

SANTANDER UK PLC

REGULATORY REMUNERATION DISCLOSURES FOR FINANCIAL YEAR 2014

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 and composition of the Board Remuneration Oversight Committee is contained in the Directors’ Remuneration Report of the 2014 Annual Report & Accounts on Form 20-F on page 170.

PART 1 - QUANTITATIVE REMUNERATION DISCLOSURES

Role of the Board Remuneration Oversight Committee

The Board Remuneration Oversight Committee (the ‘Committee’) was established with effect from 1 January 2010. The Committee is primarily responsible for overseeing and supervising the Banco Santander, S.A. group’s policies and frameworks covering remuneration and reward as applied in, or devolved to the UK. It provides governance and strategic input into Santander UK’s executive and employee remuneration and reward activities. In January 2014, PricewaterhouseCoopers LLP (‘PwC’) were re-appointed by the Committee to provide independent professional advice to the Committee and throughout 2014, the Committee’s work was supported by them. The Committee’s full Terms of Reference are available on the Company’s website 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 group generally.

The Committee is both aware of and supportive of the principles behind the UK regulators’ Remuneration Code to ensure 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 and every meeting of the Committee in 2014 received an update on regulatory developments from the Company’s officers and regularly received additional updates and comments from its independent adviser. In addition, in 2014, 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.

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 Prudential Regulatory Authority (‘PRA’) Remuneration Code.

- > 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 executives; 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. 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, a significant proportion of annual incentive awards for the more senior employees is 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.

From 2014, the design and eligibility criteria of the Banco Santander, S.A. Long-term Incentive Plan ('LTIP') changed. Only employees classified as Code Staff were granted unconditional awards under the 2014 Banco Santander, S.A. group LTIP. No LTIP awards were made in 2013 as a result of a review by Banco Santander, S.A. as to how it rewards and retains the senior management across all its operating companies globally.

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.

Reward processes are underpinned by a robust performance management system which drives appropriate behaviours in line with the Company's purpose and 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 median 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 2014 Banco Santander, S.A. operated a group LTIP for its senior executives and other nominated employees across the Banco Santander group. Awards were granted for those employees in Santander UK classified as Material Risk Takers (Code Staff). 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 made in cash and are deferred over three years. They are then converted into shares in Banco Santander, S.A. when the deferred unconditional awards are allocated to participants. The number of unconditional shares a participant actually receives depends on Banco Santander, S.A.'s performance against further performance criteria over the deferral period. Firstly, performance will be measured against Banco Santander, S.A.'s Total Shareholder Return ('TSR') relative to companies in a peer comparator group in 2014. TSR is the aggregate of share price growth and dividends paid (assuming reinvestment of dividends in Banco Santander, S.A.'s shares). Secondly, after vesting, awards are deferred for three years in three equal tranches subject to further TSR performance against comparators. The ultimate number of shares to be delivered is determined by the position against target TSR in each of the three years of deferral. Specific details of the conditional awards made in 2014 to certain participants in the Company can be found in Note 42 to the Consolidated Financial Statements at page [xx] of the 2014 Annual Report & Accounts on Form 20-F.

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 (which may be terminated in the event of gross or serious misconduct) 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 Code Staff 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 in 2014 to Code Staff are subject to deferral principles in accordance with the Remuneration Code. The general deferral principles are as follows:

- > any deferred amount will be 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 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 Code Staff. 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, following recommendations from Banco Santander, S.A.'s Committee for Evaluation of Risk & Remuneration.

e) Allocation into shares

The Remuneration Code requires at least 50% of variable remuneration of Code Staff 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 2014, Santander UK complied in full with the Remuneration Code requirements in this regard for its Code Staff and pays the non-deferred element of annual bonus as 50% in cash and 50% in shares or share-linked instruments, the necessary approvals from 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 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. When determining remuneration practices, the Company ensures that the value and make-up of the remuneration policy is aligned to the Company's risk appetite. The performance of the Company (in the senior annual performance bonus schemes) is measured in respect of its Return-on-Risk-Weighted-Assets ('ROWRA'). 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. Further to this, for 2014, the Committee also considered outcomes of the Company's Enterprise Wide Risk Review.

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 will have appropriate policies and processes in place to implement performance adjustment policies in appropriate circumstances. The Company's rules concerning performance adjustment are set out in the Santander UK plc Performance Adjustment 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 those circumstances 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 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 2013. At 31 December 2014, there were 31 Code Staff (2013: 29) who have been identified as Key Management Personnel and 127 other Code Staff (2013: 41).

Aggregate remuneration expenditure

Aggregate remuneration is made up of total fixed and variable remuneration awarded in respect of the 2014 and 2013 performance years as follows:

Business Area	2014 £'000	2013 ⁽¹⁾ £'000
Corporate & Institutional Banking	31,150	11,697
Commercial Banking	2,667	632
Other	60,642	36,926

(1) The remuneration data for 2013 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 2014 and 2013 included all benefits and allowances, including pensions contributions by employer, pension cash allowance, housing and energy allowances, car allowances and miscellaneous benefits (net) was as follows:

	2014 £'000	2013 £'000
Key Management Personnel	14,418	14,928
Other Code Staff	32,310	11,057

b) Total variable remuneration (including total deferred remuneration)

Variable remuneration payable in respect of 2014 and 2013 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 2014 performance year

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

Variable remuneration awarded in respect of 2013 performance year

	Key Management Personnel £'000	Other Code Staff £'000
Variable remuneration:		
- Bonus in cash	6,821	5,592
- Bonus in shares	6,821	4,941
- Long-term incentives in shares	-	-
Total variable remuneration	13,642	10,533
Deferred remuneration:		
Amount deferred in cash	3,856	2,209
Amount deferred in shares	3,856	2,209
Total deferred remuneration	7,712	4,418

c) Outstanding deferred remuneration

This refers to deferred remuneration awarded in respect of the 2013 and 2012 performance years, as well as that paid out during the year in respect of previous years' deferrals and all unvested remuneration on 31 December 2014 and 2013. 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.

2014 category of deferred remuneration

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

(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.

2013 category of deferred remuneration

	Key Management Personnel £'000	Other Code Staff £'000
Awarded in year ⁽¹⁾	7,712	4,418
Paid out from prior years ⁽²⁾	735	1,481
Amount by which payouts from prior years were reduced by performance adjustments ⁽³⁾	804	1,080
Unvested at year end ⁽⁴⁾	10,904	18,368

(1) Value of deferred and long-term incentive shares granted in 2013, based on share price at award/grant, plus deferred cash from 2013 bonus.

(2) Value of long-term incentive shares that vested in 2013, based on share price at vesting, plus deferred cash from 2011 and 2012 bonus paid in 2013.

(3) Value of long-term incentive shares or deferred cash delivered in 2013 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 2013, based on a share price at 31 December 2013, plus deferred cash outstanding from previous bonuses. Does not include remuneration awarded in respect of 2013 performance.

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

Payments totalling £1,652,198 were made to 5 Code Staff employees during the year (2013: £2,232,651) in respect of buying-out deferred compensation from previous employers. No severance payments were made to Code Staff employees during the year (2013: £653,489 in aggregate).

2014 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 is £33,938.
- 3,074 employees earn total remuneration between £50,000 and £100,000.
- 1,023 employees earn total remuneration between £100,000 and £250,000.
- 269 employees earn total remuneration over £250,000.

Total remuneration by band for all employees earning more than €1 million^{(1) (2)(3)} as at 31 December 2014

Total Remuneration Band	Number of employees
€1,000,000 - €1,500,000	12
€1,500,001 - €2,000,000	3
€2,000,001 - €2,500,000	2
➤ €2,500,001	1
Total	18

(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 2014) 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 = €1.262626263 EUR using the rates published by the European Commission for financial programming and budget for December 2014 as published on their website.

15 employees (excluding executive directors) earn total remuneration of over £1m which represent just 0.0655% of our employees. This number reduces to 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.