APS 330 Remuneration Disclosures

31 December 2017

How banking can be

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Introduction

The following remuneration disclosures have been prepared for ING Bank (Australia) Limited (IBAL) trading as ING DIRECT, 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 2016. 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 11 active employees within this group. The total number of employees within this group across the whole of 2017 was 14; however three have since left employment with IBAL.

Material risk takers refers to persons included in an ADI's Remuneration Policy under CPS 510, being those 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 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 (local Chair of IBAL and Chair of Remuneration & Nomination Committee)
- **ii.** Amanda Lacaze (local)
- **iii.** Mark Newman (foreign executive of ING Group entity)
- **iv.** John Masters (local, appointed in November 2017).

In November 2017 Committee member Ann Sherry (local) tendered her resignation from the Board of IBAL.

The Committee met three times during the year ended 31 December 2017.

The fees paid to local members of the Committee for the 2017 year are $572,945. 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 2017 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 Remuneration Sub-Policy" (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 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 principles

To ensure that ING continues to attract, retain and motivate talented people in a competitive market, the following remuneration principles ensure that all people are treated equally whilst maintaining fair pay, strongly linked to performance:

- We pay at market
  - We target greater than 90% Compa ratio for all employees.
  - Promotions are at the market median within 12-18 months.
- We pay for performance
  - Payouts are linked to individual, company and group targets.
  - Variable remuneration has a clear link to responsible customer outcomes
- How we do things is important
  - The Orange Code links how we reward behaviors based on our values
  - Our responsibility to our customers is fundamental to the way we reward performance
- We do not discriminate
  - Fair and consistent approach.

Remuneration policy and framework

During 2017 the Board reviewed and approved changes to the structure of IBALs Remuneration Policy. Previously two Remuneration Policies operated, one for all staff and one for Identified Staff (the IBAL Identified Staff Remuneration Sub Policy" and the "IBAL Remuneration Sub Policy"). The newly created IBAL Remuneration Sub-Policy now adopts all requirements of the Global Remuneration Regulations, and states any requirements specific to certain populations, such as Identified Staff.

Details of the Remuneration policy are outlined below.

Policy name

IBAL Remuneration Sub-Policy

Population covered

All employees

Details of policy

The IBAL Remuneration Sub-Policy summarises the terms and provisions as laid down in the ING Remuneration Regulations Framework which is the standard for all Remuneration policies for ING Bank entities globally.

In 2017, the Committee reviewed changes to the Remuneration Sub-Policy. These changes were made as a result of Updates made to the ING Remuneration Regulations Framework, and included the following

- Extended deferral period for Senior Management: Variable Remuneration awarded to Senior Management is subject to a minimal deferral period of five years (instead of the current 3 years). Senior Management is defined within ING as MBB and MBB-1 positions
- Guaranteed Variable Remuneration: Sign-on payments to new employees can be paid directly (without deferrals) and fully in cash (rather than at least 50% in equity). For buy-out awards the payout requirements (deferrals, equity) still apply. Both sign-on and buy-out arrangements can be excluded from the VR-ratio
- Remuneration Qualification: If pay does not meet all EBA criteria for fixed remuneration it will be treated as variable remuneration
- Identified Staff Selection: Identified Staff selection should take place on the basis of the interpretations given to the Identified Staff selection criteria on the consolidated level, instead of on the basis of local interpretations as is currently the case. The above applies to institutions with their own local banking license
- Proportionality: Total Variable Remuneration awards up to EUR 10k can be paid out to Identified Staff without applying pay-out requirements
- Processes and disclosures: The EBA guidelines have impact on the remuneration processes and related documentation and disclosure obligations for ING

The Remuneration Sub-Policy:

- Explains the relationship between the Sub-Policy and other IBAL policies, as well as the global ING Bank Remuneration Framework
- 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

- Details the maximum levels of variable remuneration applicable to employees within Australia in order to comply with the Statutory caps which follow from Dutch Law
- Outlines the remuneration governance structure, including describing the role of each of the corporate bodies within ING that are involved in the remuneration regulations
- Outlines the categories of remuneration, including fixed and variable remuneration, and the components which make up each category
- Outlines specific requirements in relation to certain categories of staff (eg Control Functions, Identified Staff, High earners etc).
- Details the severance policy and governance model for severance payments
- Outlines the circumstances under which Ex-ante risk adjustments can be made (holdback and claw back) and the process to enable this
- Outlines the European and Australian regulatory disclosure requirements

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	Fixed remuneration is comprised of base salary, superannuation, Salary Continuance Insurance premium and any employee salary sacrificed benefits. 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. Fixed remuneration is typically reviewed annually, in March, as part of the annual remuneration review process. This review takes into account the employee's individual performance against the Company's set values and behaviours (the "Orange Code") and market relativity. Employees who do not meet the values and behaviours as outlined in the Orange Code are not eligible to receive an increase to their fixed remuneration. Superannuation contributions are paid according to statutory requirements. Salary Continuance Insurance is offered to all employees and the cost is subsidised by IBAL. Employees may choose to opt-out.
Variable remuneration (STI)	Every permanent member of staff is eligible to participate in a variable remuneration plan relevant to their role. Variable remuneration is used as a tool to reward employees for their performance during the relevant year. Any potential variable remuneration payment is dependent upon: i. strong individual performance; ii. the performance of IBAL (measured through financial and non-financial targets); and iii. the performance of ING Group. For Identified Staff (as defined above), Variable Remuneration is paid in both upfront and deferred components. For other staff, variable remuneration is delivered in cash, subject to statutory superannuation requirements and applicable tax. Our Orange Code Behaviours are important to the way we do business, The IBAL remuneration committee and then the CEO will review all remuneration proposals for employees receiving an "improvement required" as part of the exceptions process. Performance outcomes are discussed in more detail in Section 3.
Variable remuneration (LTI)	LTI is awarded in two forms. 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 ING Group. Each of these is outlined below.

Component	Input into variable performance plan
IBAL Group performance	Each year ING Group 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	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. Financial measures include Return on Equity, Operational Expenditure, and Profit. Non-Financial measures include Employee Engagement, Net Promoter Score and Non-Financial Risk measures. Specific risk measures include financial risks; Credit Risk, Market Risk, Liquidity Risk and business risk, as well as non-financial risks; operational risk and legal and compliance risk. The risk management framework details how assessment of risk performance is determined based on quantifiable and qualitative assessments. Performance against these measures impacts the assessment of IBALs performance for the relevant year. Company performance affects the size of any potential variable remuneration pool. The variable remuneration pool is subject to IBAL approval. An increase in IBAL's performance results in a larger variable remuneration pool (subject to ING Group approval).

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Individual performance	Performance management is a core business process to align individual performance objectives with the long term strategy of the business of ING and to ensure a sustainable and successful business for all its stakeholders. ING operates a performance management process linked to Remuneration to prevent rewarding for failure and to support ING's long-term interests. The principles that underlie performance management within ING reflect and further elaborate on the performance management principles in the Remuneration Regulations Framework and are included in the below. In the new Performance Management Framework implemented in 2017 for all staff, we have moved from a backward looking review process to a real-time improvement practice. This framework includes the following three components: ▪ Job/Objective – the core of the job, objectives related to day to day activities and projects ▪ Orange Code – alignment to our behaviours ▪ Stretch ambitions: personal "stretch" targets focused on priorities that make the biggest difference which all employees will define, in line with job expectations and Orange Code behaviours. All employees are required to complete a performance review against individual job objectives, our Orange Code behaviors, and Stretch Ambitions that are set and agreed at the start of the relevant performance year. Objectives and stretch ambitions are set at the start of the performance year and validated to ensure individual objectives align with IBAL's strategy. For all employees, objectives must be based on at least 50% non-financial objectives. 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. Employees are rated on each component of performance, receiving one of three outcomes: Improvement Required, Well Done or Excellent. Our Orange Code Behaviours are important to the way we do business, The IBAL remuneration committee and then the CEO will review all remuneration proposals for employees receiving an "improvement required" as part of the exceptions process.

Risk adjustment

a) Ex-ante risk adjustment takes place on a couple of levels.

1) First of all at the time of determining the Variable Remuneration pool. In determining the overall size of the Variable Remuneration pool, ex-ante measures are applied to reduce for current year and prior year increases in the risk profile, as well as for any known future potential risk profile changes, which are reflected in the use of the RoE. An ex-ante risk adjustment can be made by the Management Board with the approval of the Supervisory Board, taking into account the advice of the RemCo and the input of Risk and Finance. The risk adjustment takes into account the liquidity required and the cost of capital, as relevant to the specific Business Lines, in order to ensure that the total Variable Remuneration pool does not limit ING's ability to maintain an adequate Capital Base.

2) The second risk-adjustment measure lies in the performance assessment. ING applies an extensive assessment of the performance of staff members before Variable Remuneration is proposed and awarded. Every manager carefully assesses the performance delivered by its individual team members on the basis of pre-agreed performance targets. In addition to that, the manager has the discretionary power to adjust a Variable Remuneration proposal downwards in case of perceived inappropriate risk taking. In that way, Variable Remuneration is aligned with additional risks that have been identified throughout the performance year.

3) Thirdly, ING applies Risk Requirements on an individual level for Identified Staff that are considered Risk Takers or that work in the COO department. These Risk Requirements are financial and non-financial criteria to ensure a focus on the long term sustainability of ING and have been designed to further strengthen the relationship between minimum standards in the area of risk management and individual Remuneration. Examples of Risk Requirements are the credit risk requirements, balance sheet risk requirements, market risk requirements, acquisitions and divestments requirements and global capital markets requirements. In principle, every Identified Staff in a Risk Taker Role or working in the COO department will receive two to three Risk Requirements each year. The combination of these Risk Requirements depends on the Business Line and functional role of the Identified Staff member. The Risk function determines the appropriate Risk Requirements of the Identified Staff during the planning phase. The Risk Requirements are evaluated by Risk at end of the year, resulting in a proposal to apply risk modifiers where appropriate on an individual basis. The CRO will adopt the risk modifiers. The RemCo will ensure that the risk modifiers are applied in the decision process regarding the final award of Variable Remuneration to individual staff members. Subsequently the CRO will assess how the risk modifiers have been applied.

b) Ex-post risk adjustments - 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)	All variable remuneration is subject to an upfront component and a deferred component awarded as i. Upfront cash ii. Upfront Shares iii. Deferred cash (vests over three years) iv. Deferred Shares (vests over three years) At least 40% of variable remuneration is deferred (in either cash or equity as above).
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.

Holdback can be applied until the deferred awards have vested. Clawback can be applied indefinitely, subject to applicable statute of limitation.

Quantitative disclosures

1) Senior Manager remuneration for year ended 31 December 2017

	Senior Manager	Claw back
Fixed remuneration		
Cash-based (not deferred)	5,716,789	-
Variable remuneration		
Cash-based (not deferred)	1,045,516	-
Deferred cash (deferred)	409,795	-
Upfront shares (not deferred)	523,407	-
Deferred shares (deferred)	409,795	-
Performance shares (deferred)	156,250	-

Notes

- All figures quoted are in Australian Dollars
- During 2017, 13 of the 16 employees classified as Senior Managers received variable remuneration
- One sign-on bonus was paid in 2017, and there were no guaranteed bonuses paid to Senior Managers during 2017
- There is one termination payment included in the table
- 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 2017		
Cash based	732,144	-
Share-linked instruments	1,568,379	-
Total outstanding remuneration (deferred)	2,300,523	-
Total amount of deferred remuneration vesting during 2017	1,899,698	-
Reduction during 2017 due to explicit adjustments		
Reduction during 2017 due to implicit adjustments		

Notes

- All figures quoted are in Australian Dollars
- Deferred and outstanding elements payable to 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 2017
- All deferred remuneration is subject to ex post explicit and implicit adjustments