



**Rabobank**

# Pillar 3 – Annual Remuneration Disclosures

**Rabobank Australia Limited**  
ABN 50 001 621 129 AFSL 234 700

[www.rabobank.com.au](http://www.rabobank.com.au)

*As at 31 December 2015*

The following remuneration disclosures have been prepared in accordance with the Australian Prudential Regulatory Authority's (APRA's) remuneration requirements under Prudential Standard APS 330 Public Disclosure (APS 330). The Prudential Standard requires locally incorporated Authorised Deposit-taking Institutions (ADIs) to meet minimum requirements for the public disclosure of their remuneration practices, including qualitative and quantitative information.

## Annual Remuneration Disclosure

### 1. Remuneration Governance

The remuneration practices of Rabobank Australia Limited and Rabobank Australia Branch (jointly referred to as Rabobank Australia) are governed, under delegation, by the Board Remuneration Committee of Rabobank Australia Limited.

The Board Remuneration Committee is governed by a written Charter, which is required to be reviewed by the Board of Rabobank Australia Limited (the Board) at least every three years. The current Charter was approved by the Board on 25 November 2014.

Under the Charter, the Board Remuneration Committee must comprise non-executive directors of Rabobank Australia Limited, the majority of whom must be independent directors, and the Senior Officer Outside Australia of Rabobank Australia Branch. The Chairman must be an independent director elected by the Board.

The composition of the Board Remuneration Committee during 2015 was as follows:

Mr William Gurry (Chairman) – Independent Non-Executive Director

Ms Anne Brennan – Independent Non-Executive Director

Sir Henry van der Heyden – Independent Non-Executive Director

Mr John Palmer – Independent Non-Executive Director

Mr Eric Drok – Non-Independent Non-Executive Director (January 2015 to May 2015)

Mr Geerten Battjes - Non-Independent Non-Executive Director (May 2015 to December 2015)

Mr Berry Marttin – Non-Independent Non-Executive Director; and

Mr Fred van Heyningen – Non-Independent Non-Executive Director and Senior Officer Outside Australia, Rabobank Australia Branch.

The Board Remuneration Committee is required to meet at least twice per year. During the 2015 financial year, the Board Remuneration Committee met four times. One additional meeting was held in 2015, as compared with 2014.

A review was undertaken of the fee structure for payment of the Independent Non-Executive Directors of Rabobank Australia Limited in 2015. This new structure, effective 1 January 2015, was approved by the Managing Director of Rabobank Australia on behalf of the Shareholder on 1 March 2015. It includes specific fees for membership of the Board Remuneration Committee. The fees paid to the four Independent Non-Executive Directors, and specifically relating to membership of the Board Remuneration Committee are as follows:

Fees paid during 2015 <sup>1</sup>	
<b>Independent Non-Executive Directors</b>	<b>39,000</b>

*1. For the 2014 Performance Year, the Independent Non-Executive Directors were not paid a specific fee for membership of the Board Remuneration Committee*

The Committee aims to support and advise the Board in fulfilling its oversight responsibility for all remuneration matters by ensuring that Rabobank Australia:

- has current remuneration strategies and policies that are complied with and enable Rabobank Australia to attract and retain executives and other personnel who will best contribute to achieving successful outcomes; and
- fairly and appropriately rewards executives and personnel with regard to the sound and prudent management and long-term performance of Rabobank Australia, the performance of each individual in their own right and in line with the external remuneration market environment.

During 2015, the Committee again requested that Rabobank Australia engage Aon Hewitt as an external consultant to provide market insight regarding the Financial Services industry and Executive remuneration.

A local Remuneration Policy is in place for Rabobank Australia. It applies to all employees of Rabobank Australia, including Executive Directors and Senior Management who are residents in Australia. The local Policy is aligned with the Rabobank Group Remuneration Policy, although if an inconsistent requirement were to arise then the Board or Senior Officer Outside Australia would consult with the Group to vary the local Policy to ensure compliance with local regulations and prudential standards is always maintained.

The Board Remuneration Committee has reviewed the risk and remuneration structures and considers the following employees to be 'Senior Managers' and 'Material Risk-Takers' in accordance with CPS 510:

Number <sup>2</sup>	
<b>Senior Managers</b> Responsible Persons included in the Fit & Proper Policy of Rabobank Australia, which includes the CEO, all Group Executives and other key roles.	<b>15</b>
<b>Material Risk-Takers</b> Roles (not captured in the 'Senior Manager' definition above) for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of Rabobank Australia.	<b>1</b>

*2. For the 2014 Performance Year, the total number of Senior Managers was 16, and the total number of Material Risk-Takers was 1.*

## 2. Remuneration Design & Structure

The Remuneration Policy sets out general guidelines regarding the local remuneration objectives, structures and practices of Rabobank Australia, and is intended to:

- promote Rabobank Australia's business strategy for attracting and maintaining the best employees;
- integrate remuneration into Rabobank Australia's risk management systems, thereby ensuring that remuneration practices support Rabobank Australia's desired risk profile; and
- demonstrate fairness in the remuneration decision-making process.

Rabobank Australia intends to achieve this through remuneration practices that:

- foster a performance-orientated culture that aims to achieve an optimal balance between quantitative and qualitative aspects of performance, as determined by each line of business or location within Rabobank Australia's operations;
- enable Rabobank Australia to attract, retain and motivate appropriately skilled people;
- support the achievement and maintenance of sustainable business costs in the short and longer term;
- reward decisions and outcomes that support business strategy;
- encourage behaviour that supports long-term financial soundness and its risk management framework;
- are sufficiently flexible to allow for management of employees to meet business needs; and
- engender a culture of long-term commitment to Rabobank Australia.

The structure of remuneration under the Remuneration Policy is comprised of two components:

1. Fixed Remuneration; and
2. Variable Remuneration.

### Fixed Remuneration

The fixed remuneration or Total Employment Cost (TEC) for each position is directly related to an assessment of the size and scope of the position and the prevailing market rates.

An employee's TEC is comprised of Base Salary and Superannuation Guarantee Contributions (SGC), and may include other fixed components such as allowances. Employees may also choose to engage in salary packaging.

### Variable Remuneration

Rabobank Australia may award performance-based Variable Remuneration on a discretionary basis to reward employees for high levels of performance and contributions to the success of the business.

Variable remuneration to employees is offered in the form of cash (deferred and non-deferred). Rabobank Australia does not award a Long-Term Incentive component of Variable Remuneration.

Rabobank Australia may, at its discretion, confer Deferred Amounts as notional instruments (such as convertible notes) as opposed to cash. Given any such awards are ultimately distributed only as cash, they have been disclosed as cash awards for the purposes of this disclosure.

The process by which Variable Remuneration may be awarded is generally referred to as the Rabobank Australia Discretionary Variable Income Scheme.

The key characteristics of the scheme are as follows:

- Employees do not have a contractual right to receive variable income pursuant to the Discretionary Variable Income Scheme. Rabobank Australia ultimately retains the right to exercise any discretion to grant (or not to grant) variable income;
- The award of variable income will not necessarily lead to payment of variable income. Variable income awards may be subject to deferral and retention criteria. Furthermore, variable income may be withdrawn after award at the discretion of Rabobank Australia;
- Where Rabobank Australia decides to award variable income, the amount of any such variable income is at the absolute discretion of Rabobank Australia;
- The Discretionary Variable Income Scheme and the conferral of any variable income in any year does not guarantee that an employee will receive variable income in any subsequent or later year; and
- Rabobank Australia may amend the Discretionary Variable Income Scheme, and may make decisions regarding an individual's eligibility for an award or payment of deferred amounts (including in relation to withdrawal, revocation or amendment) at any time, including retrospectively. Any such amendment may affect awards already made where payment has not yet occurred at the time of change.

During 2015, the Board Remuneration Committee reviewed the Remuneration Policy and proposed the following changes, which were subsequently approved on 23 November 2015:

1	Alignment of Malus and Clawback clauses with the Group Remuneration Policy	Closer alignment of malus and clawback assessment criteria to the Group Remuneration Policy, and inclusion of the process for consideration of application by the local Board.
2	Postponement of Variable Remuneration Awards or Payments	Inclusion of option to postpone an award, payment or irrevocability of Variable Remuneration, in addition to malus and clawback option availability.
3	'Monitoring Functions' Definitions	Revision of 'Monitoring Functions' definition to only include the Identified Staff within Risk Management, Financial Control, Human Resources, Legal, Audit and Compliance.
4	Criteria for Performance Management Objectives	Performance Management objectives for both client-facing and support employees must not contain incentives which encourage them to act in a manner which is not in the customer's interest.

### Risk & Financial Control Personnel

Rabobank Australia ensures that Monitoring Functions and their direct and indirect reports (which includes Risk Management, Financial Control, Human Resources, Legal, Audit and Compliance) are remunerated in ways that do not compromise their independence in carrying out their functions.

In order to do so, any performance-based component of their remuneration incorporates measurement based on a minimum of 50% qualitative performance metrics, based on the quality and integrity of the functions that they perform. It is not predominantly determined by the managers or financial performance of the business areas that they monitor.

## 3. Remuneration & Risk Management

Within Rabobank Australia, risk is defined as 'any potential event, scenario or happening that could prevent the achievement of an objective'. Whilst this definition is deliberately broad, the key risks faced by Rabobank Australia are:

- Credit Risk;
- Liquidity Risk;
- Market Risk and;
- Operational Risk.

Effective risk management is a central part of Rabobank Australia's strategic, tactical and operational management. Rabobank Australia seeks to ensure that all employees take accountability for the management of business risks, and that appropriate practices are implemented to effectively manage risk.

The Remuneration Policy links to performance, risk and Rabobank Australia's risk management framework. The approach to remuneration seeks to encourage behaviour that supports a long-term approach to Rabobank Australia's financial soundness and appropriate risk-taking in line with risk appetite and the risk management framework. Performance-based outcomes of remuneration are aligned with prudent risk-taking, and are generally limited compared to the market. This reflects Rabobank Australia's conservative approach to risk management.

Rabobank Australia is committed to ensuring that its remuneration practices are appropriately risk-mitigated. Decisions regarding remuneration, including actual pay levels, the ratio between fixed and performance-based pay, appropriate measures of performance, and weighting of performance measures take into account any material risks that are identified through Rabobank Australia's risk-management systems. In general, this will involve (but not necessarily be limited to) the following considerations:

- setting ratios between fixed and performance-based pay with a view to ensuring that high performance is appropriately rewarded, but within a remuneration structure that is sufficiently risk-mitigated to align with the desired risk profile;
- ensuring that the fixed component of remuneration comprises a sufficient proportion of total remuneration, such that any performance-based component is genuinely discretionary;

- designing performance-based components of remuneration to align with prudent risk-taking, incorporating adjustments to reflect:
  - the outcomes of business activities;
  - risks related to those business activities; and
  - the time necessary for the outcomes of those business activities to be reliably measured, either by deferring payment until after such measures have been made or by incorporating downward adjustments to reflect any measurement uncertainty;
- ensuring that Monitoring Function roles, are remunerated in ways that do not compromise their independence in carrying out their functions;
- measuring an employee's performance against non-financial indices, such as compliance with Rabobank Australia's risk management and compliance frameworks and adherence to Rabobank Australia's competencies, as well as against financial indices;
- where financial measures of performance are used, adjusting measures of actual performance to take account of quantitative risks (including future risks not identified or measured by accounting profits) and qualitative risks (such as compliance training assessments and internal audit scores); and
- retaining discretion to withhold or revoke deferred remuneration, where unforeseen circumstances necessitate or otherwise justify such action.

There has been no significant change to this approach during the past year.

#### 4. Remuneration & Performance Management

Rabobank Australia's strategic objectives and Key Performance Indicators (KPIs), at a Bank level, cascade down to influence Business Unit and Departmental KPIs and, in turn, individual employee performance targets.

The performance of Rabobank Australia is determined by achievement against a combination of Financial, Customer, Operational and People KPIs, comprising a framework known as the Balanced Scorecard. These are determined on an annual basis and may include measures such as cost efficiency, internal and external stakeholder satisfaction, and delivery of key people initiatives, in line with the Rabobank Australia business strategy.

Performance targets set as part of the Performance Management process may be a mix of qualitative (personal) and quantitative (financial) targets, dependent upon the role undertaken by the employee. Quantitative targets refer to agreed financial targets for the Performance Year for the Business Unit or Rabobank Australia. Qualitative targets will include specific performance criteria within an employee's own area of responsibility and may also include non-financial targets to promote competency requirements. Performance targets must not contain any incentives which encourage employees to act in a manner that is not in the interests of the customer.

Performance is assessed for all employees formally during the End-of-Year Review process, supplemented by ongoing discussion and feedback throughout the Performance Year. The review considers achievement against the pre-determined agreed qualitative and/or quantitative performance targets, and employees are assigned an overall Performance Rating for the relevant Performance Year. That, in conjunction with the local market conditions and forecast variable income budgets from industry analysis, leads to consideration of a Discretionary Variable Income allocation.

#### 5. Long-Term Performance Adjustments

Whilst employees of Rabobank Australia may receive a variable income award for a particular Performance Year, it is possible that some or all of the award may be deferred. The Deferred Amount is not guaranteed income, and will be subject to a vesting period.

Globally, employees who meet classification criteria set out in accordance with the European Banking Authority have been classified as Identified Staff by Rabobank Group. These individuals are subject to stringent deferral rules, in which a minimum of 50% of any total variable income award (i.e. discretionary variable income before statutory deductions or deferrals are made) will be deferred and will vest progressively over a five year period.

As at 31 December 2015, all roles on the Executive Team of Rabobank Australia were classified as Identified Staff. In addition, several Senior Management positions in Risk Management, Legal, Treasury and Wholesale Banking were included in 2015.

All non-Identified Staff whose total variable income award (i.e. discretionary variable income before statutory deductions or deferrals are made) is in excess of the Variable Income Threshold of the equivalent of EUR 100,000, to be indexed from year to year, will have part of the total variable income award deferred. All, or a portion, of any amount in excess of the Variable Income Threshold is categorised as deferred and vests at once after three years.

Rabobank Australia may withhold payment of or revoke (claw back) all or part of a variable income award where, after issuing a Variable Income Letter:

- it is discovered that an employee has engaged in misconduct, has made material errors in the course of their employment, or has otherwise engaged in a material breach of employment conditions or of any of Rabobank Australia's risk management and/or compliance frameworks or key corporate values;
- it is discovered that an employee has participated in, or has been responsible for, conduct leading to considerable loss and/or damage to the reputation of Rabobank Australia;
- performance of Rabobank Australia or any employee has deteriorated or falls short of the levels upon which the award of variable income was originally predicated;
- circumstances are discovered of which Rabobank Australia was unaware which would have had a material impact on the decision to make a bonus award if known at the time of issuing the Variable Income Letter;
- this is necessary to protect the financial soundness of Rabobank Australia; or
- it is discovered that an award was made based on incorrect, false, or misleading information (or omissions), or otherwise as the result of an employee's fraudulent conduct.

In addition to application of malus and clawback, Rabobank Australia may elect to postpone a variable income award, payment or the irrevocability of variable income. This may be undertaken when an investigation has commenced that may have consequences for the award or payment of variable income to an employee.

An employee who has submitted their resignation to Rabobank Australia (including to their immediate manager), has been given notice of termination of employment, or who has left Rabobank Australia before the variable income payment date and/or is working out their notice period at the variable income payment date will not be eligible for a variable income award and/or payment.

## 6. Quantitative Disclosures

The following quantitative disclosures have been prepared in accordance with the requirements for APS 330 for the 2015 financial year. All amounts are expressed in Australian dollars.

The table below presents the number of **Senior Managers** and **Material Risk-Takers** who received Variable Remuneration during 2015:

Table 1 – Variable Remuneration for Senior Managers and Material Risk-Takers	2015 No. of Employees <sup>3</sup>	
	Senior Managers	Material Risk-Takers
Variable Remuneration received during 2015 for the 2014 Performance Year	13	1
Termination Payments received during 2015 <sup>4</sup>	2	1

3. For the 2014 Performance Year, the total number of Senior Managers receiving Variable Remuneration was 16 and the total number of Material Risk-Takers receiving Variable Remuneration was 1.

4. Rabobank Australia did not pay any Senior Managers or Material Risk-Takers a Termination Payment during 2014.

Rabobank Australia Limited did not pay any Senior Managers or Material Risk-Takers a Guaranteed Bonus or Sign-On Award or during 2014 or 2015.

## Total Value of Remuneration Awards

The table below presents the total value of remuneration awards for Senior Managers and Material Risk-Takers:

Total value of Remuneration Awards for the current Performance Year	Unrestricted Total (AUD)		Deferred Total (AUD)	
	Senior Managers	Material Risk-Takers	Senior Managers	Material Risk-Takers
<i>Fixed Remuneration</i> Cash-Based <sup>5</sup>	4,630,166	205,353	N/A	N/A
<i>Variable Remuneration</i> Cash-Based <sup>6</sup>	366,999	N/A	618,179	N/A
<b>TOTAL</b>	<b>4,997,165</b>	<b>205,353</b>	<b>618,179</b>	<b>N/A</b>

5. This includes Base Salary and all superannuation contributions. For the 2014 Performance Year, Senior Managers were awarded a total of \$5,271,531 in cash-based Fixed Remuneration (unrestricted) and Material Risk-Takers were awarded a total of \$336,187 in cash-based Fixed Remuneration (unrestricted). Senior Managers and Material Risk-Takers were not awarded cash-based Fixed Remuneration (deferred) for the 2014 Performance Year.

6. For the 2014 Performance Year, Senior Managers were awarded a total of \$563,990 in cash-based Variable Remuneration (unrestricted) and \$917,779 in cash-based Variable Remuneration (deferred). Material Risk-Takers were awarded a total of \$142,500 in cash-based Variable Remuneration (unrestricted) and \$7,500 in cash-based Variable Remuneration (deferred).

Rabobank Australia Limited did not utilise any shares and share-linked instruments or other forms of remuneration for Senior Managers and Material Risk-Takers.

## Deferred Remuneration

The table below presents the movement in deferred remuneration for Senior Managers and Material Risk-Takers:

Table 2 – Deferred Remuneration for Senior Managers and Material Risk-Takers	Outstanding as at 31 December 2015 Total (AUD)		Received during 2015 for the 2014 Performance Year and Prior Total (AUD)	
	Senior Managers	Material Risk-Takers	Senior Managers	Material Risk-Takers
Deferred Remuneration pre-adjustment <sup>7</sup>	1,865,720	31,118	534,935	3,252
Ex-post explicit reductions made during 2015 (e.g. clawback) <sup>8</sup>	N/A	N/A	N/A	N/A
Ex-post implicit adjustments made during 2015 (e.g. Exchange Rate, Interest, Forfeiture due to Voluntary Termination) <sup>9</sup>	N/A	-31,118	30,044	111
Deferred Remuneration post-adjustment	1,865,720	N/A	564,980	3,363

7. A total of \$1,972,059 for Senior Managers and \$26,761 for Material Risk-Takers in Deferred Remuneration (pre-adjustment) was outstanding as at 31 December 2014. A total of \$406,841 for Senior Managers and \$20,436 for Material Risk-Takers was received during 2014 for the 2013 Performance Year and prior.

8. No ex-post explicit reductions were applied for Senior Managers and Material Risk-Takers during 2014 for the 2013 Performance Year and prior.

9. A total of \$29,553 for Senior Managers and \$856 for Material Risk-Takers in ex-post implicit adjustments were applied during 2014 for the 2013 Performance Year and prior. These adjustments related to Foreign Exchange Rate fluctuations for Expatriates and application of Interest on principal Variable Remuneration awarded.

Rabobank Australia Limited did not utilise any shares and share-linked instruments or other forms of deferred remuneration in 2015 or prior financial years for Senior Managers and Material Risk-Takers.



**Rabobank**