

SANTANDER UK PLC

REGULATORY REMUNERATION DISCLOSURES FOR THE FINANCIAL YEAR 2016

The following disclosures for Santander UK 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 2016 performance year together with an explanation of the Company’s remuneration policies, practices and governance. More detailed information is contained in the Directors’ Remuneration Report of the 2016 Annual Report & Accounts.

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 and oversees the remuneration arrangements for the executive directors of Santander UK as well as other Material Risk Takers.

During 2016, the Committee met eleven times and as at the 31 December 2016 the Committee consisted of six independent non-executive directors and the Chairman of the Group Remuneration Committee. The Committee’s terms of reference are kept under regular review. Full terms of reference are available at www.santander.co.uk.

The Committee is supported by the CEO, the HR Director and the Company’s Chief Risk Officer, who attend meetings by invitation. No individual across Santander UK, including the CEO, is involved in decisions about their own remuneration.

In carrying out their responsibilities, the Committee seeks independent external advice as necessary. During 2016, the Committee sought advice and assistance from Kepler, a brand of Mercer LLC, on all remaining matters pertaining to 2015 and Deloitte on all matters pertaining to 2016.

Material Risk Takers

The following groups of individuals have been identified as Material Risk Takers (“MRTs”) being those employees whose professional activities may have a material impact on the risk profile 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
- 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

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.

Remuneration at Santander UK is made up of fixed and variable performance related pay, except for non-executive directors who receive a fixed fee. 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 generally.

In response to regulatory requirements, during 2016 the Committee further strengthened provisions which allow Santander UK to reduce or cancel variable pay awards for up to ten years after they are awarded.

Design and structure of remuneration

In 2016 Santander UK replaced the annual and long-term incentive arrangements with a single variable pay plan. As such the individual elements of employees' remuneration packages now comprise fixed pay (base salary, retirement and other benefits) and performance related variable pay (including deferred awards).

The performance-related elements of the package make up an appropriate proportion the total remuneration of the Company's senior executives and senior employees, up to a maximum of 2:1 variable pay-fixed pay, in line with the regulatory limit and approved by shareholders of Banco Santander, S.A.

Details of 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, with reference to the specific market for the business in which an individual works, the approach to employee pay throughout the organisation 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.

b) Variable pay plan

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. Payments for Material Risk Takers are spread over the long-term and may be adjusted subject to performance and risk.

During 2016, the Company operated two variable plans in which Material Risk Takers participate, these were the Variable Pay Plan and SGCB Variable Pay Plan for employees in the Santander Global Corporate Banking business.

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 measures are based on Santander UK's strategy and for 2016 related to customers, employees, communities, risk, capital and profitability. Performance is measured on a quantitative and qualitative basis, and 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 factors including conduct].

- For the most senior participants 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.

SGCB Variable Pay Plan

- Employees in the Santander Global Corporate Banking business participate in the SGCB Variable Pay Plan which rewards the financial and non-financial performance of SGCB. Performance is measured on a quantitative and qualitative basis and for 2016 the metrics related to customers, employees, capital and profitability. 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 factors including conduct].

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

- All variable payments to Material Risk Takers, including both the upfront and deferred portion, are delivered 50% in cash and 50% in Banco Santander, S.A. shares, the necessary approvals from shareholders having been obtained.
- The amount of bonus to be deferred is based on the total variable pay received (either 40% or 60%).
- Deferred awards vest on a pro rata basis and in line with the Remuneration Code whereby for those on 3 year deferral, a third vests each year after the award. For those on a 5 year deferral period, a fifth vests each year after the award, and for those subject to 7 year, none of their deferred award vests in the first two years after the award and then a fifth vests each subsequent year.

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 Banco Santander, S.A. group's and the Company's rules on performance adjustment, malus and claw-back.

c) Long-term incentives

As noted above, in 2016 the long-term incentive was removed from the variable pay framework for future performance years. However, awards from 2014 and 2015 remain outstanding.

- The two outstanding tranches of the 2014 award will vest in July 2017 and July 2018 respectively, subject to a relative TSR performance measure.
- The 2015 award will vest in 2019, subject to the satisfaction of EPS, ROTE, employee satisfaction, customer satisfaction and customer loyalty performance conditions over the three year performance period (2016-2018).

Awards, under both outstanding LTIP cycles will be entirely received on a deferred basis, paid in at least 50% non-cash instruments, and will be subject to performance adjustment, which includes malus and clawback provisions.

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. The Company's rules governing the risk adjustment policies and processes in place are set out in Santander UK Risk Adjustment Standard, which is linked to the Santander UK Risk Appetite and is adopted and reviewed annually by the Committee.

In addition, the Company has appropriate policies and processes in place to implement performance adjustment to individual variable remuneration awards in certain circumstances. The Company's rules concerning performance adjustment are set out in the Santander UK Performance Adjustment Standard adopted and reviewed annually by the Committee.

In 2016, the Company updated the process for determining whether or not any remuneration adjustment should be applied to an individual's remuneration to include the introduction of a matrix to consistently calibrate risk events.

The Remuneration Committee receive regular updates on risk from the Chief Risk Officer, and members of the Company's Board Risk Committee sit on the Remuneration Committee. 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.

PART 2 - QUANTITATIVE REMUNERATION DISCLOSURE

The Company is required to disclose aggregate quantitative remuneration information for its Material Risk Takers (MRTs) in the years ended 31 December 2015 and 2016. At 31 December 2016, there were 34 Material Risk Takers (MRTs) (2015: 33) who had been identified as Key Management Personnel and 145 other Material Risk Takers (MRTs) (2015: 142).

Aggregate remuneration expenditure

Aggregate remuneration is made up of total fixed and variable remuneration awarded in respect of the 2016 and 2015 performance years as follows:

Business Area	2016 £'000	2015 £'000
Other (Corporate Functions and Retail)	63,100	54,403
Global Corporate Banking	36,463	33,189
Commercial Banking	6,660	2,878

The "Other" business area category includes Material Risk Takers in segments outside the Corporate & Institutional Banking and the Commercial Banking, such as: Control Functions, Corporate Affairs & Marketing, Corporate Services, Technology & Operations, Human Resources, Legal & Secretariat, Retail Banking and Non-Executive Directors.

Amounts and form of fixed and variable remuneration

a) Fixed remuneration

Total fixed remuneration paid in 2016 and 2015 (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:

	2016 £'000	2015 £'000
Key Management Personnel	15,701	13,726
Other Material Risk Takers (MRTs)	38,404	36,970

b) Total variable remuneration (including total deferred remuneration)

Variable remuneration payable in respect of 2016 and 2015 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 2016 performance year

	Key Management Personnel £'000	Other Material Risk Takers (MRTs) £'000
Variable remuneration		
- Upfront Bonus in cash	3,640	8,761
- Upfront Bonus in shares	3,640	8,657
- Long-term incentives in shares	0	0
- Deferred Cash	4,922	6,866
- Deferred Shares	4,922	6,866
Total variable remuneration	17,124	31,150

Variable remuneration awarded in respect of 2015 performance year

	Key Management Personnel £'000	Other Material Risk Takers (MRTs) £'000
Variable remuneration		
- Upfront Bonus in cash	1,936	7,085
- Upfront Bonus in shares	1,936	5,145
- Long-term incentives in shares	1,414	4,002
- Deferred Cash	2,588	5,225
- Deferred Shares	2,588	7,128
Total variable remuneration	10,462	28,585

c) Outstanding deferred remuneration

This refers to deferred remuneration awarded in respect of the 2016 performance year, as well as that paid out during the year in respect of previous years' deferrals and all unvested remuneration on 31 December 2016. 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.

2016 category of deferred remuneration

	Key Management Personnel £'000	Other Material Risk Takers (MRTs) £'000
Paid out from prior years ⁽¹⁾	3,687	7,070
Amount by which payouts from prior years were reduced by performance adjustments ⁽²⁾	300	982
Unvested at year end awarded in 2016 ⁽³⁾	9,844	13,732
Unvested at year end awarded in previous years ⁽⁴⁾	6,545	14,898

(1) Deferred cash and shares from 2013, 2014 and 2015 bonus paid in 2016.

(2) Value of long-term incentive shares or deferred cash delivered in 2016 that either lapsed or were reduced as a result of performance conditions not being satisfied or claw back policy.

(3) Value of both deferred and long-term incentive shares unvested at 31 December 2016 plus deferred cash outstanding from award in respect of 2016 performance.

(4) Value of both deferred and long-term incentive shares unvested at 31 December 2016 plus deferred cash outstanding from previous bonuses. Does not include remuneration awarded in respect of 2016 performance.

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

Payments totalling £3,210,895 were made to 11 Material Risk Takers (MRTs) employees during the year (2015: £3,345,875 to 12 employees) in respect of buying-out deferred compensation from previous employers. Severance payments totalling £3,075,206 were made to 13 Material Risk Takers (MRTs) employees during the year (2015: £2,334,581.84) in aggregate. The highest severance payment made was £1,100,000.

2016 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 £33,362 (2015: £32,025).
- 3,522 (2015: 3,450) employees earned total remuneration between £50,000 and £100,000.
- 1,408 (2015: 1,230) employees earned total remuneration between £100,000 and £250,000.
- 318 (2015:288) employees earned total remuneration over £250,000.

Total remuneration by band for all employees earning more than €1 million⁽¹⁾⁽²⁾⁽³⁾ as at 31 December 2016

Total Remuneration Band	Nos. of employees	
	2016	2015
€1,000,000 - €1,500,000	15	12
€1,500,001 - €2,000,000	5	11
€2,000,001 - €2,500,000	3	1
€2,500,001 - €3,000,000	-	-
€3,000,001 - €3,500,000	-	-
€3,500,001 - €4,000,000	1	-
€4,000,001 - €4,500,000	2	1
€4,500,001 - €5,000,000	-	-
➤ €5,000,001	1	-
Total	27	25

(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 2016) after any application of clawback.

(2) Excludes 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 = €1.17904 EUR using the rates published by the European Commission for financial programming and budget for December 2016 as published on their website.

Appendix 2

Banco Santander S.A. Group 2016 Consolidated Remuneration Disclosures (Extract)

The remuneration by salary band of the Banco Santander S.A Group employees who earned more than one million euros in 2016 can be found on the Banco Santander S.A Group 2016 Pillar III disclosures at https://www.santander.com/cs/gs/Satellite/CFWCSancomQP01/en_GB/Corporate/Shareholders-and-Investors/Economic-financial-information/Pillar-III-disclosures-report.html