AMP Bank Limited

Remuneration disclosures

For the period 1 January 2016 to 31 December 2016

AMP Bank Limited

Remuneration disclosures for the year ended 31 December 2016

The remuneration disclosures have been prepared in accordance with Australian Prudential Regulatory Authority's (APRA's) remuneration requirements as set out in prudential standard APS 330 Public Disclosure with reference to the requirements established under CPS510 Governance and the AMP remuneration policy.

AMP Bank Limited (AMP Bank) is a wholly owned subsidiary of AMP Financial Investment Group Holdings Limited, which is a wholly owned subsidiary of AMP Limited (AMP).

The AMP People and Remuneration Committee (PRC) is AMP Bank's nominated board remuneration committee. The remuneration arrangements which apply to AMP Bank are the AMP group policies, frameworks and remuneration arrangements.

The AMP Bank employees included in the remuneration disclosures are those who have been identified as:

Category	Description	Number of individuals	AMP Bank roles
Senior managers	• Responsible persons • Individuals who may impact the financial soundness of AMP Bank	12	• AMP Bank managing director • AMP Bank managing director direct reports[1] • Risk and financial control personnel • AMP Limited treasurer, and • AMP Bank executive directors

1. Only those direct reports that meet the definition of a senior manager in APS 330.

There were no material risk taker roles identified.

1. Remuneration governance

The PRC advises the AMP Bank board on the effectiveness and integrity of AMP's remuneration policy, plans and practices. Other key remuneration-related responsibilities of the PRC include recommending to the AMP Bank board approval of:

- AMP remuneration policy
- total remuneration arrangements for the senior managers of AMP Bank, based on the AMP Bank's board review of their performance
- annual recommendations of the remuneration structure for categories of persons covered by CPS 510.

The PRC's duties and scope are outlined in the PRC's terms of reference which are reviewed at least annually. The PRC's terms of reference are available on the AMP website amp.com.au.

The PRC is comprised of independent non-executive directors of AMP and meets no less than four times a year. The PRC is chaired by an independent non-executive director of the AMP board as appointed by the AMP board. During the 2016 financial year, the PRC consisted of the following members:

PRC members	Role	Term in 2016
Patricia Akopiantz	Chairman	Full Year
Simon McKeon	Committee member	Part Year
Brian Clark	Committee member	Part Year
Catherine Brenner	Committee member	Part Year
Vanessa Wallace	Committee member	Part Year

The PRC held six meetings during the 2016 financial year. The fees (excluding superannuation) paid to the PRC members for 2016 are outlined below:

Committee	Chairman fees	Member fees
People and Remuneration Committee	$43,300	$21,700

Where an external perspective regarding remuneration is needed, the PRC seeks guidance from a range of independent remuneration advisers. The PRC did not obtain any independent remuneration advice for AMP Bank in 2016.

2. Remuneration strategy, policy and design

The AMP remuneration policy has been adopted by AMP Bank and provides the framework for the implementation, assessment and maintenance of AMP Bank's remuneration strategy and arrangements.

AMP's remuneration strategy is to align remuneration with the creation of value for shareholders by attracting and retaining employees who will contribute to AMP's success, motivating them to achieve outstanding performance against AMP's business objectives.

AMP has a comprehensive remuneration policy which outlines the responsibilities of the boards, PRC and management. The policy requires that remuneration arrangements are simple, practical and supported by a governance framework that avoids conflicts of interest, defines clear accountabilities and ensures that proper checks and balances are in place.

To achieve these objectives, the PRC has adopted a number of guiding principles which are the basis of AMP's remuneration policy and form the framework within which all aspects of remuneration at AMP are managed. The guiding principles are set out below.

Requirement	Guiding principle
Alignment with AMP's strategy and desired performance culture	Remuneration arrangements should align and contribute to AMP's key strategic objectives, business outcomes and desired performance culture.
Embedded risk management	Remuneration should support AMP's risk management framework and protect the long-term financial soundness of AMP
Performance focus	In a manner relevant to their role, remuneration arrangements should support the engagement of employees to achieve outstanding performance and bring value to AMP and its shareholders.
Attraction and retention	Remuneration should attract and retain the desired talent within AMP.
Stakeholder alignment	Remuneration arrangements should align the defined interests of stakeholders: shareholders, customers and employees.
Simplicity	Remuneration arrangements should be simple and practical.
Governance	The remuneration structures should be supported by a governance framework that avoids conflicts of interest, defines clear accountabilities and ensures that proper checks and balances are in place.

The PRC reviews the ongoing compliance, appropriateness and relevance of the AMP remuneration policy regularly (at least every two years). There were no changes to the remuneration policy during 2016.

Remuneration elements

AMP provides a number of remuneration elements to AMP Bank employees. The key elements of remuneration for most employees are fixed pay and a short-term incentive (STI). Select senior managers also receive long-term incentive (LTI) awards.

The mix of remuneration elements (both fixed and variable) for AMP Bank employees varies depending on the employee's role and level, and current market practice. The remuneration mix is designed to be market competitive, while providing the appropriate performance focus for their role.

Fixed pay

All AMP Bank employees receive fixed pay, which includes a cash salary, superannuation and the opportunity to take advantage of AMP's employee benefit programs offered from time to time.

Short-term incentives

All permanent AMP Bank employees are eligible to be considered for an STI provided they have met the required behaviour and performance standards (including compliance with risk management policies).

Payments under the STI plan are generally made in cash and funded from the AMP-wide STI pool, which is determined by the AMP Limited board taking into account AMP performance against a scorecard of financial and non-financial measures. The pool may be adjusted downwards if AMP Bank takes risks outside the agreed risk appetite.

An individual's STI outcome is dependent on AMP, business area (e.g. AMP Bank) and individual performance. Individuals are assessed against pre-determined performance agreements incorporating specific risk objectives where appropriate.

To ensure risk and financial control personnel are remunerated independently of AMP Bank, no financial business unit measures are used in assessing the performance of risk and financial control personnel.

For some senior managers, 40% of their STI is deferred into equity (i.e. rights to AMP Limited shares) for two years subject to ongoing employment, compliance with AMP policies and the board's discretion. During 2016, 4 senior managers participated in the 2016 STI deferral plan.

Select employees, who do not participate in the LTI plan, are eligible for nomination to participate in the STI match plan, which provides an award of share rights to the value of 50% of the individual's STI. The STI match award is provided in addition to the STI cash opportunity. As the STI match is based on the STI plan, the number of share rights awarded to the participant depends on the individual's contribution during the financial year. During 2016, one senior manager participated in the 2016 STI match plan.

STI match share rights convert to AMP Limited shares (i.e. vest) after a two-year deferral period. Vesting is subject to ongoing employment, compliance with AMP policies and is at the AMP board's discretion.

All AMP short-term incentive plans operate subject to compliance with any applicable APRA Prudential Standard.

Long-term incentives

Select senior managers who are able to influence long-term shareholder value and role model appropriate leadership behaviours are eligible to be considered for LTI awards. The quantum of the award provided is based on their seniority and criticality to AMP Bank.

During 2016, five senior managers received an LTI award. Three senior managers received their 2016 LTI in the form of performance rights (50% of LTI award value) and share rights (50% of LTI award value), with rewards only delivered in equity if conditions are met over a three-year period. Two senior managers received their 2016 LTI in the form of performance rights (100% of LTI award value) only.

Vesting of performance rights is dependent on the employee's continued service, AMP's total shareholder return performance (60% of the value of performance rights) and performance relative to a return on equity measure (40% of the value of performance rights).

Share rights generally vest after a three-year vesting period subject to continued service only.

3. Remuneration and risk management

AMP Bank operates under AMP's risk management framework which is designed to ensure that AMP's regulated entities, directors, senior management and staff can fulfil their risk management responsibilities within a transparent, aligned and formalised governance and operating structure. This structure also ensures that risks are managed effectively within the risk appetite set by AMP Bank.

The AMP remuneration policy, which has been adopted by AMP Bank, forms part of AMP's risk management framework. The key risks taken into account when implementing remuneration measures for AMP Bank include:

- Strategic – Risk associated with the competitive positioning of the business and our ability to respond in a timely manner to changes in the competitive landscape. This includes risks to the value of the AMP brand.
- Financial – Risk of loss resulting from participation in financial markets. This includes risk of loss from adverse movements between assets and liabilities, risk of loss from loan defaults or changes in credit ratings, as well as risks related to liquidity.
- Product and insurance – Risk of loss arising from inadequate or inappropriate product pricing, product terms and conditions, and product management.
- Operational (including legal and compliance) – Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of failing to comply with laws and regulations, internal policies, contractual arrangements and industry standards.

A range of approaches are used to manage risks inherent in remuneration structures, which are reviewed to ensure consistency with AMP's risk management framework and AMP Bank's risk appetite. Risk management considerations apply in both plan design and determining outcomes, as follows:

- incorporation of risk-related measures into individual performance agreements; eg capital management measures, risk and control assessment, acting within applicable board limits and management targets, and fostering a risk-aware culture
- inclusion of specific risk objectives in scorecards determining incentive pool funding (eg AMP group STI plan)
- adjustment of the payment period for incentives (ie deferral) to allow adjustments in the event of risk management and/or code of conduct breaches
- individual incentive outcomes are reviewed to ensure any ongoing risk in the business performance is appropriately recognised
- provision to pay reduced or zero incentives if this is necessary to protect the financial soundness of AMP Bank, to respond to significant unexpected or unintended consequences, or for the purposes of any other relevant prudential matter.

4. Linking performance and remuneration

Remuneration arrangements are designed to align and contribute to AMP's key strategic objectives, business outcomes and desired performance culture. To achieve this, performance measures are explicitly linked to short-term and long-term strategic objectives and business imperatives.

Payments under the STI plan are funded from the AMP-wide STI pool, which is determined by taking into account AMP's performance against group-wide measures set and approved at the start of each year.

The following AMP group-wide measures were used in 2016 to determine the size of the STI pool (the STI scorecard). These measures were chosen because they align with AMP's strategy, objectives and goals as approved by the board, and provide an overall view of performance.

	Description (scorecard weighting)	Link to strategy	Outcome	Performance commentary
Financial measures (65%)	**Underlying profit less capital charge (45%)**	Profitability of AMP delivers shareholders' annual dividends and generates funds for investing in our future.	Below threshold	The 2016 results were largely driven by actions that were taken to stabilise our wealth protection business and reduce the earnings impact on the group. The loss includes some largely one-off, mainly non-cash items. This overshadowed growth in AMP Bank, AMP Capital and the New Zealand operations, as well as low growth in wealth management.
	Cost to income ratio (5%)	We focus on reducing costs by spending dollars smartly, where it matters most to our customers, and redirecting savings to enable us to invest in better customer solutions.	Below threshold	The cost to income ratio was impacted by the challenges in the Australian wealth protection business. There has been a significant focus on driving business efficiencies during the year. A three-year business efficiency program is now complete, with $200 million in pre-tax recurring run rate cost benefits. Maintaining a sharper focus on managing our costs is a strategic priority for us to drive short-term performance. Retaining a rigorous focus on cost control ensures we remain competitive and enables us to continue to invest in long-term growth.
	Value creation (15%) – Value of net cashflow (5%)	We orient capital and resources to grow our core Australian businesses.	Below threshold	We experienced lower than expected external cashflows in 2016. Investment market volatility and uncertainty for retail customers following changes to superannuation legislation negatively impacted our performance and hence the outcome was below threshold levels for the STI scorecard.
	– Value of risk new business (5%)		Below threshold	New business volume across AMP businesses was below threshold performance levels in 2016. The best estimate assumptions had a negative impact on the profitability of business written in 2016.
	– Net revenue of AMP Capital (5%)		Threshold	External net cashflows were impacted by challenging market conditions in Australia and Japan, partly offset by good institutional flows into real estate and infrastructure asset classes.
Strategic measures (35%)	**Customer advocacy (25%)** – Net Promoter System (NPS) score (10%)	Improved customer experiences will drive a sustainable competitive advantage.	Above target	The combined NPS result across our business was above target and we saw improvement across all categories surveyed. These are digital interactions, contact centre interactions and end-to-end customer experiences.
	– Strengthening our customer centred culture (15%)		Above target	Overall we achieved strong momentum against our plan towards embedding a customer centred culture. NPS is now part of operating routines in key areas of the business, driving customer centred behaviour change and improved customer solutions.
	Strengthening our risk culture (10%)	Conduct of our people is paramount to our success. Strong risk management behaviours support us to do the right thing by our customers in every interaction. This in turn will create customer loyalty and advocacy to generate improved financial results and value for shareholders.	On target	Embedding the enhanced risk management framework is largely on track against our ambitious plan with the majority of activity tracking at target. This has resulted in improvements in our approach to risk management and risk behaviours to support customer outcomes across AMP.

The STI pool is calculated based on performance against the STI scorecard and is then adjusted downwards if AMP management operates outside board-approved risk appetite levels. The risk adjustment can be anywhere from 0–100%. The board also has the discretion to consider the quality of AMP's financial results, business leadership and the realisation of strategic opportunities in determining the final STI pool.

Individual performance and development plans are set at the start of each year and are designed to focus employees on activities that will drive the achievement of AMP Bank's strategic objectives.

For 2016, the performance of senior leaders was measured against financial measures including book growth within risk appetite targets, operating profit, net interest margin, return on capital and cost to income ratio. Non financial measures included employee engagement, gender diversity, customer retention and advocacy, successful delivery of projects and initiatives, delivery of satisfactory levels of customer service, delivery to strategy, risk measures including implementation of a revised risk management framework, compliance with regulatory and legislative requirements, and compliance with risk management policies and procedures.

5. Deferral and vesting

STI deferral plan

In accordance with AMP's remuneration policy, and with consideration to APRA's prudential standards, AMP requires senior managers of AMP Bank who have the ability to impact AMP's financial soundness participate in the AMP STI deferral plan.

The plan requires that 40% of a participant's STI award be delivered in rights to AMP shares (share rights). The share rights have no exercise price and no exercise period, converting to AMP Limited shares (ie vesting) after a two-year deferral period.

In order for share rights to vest under the STI deferral plan, participants must:

- remain employed with AMP up to the vesting date (this requirement may be waived in exceptional cases such as redundancy, retirement (or similar leaver circumstances), death or disability)
- comply with AMP policies (specifically the AMP code of conduct and those relating to risk management) in accordance with the annual performance objectives agreed with their manager.

AMP retains absolute discretion in determining whether or not a participant's share rights will vest and must provide its formal approval in order for vesting to occur. The board may take any matter into account when exercising its discretion, such as the individual's compliance/non-compliance with AMP policies, as well as broader factors such as:

- the impact on AMP's financial soundness
- any misstatement of AMP's financial reports for the STI performance year
- material changes in AMP's financial circumstances between the offer date and the vesting date.

LTI vesting

Vesting of equity based LTI awards is dependent on continued service for share rights, and performance and continued service for performance rights (refer to section 2 for further details).

Where an LTI participant ceases employment with AMP their LTI award may be affected, as outlined below:

Cessation date	Treatment of rights
Before the grant date	Employees will not be allocated rights. In exceptional cases such as redundancy, retirement, death or disability, the board may apply its discretion to provide the employee with a cash payment in lieu of an LTI award.
After the grant date, but before the vesting date	Rights will generally lapse. In exceptional cases such as redundancy, retirement, death or disability, the board may allow the participant to retain some or all of their rights (subject to the original performance criteria) until the scheduled vesting date.

Remuneration disclosures

The following quantitative disclosures have been prepared in accordance with APS 330 for the financial years ended 31 December 2015 and 2016

Table 1 provides the total amount of remuneration awarded to senior managers of AMP Bank for the years ended 31 December 2015 and 2016. Table 2 provides the total amount of outstanding deferred remuneration, total amount of deferred remuneration paid, and any implicit and explicit adjustments made to deferred remuneration. Two senior managers are contracted through third party organisations and they do not personally receive any remuneration directly from AMP.

Table 1: Total value of remuneration awards

	FY16	FY15
Remuneration element	**Senior managers[1] $'000s**	**Senior managers $'000s**
Fixed remuneration		
Cash-based (non-deferred) [2]	5,243	5,204
Other[3]	215	638
Variable remuneration		
Cash-based (non-deferred) [4]	335	1,561
Shares and share-linked instruments (deferred) [4]	2,619	1,882
Other	-	-

1. Remuneration has not been pro-rated for senior managers that work across multiple entities. Six senior managers of AMP Bank received a cash STI award for the 2016 financial year. (11 senior managers received an award in 2015). No sign on awards were made to senior managers during 2016. Two sign on awards were made to senior managers during 2015, the total of these awards was $290,000. There are four termination payments relating to the 2016 financial year, the total of these payments is $1,113,892. One termination payment of $235,000 was made to a senior manager relating to the 2015 financial year. No guaranteed bonuses were paid during 2016 or 2015.
2. Includes base salary, superannuation contributions and any cash allowances and additional payments.
3. Represents long service leave accruals, non-monetary benefits and any FBT on each item for the financial year.
4. Represents the cash portion of the STI award made in relation to the financial year. For four senior managers this represents 60% of their total 2016 STI award (in 2015, nine senior managers had 40% of their STI award deferred).
5. All deferred remuneration is deferred into equity. The deferred equity value represents the accounting expense of all unvested STI deferral, STI match and LTI awards which were granted during the 2014, 2015 and 2016 financial years (2015: 2013, 2014 and 2015 financial years).

Table 2: Outstanding deferred remuneration and deferred remuneration which vested

	FY16	FY15
Remuneration element	**Senior managers $'000s**	**Senior managers $'000s**
Outstanding remuneration		
Shares and share-linked instruments (deferred)	7,370	6,492
Total amount of outstanding deferred remuneration [1]	7,370	6,492
Total amount of deferred remuneration which vested [2]	653	880
Total amount of reductions due to explicit adjustments [3]	427	1,311
Total amount of reductions due to implicit adjustments [4]	-1,450	85

1. All deferred remuneration is deferred into equity and is exposed to ex post explicit and implicit adjustments. This value represents the total fair value of all unvested equity awards as at 31 December.
2. Represents the face value of equity awards which vested during the financial year.
3. Represents the face value of equity awards which were forfeited /lapsed during the financial year due to performance conditions not being met.
4. Represents the change in the value of unvested awards due to the movement in AMP share price between grant date and 31 December.