

Remuneration Report 2017

Introduction

Danske Bank a leading retail bank in Northern Ireland, with around 1,400 employees and a network of 44 branches and three regional business centres across Northern Ireland. We are part of the Danske Bank Group which is headquartered in Copenhagen and is a leading financial institution in the Nordic countries and operating in 15 countries.

Our Vision is to be recognised as the best bank in Northern Ireland for our customers, employees, stakeholders and society.

The financial sector is subject to increasing regulation on remuneration. 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.

Northern Bank Remuneration Policy

The Northern Bank Limited Remuneration Policy supports the business strategy, objectives, core values and long-term interests of Northern Bank Limited 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 remuneration policy.

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

The basic fee of a 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 Northern Bank Limited has established a Remuneration Committee.

The Remuneration Committee (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 recommend for the approval of the Board, 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 at least two 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.

The Committee 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 s/he 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 2017, the Committee has held four meetings.

In 2017 the Committee considered

- Whether the Bank should adopt a proportionate approach in line with PRA Supervisory Statement SS2/17 on Remuneration.
- A new Incentive Structure for Senior Managers
- The remuneration structure for designated Control Functions that are excluded from variable remuneration
- Base salary and variable pay levels for members of the Executive Committee and Senior Managers

The Remuneration Committee Charter and the Remuneration Policy are reviewed annually.

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 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)

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 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.

Incentives for Senior Managers are based on the performance of the Danske Bank Group, Northern Bank Limited and individual performance agreements. Key Performance Indicators include financial and non-financial targets, and there is weighting of each Indicator.

The Financial targets of the Danske Bank Group and Northern Bank Limited are measured on the annual results audited by the Danske Bank's external auditors. Non-financial targets are also delivered by external parties, e.g. customer satisfaction. Individual targets are qualitative as well as quantitative, e.g. behavioural objectives, compliance and internal rules as well as overall value contribution.

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.

For the majority of employees the arrangements are team based linked to the achievement of customer satisfaction, and are cash based.

Benefits

Benefits for example pension contributions, paid annual leave, sick pay, family friendly flexibility, 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

In conjunction with Danske Bank Group, the Bank has deployed different mechanisms to ensure that variable remuneration does not incentivise excessive risk taking.

There is a sound performance management structure for setting and assessing financial and non-financial goals and communicating these goals to employees.

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 Senior Managers are split between cash and shares; the shares constitute 50% of the total variable remuneration and are restricted during a 3 year vesting period. There is also deferral of variable remuneration to encourage sustainable and

long-term value creation. Variable remuneration (cash and shares) granted in one year is divided into 40% paid initially and 60% deferred for 3 years.

Deferred shares are restricted from transaction for 6 months after disbursement. The deferred remuneration is disbursed only to the extent to which the criteria for the original granting are still fulfilled, and at the same time, provided the financial situation in the Group and the Bank has not deteriorated materially. 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.

Quantitative Information relating to 2017

For the purposes of providing this quantitative information, pursuant to BIPRU 11.5.18, Northern Bank Limited as a Retail Bank is considered as a single business unit.

The following remuneration components operated in the year ended 31 December 2017 and are included in the information:

- Fixed Remuneration (including non-pensionable supplements)
- Variable Remuneration
- Pension Benefits
- 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 | No. | Other MRTs | No. | Total | No. |
|-------------------------------|--------------------|-----|------------|-----|------------|-----|
| Aggregate Remuneration | 3,210,603 | 15 | 11,004,987 | 127 | 14,215,591 | 142 |

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 2017.