

SANTANDER UK GROUP HOLDINGS PLC

REGULATORY REMUNERATION DISCLOSURES FOR THE FINANCIAL YEAR 2018

The following disclosures for Santander UK Group Holdings plc (the “Company” or “Santander UK”) are prepared in accordance with Article 450 of the Capital Requirements Regulation (“CRR”) and provide details of the remuneration of the Company’s Material Risk Takers for the 2018 performance year together with an explanation of the Company’s remuneration policies, practices and governance. Additional information is contained in the 2018 Santander UK Group Holdings plc Annual Report & Accounts in the section entitled ‘Remuneration report and remuneration policies’.

PART 1 – QUALITATIVE DISCLOSURES

Decision-making process

The Board Remuneration Committee (the “Committee”) is responsible for reviewing remuneration policies and their implementation across Santander UK, in particular ensuring that such policies and practices are consistent with and promote sound and effective risk management. The Committee approves the remuneration arrangements for the Executive Directors and Senior Management of Santander UK and oversees the remuneration arrangements for other Material Risk Takers.

During 2018, the Committee met seven times, and as at 31 December 2018, the Committee consisted of four independent non-executive directors including the Chair of the Remuneration Committee. The Committee’s terms of reference were updated in 2018 and are kept under regular review. Full terms of reference are available at www.santander.co.uk.

The Committee is supported by the Board Chair, the CEO, the Chief HR Officer, HR Performance and Reward Director, the Chief Risk Officer and the Chief Legal and Regulatory Officer who attend meetings by invitation. No individual is involved in decisions about their own remuneration.

During 2018, the Committee engaged the advice and support of Deloitte LLP (‘Deloitte’) as independent remuneration consultants.

Material Risk Takers (“MRTs”)

MRTs are identified in accordance with our Material Risk Taker Identification Framework. In addition to the qualitative and quantitative criteria set out in the EBA Regulatory Technical Standards ((EU) No 604/2014), Santander UK conducts a localised risk and compliance assessment of all roles to ensure that all material risk types that could impact the business are considered, not limited to those specified by the regulation.

Broadly, the following types of individuals have been identified as Material Risk Takers of Santander UK:

- The Executive and Non-Executive Directors of the Company’s Board and the members of the Company’s Executive Committee;
- 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

- Other 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.

The Quantitative Disclosures section below provides a breakdown of the number of individuals identified as MRTs by business area and function. The number of MRTs identified over 2018 has increased from 2017 by 32 individuals on account of the acquisition of Santander Services from Banco Santander SA on 1 January 2018 and to reflect enhancements to our MRT Identification Framework in the year. For example, all individuals at job band S6 and above are now automatically identified as MRTs on account of their seniority.

Remuneration Policy and link between pay and performance

Santander UK has adopted remuneration policies which are designed to:

- encourage a high performance culture, where people are rewarded and recognised for their performance (including individual impact on risk culture and customer outcomes) and their contribution to the Company's success;
- encourage responsible business conduct and fair treatment of customers/clients; and
- promote an effective risk culture and effective risk management with the maintenance of a solid capital base.

We apply a consistent approach to the reward of all our employees, aligned to our values of Simple, Personal and Fair.

The Remuneration Committee reviews and approves the Santander UK Remuneration Policy annually. The Chief Risk Officer, Chief Legal and Regulatory Officer and our independent remuneration consultants input into any proposed changes to remuneration policy.

During 2018, the Committee reviewed its approach to determining good leaver status and has approved a framework intended to guide the Committee to determine the discretionary circumstances when good leaver status is appropriate.

In addition, we updated our Santander UK Remuneration Policy with regards pension arrangements for new appointments to the Executive Committee. Unless determined otherwise, pension arrangements for new appointments will be in line with the level of pension provision available to the broader workforce.

Design and structure of remuneration

Remuneration at Santander UK is comprised of fixed pay (base salary, retirement and other benefits) and performance related variable pay delivered through our single variable pay plan (including deferred awards), except for non-executive directors who receive a fixed fee. This is aligned to the Banco Santander remuneration framework.

A significant proportion of the performance related pay is deferred over the long-term and remains 'at risk'. The purpose of deferred awards is to support a culture where employees recognise the importance of long-term sustainable performance of both Santander UK and the Banco Santander, S.A. group (the "Group") generally and to ensure that a significant proportion of remuneration remains at risk and capable of risk adjustment over the long-term.

Details of the key aspects of the remuneration components are set out below:

a) Fixed pay

Base salaries are reviewed annually, appropriately benchmarked and set at market competitive levels, with reference to the specific market for the business in which an individual works, the approach to employee pay throughout the organisation, the skills and competencies that the individual brings to their business area and the complexity of the role. Post-retirement and other benefits are offered as part of a competitive remuneration package. The level of fixed pay aims to be sufficient so that inappropriate risk-taking is not encouraged.

b) Variable pay

The purpose of the variable pay plans is to align participants' reward with the financial and non-financial performance of Santander UK as measured over the financial year, taking into account the Company's risk appetite and an individual's personal contribution. Multi-year deferral, and delivery in Banco Santander SA shares ensures that interests of Material Risk Takers are aligned to the long-term interest of the Company and the Group. Payments may be adjusted subject to performance and risk, and for the most senior participants deferred awards are subject to further performance conditions, which can reduce, but not increase the level of deferred payout.

We apply a consistent approach to reward for all employees and therefore employees have the opportunity to participate in our variable pay plan, subject to their role and reward band.

During 2018, the Company operated three variable pay plans in which Material Risk Takers could participate, these were the Santander UK Variable Pay Plan, Santander Corporate and Investment Bank (SCIB) UK Variable Pay Plan for employees in the SCIB business and Santander Consumer (UK) Bonus Scheme for MRTs in the Santander Consumer (UK) plc business.

Santander UK Variable Pay Plan

- This plan rewards financial and non-financial performance over the year against a range of metrics using a balanced scorecard approach. The Plan assesses performance against the Company's KPIs in the following categories:
 - Customers (Customer Satisfaction and loyal customers)
 - People (Employee Engagement and Enablement Scores)
 - Shareholders
 - Risk (Cost of Credit Ratio and Non-performing loan ratio)
 - Capital (Contribution to Group Capital)
 - Profitability (Net Profit and Return on Risk Weighted Assets)

Threshold performance under the Customer and Shareholder categories must be achieved in order to access payout under the People category. Similarly, the Committee considers a discretionary downward adjustment to the Customer and Shareholder categories if satisfactory performance under the People category is not achieved.

Variable pay is therefore linked to, and varies in line with, Santander UK's overall performance.

- Performance is measured on a quantitative and qualitative basis to ensure that a balanced assessment of performance is made and the bonus pool is adjusted for risk based on an assessment of risk events and performance against our overall risk appetite.
- The allocation of the pool is based on an individual's performance, taking into account a range of financial and non-financial factors including behaviours, conduct and risk.
- For the most senior participants in the plan, the final three tranches of the deferred award is subject to additional long-term metrics, relating to total shareholder return, capital and profitability, which may reduce the level of deferred payout.

SCIB (UK) Variable Pay Plan

- Santander UK employees in the Santander Corporate and Investment Bank (SCIB) Global business participate in the SCIB Variable Pay Plan which rewards the financial and non-financial performance of SCIB. Performance is measured on a quantitative and qualitative basis at the global level and for 2018 the metrics related to:
 - Customers (Uptiering, Connectivity, Collaboration revenues)
 - Shareholders
 - Risk (Cost of Credit, Value at Risk (VaR) Limits to reach Budget)
 - Capital (Contribution to Group Capital)
 - Profitability (Division Return On Risk Adjusted Capital (RORAC) and Return on Risk Weighted Assets (RoRWA))
- The bonus pool is adjusted for risk based on an assessment of risk events and performance against our overall risk appetite.
- Non-financial performance factors relating to people and culture are also considered as part of the risk adjustment assessment.
- The allocation of the pool is based on an individual's performance, taking into account a range of financial and non-financial factors including behaviours, conduct and risk.
- For the most senior participant in the plan, a portion of the deferred award is subject to additional long-term metrics, relating to total shareholder return, capital and profitability, which may reduce the level of deferred payout.

Santander Consumer (UK) Bonus Scheme

- This plan rewards MRTs in the Santander Consumer (UK) plc business, assessing financial and non-financial performance over the year against a range of metrics using a balanced scorecard approach. For 2018 the metrics related to:
 - Customers (Dealers satisfaction)
 - Shareholders
 - Risk (Cost of Credit Ratio, Non-performing Loans Ratio, Management Delinquency Variation)
 - Capital (Contribution to Group Capital)
 - Profitability (Net Profit, RoRWA)
- The bonus pool is adjusted for risk based on an assessment of risk events and performance against our overall risk appetite.
- Non-financial performance factors relating to people and culture are also considered as part of the risk adjustment assessment.

- The allocation of the pool is based on an individual's performance, taking into account a range of financial and non-financial factors including behaviours, conduct and risk.

All variable pay awards for Material Risk Takers are subject to deferral principles in accordance with the FCA Remuneration Code and the PRA Rulebook. In summary:

- All variable payments to Material Risk Takers, including both the upfront and deferred portion, are delivered half in cash and half in Banco Santander, S.A. shares.
- The amount of bonus to be deferred (either 40% or 60%) is based on the total variable pay received.
- Deferred awards vest on a pro rata basis and in line with the FCA Remuneration Code and the PRA Rulebook based on MRT status whereby for those on three year deferral period, a third vests each year after the award. For those on a five year deferral period, a fifth vests each year after the award, and for those subject to a seven year deferral period, none of their deferred award vests in the first two years after award and then a fifth vests in each subsequent year.
- Any awards delivered in shares are subject to a twelve month retention period following the relevant vesting date.
- The vesting of deferred 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 is subject to the Company's rules on performance adjustment, malus and clawback.

c) Long-term incentive plan ('LTIP') (legacy plan)

The LTIP was removed from the variable pay framework from 2016. The 2015 award was the final outstanding award and this will vest in March 2019. The initial award in 2015 was subject to a one year test (performance over financial year 2015), the outcome was then deferred for three years, subject to further performance testing over the 2015 to 2017 financial years (Earnings Per Share, Return on Tangible Equity, employee satisfaction, customer satisfaction and customer loyalty performance measures and continued employment) and any risk adjustment. For the 2015 LTIP, 65.78% of the initial value will vest. The LTIP is delivered in Banco Santander shares which are subject to a twelve month retention period following the vesting date.

Any awards delivered under the LTIP remain subject to clawback provisions and are delivered in line with the requirements of the Remuneration Code.

d) Risk adjustment

All variable remuneration is subject to adjustment for all current and future risks as well as, on an individual basis, malus and clawback provisions.

i) Ex-ante risk adjustment

Our Variable Pay Plan uses Return on Risk-Weighted Assets (RoRWA) in order to give preference to the return on risk-weighted assets and capital consumption.

All variable remuneration is subject to adjustment for all current and future risks through our Additional Risk Adjustment Standard which is linked to Santander UK's Risk Appetite.

The risks covered include credit risk, market risk, (traded and non-traded), operational risk, conduct risk, financial crime and regulatory risk.

Our Additional Risk Adjustment Standard provides both a formula-based assessment against Santander UK's Risk Appetite and an additional qualitative risk event assessment overlay that can result in a downward risk adjustment of up to 100% of the bonus pool or individual awards at the discretion of the Committee.

The Standard is adopted and reviewed annually by the Committee.

ii) Ex-post risk adjustment

Our Individual Remuneration Adjustment Standard provides a framework for the process, governance and standards relevant for making decisions in relation to individual performance adjustments, including malus and clawback.

Performance adjustments may include, but are not limited to:

- Reducing a bonus outcome for the current year;
- Reducing the amount of any unvested deferred variable remuneration;
- Requiring a bonus which has been awarded (but not yet paid) to be forfeited; or
- Requiring repayment on demand (on a net basis) of any cash and share awards received at any time up to ten years following the date of award.

The Remuneration Committee will have full discretion to prevent vesting of all or part of an amount of deferred remuneration and/or to freeze an award during an ongoing investigation in any of the following circumstances:

- Evidence of employee misbehaviour or material error;
- Material downturn in the performance of Santander UK or a relevant business unit's performance;
- Santander UK or a relevant business unit suffers a material failure of risk management;
- Significant changes in the Banco Santander SA group's or the Santander UK's economic or regulatory capital base and the qualitative assessment of risk; or
- A material restatement of Banco Santander's or Santander UK's financial statements (except when required due to modification of the accounting rules).

The Remuneration Committee will have full discretion to clawback an award from an MRT for up to seven years in the following circumstances:

- There is reasonable evidence of either the Participant's misbehaviour or material error (including a failure to follow internal controls concerning risk management); or
- Either the Company or the Participant's relevant business unit suffers a material failure of risk management.

This clawback period may be extended for a period of up to ten years for PRA designated Senior Managers if either Santander or a regulator has begun an inquiry that could lead to the application of clawback.

The Remuneration Committee seeks input from the Board Risk Committee, the Chief Risk Officer and the Chief Legal and Regulatory Officer when determining whether any performance or risk adjustments are required particularly in relation to the application of risk adjustment to the bonus pool. Furthermore, members of the Company's Board Risk Committee (along with the Audit Committee Chair and Whistleblowing Champion, and another member of the Audit Committee) sit on the Remuneration Committee. The

Committee Chair also engages with the Chair of the Board Risk Committee to seek his input on remuneration related matters where appropriate.

e) Ratio between fixed and variable pay

The performance-related elements of the package make up an appropriate proportion of the total remuneration of the Company's senior executives and senior employees, up to a maximum of 2:1 variable to fixed pay, in line with the regulatory limit and as approved by shareholders of Banco Santander, S.A. (most recently approved by shareholders with a majority of 97% on 7 April 2017). Save for in exceptional circumstances, for control function staff a lower operational ratio of 1:1 is applied.

MRT	Maximum ratio
Control function roles	1:1
All other MRT roles	2:1

Santander recognises the competitive market place for senior talent within financial services. The actual balance of variable to fixed remuneration for an individual within the limits above therefore depends on the role and talent of the individual, taking into account regulatory requirements, market practice and our appetite for risk.

f) Control function pay

We apply a consistent approach to reward for all employees. Employees, including those MRTs in control functions, are entitled to a base salary and benefits and have the opportunity to receive an element of performance-related compensation, subject to their role and reward band. Risk, Internal Audit, Compliance, Accounting and Financial Control variable pay is funded from the overall bonus pool with awards allocated based on individual performance, as measured through the performance review process. Individual performance for control function colleagues is assessed by reference to specific objectives set at the start of the year and aligned to the successful operation of their function. These objectives contain no financial metrics linked to the business area they control. Save for in exceptional circumstances, the maximum ratio between the fixed and variable components of total remuneration for anyone in a control function is 1:1.

g) Guaranteed variable remuneration

Guaranteed variable remuneration is only awarded in exceptional circumstances where no other suitable candidate is available due to particular market conditions. It will always be limited to new hires and in their first year of service.

h) Severance payments

Severance payments are non-contractual and non-statutory payments on termination of employment. Such payments will only be made in exceptional circumstances on a case-by-case basis but generally only in circumstances where not making the payment would put the Company at greater or unnecessary risks. Payments will not be made where there is an issue of conduct or performance which allows for the immediate dismissal of the individual and will not reward failure.

PART 2 - QUANTITATIVE REMUNERATION DISCLOSURE

The following disclosure provides quantitative remuneration information for the Company's MRT population, and for all staff where required for the financial year ending 31 December 2018.

In 2018 there were 280 MRTs, of which 17 were classified as Management Body, 27 as Senior Management and 236 as other MRTs. The Executive Directors are considered as Management Body, Management Function and the Non-Executive Directors are considered as Management Body, Supervisory Function. Members of the Executive Committee and any other individuals at Santander UK job band S7 are considered as Senior Management.

a) 2018 MRT total remuneration

Business area	Number of beneficiaries	Fixed remuneration (£000s)*	Variable remuneration				Total remuneration (£000s)	
			Upfront cash (£000s)	Upfront shares (£000s)	Deferred cash (£000s)	Deferred shares (£000s)		Total Variable (£000s)
Management Body								
- Management Function	3	£4,235	£1,046	£1,046	£1,568	£1,568	£5,228	£9,463
- Supervisory Function	14	£2,080						£2,080
Retail								
- Senior Management	6	£2,344	£457	£457	£414	£414	£1,740	£4,085
- Other MRTs	24	£4,693	£712	£605	£404	£404	£2,125	£6,818
Global Corporate and Commercial Banking								
- Senior management	4	£2,324	£593	£593	£748	£748	£2,682	£5,005
- Other MRTs	113	£22,018	£4,688	£4,533	£3,454	£3,454	£16,128	£38,146
All other business areas								
- Senior Management	8	£3,527	£715	£715	£769	£769	£2,969	£6,496
- Other MRTs	34	£6,730	£844	£694	£463	£463	£2,464	£9,193
Internal control functions								
- Senior Management	5	£2,881	£503	£503	£437	£437	£1,880	£4,761
- Other MRTs	37	£7,563	£1,109	£1,025	£683	£683	£3,500	£11,063
Corporate functions								
- Senior Management	4	£2,009	£451	£451	£462	£462	£1,826	£3,835
- Other MRTs	28	£5,713	£900	£900	£600	£600	£2,999	£8,712
Total	280	£66,118	£12,017	£11,521	£10,001	£10,001	£43,539	£109,657

*Fixed remuneration comprises salary and all benefits and allowances, including employer pension contributions, pension cash allowances, car allowances and miscellaneous benefits

b) 2018 outstanding deferred remuneration

	Awarded during 2018 (value at award) (£000s)*	Paid out during 2018 (£000s)**	Reduced from prior years (£000s)***	Outstanding unvested (as at 31 December 2018) (£000s)****	Outstanding vested during financial year (as at 31 December 2018) (£000s)
Management Body					
- Management Function	£3,137	£763	£218	£7,912	-
- Supervisory Function					
Other					
- Senior Management					
o Of which shares	£2,830	£1,176	£118	£5,744	-
o Of which cash	£2,830	£1,176	£519	£6,267	-
- Other MRTs					
o Of which shares	£5,603	£2,916	£420	£9,444	-
o Of which cash	£5,603	£2,916	£1,720	£11,271	-
Total	£20,001	£8,947	£2,995	£40,638	-

* Deferred remuneration awarded in respect of the 2018 performance year

** Deferred awards paid in the 2018 performance year

*** Awards lapsing when performance conditions are not met or deferred awards being reduced due to malus or clawback. Reduced amounts are due to share-based ex post implicit adjustments.

**** All unvested remuneration as at 31 December 2018

c) 2018 sign-on (buy-out) payments and guaranteed bonuses*

	Number of identified staff	Sign-on (buy-out) payments Amount awarded 2018 (value at award) (£000s)	Number of identified staff	Guaranteed bonus payments Amount awarded 2018 (value at award) (£000s)
- Senior Management	1	£107	1	£1,183
- Other MRTs	3	£346	1	£71
Total	4	£452	2	£1,254

*No sign-on awards or guaranteed bonuses made to members of the Management Body

e) 2018 severance payments*

	Number of identified staff	Amount awarded 2018 (value at award) (£000s)	Paid out during 2018 (value as at 31 December 2018) (£000s)	Amount deferred 2018 (value as at 31 December 2018) (£000s)	Highest award to single person (£000s)
- Senior Management	3	£692	£692	-	£392
- Other MRTs	17	£3,027	£3,027	-	
Total	20	£3,719	£3,719	-	£392

*No severance payments made to members of the Management Body or Senior Management.

Severance payments are considered variable remuneration and therefore met all relevant regulatory requirements and were taken into account for the purposes of calculating the variable to fixed pay cap, where applicable.

2018 all staff total remuneration

Total number of staff	Total fixed remuneration*	Total variable remuneration**	Total remuneration
31,465	£1,061mn	£173mn	£1,234mn

*Total fixed remuneration comprises salary and all benefits and allowances, including employer pension contributions, pension cash allowances, car allowances and miscellaneous benefits

** Total variable remuneration includes upfront cash bonuses, upfront share awards, deferred cash and deferred share awards

i) Total remuneration by band for all employees earning more than €1 million⁽¹⁾⁽²⁾⁽³⁾ as at 31 December 2018

Total Remuneration Band	Nos. of individuals
€1,000,000 - €1,500,000	5
€1,500,001 - €2,000,000	3
€2,000,001 - €2,500,000	2
€2,500,001 - €3,000,000	2
€3,000,001 - €3,500,000	1
€3,500,001 - €4,000,000	0
€4,000,001 - €4,500,000	0
€4,500,001 - €5,000,000	0
➤ €5,000,001	1
Total	14

(1) Total remuneration includes fixed pay (salary, pension and benefits) and variable pay received (including actual value of any bonus / LTIP vesting in respect of the performance period ending 2018) after any application of malus/ clawback.

(2) Includes non-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 = €1.12189 EUR using the rates published by the European Commission for financial programming and budget for December 2018 as published on their website.