

APS330 Remuneration Disclosures

31 December 2015

Table of Contents

Introduction	3
Qualitative Disclosures	4
1) Governance	4
2) Remuneration Structure	5
3) Performance and Reward	7
Quantitative disclosures	10

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 2015. 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 9 active employees within this group. The total number of employees within this group across the whole of 2015 was 11; however two have since left employment with IBAL (one of these being replaced).

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
- iii. Ann Sherry AO
- iv. Mark Newman

During 2015, Cornelis Leenaars resigned as a director of IBAL and consequently resigned from the Remuneration & Nomination Committee.

The Committee met three times during the year ended 31 December 2015.

The fees paid to members of the Committee for the 2015 year are \$353,211. 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 fees quoted do not incorporate remuneration paid to Directors who are foreign executives of other entities in the ING Group. No payments were made locally to these directors by IBAL.

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 2015 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 behaviours as outlined in "The Orange Code" and the 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.

- iv. all performance management and remuneration policies aim to avoid improper treatment of customers and staff;

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
IBAL Remuneration Sub-Policy	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 2015, the Committee reviewed changes to the Remuneration Sub-Policy. These changes were made as a result of the enactment of the law on Remuneration Policies of Financial Institutions (Wet Beloningsbeleid Financiële Ondernemingen, WBFO) in the Netherlands, which were reflected in the updated ING Bank Remuneration Framework.</p> <p>The Remuneration Sub-Policy:</p> <ul style="list-style-type: none"> - Outlines the general principles of remuneration for all staff, and staff in Control Functions (defined below), including specific detail in relation to the ratio of Fixed Remuneration to Variable Remuneration and the deferral and risk adjustments that can be applied to variable remuneration - Outlines the general principles of performance management for all staff, and staff in Control Functions, including the role of Human Resources in the Performance Management Process - Outlines the roles of each of the Control Functions in Remuneration and the Performance Management Process - Explains the relationship between the Sub-Policy and other IBAL policies, as well as the global ING Bank Remuneration Framework 	
Policy name	Population covered
IBAL Identified Staff Remuneration Sub-Policy	Identified Staff (CEO, EXCO and Identified Staff in Risk)
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 2015, the Committee reviewed changes to the Remuneration Sub-Policy for Identified Staff. These changes were made as a result of the enactment of the law on Remuneration Policies of Financial Institutions (Wet Beloningsbeleid Financiële Ondernemingen, WBFO)) in the Netherlands, which were reflected in the updated ING Bank Remuneration Framework</p> <p>The Remuneration Sub-Policy for Identified Staff:</p> <ul style="list-style-type: none"> - Outlines the general principals of remuneration for Identified Staff (including specific detail in relation to the ratio of Fixed Remuneration to Variable Remuneration and the deferral and risk adjustments that can be applied to variable remuneration - Outlines the general principles of performance management for Identified Staff, including the annual process for performance management and the role of Human Resources in the performance management process - Explains the relationship between the Sub-Policy and other IBAL policies, as well as the global ING Bank Remuneration Framework 	

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 in relation to the role, 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 against the Company’s set values and behaviours (the “Orange Code”) and market relativity.</p> <p>Superannuation contributions are paid according to statutory requirements.</p> <p>Salary Continuance Insurance is offered to all employees and the cost is subsidised by IBAL. Employees may choose to opt-out.</p>
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> <ol style="list-style-type: none"> i. strong individual performance; ii. the performance of IBAL (measured through financial and non-financial targets); and iii. the performance of ING Group. <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> <ol style="list-style-type: none"> 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. ii. For Identified Staff, at least 40% of variable remuneration is deferred for up to three years.

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 Group 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. ING Group approves the total variable remuneration pool available to 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 2015 performance year, individual objectives were aligned to the following main strategic performance areas</p> <ol style="list-style-type: none"> i. Client ii. Organisation and People iii. Operations and Process iv. Financial <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> <p>Employees are also assessed against IBAL's company values and behaviours, known as "The Orange Code". Employees are assessed against three behaviours, with an overall rating given (using a five point scale). This rating also serves as an input into remuneration outcomes.</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, EXCO and Identified Staff in Risk)	<p>All variable remuneration is subject to an upfront component and a deferred component awarded as</p> <ul style="list-style-type: none"> i. Upfront cash ii. Upfront Shares iii. Deferred cash (vests over three years) iv. Deferred Shares (vests over three years) <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.

The Board of IBAL has the right to apply hold back up to 100% of the awarded and unvested deferred Variable Remuneration from any current (or ex-) staff member. The same applies to Claw back for up to 100% of the paid and/or vested Variable Remuneration.

The ING Group sets specific criteria for the application of Hold back or Claw back being:

Hold back or Claw back can be applied in the following circumstances	Hold back	Claw back
In the event of engagement in conduct or performance of acts which are considered malfeasance or fraud	✓	✓
in the event of conduct which has led to the material re-statement of ING Bank Group's annual accounts and/or significant (reputational) harm to the ING Bank Group	✓	✓
in the event Variable Remuneration has been awarded on the basis of inaccurate information – whether or not financial in nature – regarding: (i) the achievement of the performance targets (including KPI's) that determine the Variable Remuneration; or (ii) the circumstances under which the variable remuneration was awarded	✓	✓
in the event that award of Variable Remuneration is contrary to the principles of reasonableness and fairness	✓	
in the event of evidence of misbehaviour or serious error by the relevant staff member, including a breach of a code of conduct (such as the Orange Code) or other internal rules, especially those concerning risk	✓	
in the event ING Bank Group or the Business Line in which the relevant staff member works suffers a significant failure of risk management	✓	
in the event of significant adverse changes in ING Bank Group's capital, other than as a result of changing environment or usual business cycle changes	✓	
if any other material new information arises that would have changed the original determination of the award of Variable Remuneration to that individual had it been known at the time of the award; such reassessment is also based on the criteria for the original award	✓	
Hold back or Claw back must be applied in the following circumstances	Hold back	Claw back
if a staff member participated in or was responsible for conduct which resulted in significant losses to ING Bank Group	✓	✓
if a staff member failed to meet appropriate standards of fitness and propriety	✓	✓

In determining whether to apply Hold back and/or Claw back, the following (non-limitative) factors will be considered:

- the specifics of the event;
- the magnitude of the loss, economic or reputational damage;
- the direct or indirect involvement of the individual in the action or transaction; and/or
- the length of time that has passed since the action or transaction and other factors such as changes in law or the economy.

Hold back and/or Claw back can also be applied to the Variable Remuneration of staff members not directly involved in the event or behaviour that triggers Hold Back and/or Claw Back. This could for example be the case in view of their managerial responsibilities, accountabilities, failure to keep oversight and/or lack of sufficient controls.

Quantitative disclosures

1) Senior Manager remuneration for year ended 31 December 2015

	Senior Manager	Material Risk Taker
Fixed Remuneration		
Cash-based (not deferred)	3,700,926	-
Variable Remuneration		
Cash-based (not deferred)	598,571	-
Deferred Cash (deferred)	566,571	-
Upfront Shares (not deferred)	437,715	-
Deferred Shares (deferred)	437,715	-
Performance shares (deferred)	20,000	-

Notes

- All figures quoted are in Australian Dollars
- During 2015, 9 of the 11 employees classified as Senior Managers received variable remuneration.
- No sign-on bonuses or guaranteed bonuses were paid to Senior Managers during 2015.
- 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. As stated in the introduction to the Qualitative disclosures, there are no employees outside of the senior management group that are considered 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
Outstanding Remuneration as at 31 Dec 2015		
Cash based	683,153	-
Share-linked instruments	1,173,748	-
Total outstanding remuneration (deferred)	1,856,901	-
Total amount of deferred remuneration vesting during 2015		
	1,317,102	-
Reduction during 2013 due to explicit adjustments	-	-
Reduction during 2013 due to implicit adjustments	-	-

Notes

- All figures quoted are in Australian Dollars
- Deferred and outstanding elements payable to 7 employees
- IBAL's material risk takers are included in the Senior Manager category of this disclosure. As stated in the introduction to the Qualitative disclosures, there are no employees outside of the senior management group that are considered material risk takers
- Deferred shares and performance shares valued at face value (converted to AUD) as at 31 December 2015
- All deferred remuneration is subject to ex post explicit and implicit adjustments