

Remuneration Report 2019

Introduction

Northern Bank Limited t/a Danske Bank (the Bank) is one of the largest banks in Northern Ireland and is an autonomous subsidiary of Danske Bank Group. We have been helping people and business achieve their ambitions for over 200 years. Today we have around 1,400 employees and 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 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 recognised as the best bank by making more possible for our customers, our colleagues, our partners and for society,

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 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 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.

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 2019, the Committee had three scheduled meetings. All meetings had 100% attendance and at the invitation of the Chairman other NEDs attended at least one of the meetings.

In 2019 the Committee considered:

- The CRO's review of the risk that the performance management and variable remuneration frameworks incentivise inappropriate behaviours or culture;
- The remuneration review for the CEO and his Direct reports (including the variable pay awards under the Senior Management Bonus Programme);
- The remuneration review for the Code Staff including the variable pay awards for employees outside ExCo that are eligible to participate in the Bank's variable pay arrangement
- The Bank's Remuneration Report and Pillar III Disclosure;
- The Gender Pay Gap Report. This Report is not a statutory requirement in Northern Ireland;
- The review and approval of the Bank's Remuneration Policy;
- The review of the categorisation of Material Risk Takers;
- The performance of senior executives on the Executive Committee during the 2019 financial year;

- The new approach to performance management being introduced for performance management in 2020;
- The Board and Executive Director Succession Planning;
- The review of Non-Executive Director fees;
- A review of pay progression for employees behind the median levels & the cost of increasing staff minimum salary;
- Review of the Committee Charter to align it with the other Board Committee Charters and with existing practice.

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)

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.

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

Variable Pay for Senior Managers is based on the performance of the Danske Bank Group, the Bank, and individual performance. Key Performance Indicators include financial and non-financial targets and there is weighting of each Indicator. Short term incentive awards are split between cash and shares in the Danske Bank Group and 60% of the award is subject to three year deferral.

The financial targets of the Danske Bank Group and the Bank are measured on the annual results audited by the Bank's external auditors. Non-financial targets are also measured by external parties, e.g. customer satisfaction. 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.

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.

There is a sound performance management structure for setting and assessing financial and non-financial goals and communicating these goals to employees. The structure includes an assessment of behaviours, which is linked to our culture and values.

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 three 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 three years.

Deferred shares are restricted from transaction for six 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. 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 2019 back testing resulted in two individuals forfeiting their rights fully to both retained and deferred performance based remuneration.

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 Regulation (EU) 604/2014 of 4 March 2014 (Regulatory Technical Standards) to identify staff who are material risk takers'.

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 2019 the number of designated material risk takers was 150.

Quantitative Information relating to 2019

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

The following remuneration components operated in the year ended 31 December 2019 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	No.	Other MRTs	No.	Total	No.
Aggregate Remuneration	4,488,225.39	19	11,796,818.86	131	16,285,044.25	150

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 2019.