

APS330

# Remuneration Disclosures

As at 31 December 2013

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## Introduction

The following remuneration disclosures have been prepared for ING Bank (Australia) Limited (IBAL) trading as ING DIRECT Australia, in accordance with the Australian Prudential Regulatory Authority's (APRA) remuneration disclosure requirements under prudential standard APS 330 – Public Disclosure (APS 330) and Board approved policy.

The prudential disclosures require that all Authorised Deposit-taking Institutions (ADIs) meet the minimum requirements for public disclosure of qualitative and quantitative information of their remuneration practices.

The quantitative information relates to senior managers and material risk takers employed by IBAL, for the year ended 31 December 2013. The qualitative remuneration disclosures are broader in scope and cover all individuals included in the Remuneration Policy, as outlined in Prudential Standard CPS 510 Governance (CPS 510).

The information reported is provided for regulatory disclosure purposes and is not comparable to accounting reporting or any other information disclosed elsewhere by IBAL.

Senior Managers for the purpose of this disclosure include the CEO, the Executive Committee (EXCO) and Responsible Persons. There are currently 15 employees within this group.

Material risk takers are defined as persons included in an ADI's Remuneration Policy under paragraph 48(c) of CPS 510 as well as other persons for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of the regulated institution. There are no employees outside of the senior management group that are considered material risk takers based on this definition. IBAL's material risk takers are included within the senior manager category of this disclosure.

## Qualitative Disclosures

### 1) Governance

#### **Remuneration Governance**

The Board of IBAL has established the Remuneration & Nomination Committee (the “Committee”). The Committee is the main body which oversees remuneration for IBAL and is responsible for the sound and prudent management of IBAL’s remuneration processes.

Specific details of the roles and responsibilities of the Committee are set out in the “Mandate and Responsibilities of the Remuneration and Nomination Committee” (“the Mandate”). The Mandate is reviewed and approved annually by the Board.

This Mandate states that the Committee must be made up of a minimum of three members; only non-executive directors, the majority of who are independent; and an independent director as chair.

The current members of the Committee are:

- i. Michael Katz (Chair of IBAL and Chair of Remuneration & Nomination Committee)
- ii. Amanda Lacaze (appointed to the Committee during 2013)
- iii. Ann Sherry AO
- iv. Cornelis Leenaars

The Committee met three times during the year ended 31 December 2013.

The fees paid to members of the Committee for the 2013 year are \$385,883.03. Because the members of the Committee sit on other IBAL Board Committees and the Board itself, the fees quoted above include remuneration for holding those other positions.

The Committee has available to it unfettered access to internal and external resources to provide input on specific remuneration issues. Where the Committee chooses to seek advice from external advisors the Committee can do this independently of, and without involving, management of IBAL. During the 2013 year, no external consultants were utilised by the Committee.

To assist with the management of IBAL’s remuneration processes, the Committee has approved the “IBAL Identified Staff Remuneration Sub-Policy” and the “IBAL Remuneration Sub-Policy” (collectively called “the Remuneration Policy”). The Remuneration Policy sets out the design and structure of the remuneration processes for IBAL.

#### **Remuneration and Risk Management**

The IBAL Remuneration Policy forms part of the IBAL Risk Management Framework.

The Committee ensures that the Remuneration Policy encourages behaviour that supports IBAL’s long-term financial soundness, growth and success within an appropriate risk management framework.

The Remuneration Policy sets out the following objectives:

- i. all performance management- and remuneration policies are aligned with the business strategy, company values and risk management framework of IBAL;
- ii. all performance management- and remuneration policies support a focus on the long term interests of IBAL as a whole, the long term financial soundness of IBAL, and the interests of all of IBAL’s customers in order to ensure a strong risk alignment of all IBAL staff; and
- iii. all performance management- and remuneration policies promote and are aligned with robust and effective risk management and support a strong focus on risk control as well as protection of a sound Capital Base and sound capital base for IBAL.

As one of the non-financial measures used to determine the performance of IBAL during the performance year, Non-Financial Risk measures directly affect the scorecard for IBAL’s performance. This has an impact on the size of any potential variable remuneration pool, as well as individual variable remuneration outcomes.

Any award of Variable Remuneration must be designed to encourage behaviour that supports:

- i. IBAL's long-term financial soundness; and
- ii. the risk management framework of IBAL;

## 2) Remuneration Structure

### Remuneration Policy and Framework

As set out above, IBAL's Remuneration Policy comprises two sub-policies, the "IBAL Identified Staff Remuneration Sub-Policy" and the "IBAL Remuneration Sub-Policy". The employee population is classified in two groups, with each population having an applicable Remuneration Sub-Policy. Details of which are outlined below

Policy name	Population covered
<b>IBAL Remuneration Sub-Policy</b>	All employees (excluding Identified Staff)
Details of Policy	
<p>The IBAL Remuneration Sub-Policy summarises the terms and provisions as laid down in the ING Bank Remuneration Framework which is the standard for all Remuneration policies for ING Bank entities globally.</p> <p>In 2013, the Committee reviewed minor wording changes to the Remuneration Sub-Policy. These changes were made to reinforce APRA CPS510 requirements.</p> <p>The Remuneration Sub-Policy:</p> <ul style="list-style-type: none"> <li>- Outlines the general principles of remuneration for all staff, and staff in Control Functions (defined below)</li> <li>- Outlines the general principles of performance management for all staff, and staff in Control Functions</li> <li>- Explains the relationship between the Sub-Policy and other IBAL policies, as well as the global ING Bank Remuneration Framework</li> </ul>	
Remuneration Policy	Population
<b>IBAL Identified Staff Remuneration Sub-Policy</b>	Identified Staff (CEO and EXCO)
Details of Policy	
<p>The IBAL Remuneration Sub-Policy for Identified Staff applies in addition to the IBAL Remuneration Sub-Policy. The Remuneration Sub-Policy for Identified Staff contains additional terms and provisions for this select population.</p> <p>Identified Staff are defined as staff of IBAL as selected by the Management Board Bank on the basis of and in accordance with the selection methodology and the criteria approved by the Supervisory Board Bank (which includes senior management staff in Control Functions);</p> <p>In 2013, the Committee reviewed minor wording changes to the Remuneration Sub-Policy for Identified Staff. These changes were made to reinforce APRA CPS510 requirements.</p> <p>The Remuneration Sub-Policy for Identified Staff:</p> <ul style="list-style-type: none"> <li>- Outlines the general principals of remuneration for Identified Staff (including specific detail in relation to deferral and risk adjustments to variable remuneration)</li> <li>- Outlines the general principles of performance management for Identified Staff</li> <li>- Explains the relationship between the Sub-Policy and other IBAL policies, as well as the global ING Bank Remuneration Framework</li> </ul>	

### Remuneration Structure

Remuneration arrangements for all employees consist of the following components:

- i. Fixed Remuneration
- ii. Variable Remuneration (Short term incentive "STI" and Long term Incentives "LTI")

Component of Remuneration	Structure
Fixed Remuneration	<p>Fixed remuneration is comprised of base salary, superannuation, Salary Continuance Insurance premium and any employee salary sacrificed benefits.</p> <p>An employee's fixed remuneration reflects the size and complexity of their current position, their level of experience and skills, and the employee's individual performance.</p> <p>Fixed remuneration is typically reviewed annually, in March, as part of the annual remuneration review. This review takes into account the employee's individual performance and market relativity.</p> <p>Superannuation contributions are paid according to statutory requirements.</p>

	Salary Continuance Insurance is offered to all employees and the cost is subsidised by IBAL. Employees may choose to opt-out.
Variable Remuneration (STI)	<p>Every permanent member of staff is eligible to participate in a variable remuneration plan relevant to their role.</p> <p>Variable remuneration is used as a tool to reward employees for their performance during the relevant year.</p> <p>Any potential variable remuneration payment is dependent upon:</p> <ul style="list-style-type: none"> <li>i. strong individual performance;</li> <li>ii. the performance of IBAL (measured through financial and non-financial targets); and</li> <li>iii. the performance of IBAL.</li> </ul> <p>For Identified Staff (as defined above), Variable Remuneration is paid in both upfront and deferred components.</p> <p>For other staff, variable remuneration is delivered in cash, subject to statutory superannuation requirements and applicable tax.</p>
Variable Remuneration (LTI)	<p>LTI is awarded in two forms.</p> <ul style="list-style-type: none"> <li>i. Performance shares granted under the Long Term Sustainable Performance Plan (LSPP) to selected employees to align an individual performance and behaviour with the long term strategy of IBAL.</li> <li>ii. For Identified Staff, at least 40% of variable remuneration is deferred for up to three years.</li> </ul>

**Risk and Financial Control Personnel**

Risk and Financial Control personnel are classified within ING Bank as Control Function employees. Control Functions include all employees within Risk, Legal, Finance, Internal Audit and Human Resources.

In line with the ING Bank Remuneration Framework, to ensure that the independence of the Control Functions is not compromised, their Variable Remuneration is predominantly based, at least 75%, on function-specific objectives which include qualitative criteria, but is not based on the financial performance of the business directly monitored by the Control Functions.

### 3) Performance and Reward

Variable remuneration payments under IBAL’s variable remuneration plans are linked to several performance measures: strong individual performance; the performance of IBAL (through financial and non-financial measures) and the performance of IBAL. Each of these is outlined below.

Component	Input into variable performance plan
IBAL performance	Each year IBAL determine the size of the variable remuneration pool, this pool funds variable remuneration outcomes within IBAL. This pool is based on IBAL performance (measured through a scorecard approach) and the performance of IBAL.
IBAL performance	<p>IBAL performance is assessed against both financial and non-financial measures which support IBAL’s short-term performance and long-term strategy. The measures are weighted and scored to give an overall company performance score.</p> <p>Financial measures include Return on Equity, Operational Expenditure, and Profit. Non-Financial measures include Employee Engagement, Net Promoter Score and Non-Financial Risk measures.</p> <p>Company performance affects the size of any potential variable remuneration pool. The variable remuneration pool is subject to IBAL approval.</p> <p>An increase in IBAL’s performance results in a larger variable remuneration pool (subject to IBAL approval).</p>
Individual Performance	<p>All employees are required to complete a performance review against individual performance objectives that are set and agreed at the start of the relevant performance year.</p> <p>Objectives are set using a top down approach to ensure individual objectives align with IBAL’s strategy.</p> <p>For the 2013 performance year, individual objectives were aligned to the following main strategic performance areas</p> <ul style="list-style-type: none"> <li>i. Customer Centricity</li> <li>ii. Operational Excellence</li> <li>iii. Top Employer</li> </ul> <p>Assessment against these objectives is completed at the end of the performance year, and employees receive a performance rating (using a five point scale).</p> <p>An employee’s level of individual performance directly affects their potential variable remuneration outcome. Higher levels of individual performance result in higher levels of variable remuneration whilst poor individual performance excludes an employee from any variable remuneration payment.</p>

#### **Deferral and Clawback**

All employees who participate in a variable remuneration plan are subject to a form of deferral should they meet set criteria. The table below provides a summary of the various deferral arrangements applicable to different employee groups across IBAL.

Employee Group	Deferral Arrangement
Identified Staff (CEO and EXCO)	<p>All variable remuneration is subject to an upfront component and a deferred component awarded as</p> <ul style="list-style-type: none"> <li>i. Upfront cash</li> <li>ii. Upfront Shares</li> <li>iii. Deferred cash (vests over three years)</li> <li>iv. Deferred Shares (vests over three years)</li> </ul> <p>At least 40% of variable remuneration is deferred (in either cash or equity as above).</p>
All other employees	All other employees are subject to deferral of variable remuneration (STI) if their variable remuneration (STI) exceeds a given threshold. Deferred variable remuneration vests over three years.

At the end of each deferral period, the Board has the right to reduce or hold back the component of deferred variable remuneration.

For Identified staff, the Board can hold back unpaid or unvested Variable Remuneration from any current or ex Staff in the following circumstances:

- i. in the event of evidence of misbehaviour or serious error by the relevant staff member, including a breach of a code of conduct or other internal rules, especially those concerning risk; or
- ii. in the event that IBAL suffers a significant failure of risk management; or
- iii. in the event of significant changes in the economic and regulatory Capital Base; or
- iv. in the event of engagement in conduct or performance of acts which are considered malfeasance or fraudulent; or
- v. in the event of specific conduct which has led to the material re-statement of IBAL's annual accounts and/or significant harm to the ING Bank Group or any of its subsidiaries or affiliates; or
- vi. if any other material new information arises that would have changed the original determination of the award of Variable Remuneration to the individual if it were known at the time of the award; such reassessment is also based on the criteria for the original award.

Also for Identified Staff, the Board can claw back paid/vested Variable Remuneration from any current or ex Staff in the following circumstances:

- i. in the event of engagement in conduct or performance of acts which are considered malfeasance or fraudulent; or
- ii. in the event of specific conduct which has led to the material re-statement of IBAL's annual accounts and/or significant harm to the IBAL or any of its subsidiaries or affiliates.

For all other staff the Board, can hold back or reduce downwards, to zero if appropriate, any unpaid or unvested Variable Remuneration:

- i. if IBAL's capital adequacy is insufficient as determined by the Capital Test; or
- ii. to protect the financial soundness of IBAL; or
- iii. to respond to significant unexpected or unintended consequences that were not foreseen by the Board Remuneration Committee; or
- iv. if evidence arises concerning misbehaviour or serious error by the relevant staff member, including a breach of a code of conduct or other internal rules, especially those concerning risk; or
- v. if IBAL suffers a significant failure of risk management.

## Quantitative disclosures

### 1) Senior Manager remuneration for year ended 31 December 2013

	Senior Manager	Material Risk Taker
<b>Fixed Remuneration</b>		
Cash-based (not deferred)	3,842,535	-
<b>Variable Remuneration</b>		
Cash-based (not deferred)	678,833	-
Deferred Cash (deferred)	385,849	-
Upfront Shares (not deferred)	489,397	-
Deferred Shares (deferred)	385,849	-
Performance shares (deferred)	85,000	-

#### Notes

- All figures quoted are in Australian Dollars
- During 2013, all Senior Managers (total of 15 employees) received variable remuneration.
- No sign-on bonuses or guaranteed bonuses were paid to Senior Managers during 2013. One severance payment was made to a total of \$442,695.
- Cash-based fixed remuneration includes base salary, superannuation and salary continuance insurance premium.
- IBAL's material risk takers are included in the Senior Manager category of this disclosure. IBAL does not have any other Material Risk takers
- Upfront shares, Deferred shares and performance shares valued at face value at date of grant

### 2) Summary of deferred and outstanding elements

	Senior Manager	Material Risk Taker
<b>Outstanding Remuneration as at 31 Dec 2013</b>		
Cash based	285,666	-
Share-linked instruments	1,308,252	-
Total outstanding remuneration (deferred)	1,593,918	-
<b>Total amount of deferred remuneration vesting during 2013</b>		
	549,528	-
Reduction during 2013 due to explicit adjustments	0	-
Reduction during 2013 due to implicit adjustments	0	-

#### Notes

- All figures quoted are in Australian Dollars
- Deferred and outstanding elements payable to 13 employees
- IBAL's material risk takers are included in the senior manager category of this disclosure. IBAL does not have any other Material Risk takers
- Deferred shares and performance shares valued at face value (converted to AUD) as at 31 December 2013
- All deferred remuneration is subject to ex post explicit and implicit adjustments