AMP Bank Limited

Remuneration disclosures

For the period 1 January 2017 to 31 December 2017

AMP Bank Limited

Remuneration disclosures for the year ended 31 December 2017

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[1]	AMP Bank roles
Senior managers	• Responsible persons • Individuals who may impact the financial soundness of AMP Bank	16	• Group Executive, AMP Bank • Group Executive, AMP Bank direct reports[2] • Risk and financial control personnel • AMP Bank executive directors

1. The number of individuals is greater than in 2016 due to a change in organisation structure and with employees working part-year.
2. 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. 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 2017 financial year, the PRC consisted of the following members:

PRC members	Role	Term in 2017
Patricia Akopiantz	Chairman	Full Year
Catherine Brenner	Committee member	Full Year
Vanessa Wallace	Committee member	Full Year

The PRC held seven meetings during the 2017 financial year. The fees (including superannuation) paid to the PRC members for 2017 are outlined below:

Committee	Chairman fees	Member fees
People and Remuneration Committee	$47,400	$23,700

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 2017.

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. There were no changes to the remuneration policy during 2017.

AMP, through AMP Bank, is committed to implementing any changes required to support the Sedgwick Retail Banking Remuneration Review recommendations.

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 2017, seven senior managers participated in the 2017 STI deferral plan.

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 2017, seven senior managers received an LTI award. Five senior managers received their 2017 LTI in the form of share rights with rewards only delivered in equity if the service condition is met over a four-year period. Share rights generally vest after a four-year vesting period subject to continued service only (prior year awards were subject to three-year vesting).

Two senior managers received their 2017 LTI in the form of performance rights only. For the 2017 award 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 (prior year awards also had a return on equity measure and a three-year vesting period).

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 2017 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.

Metrics	Link to strategy	Performance outcome	Performance commentary
Underlying profit less cost of capital charge **(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.	On target	In 2017, the group delivered underlying profit of $1,040 million, up from $486 million in 2016. The strong business recovery reflects the stabilisation of wealth protection (insurance) and solid operating performances right across the group. – Wealth management delivered a resilient performance underpinned by strong platform cashflows, disciplined management of margin compression, delivery of 10% growth in other revenue from Advice and SMSF and tight cost management. – AMP Capital and AMP Bank's growth momentum continued with operating earnings up 8%.and 17% respectively. – The wealth protection business stabilised and completed comprehensive reinsurance program releasing capital. Disciplined management of costs delivered a 3% reduction in controllable costs (excluding AMP Capital) for the year. The cost to income ratio was 46.2%. The capital position remains strong, further strengthening through the year to finish 2017 with a surplus over minimum regulatory requirements of $2.3 billion. Underlying return on equity increased to 14.3%, moving towards target of 15% in 2018.
Value of business growth **(20%)**	We orient capital and resources to grow our core Australian businesses. We consider metrics specific to various businesses including: – value of net cashflow – value of risk new business – net revenue of AMP Capital	Significantly below target	Value of net cashflow – neither the value of net cash flow or risk new business measures met threshold. Australian wealth management net cashflows increased by $595m to $931m from strong discretionary contributions ahead of 1 July 2017 super changes, corporate super mandate wins and strong cashflows on North which were up 14% on 2016. However, strong inflows were offset by increased market activity from superannuation consolidation and MySuper transitions. AMP Bank delivered 14% growth in residential lending in a competitive environment. Considered collectively, the overall value of net cash flow did not meet threshold targets. Value of risk new business – Australian wealth protection new business was also below threshold reflecting competitive pressures. Net revenue of AMP Capital – offsetting this was strong performance from AMP Capital where net revenue was significantly above target. There were strong external net cashflows of $5,477 million, up from $967 million in 2016, including good flows into real assets and fixed income. As a result, the board assessed the overall performance of value of business growth as significantly below target.
Customer advocacy **Net Promoter Score (NPS)** **(20%)**	Improved customer experiences, through goals-based experiences and solutions will drive long-term value and a sustainable competitive advantage.	Well above target	The combined NPS result across our business increased +11 which was well above the stretch target set. Importantly, we saw a trend of consistent improvement throughout the year, driven by our customer facing teams listening to and acting on detractor feedback. In addition, our corporate functions have been leading improvement programs focused on systemic causes of customer detraction, which were not within the control of our customer facing teams to resolve.
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 and make better decisions. This in turn will increase customer loyalty and advocacy to generate improved financial returns and value for shareholders.	Slightly below target	Embedding the enhanced risk management framework is on track with two of three measures for 2017 achieved and one mostly achieved. Two further stretch goals (over and above targets set) were not achieved. Collectively, this has resulted in improvements in our approach to risk management and risk behaviours to support customer outcomes and improved decision making 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 2017, the performance of senior leaders in AMP Bank was measured against financial measures including underlying profit less cost of capital, value of business growth, return on capital, operating earnings, controllable costs, net interest margin, residential loan growth and deposit loan growth. Non-financial measures included employee engagement, gender diversity, customer advocacy, successful delivery of projects and initiatives, delivery to strategy, risk measures including strengthening risk culture and embedding a 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 2016 and 2017.

Table 1 provides the total amount of remuneration awarded to senior managers of AMP Bank for the years ended 31 December 2016 and 2017. 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. One senior manager was contracted through a third party organisation and did not personally receive any remuneration directly from AMP.

Table 1: Total value of remuneration awards

	FY17	FY16
Remuneration element	**Senior managers[1] $'000s**	**Senior managers $'000s**
Fixed remuneration		
Cash-based (non-deferred) [2]	5,247	5,243
Other[3]	183	215
Variable remuneration		
Cash-based (non-deferred) [4]	1,830	335
Shares and share-linked instruments (deferred) [5]	1,433	1,451
Other	-	-

1. Remuneration has not been pro-rated for senior managers that work across multiple entities. 14 senior managers of AMP Bank received a cash STI award for the 2017 financial year. Six senior managers received an award in 2016. One sign on award was made to a senior manager during 2017, the total of this award was $45,097. No sign on awards were made to senior managers during 2016. Three termination payments with a total value of $753,000 were made to senior managers relating to the 2017 performance year. There were four termination payments relating to the 2016 financial year, the total of these payments is $1,113,892. No guaranteed bonuses were paid during 2017 or 2016.
2. Includes base salary, superannuation contributions, 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 seven senior managers this represents 60% of their total 2017 STI award (in 2016, four 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, the former STI match plan and LTI awards which were granted during the 2015, 2016 and 2017 financial years (2016: 2014, 2015 and 2016 financial years). The 2016 expense was incorrectly stated in the 2016 disclosure due to a late update on vesting assumptions in 2016 with respect to performance rights (Return on Equity hurdle). The 2016 value has been restated (from $2,619,000 to $1,451,000).

Table 2: Outstanding deferred remuneration and deferred remuneration which vested

	FY17	FY16
Remuneration element	**Senior managers $'000s**	**Senior managers $'000s**
Total amount of outstanding deferred remuneration [1]	4,876	7,370
Shares and share-linked instruments (deferred)		
Total amount of deferred remuneration which vested [2]	762	653
Total amount of reductions due to explicit adjustments [3]	1,650	427
Total amount of reductions due to implicit adjustments [4]	607	1,450

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 (decrease) of unvested awards due to the movement in AMP share price between grant date and 31 December.