



# Remuneration Report 2021

NORTHERN BANK LIMITED

## INTRODUCTION

Northern Bank Limited t/a Danske Bank is a leading bank in Northern Ireland and a growing bank in Great Britain. We are an autonomous subsidiary of the Danske Bank Group, one of the largest financial enterprises in Scandinavia. We have been helping people and businesses thrive for over 200 years.

We serve the needs of our personal and business customers through our branches, our regional business centres, telephone banking and a wide range of digital banking channels.

We get the best of both worlds – the strength and technology of a strong international parent, combined with our local presence, local decision-making and local expertise.

We play a fundamental role in driving Northern Ireland’s growth by lending to people and businesses. We also believe we have a fundamental responsibility to ensure we are contributing to the wider society that we serve and the local communities we are a part of. How we do business, is as important as the business we do.

Our Vision is to be Leader in NI, Challenger in GB, Driving Sustainability; our Purpose is helping customers, colleagues and society thrive.

2021 was characterised by the sporadic and gradual re-opening of our communities and also the vaccination programme. During the year the recovery in our economy became evident with strong labour markets and a recovery in consumer confidence; albeit consumer confidence began to reduce again towards the end of the year when escalating inflation, fears of increased energy prices and the new omicron variant emerged. Like our customers, the Bank has continued to be challenged by the impacts of the pandemic and supply chain issues. Combining this with the continuing record low interest rate environment Operating Profit continued to be lower compared with performance in 2019.

In 2021 Origins our race equality network joined our gender, disability and LGBT+ networks as the Bank continued to make good progress in becoming a place for all colleagues to feel free to be seen the way they want to be seen, to be validated and know that their voice matters. Gender diversity is at the core of our Belong strategy, and in 2021 we appointed the Bank's first female CEO in its more than 200 year history.

There were also changes to our business structure and our executive leadership team, to drive forward our 5 Strategic Priorities – Leader in NI; Challenger in GB; Sustainable and Responsible; Digitise and Simplify; Best Place to work.

In 2021 the Bank participated in the Best Companies survey for the first time and our staff told us that the Bank was an 'Outstanding Place to Work' and we are in the top five Best Places to work in Northern Ireland.

The financial sector is subject to increasing regulation on remuneration, i.e. incentives to 'bankers'. Most of this regulation is initiated to ensure public trust in our sector and it strongly influences and governs how incentives can be put into practice.

Remuneration policy and practices evolve over time to reflect the Bank's changing priorities and the regulatory frameworks, however, it will always adhere to the Bank's objectives of good corporate governance and promoting sound and effective risk management related to remuneration matters.

## REMUNERATION POLICY

The Bank's Remuneration Policy supports the business strategy, objectives, core values and long-term interests of the Bank and the shareholders of the Danske Bank Group, of which the Bank is a part.

The Policy outlines the principles for remuneration of the Non-Executive Directors, Executive Committee and other staff members, and it is consistent with the Danske Bank Group remuneration policy.

Non-Executive Members of the Board of Directors who are not employed by a Group Company (Board member) receive a fixed fee. Non-Executive Board Members are not covered by incentive programmes and do not receive performance-based remuneration.

The basic fee of a Non-Executive Board member is set at a level that is in accordance with the market and reflects the qualifications and contribution required in view of the Bank and the Group's complexity, the extent of the responsibilities and the number of Board meetings. No pension contributions are payable on Board members' fees.

## GOVERNANCE AND DECISION MAKING PROCESSES

The Board of the Bank has an established Remuneration Committee (RemCo).

The RemCo is instrumental in the Board's fulfilment of its governance responsibilities relating to the Bank's compliance with legal and regulatory requirements with regard to the remuneration of employees and, in particular, the alignment of performance related pay with the long-term interests of the Bank and its policy on risk and stakeholders in the Bank.

The purpose of the Committee is to recommend for the approval of the Board the overarching principles and governance framework of the Bank's remuneration policy, and to approve the remuneration outcomes for 'Code Staff' – defined by the UK FCA / PRA Remuneration Code as senior management and other members of staff whose actions have a material impact on the risk profile of the credit institution'.

The Chairman of the Committee and Committee members are appointed by the Board and may be removed by the Board at any time. The Committee is composed of no less than three members including the Chairman of the Committee (the Chairman). The members of the Committee, including the Chairman, are members of the Board who do not perform any executive function. One member of the Committee is also a member of the Board Risk Committee.

Members of the Committee during 2021 were as follows:

Name	Membership Status
Martin Stewart (Chairman)	Appointed by the Board as a Member since January 2020 and Chairman since since February 2021
Gerald Gregory	Appointed by the Board as a Member in 2010 and Chairman from September 2018 – February 2021
Astrid Grey	Appointed by the Board as a member since February 2020

**Martin Stewart** is a former Director of Banks, Building Societies and Credit unions at the PRA. During his career he has led the redefinition and implementation of the UK's post-financial crisis prudential regulatory regime, initially as Head of UK banks and Mutuals and then as Director of Banks, Building Societies and Credit Unions at the PRA. He is a leading figure in UK financial services with extensive business experience. In addition to the Bank Board he is a Non-Executive Director and Chair of the Board Risk Committee of Coventry Building Society.

**Gerald Gregory** is the Bank's Chairman. He has significant and detailed experience in financial services having held a number of senior executive and non-executive positions in the sector in the UK, including that of Managing Director of a large Mutual.

**Astrid Grey** is a former senior executive of a large UK banking group and has extensive United Kingdom (UK) and international knowledge and experience of financial services, with particular regard to risk. In addition to the Bank Board, Astrid is a non-executive director of Hampshire Trust Bank Plc and Non-Executive Director and Chair of the Risk Committee and Deputy Chair of CAF Bank Limited.

The Remuneration Committee as a whole has an experienced blend of commercial, financial, leadership, regulation and risk expertise to assess the issues it is required to address. It has the support of a committee of specialists from HR, Risk, Compliance, Finance and Legal Departments, which is chaired by the HR Director. The Company Secretary, or appointed deputy, acts as Secretary and attends all meetings.

The Chairman may invite any Director, executive, or Head of Internal Audit, to attend and participate in any meeting(s) of the Committee as they may from time-to-time consider desirable to assist the Committee in the attainment of its purpose.

The Committee meets as often as necessary but not less than twice a year and where appropriate meetings are arranged to tie in with the publication of the Bank's financial statements. During 2021, the Committee had four scheduled meetings. All four meetings had 100% attendance. In 2021, the Committee covered a broad spectrum of Remuneration matters including but not limited to:

- The CRO's review of the risk that the performance management and variable remuneration frameworks incentivise inappropriate behaviours or culture;
- Exceptional Remuneration reviews for staff in critical functions (noting that no review was required for the CEO and his Direct reports (including the variable pay awards under the Senior Management Bonus Programme 2019) as a result of the agreement with the FSU in late 2020);
- The NBL Remuneration Report;
- For approval, the Bank's remuneration Policy;
- The categorisation of Material Risk Takers;
- Review of Chair and Non-Executive Director Remuneration Policy and Fee Review Framework;
- Review of the Committee Charter to align it with the other Board Committee Charters and with existing practice;
- Consideration of market insights and the future of reward;
- Overview of FSU Measures agreed and market insight into competitor remuneration arrangements;
- Consideration of the outputs of CRDV and the impacts on NBL;
- Discussion on Remuneration Committee purpose including discussion on strategic issues, market practice & leading the way in terms of remuneration;
- Consideration of flexible benefits;
- Consideration of the variable remuneration strategy for 2022 and beyond.

It was noted that consideration of the Gender Pay Gap Report (not a statutory requirement in Northern Ireland) and Board and Executive Director Succession Planning was transferred to Nominations Committee, the creation of which was approved by Board on 9 December 2020.

## REMUNERATION PRACTICES

The Bank's overall remuneration practices are anchored in the remuneration policy, and current governance is mainly targeted towards the remuneration of the Executive Committee of the Bank, Senior Managers and those employees who have been designated in accordance with regulation as Material Risk Takers, i.e. those who take decisions that have the greatest impact on the Bank.

## REMUNERATION PRINCIPLES

The Bank offers a competitive and market aligned remuneration package, which is designed to ensure that the Bank is able to attract, develop and retain high performing and motivated employees in a competitive market.

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the individual's role within their business unit and the Bank, as well as the market. The remuneration components are:

### Fixed remuneration (including non-pensionable supplements)

All employees in the Bank receive a fixed salary, which may include non-pensionable elements. This is determined on the basis of the role of the individual employee and its relative position in the internal hierarchy; the Bank use a globally recognised job evaluation methodology to create an internal hierarchy. The salary level is reviewed annually with no guaranteed increase for employees.

### Variable remuneration

The Bank operates variable remuneration arrangements for all staff or specific groups of staff to incentivise and reward individual and / or team performance. These arrangements are Short Term Incentives, which are designed to attract and retain high-performing employees who take an active part in achieving the goals of the Bank while at the same time embedding customer centric behaviours and balancing individual risk taking against performance targets.

In 2021 the majority of employees participated in a team and cash based arrangement that was linked to the achievement of outstanding customer satisfaction, and 'good role model behaviours'.

Variable Pay for the Executive Committee and Senior Managers is through a Short Term Incentive Programme based on the performance of the Danske Bank Group, the Bank, and individual performance.

The Performance of the Group and the Bank determines the available Pool for distribution. The on target Bonus Pool available is adjusted on the basis of actual performance against the specified weighted KPIs, between 0% and 100% of target performance.

Business Area	KPIs 2021	Weighting 2021	
		Within Section	Overall Section
Group	ROE	50%	10%
	Profit After Tax & Impairments	50%	
Bank	Risk	10%	90%
	Conduct Risk	10%	
	CSAT PB&SB	10%	
	CSAT Corp Banking	10%	
	ESG	10%	
	ROE (PBT)	25%	
	Local Operating Expenses	25%	

The financial KPIs of the Danske Bank Group and the Bank are measured on the annual results audited by the Bank's external auditors. The Customer Satisfaction and ESG KPIs are measured by external third parties.

As how we do business is as important as the business we do, individual targets are qualitative as well as quantitative, e.g. personal and corporate conduct, approach to risk, compliance with regulation and internal rules, as well as overall value contribution.

The value of individual awards is based on individual performance that is measured through the My Journey performance and engagement process that is in operation at all levels in the Bank. This framework assesses performance on both the 'How' and the 'What'. The maximum award with an on-target pool is 50% of base salary, and only those who are a 'Good role model' or better on the 'How' assessment are eligible for an award.

## Assessing the 'What'

	Leads the way	Over delivers	Hits the mark	Work to do	Under achieving
<b>Contribution</b>	Overall contribution significantly surpassed expectations and peer contributions	Overall contribution surpassed expectations	Achieved success in role and met expectations	Did not achieve all that was required	Did not achieve results
<b>Objectives</b>	Consistently achieved exceptional results	Regularly achieved more than expected	Achieved expected results	Did not achieve the desired results	Did not achieve results
<b>Quality</b>	Quality of work was consistently of an exceptional standard	Quality of work regularly exceeded the required standard	Good quality of work that met the required standard	Quality of work did not regularly meet required standard	Quality of work was unsatisfactory and did not meet the required standard
<b>Team</b>	Prioritised active partnerships with team members	Strongly focused on active partnerships with team members	Maintained active partnerships with team members	Did not adequately invest in active partnerships with team members	Did not invest in active partnerships with team members
<b>Competency</b>	<b>Green</b> Complies with the letter and spirit of all role obligations* All risk training objectives identified as part of their role have been completed	<b>Amber</b> Having previously been aware of role obligations*, requires intervention to achieve compliance. Largely meets risk training objectives identified as part of their role.		<b>Red</b> Displays little respect for role obligations*. Has purposefully acted against risk principles/procedures/advice or a breach has resulted in formal disciplinary action. Fails to meet risk training objectives.	

## Assessing the 'How'

	Inspiration to others	Strong role model	Good role model	Room to grow
<b>Culture Commitments</b> • Team up • Own it • Be open	Lives and breathes the culture commitments and inspires others at all times  Maximises team engagement across the organisation and empowers colleagues and teams to reach their full potential  Actively champions the Responsible Business ethos of the bank  Exceptionally motivated and positive approach	Strong and consistent demonstration of Danske Bank culture commitments  Strong team engagement and enables colleagues and teams to reach their full potential  Encourages support for the Responsible Business ethos of the bank  Consistently displays high motivation and positive approach	Behaviours demonstrate Danske Bank culture commitments  Actively engaged and collaborates with team to achieve their collective potential  Behaviours aligned with Responsible Business ethos of the bank  Motivated with a positive approach	Behaviours not always consistent with Danske Bank culture commitments  Does not adequately engage and contribute to team achieving their full potential  Does not conduct themselves in accordance with the Responsible Business ethos of the bank  Limited motivation and/or positivity
<b>Conduct</b>	Unwavering in ensuring appropriate and fair outcomes for customers	Prioritises achieving appropriate and fair outcomes for customers	Focused on achieving appropriate and fair outcomes for customers	Is not focused on achieving appropriate and fair outcomes for customers
<b>Customer First</b>	Relentlessly seeks opportunities and acts to drive improvements in the customer/colleague experience in all activities	Consistently acts to drive improvements in the customer/colleague experience	Takes opportunities to drive improvements in the customer/colleague experience	Infrequently takes actions to drive improvements in customer satisfaction and the all-round experience for customers/colleagues
<b>Perform and Grow</b>	Has a growth mindset and proactively seeks and creates opportunities to deliver added value	Has a growth mindset: creates and takes opportunities to deliver added value	Has a growth mindset and takes opportunities to deliver added value	Doesn't take opportunities to deliver added value and/or develop professionally and personally
<b>Transform and Innovate</b>	Proactively seeks opportunities internally/externally to innovate; actively challenges the status quo	Often seeks opportunities to innovate	Takes action to innovate when opportunities arise	Minimal evidence of innovation
<b>Deliver at Pace</b>	Unceasingly and proactively demonstrates capability and capacity to accelerate the delivery of solutions and outcomes	Regularly demonstrates capability and capacity to accelerate the delivery of solutions and outcomes	Demonstrates capability and capacity to accelerate solutions and outcomes at key times	Limited evidence of capability and capacity to accelerate delivery of solutions and outcomes
<b>Expect to Win</b>	Role models a winning mindset ensuring what is done is as important as how it is done and learns when there isn't a win	Consistently displays a winning mindset ensuring what is done is as important as how it is done and learns when there isn't a win	Demonstrates a desire to win, understanding that what is done is as important as how it is done and learns when there isn't a win	Rarely displays a winning mindset and/or doesn't give equal importance to what is done and how it is done

Awards to employees who are Executive Directors are split 50%/50% cash and shares and 60% of the award is subject to 7 year deferral with proportionate vesting beginning 3 years after the award is made. Awards to employees who are PRA or FCA Senior Manager Function holders are split 50%/50% cash and shares and 40% of the award is subject to 5 year deferral with proportionate vesting beginning 1 year after the award is made. Awards made to MRTs and all other participants are split 50%/50% cash and shares and 40% of the award is subject to 4 year deferral with proportionate beginning 1 year after the award is made.

Guaranteed Variable Remuneration is granted only in exceptional cases in the first year after recruitment and is paid in line with the Regulator's guidance on such payments.

## Benefits

Benefits, for example pension contributions, paid annual leave, sick pay, family friendly flexibility and healthcare are offered to all employees. Certain benefits are offered to different groups of employees e.g. Company cars or cash equivalent, to ensure competitive remuneration packages to attract and retain employees.

## RISK IMPACT OF REMUNERATION

The primary risk related to the Bank's remuneration is the link with variable remuneration. In conjunction with Danske Bank Group the Bank has deployed different mechanisms to ensure that variable remuneration does not incentivise excessive risk taking.

The My Journey performance and engagement process focussed on the individual recognises that what we do and how we do it are equally important. It is built from our core values, our conduct commitment and the 5 behaviours on our culture wheel that we value as an organisation. The goal and objective setting enables individuals to understand the strategy, corporate plan and the priorities, agreed by the Board within the Bank's risk appetite, and the team and individual contribution required.

There is a well-balanced distribution between fixed and variable remuneration and a maximum cap on incentives at 50% of base salary.

Performance based incentives for the Executive Committee and Senior Managers are split between cash and shares; the shares constitute 50% of the total variable remuneration. To encourage sustainable and long-term value creation at least 40% of variable remuneration (cash and shares) is deferred for between 4 and 7 years (dependant on role within the Bank).

Deferred shares are restricted from transaction for 12 months after disbursement. The deferred remuneration is disbursed only to the extent to which the criteria for the original granting are still fulfilled. Therefore, disbursement may lapse in part or in full. In addition, disbursed and deferred variable remuneration is subject to clawback, if there is evidence that the granting of the remuneration was made on a false basis.

In 2021 no retained or deferred performance based remuneration was forfeited, by any current or former employee.

Annually the Chief Risk Officer addresses the RemCo in respect of the risk that the performance management and variable remuneration processes incentivise inappropriate behaviours or foster the development of negative culture within the Bank. His evaluation of the processes in place during 2021 is that they were considered to be appropriate and, that My Journey, the Bank's approach to assessing performance, is a strong tool to ensure that employees maintain focus on good conduct and customer outcomes in the longer term.

Awards were made through both the team and individual incentive arrangements for performance during 2021.



## MATERIAL RISK TAKERS

The FCA aligns the remuneration provisions in their Handbook with the European Banking Authority (EBA) guidelines on sound remuneration policies. The Bank is required to comply with Chapter 19D of the Senior Management Arrangements, Systems and Controls 'Dual-regulated firms Remuneration Code' (the Code).

The Bank has in place a procedure to identify employees 'whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile, in accordance with Chapter 3 of the Remuneration Part of the PRA Rulebook as updated in December.

This procedure involves the close co-operation between Senior Managers within significant business units, HR and Risk and Compliance, and enables the continuous evaluation of regulatory guidelines and business practices to ensure an appropriate interpretation of such guidelines.

As of December 2021 the number of designated material risk takers was 66.

## QUANTITATIVE INFORMATION RELATING TO 2021

For the purposes of providing this quantitative information, pursuant to Article 450 (1)(g) and (h) CRR, the Bank as a Retail Bank is considered as a single business unit.

The following remuneration components operated in the year ended 31 December 2021 and are included in the information:

- Fixed Remuneration (including non-pensionable supplements);
- Variable Remuneration;
- Pension Benefits; and
- Other Benefits.

Aggregate remuneration is shown below for Senior Management Function holders (SMFs) and Other Material Risk Takers (other staff in addition to SMFs whose actions have a significant impact on the risk profile of the firm).

Aggregate Remuneration includes fixed remuneration, non-pensionable supplements, variable remuneration, pension and other benefits and severance payments.

	Senior Managers	Other MRTs	Total
<b>Number</b>	<b>19</b>	<b>122</b>	<b>141</b>
Aggregate Remuneration	£4,721,627.77	£8,001,737.07	£12,723,364.84
Aggregate Fixed Remuneration	£3,548,174.11	£5,395,312.79	£8,943,486.90
Aggregate Variable Remuneration*	£509,020.00	£1,217,283.01	£1,726,303.01

\*8 Senior Managers and 107 Other MRTs received Variable Remuneration

Information in relation to the aggregate remuneration of all Bank employees can be found in the Report and Financial Statement for Year Ended 31 December 2021.