

## **Risk analysis for Nordeas Remuneration Policy – Summary**

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### **Risk analysis - summary**

New regulations require financial institutions to establish a remuneration policy and to conduct a risk analysis in respect of the policy. Nordea's risk analysis includes risks related to the governance and structure of the remuneration schemes, goal setting and measurement of results, as well as fraud and reputation. Mitigating actions are furthermore described. The main focus in the analysis is on the variable remuneration elements.

### **Effective and balanced risk management**

Nordea Remuneration Policy and its underlying instructions, systems, schemes and processes is aligned with and supports efficient risk management and discourages excessive risk-taking by:

- Ensuring that the Remuneration Policy, instructions and schemes etc. are approved at the relevant organisational level, supported by analyses of potential financial as well as non-financial consequences, where relevant.
- Having a "Steering Committee for updating Nordea's implementation of internal and local remuneration instructions" with representatives from the business areas, Group Legal and Group Operational Risk and Compliance to support Group Executive Management in these issues
- Having clear governance and approval processes for all remuneration components, including the grandparent principle and involvement of control functions, and by having most remuneration paid as fixed compensation.
- Requiring that the main variable remuneration elements are based on a pre-determined set of well-defined financial as well as non-financial success criteria, including Nordea Group criteria.
- Having divisional pools defined by a share of divisional adjusted Economic Profit.

Risks related to the remuneration schemes and processes governed by the Remuneration Policy exist and will continue to exist going forward. Nordea applies a wide range of processes, tools and control activities to manage the risks, including the involvement of relevant risk and control functions, and thereby reduces potential negative effects.

### **The governance and structure of the remuneration schemes**

A range of new regulations as well as recommendations on best market practices have been issued in respect of the structure of variable remuneration elements on the back of the financial crisis. Nordea aims at developing the structure of variable remuneration elements on a continuous basis in order to meet own needs, regulatory requirements, and such best market practices. The current remuneration schemes are considered to take these factors satisfactorily into account.

In the second half of 2009 Nordea engaged Oliver Wyman to perform a review of key issues in respect of Bonus structures, principles, and levels. Although certain changes and improvements were recommended, the review concluded that Nordea has a reasonably well structured Bonus schemes, measured against new international guidelines. The identified gaps were addressed by Nordea. In autumn 2010 a follow-up review was conducted, concluding a need for a shift in the balance between variable and fixed compensation due to new regulations. In second half of 2012 Oliver Wyman was again engaged to review Bonus structures in the light of regulatory and market development and expected future changes. No regulatory gaps were identified but Nordea addressed proposed Bonus structure calibrations.

Even well-structured Remuneration Policy and variable remuneration schemes can be counter-productive if the goals and performance criteria are ill-designed. Nordea pays due attention to these risks by conducting a broadly based strategy process on an annual basis and reflecting this process in the decision on financial targets, risk limits and Group KPIs. Group KPIs furthermore include both financial and non-financial targets.

**Performance measurement and control defines remunerations**

Measuring results and achievements correctly and consistently is, and will continue to be, a challenge. Good systems and processes for performance measurement are important for fair and equal treatment of employees under variable remuneration schemes. This applies to both quantitative and qualitative criteria. Nordea meets this challenge by undertaking continuous improvements in the financial reporting processes as well as having clear governance and approval processes, including the grandparent principle. When assessing goal and target fulfilment, discretionary judgment is applied in addition to absolute outcome.

There is always a risk of fraudulent actions by one or more employees. This means that there is a risk of e.g. manipulating results. Nordea mitigates this risk by means of its internal control framework which is based on the control environment, and includes the following elements: Values and management culture, goal orientation and follow-up, a clear and transparent organisational structure, segregation of duties, the four-eye principle, quality and efficiency of internal communication and an independent evaluation process.

**Annual review of all remuneration schemes**

Nordea furthermore meets reputational challenges by performing an annual review of all remuneration schemes, aiming at having competitive remuneration schemes while at the same time ensuring that these schemes are based on the Group's business strategies and goals. Nordea also meets the reputational challenge by disclosing relevant information in terms of policies and principles, specific schemes, amount in respect of variable remuneration in the Group, as well as compensation to CEO, Group Executive Management and Board of Directors.