AMP Bank Limited

Remuneration disclosures

For the period 1 January 2018 to 31 December 2018

AMP Bank Limited

Remuneration disclosures for the year ended 31 December 2018

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 Limited Remuneration Committee (Committee) 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	13	• Group Executive, AMP Bank • Group Executive, AMP Bank direct reports[1] • Risk and financial control personnel • 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 Committee assists the AMP Bank board in establishing and having oversight of AMP's remuneration policy, plans and practices, including compliance with prudential standards. Other key remuneration-related responsibilities of the Committee 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 Committee's duties and scope are outlined in the Committee's terms of reference, which are available on the AMP website amp.com.au.

The Committee is comprised of independent non-executive directors of AMP and meets no less than four times a year. The Committee is chaired by an independent non-executive director of the AMP Limited Board as appointed by the AMP Limited Board. During the 2018 financial year, the Committee consisted of the following members:

Remuneration Committee members	Role	Term in 2018
Patricia Akopiantz	Chairman	Full Year
Catherine Brenner	Committee member	Part Year
Vanessa Wallace	Committee member	Part Year
Trevor Matthews	Committee member	Part Year
Mike Wilkins	Committee member	Part Year
David Murray	Committee member	Part Year

The Committee held six meetings during the 2018 financial year. The fees (including superannuation) paid to the Committee members for 2018 are outlined below:

Committee	Chairman fees	Member fees
Remuneration Committee	$55,000	$25,400

Where an external perspective regarding remuneration is needed, the Committee seeks guidance from a range of independent remuneration advisers. The Committee did not obtain any independent remuneration advice for AMP Bank in 2018.

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 attract retain the people required to achieve AMP's corporate objectives through its chosen business model and associated strategy.

AMP has a comprehensive remuneration policy which outlines the responsibilities of the boards, Committee 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 Committee 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 were reviewed in 2018 and the updated principles are set out below.

Differentiate	remuneration outcomes should differentiate for performance taking into account risk management and compliance with our policies
Behaviour	remuneration should drive behaviour that is legal, authorised, productive and reputable
Clarity and consistency	employees should have clarity around remuneration and remuneration arrangements should be applied consistently
Governance	remuneration arrangements should be supported by a proper system of internal controls, dealing with: separation of roles, conflicts of interests, with appropriate checks and balances
Judgement	the remuneration framework should allow Directors to exercise independent judgement and discretion
Reward	reward people for their work on terms consistent with the markets in which they are employed

The Committee reviews the ongoing compliance, appropriateness and relevance of the AMP remuneration policy regularly. A review of the AMP remuneration policy was undertaken in 2018 and the following updates were made:

- introduction of the Executive Performance Incentive (EPI) Plan
- incorporated regulatory change clarified the use of tailored incentive plans
- revised governance section in line with amendments made to the terms of reference for the Management Remuneration Committee (MRC) and the Remuneration Committee.

Throughout 2018, AMP Bank has evaluated its practices in response to the Sedgwick Recommendations. Remuneration arrangements for front-line sales roles in the Bank have been reviewed, and new suite of performance measures were introduced to align with the recommendations. Work will continue during 2019 and beyond to improve our performance measures, enhance governance and leader communication, and monitor the impact of these changes to ensure our culture prioritises conduct and customer outcomes.

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 performance-based remuneration.

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.

Performance-based remuneration

Performance-based remuneration is awarded based on performance over a specified performance period, typically over one performance year.

All permanent AMP Bank employees are typically eligible to be considered for performance-based remuneration provided they have met the required behaviour, conduct and performance standards (including compliance with risk management, code of conduct, internal standards and workplace policies).

The type of performance-based remuneration an employee is eligible for will depend on the role and seniority of the employee. Employees may participate in the Executive Performance Incentive Plan (EPI Plan), AMP Group Short-term Incentive (STI) Plan and/or a business/team-specific tailored incentive plan.

Performance-based remuneration payments are funded from the AMP Group Incentive 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 incentive outcome is not promised or guaranteed. Any award is dependent on AMP, business area (e.g. AMP Bank) and individual performance, which could result in no award being made. 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, the operating model ensures reporting lines for the Bank CRO and Bank CFO are direct to the AMP Limited CRO and AMP Limited CFO respectively. Assessment of performance and remuneration decisions are made by the AMP Limited CRO and CFO respectively[1].

For senior managers that participate in the EPI Plan, a minimum of 40% of their incentive is deferred into equity (i.e. AMP Limited restricted shares) for a minimum of four years subject to ongoing employment, compliance with AMP policies and the board's discretion. During 2018, nine senior managers participated in the 2018 EPI Plan.

All AMP performance-based incentive plans comply with relevant policies and operate subject to compliance with any applicable standards or regulations, such as APRA Prudential Standards.

Long-term incentives

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

Awards were made either in the form of share rights or performance rights. Share rights generally vest after a four-year vesting period subject to continued service only whereas vesting of performance rights is dependent on the employee's continued service over a four-year vesting period and AMP's relative total shareholder return performance.

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[1]This statement also applies to the approach in place for prior years. The AMP Bank Limited Remuneration disclosures for the year ended 31 December 2017 contained a statement that 'no financial business unit measures are used in assessing the performance of risk and financial control personnel'. This statement did not reflect changes to performance objectives for the Bank CFO that were introduced in 2017, albeit that the assessment of performance and remuneration review outcome was made by the AMP Limited CFO.

No LTI awards were made to senior managers in 2018 as the EPI plan replaced the STI and LTI plans for eligible senior managers.

2019 remuneration approach

The AMP Limited Board has determined that the EPI Plan will not continue in 2019 and will be replaced by new arrangements. Development of the new arrangements is well advanced but not yet finalised. The arrangements will have a much greater emphasis on equity with a challenging LTI plan for driving and delivering the transformation agenda.

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. AMP's Risk Management Strategy defines the risk type categories as: strategic; operational (including consideration of conduct risk and compliance); credit; liquidity; insurance; market; and concentration. The outcomes of these risks can be measured against the following dimensions as set out in the Risk Appetite Statement:

- Capital Adequacy – This reflects AMP's level of protection/buffer against significant losses in tail events that could lead to insolvency/default or emergency balance sheet restitution;
- Earnings Stability - Constrains excessive volatility of earnings and guards against surprises that lower the predictability of returns to shareholders;
- Maintain Liquidity - Reflects AMP's level of protection against a period of prolonged funding stress and ensures the company can meet its cash obligations without having to sell assets at a discounted rate; and
- Protect Reputation - Reflects the extent to which AMP is willing to accept unexpected failure to meet the expectations of key stakeholders which can be a substantial threat to AMP's overall reputation and long-term value.

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:

- The application of a "Risk Overlay" which moderates the annual Group Incentive pool based on the adequacy of organisation-wide risk management and compliance. Performance goals will be set annually, such as: improve risk culture, operate within risk appetite: and strengthen governance and internal controls. The percentage of the Risk Overlay will be recommended by the Group CRO and reviewed by the CEO, Chairman of the AMP Limited Board Risk Committee, the Remuneration Committee and the AMP Limited Board.
- Incorporation of risk-related measures into individual performance objectives.
- Use of risk-adjusted financial metrics.
- Deferral of incentives to allow adjustments in the event of risk management and/or code of conduct breaches.
- 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 that were not foreseen by the Committee, or for the purposes of any other relevant prudential matter or regulatory requirement.
- Payment of individual performance- based remuneration or vesting of equity may be delayed, suspended or reduced to zero in the event of code of conduct breach, poor risk management or investigation (by AMP or third party)
- Malus and clawback provisions are included in equity plan rules. The Committee reviews risk and conduct issues in relation to the vesting of deferred equity awards for all employees. The Board or the Committee may reduce the deferred award, including to zero.

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 EPI and STI plan are funded from the AMP Group incentive 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 2018 to determine the size of the Group incentive pool (the 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.

Metrics	Link to strategy	Performance outcome	Performance commentary
Underlying profit less cost of capital **(50%)**	Underlying profit less cost of capital assesses management's ability to deliver real economic value to shareholders by considering how effectively capital is deployed to generate profit. The metric encourages management to invest in projects and grow business lines that deliver returns above the cost of capital, and actively manage both the cost and usage of capital.	Above threshold but below target	In 2018, the group delivered underlying profit of $680 million, down from $1,040 million in 2017. - Australian wealth management earnings decline of 7% was driven by elevated margin compression from MySuper repricing, lower revenues from weaker investment markets and impairments to the carrying value of client registers. - AMP Capital and AMP Bank's growth momentum continued with operating earnings up 7%.and 6% respectively. - New Zealand wealth management and advice operating earnings decreased in 2018 primarily due to favourable advice income largely driven by growth in general insurance premiums, offset by lower wealth management income predominantly from a decline in AUM margins - Operating loss of sold businesses was driven by higher capitalised losses and negative claims experience. Controllable costs decreased 4% (excluding AMP Capital) for the year. The cost to income ratio was 55.8%. AMP remains well capitalised at the end of 2018, with a surplus over minimum regulatory requirements of $1.6 billion. Underlying Return on Equity decreased to 9.6%, reflecting reduced operating earnings in the Australian wealth protection business.

Metrics	Link to strategy	Performance outcome	Performance commentary
Growth measures **(20%)**	We orient capital and resources to grow our core businesses. We consider metrics specific to various businesses including: • Value of net cashflow • Other income growth • Value of net mortgage growth • Net revenue of AMP Capital	One measure below target Three measures below threshold	Net cashflows were significantly down in wealth management reflecting the impact of AMP's appearance at the Royal Commission in 2018. Other income growth did not meet the threshold. AMP Bank total loans increased but growth was below threshold. AMP Capital fee income increased 7% to $708m in 2018 from $659m in 2017, exceeding threshold but did not meet the target.
Strategy execution **(20%)**	Strategic execution included in the scorecard created focus on key projects and milestones linked to the strategy. Measures related to finalising the portfolio review, potential separation of transition of the insurance business	At target	Strategic execution milestones were set at the beginning of 2018 and were not adjusted during the year, despite changing priorities. The board made a holistic assessment against all strategic objectives following input from the CEO and determined the overall result was close to target with a score of around 50% of maximum.
Customer advocacy **Net Promotor Score (NPS)** **(10%)**	Improved customer experiences, through goals-based experiences and solutions will drive long-term value and a sustainable competitive advantage.	Below threshold	The 2018 NPS target required an increase of 10% against the 2017 result. NPS declined sharply at the end of the first quarter, coinciding with the second round of Royal Commission hearings. The score partially recovered throughout the remainder of the year, finishing at approximately 55% of the target, which is well below the minimum threshold.

The Group incentive pool is calculated based on performance against the 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 incentive 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 2018, the performance of senior leaders in AMP Bank was measured against a balanced scorecard which consisted of both financial and non-financial measures. Financial measures included underlying profit, operating earnings, controllable costs, net interest margin, loan portfolio size and deposits to loan ratio. Non-financial measures included employee engagement, gender diversity, customer advocacy, successful delivery of projects and initiatives, delivery to strategy, risk measures including improving risk culture, compliance with regulatory and legislative requirements, and compliance with risk management policies and procedures.

5. Deferral and vesting

EPI plan

Under the EPI plan, a minimum of 40% of a senior managers' annual EPI allocation (a minimum for 60% for the CEO of AMP Bank and any other direct reports of the AMP CEO) is deferred in restricted equity for a total of four years (five years for the CEO of AMP Bank and any other direct reports of the AMP CEO) including an initial one-year performance period.

Once allocated, the EPI equity award will not be subject to further performance hurdles. However, for those shares to vest:

- the participant must not cease employment with the AMP Group during the initial one-year restriction period;
- the shares must not lapse for any other reason outlined in the Equity Incentive Plan (EIP) rules, such as failure to comply with AMP policies (including the AMP Code of Conduct and those relating to risk management).

Risk and conduct will be reviewed at the time of the initial EPI allocation, at the end of the one-year initial restriction period and at the end of the four-year restriction period (five for the CEO of AMP Bank and any other direct reports of the AMP CEO).

The board retains broad discretion to determine that unvested shares will lapse and/or that any shares allocated to a participant on vesting of their shares will be forfeited. These circumstances include (but are not limited to) cessation of employment with the AMP Group (according to the leaver rules), the individual's non-compliance with AMP policies, and conduct that is fraudulent or dishonest or otherwise brings the AMP Group into disrepute, as well as broader situations involving (for example):

- the protection of AMP's financial soundness;
- any misstatement of AMP's financial results for the performance year;
- any other material changes in AMP's circumstances after the grant date; and
- complying with the law or ensuring that no unfair benefit is obtained by a participant.

The board retains the right to vary the mix of equity and cash comprising the total EPI allocation in times of poor company performance.

LTI vesting

Vesting of equity based LTI awards is dependent on continued service for share rights, and performance and continued service for performance rights.

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 2017 and 2018.

Table 1 provides the total amount of remuneration awarded to senior managers of AMP Bank for the years ended 31 December 2017 and 2018. Table 2 provides the total amount of outstanding deferred remuneration, total amount of deferred remuneration vested, and any implicit and explicit adjustments made to deferred remuneration.

Table 1: Total value of remuneration awards

	FY18	FY17
Remuneration element	**Senior managers[1] $'000s**	**Senior managers $'000s**
Fixed remuneration		
Cash-based (non-deferred) [2]	5,162	5,247
Other[3]	259	184
Variable remuneration		
Cash-based (non-deferred) [4]	493	1,830
Shares and share-linked instruments (deferred) [5]	1,726	1,433
Other	-	-

1. Remuneration has not been pro-rated for senior managers that work across multiple entities. Eight senior managers of AMP Bank received a cash incentive award for the 2018 financial year. Fourteen senior managers received an award in 2017. Two sign on awards were made to senior managers during 2018, the total of these awards was $166,964. One sign on award was made to a senior manager during 2017, the total of this award was $45,097. Two termination payments with a total value of $222,216 were made to senior managers relating to the 2018 performance year. Three termination payments with a total value of $753,000 were made to senior managers relating to the 2017 performance year. No guaranteed bonuses were paid during 2018 or 2017.
2. Includes base salary, superannuation contributions, any cash allowances and additional payments.
3. Includes the net change in annual and long service leave accruals, non-monetary benefits and any FBT on each item for the financial year. Amounts for 2017 have been restated to include the net change in annual and long service leave accruals.
4. Represents the cash portion of any incentive award made in relation to the financial year. For six senior managers this represents 60% of their total 2018 incentive award (in 2017, seven senior managers had 40% of their STI award deferred). The figure for 2018 has been restated to reflect final payment amounts.
5. All deferred remuneration is deferred into equity. The deferred equity value represents the accounting expense of all unvested EPI deferral, former STI deferral awards, former STI match plan awards and former LTI awards which were granted during the 2016, 2017 and 2018 financial years (2017: 2015, 2016 and 2017 financial years).

Table 2: Outstanding deferred remuneration and deferred remuneration which vested

	FY18	FY17
Remuneration element	**Senior managers $'000s**	**Senior managers $'000s**
Total amount of outstanding deferred remuneration [1]	3,524	4,876
Shares and share-linked instruments (deferred)		
Total amount of deferred remuneration which vested [2]	638	762
Total amount of reductions due to explicit adjustments [3]	981	1,650
Total amount of reductions due to implicit adjustments [4]	2,996	607

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 or lapsed during the financial year due to performance conditions not being met.
4. Represents the change in the value (decrease) of unvested awards due to the movement in AMP share price between grant date and 31 December.