION DISCLOSURES FOR FINANCIAL YEAR 2015

The following disclosures for Santander UK plc (the “Company” or “Santander UK”) are prepared in accordance with the regulatory Handbook for banks, building societies and investment firms. More detailed information on Santander UK’s remuneration processes and policies, together with the role, composition and activities of the Board Remuneration Committee during 2015 is contained in the Directors’ Remuneration Report of the 2015 Annual Report & Accounts on page 184.

### PART 1 - QUANTITATIVE REMUNERATION DISCLOSURES

#### Role of the Board Remuneration Committee

The Board Remuneration Committee (the ‘Committee’) was established with effect from 1 January 2010 (originally named as the Board Remuneration Oversight Committee). The Committee is primarily responsible for reviewing remuneration policies and their implementation. It provides governance and strategic input into Santander UK’s executive and employee remuneration and reward activities. In 2015, the Committee reviewed and strengthened its Terms of Reference to better reflect the Committee’s role in the areas of governance and control. In carrying out their responsibilities, the Committee seeks independent external advice as necessary. 2015 saw a change of independent advisers as a result of the appointment of PwC as Santander UK’s auditors for the accounting period from 1 January 2016. Therefore, the services of PwC to the Committee ceased on 31 October 2015. After that date, the Committee sought advice and assistance from Kepler, a brand of Mercer LLC, on all remaining matters pertaining to 2015. The Committee’s full Terms of Reference are available on the Company’s website [www.santander.co.uk](http://www.santander.co.uk).

#### Decision-making process for determining remuneration policy

Santander UK’s remuneration policies are agreed locally by the Committee in conjunction with the Company’s Central Reward team. Where such policies may have a material impact on the success of the business and/or require Regulatory or Compliance approval, decisions are then subject to formal approval by the Committee. For UK Executive Directors and first tier senior management, remuneration policies and practices are aligned to those of the Banco Santander, S.A. group generally.

The Committee ensures that remuneration arrangements are aligned with sound risk management. The consideration of risk and conduct events is an important part of the Committee’s work. Every meeting of the Committee in 2015 received an update on regulatory developments from the Company’s officers and its independent adviser. In addition, the Committee received, quarterly, an overview of the Company’s Enterprise-wide Risks from the Chief Risk Officer. The Enterprise-wide Risk metrics provided in the quarterly reviews consider a balanced scorecard covering the following risks: Capital, Liquidity, Customer Outcomes, Employees and Control in addition to matters of profitability. Such profitability metrics are about losses and return on book-value & capital (not short-term revenue or income). Each quarterly review also considers other Enterprise-wide Risks including conduct and operational risks and expected loss as well as return on risk weighted assets for the key operating divisions. These focus on risks (as opposed to crystallised risks issues / events) and thus provide a forward-looking and balanced view.

#### Material Risk Taker / Code Staff criteria

The following groups of employees have been identified as meeting as a minimum the regulators’ criteria for Material Risk Takers (Code Staff) subject to the mandatory requirements of the applicable regulatory standards.

- > The Company’s Non-Executive Directors and members of the Company’s Executive Committee (which includes the Company’s Executive Directors);
- > Senior managers of significant divisions and control functions such as legal, audit and risk;
- > Other senior managers reporting to the Board and heads of major divisions;
- > Employees whose total remuneration takes them into the same bracket as senior managers; and
- > Risk takers, whose professional activities may have a material impact on the firm’s risk profile.

The categories above include all senior level management across the Company as well as those responsible for the management of the main businesses and control function heads.

## **Link between pay and performance**

Remuneration at Santander UK is made up of fixed and variable pay designed to reward performance. Our policies are designed with the long-term success of the business in mind, to deliver our business strategy and reinforce our values. We apply a consistent approach to the reward of all our employees which upholds our prudent approach to risk appetite which is set as part of a Santander UK-wide risk management framework.

Performance-related pay is designed to reflect actual achievement against the range of targets which are set for our employees, taking into account the context in which results were achieved. The Company operates a range of incentive structures, focussed on each particular business area, which are designed to reinforce each area's strategic objectives and how that links to what its employees are being asked to deliver and to reward increasing performance. There is a clear focus on achieving successful performance so that, individually and by business area, the best performers and the best performance will continue to be the best rewarded.

The key objective in determining bonus awards is to incentivise and motivate the desired performance whilst ensuring pay is justified given business and individual performance, which includes financial and non-financial measures, risk performance and any other relevant factors. Dependent upon the nature of an individual's role, the size and weighting of the various elements may differ to ensure that the overall package is competitive, relevant and performance enhancing. However, overall, the remuneration package for each of our employees is designed to reflect market practice for their role.

Under the Company's deferral arrangements for 2015 performance, a significant proportion of annual incentive awards for the more senior employees was deferred over a three-year period. The purpose of deferred awards is to support a performance culture where employees recognise the importance of sustainable performance of both the Banco Santander, S.A. group generally and the Santander UK group.

In 2015, the eligibility criteria of the Banco Santander, S.A. Long-term Incentive Plan ('LTIP') changed from that in 2014. In 2014 only employees classified as Material Risk Takers were granted unconditional awards under the 2014 LTIP. In addition to employees classified as Material Risk Takers, a small number of additional key employees were allocated conditional awards under the 2015 LTIP. In addition, the structure and performance measures for the 2015 LTIP varied from that applicable to the 2014 LTIP.

## **Design and structure of remuneration**

Santander UK's remuneration policies are designed to encourage a high-performance culture where people are rewarded and recognised for their performance and ability, and the impact they have on the Company's success.

The individual elements of employees' remuneration packages comprise fixed pay (base salary, retirement and other benefits) and performance-related pay (consisting of annual incentives, deferred awards and long-term incentives). The size and weighting of the various reward elements will differ, dependent upon the nature of an individual's role, to ensure that the package is competitive, relevant and performance-enhancing. Taking into account the expected value of long-term incentives, or bonus deferred in to shares as applicable, the performance-related elements of the package make up an appropriate and considerable proportion of the total remuneration of the Company's senior executives and senior employees, while maintaining an appropriate balance between fixed and variable elements to an absolute maximum of 2:1 variable pay-fixed pay.

Reward processes are underpinned by a robust performance management system which drives appropriate behaviours in line with the Company's purpose and values: Simple, Personal and Fair - The Santander Way. The Company's performance management process forms the basis of measuring the performance of individuals, which impacts in turn the extent to which variable pay awards are made. The key aspects of the remuneration components are set out below:

### **a) Base salary**

Base salaries are reviewed annually, appropriately benchmarked and set around market levels, and with reference to the specific market for the business in which an individual works and the skills and competencies that the individual brings to their business area. The level of fixed pay aims to be sufficient

so that inappropriate risk-taking is not encouraged. Pay awards take account of prevailing market and economic conditions, governance trends and the approach to employee pay throughout the organisation.

#### **b) Annual bonus**

Santander UK's policy in respect of short-term incentives is to reward performance which supports the Company and relevant business area's business strategy, and takes into account the Company's risk appetite and personal contribution in a clear and transparent way. Specific and measurable targets are set at the beginning of the year and communicated to employees. Robust design principles have been established, alongside strict governance procedures to that ensure that all existing and future annual bonus schemes support Santander UK's business strategy and risk appetite.

#### **c) Long-term incentives**

In 2015 Banco Santander, S.A. operated a group LTIP for its senior executives and other nominated employees across the Banco Santander group. Awards were granted to those employees in Santander UK classified as Material Risk Takers as well to a small number of additional key employees. The LTIP is designed to reinforce the alignment of Santander UK's employees in achieving the common objectives of the Banco Santander group, including the creation of value over the long-term and a reasonable return to shareholders. The performance measures and rules of the plan are reviewed and approved at Banco Santander, S.A.'s Annual General Meeting. Conditional awards were initially made in cash and then converted into shares in Banco Santander, S.A and are deferred over three years. The number of unconditional shares a participant actually receives at the end of the deferral period depends on Banco Santander, S.A.'s performance against performance criteria over both the initial performance period and the deferral period, including relative EPS performance to comparators, RoTE and other non-financial metrics such as Top 3 best bank to work for, Top 3 in customer satisfaction and loyal customers as well as continuing employment. Aggregate details of the conditional awards made in 2015 to employees in the Company can be found in Note 40 to the Consolidated Financial Statements at page 272 of the 2015 Annual Report & Accounts.

#### **d) Deferral and vesting**

To ensure the interests of the Company and its employees are aligned with those of the shareholders of Banco Santander, S.A., and the Company's approach to risk management supports the interests of all stakeholders, the vesting of deferred annual bonus awards and long-term incentive awards is subject to continued employment (other than in the case of employment being terminated in circumstances where the employee is a good leaver) and, in the case of deferred bonus awards, subject to the Banco Santander, S.A. group's and the Company's rules on performance adjustment and claw-back.

Santander UK ensures that it is compliant in its mandatory deferral requirements for its Material Risk Takers and the amount of bonus to be deferred is based on the total variable pay received. The Remuneration Code prescribes that at least 40% of variable pay must be made over a period of at least three years and, for staff earning more than £500,000 in variable remuneration, at least 60% of a bonus must be deferred over the same period. Santander UK meets these requirements.

All UK bonus awards for 2015 to Material Risk Takers were subject to deferral principles in accordance with the Remuneration Code. The general deferral principles were as follows:

- > any deferred amount was issued in shares and cash over a three year period (in three equal deferral tranches); and
- > deferrals are subject to continued employment with the Banco Santander, S.A. group in the UK (other than in the case of employment being terminated in circumstances where the employee is considered a good leaver) and on the condition that none of the prescribed circumstances of forfeiture occur.

Santander UK will continue to ensure that the requirements of the Remuneration Code are met for its employees and particularly for Material Risk Takers. Santander UK will prevent vesting of all or part of the amount of deferred remuneration in any of the following circumstances:

- > evidence of employee misbehaviour or material error;
- > material downturn in the Company or relevant business unit's performance;
- > the Company or relevant business unit suffers a material failure of risk management;
- > significant changes in the Banco Santander, S.A. group's or the Company's economic or regulatory capital base and the qualitative assessment of risks; or

- > a material restatement of the Banco Santander S.A. group's or the Company's financial statements (except when required due to modification of the accounting rules).

In such circumstances, the Committee will have final discretion to determine the amount of deferred remuneration that will not vest or extinguish an award altogether.

#### **e) Allocation into shares**

The Remuneration Code requires at least 50% of variable remuneration of Material Risk Takers to be paid in shares or other specific instruments. This requirement applies to both deferred and non-deferred variable remuneration, such that no more than 30% of non-deferred variable remuneration can be awarded up front in cash.

For 2015, Santander UK complied in full with the Remuneration Code requirements in this regard for its Material Risk Takers and paid the non-deferred element of annual bonus as 50% in cash and 50% in shares or share-linked instruments, the necessary approvals from Banco Santander, S.A. shareholders having been obtained.

#### **f) Risk adjustments**

The Company has regard to ensuring that the structure of an employee's remuneration is consistent with and promotes effective risk management. Santander UK's remuneration policies and practice are set to ensure the value and make up of remuneration scheme design is linked to the Company's risk appetite. The Committee continues to keep under review the relationship of risk to remuneration.

The performance of each company (for variable remuneration purposes) in the Banco Santander S.A. Group is measured in respect of its Return on Risk Weighted Assets ('RoRWA'). This risk adjusted measure ensures that inappropriate incentives are removed at a company level. This encourages the company to consider the risks and therefore the economic capital consumption involved in order to generate target profits.

For the 2015 performance year, Santander UK applied a new Risk Adjustment Standard to variable remuneration (annual bonus and LTIP) for senior roles. The Risk Adjustment Standard is linked to the Santander UK Risk Appetite. The Risk Adjustment Standard provides both a risk appetite-linked formula-based assessment and an additional qualitative risk event assessment overlay that can only result in downward risk adjustment (and of up to 100% of the bonus pool or individual awards).

Certain members of the Committee are also members of the Company's Board Risk Committee. In addition, the Company's Chief Risk Officer is an attendee at the Committee's meetings and the Committee is supported by the Company's Risk Function as required. This framework ensures the Committee is engaged with the risk management of the business and is provided with risk information on an on-going basis.

The Company also has appropriate policies and processes in place to implement performance adjustment to individual variable remuneration awards in appropriate circumstances. The Company's rules concerning performance adjustment are set out in the Santander UK plc Performance Adjustment Standard ("Standard") adopted and reviewed annually by the Committee. The purpose of that Standard is to set out the way the Company controls any adjustment to variable, performance-related remuneration in the event of any of the circumstances set out in the Standard occurring. More specific rules will also be communicated to employees through their terms and conditions of employment including, where applicable, individual contracts of employment, the rules of the Company's Bonus Deferral Scheme and other relevant bonus and/or incentive scheme rules.

## PART 2 - QUANTITATIVE REMUNERATION DISCLOSURE

The Company is required to disclose aggregate quantitative remuneration information for its Code Staff in the years ended 31 December 2014 and 2015. At 31 December 2015, there were 33 Code Staff (2014: 31) who had been identified as Key Management Personnel and 142 other Code Staff (2014: 127).

### Aggregate remuneration expenditure

Aggregate remuneration is made up of total fixed and variable remuneration awarded in respect of the 2015 and 2014 performance years as follows:

<b>Business Area</b>	<b>2015</b>	<b>2014<sup>(1)</sup></b>
	<b>£'000</b>	<b>£'000</b>
Corporate & Institutional Banking	<b>33,189</b>	<b>31,150</b>
Commercial Banking	<b>2,878</b>	<b>2,667</b>
Other	<b>54,403</b>	<b>60,642</b>

(1) The remuneration data for 2014 has been conformed to fit with the change in the Company's segmentation of its business lines.

### Amounts and form of fixed and variable remuneration

#### a) Fixed remuneration

Total fixed remuneration paid in 2015 and 2014 (comprising of salary and all benefits and allowances (which include pensions contributions by employer, pension cash allowance, housing and energy allowances, car allowances and miscellaneous benefits)) was as follows:

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Key Management Personnel	<b>13,726</b>	<b>14,418</b>
Other Code Staff	<b>36,970</b>	<b>32,310</b>

#### b) Total variable remuneration (including total deferred remuneration)

Variable remuneration payable in respect of 2015 and 2014 performance consisted of cash bonuses, share awards, long-term incentives and other discretionary one-off awards was as follows:

#### Variable remuneration awarded in respect of 2015 performance year

	<b>Key Management Personnel</b>	<b>Other Code Staff</b>
	<b>£'000</b>	<b>£'000</b>
<b>Variable remuneration:</b>		
- Bonus in cash	4,853	12,310
- Bonus in shares	4,853	12,273
- Long-term incentives in shares	1,414	4,002
<b>Total variable remuneration</b>	<b>11,120</b>	<b>28,585</b>
<b>Deferred remuneration:</b>		
Amount deferred in cash	2,798	5,225
Amount deferred in shares	4,092	7,128
<b>Total deferred remuneration</b>	<b>6,891</b>	<b>12,353</b>

## Variable remuneration awarded in respect of 2014 performance year

	Key Management Personnel £'000	Other Code Staff £'000
<b>Variable remuneration:</b>		
- Bonus in cash	7,508	12,636
- Bonus in shares	7,508	12,387
- Long-term incentives	2,216	3,707
<b>Total variable remuneration</b>	<b>17,232</b>	<b>28,730</b>
<b>Deferred remuneration:</b>		
Amount deferred in cash	4,429	5,327
Amount deferred in shares	6,645	9,034
<b>Total deferred remuneration</b>	<b>11,073</b>	<b>14,362</b>

### c) Outstanding deferred remuneration

This refers to deferred remuneration awarded in respect of the 2015 and 2014 performance years, as well as that paid out during the year in respect of previous years' deferrals and all unvested remuneration on 31 December 2015 and 2014. This includes deferred bonus awards and long-term incentive plans contingent on multi-year performance. Deferred remuneration reduced during the year relates to long-term incentives lapsing when performance conditions are not met or deferred awards being reduced due to claw-back.

#### 2015 category of deferred remuneration

	Key Management Personnel £'000	Other Code Staff £'000
Awarded in year <sup>(1)</sup>	6,891	12,353
Paid out from prior years <sup>(2)</sup>	3,505	4,781
Amount by which payouts from prior years were reduced by performance adjustments <sup>(3)</sup>	0	30
<b>Unvested at year end<sup>(4)</sup></b>	<b>5,430</b>	<b>11,048</b>

(1) Value of deferred bonus and long-term incentive granted in 2015.

(2) Value of long-term incentive plan that vested in 2015, plus deferred cash and shares from 2012, 2013 and 2014 bonus paid in 2015.

(3) Value of long-term incentive shares or deferred cash delivered in 2015 that either lapsed or were reduced as a result of performance conditions not being satisfied or claw back policy.

(4) Value of both deferred and long-term incentive shares unvested at 31 December 2015 plus deferred cash outstanding from previous bonuses. Does not include remuneration awarded in respect of 2015 performance.

#### 2014 category of deferred remuneration

	Key Management Personnel £'000	Other Code Staff £'000
Awarded in year <sup>(1)</sup>	11,073	14,362
Paid out from prior years <sup>(2)</sup>	5,445	5,911
Amount by which payouts from prior years were reduced by performance adjustments <sup>(3)</sup>	13	0
<b>Unvested at year end<sup>(4)</sup></b>	<b>12,749</b>	<b>10,879</b>

(1) Value of deferred bonus and long-term incentive granted in 2014.

(2) Value of long-term incentive plan that vested in 2014, plus deferred cash and shares from 2012 and 2013 bonus paid in 2014.

(3) Value of long-term incentive shares or deferred cash delivered in 2014 that either lapsed or were reduced as a result of performance conditions not being satisfied or claw back policy.

(4) Value of both deferred and long-term incentive shares unvested at 31 December 2014, based on a share price at 31 December 2014, plus deferred cash outstanding from previous bonuses. Does not include remuneration awarded in respect of 2014 performance.

### d) Sign-on (buy-out) and severance payments

Payments totalling £3,345,875 were made to 12 Material Risk Taker employees during the year (2014: £1,652,198 to five employees) in respect of buying-out deferred compensation from previous employers. Severance payments totalling £2,334,581.84 were made to 7 Material Risk Taker employees during the year (2014: £0) in aggregate. The highest severance payment made was £611,981.23.

## 2015 All staff total remuneration

Total remuneration comprises; fixed pay, pension and benefit funding, variable remuneration and long-term incentives.

- The average salary for all employees was £32,025 (2014: £33,938).
- 3,450 (2014: 3,074) employees earned total remuneration between £50,000 and £100,000.
- 1,230 (2014: 1,023) employees earned total remuneration between £100,000 and £250,000.
- 288 (2014:269) employees earned total remuneration over £250,000.

## Total remuneration by band for all employees earning more than €1 million<sup>(1) (2)(3)</sup> as at 31 December 2015

Total Remuneration Band	Nos. of employees	
	2015	2014
€1,000,000 - €1,500,000	12	18
€1,500,001 - €2,000,000	11	6
€2,000,001 - €2,500,000	1	-
€2,500,001 - €3,000,000	-	2
€3,000,001 - €3,500,000	-	1
€3,500,001 - €4,000,000	-	-
€4,000,001 - €4,500,000	-	-
€4,500,001 - €5,000,000	-	-
➤ €5,000,001	-	-
<b>Total</b>	<b>24</b>	<b>27</b>

(1) Total remuneration includes fixed pay, pension and benefit funding and variable pay (including actual value of LTIP vesting in respect of the performance period ending 2015) after any application of clawback.

(2) Excludes executive directors.

(3) Table prepared in Euros in accordance with Article 450 of the Regulation under CRD IV, Converted to Euros using the exchange rate £1 GBP = €1.42268 EUR using the rates published by the European Commission for financial programming and budget for December 2015 as published on their website.

15 (2014: 15) employees (excluding executive directors) earn total remuneration of over £1m which represent just 0.0671% (2014: 0.0655%) of our employees. This number reduces to 8 (2014: 10) employees if we exclude pension and benefit funding. These employees include those who manage major businesses and functions with responsibility for significant assets, earnings or areas of strategic activity and can be grouped as follows:

- The Managing Directors responsible for each division.
- Employees directly reporting to the CEO including those managing our functions and other activities of strategic importance.
- Employees managing large businesses within a division.
- Income generators responsible for high levels of income including those involved in managing trading activity and supporting clients with more complex financial transactions, including financial restructuring.
- Those responsible for managing our balance sheet and liquidity and funding positions across the business.