

SANTANDER UK PLC
(the Ring-Fenced Bank (“RFB”))
BOARD REMUNERATION COMMITTEE

(the “Committee”)

TERMS OF REFERENCE

Approved by the Board of Directors of Santander UK plc (the “**Board**”) on 30 December 2019.

1. AUTHORITY

- 1.1 The Committee is a committee of the Board, from which it derives its authority and to which it regularly reports.
- 1.2 The Committee may sub-delegate all or any of its responsibilities as it sees fit, including without limitation, to a sub-committee established for a specific purpose, or the Chair.
- 1.3 The Committee has authority to investigate any matter relating to the RFB, its subsidiaries and subsidiary undertakings (together the “RFB Sub-group”) within its Terms of Reference and to obtain such information as it may require from any Director, officer or employee of the RFB Sub-group or Santander UK Group Holdings plc (“HoldCo”, and, together with its subsidiaries and subsidiary undertakings, the “HoldCo Group”).

2. SCOPE

- 2.1 The scope of the Committee is to maintain oversight of, consider and adopt remuneration policies and frameworks for employees of:
 - 2.1.1 the RFB Sub-Group; and
 - 2.1.2 the RFB’s ultimate shareholder, Banco Santander S.A. (“Banco Santander”) who have been seconded to the RFB Sub-group to assume positions which have a material impact on the RFB Sub-group’s risk profile (having regard to ring-fencing requirements within the Prudential Regulatory Authority’s Rule Book).

3. RESPONSIBILITIES

- 3.1 The Committee has overarching responsibility to oversee, make recommendations to and implement HoldCo Group policies and frameworks and to approve remuneration arrangements for executives and senior employees across the RFB Sub-group.
- 3.2 With reference to the Ring-fenced Bodies Part of the Prudential Regulation Authority (“PRA”) Rule Book (the “Ring-Fencing Rules”), the Committee shall:
 - 3.2.1 have due regard of the interests of the RFB Sub-group and the wider Banco Santander group when making remuneration determinations for the RFB Sub-group;
 - 3.2.2 act in accordance with all relevant and applicable legislation, regulation and guidance, including those issued by the PRA and the Financial Conduct Authority (“FCA”) generally and the Remuneration Part of the PRA Rulebook and the FCA Dual-regulated firms Remuneration Code and FCA Remuneration Code on Remuneration and Performance Management (SYSC 19D and SYSC 19F) as amended (together “the Remuneration Code”); and
 - 3.2.3 give due consideration to law, regulations and any published guidelines regarding the remuneration of directors of listed and non-listed companies and formation and operation of share schemes to the extent appropriate to the RFB Sub-group’s

ownership structure including but not limited to the provisions of the UK Corporate Governance Code and associated Guidance on Board Effectiveness, the Wates Corporate Governance Principles for Large Private Companies, the Market Abuse Regulations and any other rules or guidance as the Committee considers appropriate.

3.3 Remuneration Policy

3.3.1 The Committee will:

- (i) Review, adopt and implement the HoldCo Group Remuneration Policy and Remuneration Governance Framework (the “RRGF”) or any other applicable remuneration policy or framework, with such amendments as reasonably required to reflect circumstances of the RFB Sub-group, in consultation with the HoldCo board Remuneration Committee (the “HoldCo Remuneration Committee”)
- (ii) Obtain assurance from the appropriate internal divisions (particularly Risk, Compliance and HR) that remuneration arrangements are consistent with and promote the sound and effective risk management of the RFB Sub-group. The Committee will receive assurance in relation to risk appetite and profile for the RFB Sub-group (taking into account current and future risks). The Committee will in turn provide the same assurance to the HoldCo Remuneration Committee.
- (iii) In relation to Material Risk Takers (“MRTs”), the Committee will oversee and approve the identification framework and process for determining Material Risk Takers (within the parameters permissible under the Remuneration Code) within the RFB Sub-group. Where appropriate, the Committee will receive assurance from the RFB’s Risk, Compliance and HR Divisions that the appropriate individuals within the RFB Sub-group have been identified in accordance with the Remuneration Code.
- (iv) Consider and approve the policy and principles to be applied to any performance-related pay schemes operated by the RFB Sub-group, in which MRTs of the RFB Sub-group participate, including the suitability of metrics, together with all customer facing reward schemes.
- (v) Undertake an annual review of workforce remuneration, related policies and the alignment of incentives and rewards with culture (all of which should be taken into account when setting the policy for executive remuneration specific to the RFB Sub-group. Any policy changes will be included in the overarching HoldCo Group remuneration policies and frameworks as applicable.

3.4 Remuneration Adjustment

3.4.1 The Committee shall determine and approve:

- (i) Ex-ante risk adjustment - the appropriate level of collective and/or individual risk adjustment for any variable remuneration schemes in which an MRT participates, taking into account current and future risks; and
- (ii) Ex-post risk adjustment - the appropriate level of any performance adjustment made to in-year awards, unvested awards, deferred awards or paid awards to individuals, including through the application of malus and/or clawback provisions; and
- (iii) The variable pay awards for relevant individuals as determined by the RRGF based on the RFB Sub-group’s performance, with risk adjustment based on factors/events related to the RFB and/or the RFB Sub-group.

3.4.2 For RFB Sub-group employees (e.g. Executive Directors and members of senior management) performing roles across the RFB Sub-group and HoldCo Group, the HoldCo Remuneration Committee may; review the variable pay awards proposed for these individuals and require ex-ante risk adjustment and ex post risk adjustments (including adjustments to in-year awards, malus and/or clawback) to such awards at its

discretion. Any such adjustments will be at the absolute discretion of the Committee, taking into account relevant incidents and factors (including performance) related to HoldCo Group members outside the RFB Sub-group (hereinafter referred to as the “Non-RFB Group”).

- 3.4.3 The Committee will ratify and/or validate any discretion applied by the HoldCo Remuneration Committee in respect of remuneration decisions for RFB Sub-group employees undertaking duties within the Non-RFB Group.
- 3.4.4 The Committee will regularly review the adequacy of the RFB Sub-group’s risk adjustment practices and, when necessary, it will require management to report on the results of their tests into how remuneration policies react to external and internal events (including how criteria used for determining awards and the ex-ante adjustment applied have been back-tested based on actual remuneration outcomes).
- 3.4.5 The Committee will have regard to current and future capital requirements and will assess the mechanisms and systems adopted across the RFB Sub-group to ensure that remuneration arrangements properly take into account all types of risk, liquidity and capital levels within the RFB Sub-group.

3.5 Specific Remuneration Arrangements

- 3.5.1 The Committee will, in consultation with the Board Chair (and, where appropriate, the CEO of the RFB) consider and approve the specific remuneration packages for certain employees (including executive directors, members of the Executive Committee, together with any other RFB Sub-group employee with designated Senior Management Function responsibilities) falling within the remit and threshold set out in the RRGF.
- 3.5.2 The Committee shall:
 - (i) Approve base salary, variable remuneration, pension and other benefits, any buy-outs of forfeited rights and/or termination payments.
 - (ii) Consider recommendations from Banco Santander in relation to remuneration arrangements for Banco Santander executive directors who are also captured by Non-RFB Group remuneration policies and practices.
 - (iii) In relation to any individual performing roles across the RFB Sub-group and Non-RFB Group, make decisions in relation to their remuneration arrangements (subject to the endorsement of the HoldCo Remuneration Committee).
 - (iv) Review and approve the Board Chair’s fee (subject to endorsement by the HoldCo Remuneration Committee). Remuneration packages for Non-Executive Directors are set by the Board.
 - (v) Review and propose the process for authorising directors’ expense claims for approval by the HoldCo Remuneration Committee.
 - (vi) In respect of other MRTs (in consultation with the CEO, where appropriate), consider and approve the specific remuneration packages for other MRTs of the RFB Sub-group in accordance with the thresholds set out in the RRGF as applied to the RFB Sub-group. This covers base salary, variable remuneration, pension and other benefits, any buy-outs of forfeited rights and/or termination payments.
 - (vii) Oversee and approve termination packages for employees within the RFB Sub-group, ensuring compliance with the RRGF and that any proposals relating to such payments ensure fairness, reflect performance achieved over time, avoid reward for failure and recognise the duty to mitigate loss.
 - (viii) In relation to control functions, oversee the approach to control function pay within the RFB Sub-group and will receive assurances that remuneration for senior employees in control functions is determined independently from other business areas.

- (ix) Take care to recognise and manage conflicts of interest when receiving views from executive directors or senior management, or consulting with the CEO about senior management proposals.

3.6 All-employees

- 3.6.1 The Committee will annually review the overall remuneration policy of the RFB Sub-group.
- 3.6.2 The Committee will review the HoldCo Group's pension policy in light of legislative and market changes and will oversee and propose to the HoldCo Group Remuneration Committee any material changes to be applied in relation to the RFB Sub-group.
- 3.6.3 The Committee will consider and oversee any new long term incentive arrangements proposed to be operated in the UK for the benefit of employees of the RFB Sub-group.

3.7 Monitoring & Assurance

- 3.7.1 The Committee will annually undertake a review of the general principles of remuneration frameworks and policies applicable to the RFB Sub-group (including the application of the RRGF), taking the following into consideration:
 - (i) whether the RFB complies with remuneration-related UK legislation and regulation as appropriate including the Remuneration Code and relevant PRA Ring-Fencing Rules; and
 - (ii) whether the RFB complies with the UK Corporate Governance Code to the extent appropriate to its ownership structure.
- 3.7.2 The Committee will annually review the RFB's remuneration policies, practices and procedures to satisfy itself that these arrangements, and will:
 - (i) Continue to be aligned with and promote the business strategy, objectives, values and long-term success of the RFB and the RFB Sub-group,
 - (ii) Continue to be consistent with and promote sound and effective risk management, and appropriate behavioural performance, and do not encourage risk-taking that exceeds the level of tolerated risk of the RFB or the RFB Sub-group,
 - (iii) Not encourage the RFB or RFB Sub-group to bear any risk that would undermine its ability to comply with any ring-fencing obligation,
 - (iv) Continue to ensure that performance targets are transparent, stretching and rigorously applied; and
 - (v) Ensure that levels of remuneration are sufficient to attract, retain and motivate executive Board members and other senior executives of the quality required to run the RFB successfully.
- 3.7.3 Annually, the Committee will ensure that the remuneration policy, procedures and practices are subject to a central and independent review to assure that they (a) comply with all relevant remuneration-related regulations, and that (b) the procedures and activity of the Committee comply with the remuneration policy. The Committee will review any material issues arising from the review and ensure that any remedial actions are implemented on a timely basis.

4 MEMBERS

- 4.1 The Committee shall be made up of at least three members, all of whom shall be Independent Non-Executive Directors¹. At least one member shall be an RFB Double Independent² Non-Executive Director.
- 4.2 Members of the Committee shall be appointed by the Board (upon recommendation of the Board Nomination Committee) and in consultation with the Committee Chair. Members of the Committee will have collectively appropriate knowledge, expertise and professional experience concerning remuneration policies and practices, risk management and control activities relevant to the alignment of the RFB Sub-group's remuneration arrangements with its risk and capital profiles.

5 ATTENDEES

- 5.1 Only members of the Committee have the right to attend Committee meetings. However, standing attendees will include the Board Chair, CEO, Chief HR Officer, Performance Reward Director and external advisers. The Committee Chair retains the discretion to invite any other individual to observe or present at Committee meetings (subject to any conflicts of interests).

6 CHAIR

- 6.1 Upon recommendation of the Board Nomination Committee, the Board shall appoint the Committee Chair who shall be an Independent Non-Executive Director. Before appointment as Committee Chair, the appointee should have served on a remuneration committee for at least twelve months.
- 6.2 In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

7 QUORUM

- 7.1 The quorum necessary for the transaction of business shall be two members, one of whom must be a Double Independent Non-Executive Director. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

8 SECRETARY

- 8.1 The Secretary of the Committee shall be a member of the Secretariat as agreed with the Committee Chair.

9 MINUTES

- 9.1 The Secretary of the Committee shall minute the proceedings, which shall be circulated promptly to all members of the Committee, once agreed by the Committee Chair, and to all members of the Board (subject to any actual or potential conflicts of interest restricting such circulation).

¹ INED has the meaning set out at section D.2.(ii) (B) of the UK Group Framework dated 5 December 2019.

² Double Independent Non-Executive Directors are those RFB INEDs that are a senior management function holder for the RFB and not also an employee or director of any other member of the RFB group other than an RFB affiliate.

10 NOTICE AND FREQUENCY OF MEETINGS

- 10.1 The Committee shall meet at least four times a year at appropriate times as determined by the Committee Chair and otherwise as required. Meetings of the Committee and the HoldCo Committee may be held concurrently but the Committee shall hold at least two separate meetings each year to consider matters that relate to the RFB alone.
- 10.2 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Committee Chair or any of its members.
- 10.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and, as appropriate, any other person required to attend, no later than five calendar days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

11 ADVICE

- 11.1 The Committee is authorised to obtain any information it requires from any employee of the HoldCo Group in order to perform its duties and, at the RFB's expense, obtain outside legal or other professional advice on any matter within its Terms of Reference. The Committee will ensure the proper involvement of control and other functions (e.g. HR and Legal) within their respective areas of expertise. The Committee is also authorised to select, appoint and set the terms of appointment for any external advisers to the Committee.

12 GENERAL MATTERS

- 12.1 The Committee shall:
- (i) Have access to sufficient resources to carry out its duties, including access to external advisers, Secretariat, Human Resources, Legal and Risk functions for assistance as and when required.
 - (ii) Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
 - (iii) Give due consideration to law and regulations, as appropriate.
 - (iv) Oversee any investigation of activities which are within its Terms of Reference.

13 REPORTING RESPONSIBILITIES

- 13.1 The Committee Chair (or their elected nominee) shall report to the Board on the Committee's proceedings after each meeting.
- 13.2 The Committee shall where appropriate make recommendations to the Board on any area (particularly in respect of external remuneration disclosures) within its remit. This will include:
- (i) reviewing and approving the relevant sections of the HoldCo Group annual Remuneration Policy Statement, regulatory disclosures relating to the RFB Sub-group as required by the UK regulators and the Committee Chair will be available to meet with the UK regulators to discuss regulatory submissions and related issues relating to the RFB Sub-group;
 - (ii) receiving assurance that adequate information on remuneration policies and practices within the RFB Sub-group is provided to Banco Santander and/or HoldCo in a timely manner to ensure they meet their regulatory obligations;
 - (iii) providing assurances to the HoldCo Group Remuneration Committee that remuneration practices are aligned with HoldCo Group remuneration framework

- principles;
- (iv) reviewing and approving the contents of the Directors' Remuneration Report to be included in the RFB's Annual Report (taking advice to ensure compliance with applicable legislation and regulation as appropriate);
 - (v) reviewing and approving the Gender Pay Gap report; and
 - (vi) reviewing any other significant remuneration disclosures as required by regulation from time to time.

13.3 The Committee shall work and liaise as necessary with all other committees of the Board.

14 CHANGES TO THE TERMS OF REFERENCE

14.1 These Terms of Reference shall be reviewed annually by the Committee and any proposed amendments will be recommended to the Board for approval.