

# Arab Bank Australia Limited

## Disclosure of Prudential Information under APS 330

### Remuneration Disclosures as at 31<sup>st</sup> December 2017

Pursuant to its obligations under Australian Prudential Regulation Authority (APRA) Prudential Standard APS330 – *Public Disclosure* Arab Bank Australia Ltd (the Bank) makes the following remuneration disclosures.

#### **Remuneration framework**

Arab Bank Australia Limited is committed to ensuring that its remuneration practices enable the Bank to attract, develop and retain high calibre individuals to deliver the Bank's objectives and drive business growth in a competitive environment. The performance based components of remuneration are designed to encourage behaviour that supports the Bank's long-term financial soundness and the risk management frameworks of the Bank.

The Remuneration Policy forms part of the Bank's risk management framework and applies to Responsible Persons, Risk and Financial Control personnel, all other Employees ("the Employees") and Non-Executive Independent Directors ("the Directors") of the Bank. This policy does not apply to Contractors or Third Parties whose arrangements are subject to separate contractual terms and are subject to oversight by the Board Remuneration Committee

It is the policy of the Bank to have a Remuneration Committee of the Board at all times.

#### **Board Remuneration Committee**

The purpose of the Board Remuneration Committee is to assist the Board in fulfilling its responsibilities relating to remuneration and people matters, and compliance with related employment laws and regulations. It does this by ensuring that the Bank has appropriate remuneration and people systems in place and by monitoring their effectiveness.

There are no persons who provide services to the Bank, and are not directly employed by the Bank, for whom a significant proportion of total remuneration is based on performance and whose activities may, individually or collectively, be able to affect the financial soundness of the Bank.

The objective of the Remuneration Policy is to align employee and director remuneration with sustainable shareholder value. It is also designed to encourage behaviours that support the Bank's long-term financial soundness and the risk management frameworks of the Bank.

To this end the remuneration policy of the Bank embodies the following principles:

- Appropriately compensate Employees and Directors for the services they provide to the Bank;
- Attract and retain Employees and Directors with skills required to effectively manage the operations and growth of the business;
- Be consistent and appropriate having regard to the performance of the Bank and the relevant Employees and Directors;
- Motivate Employees and Directors to perform in the best interests of the Bank and its shareholder;

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- Motivate Employees and Directors to pursue long term growth and success of the Bank within the Board approved control framework;
- Manage the risks associated with remuneration in a manner that supports the Bank's risk management frameworks by applying an appropriate balance between fixed and variable remuneration, reflecting short and long term performance objectives to the Bank's circumstances and goals;
- Apply key short term and long term key performance indicators, including financial and non-financial measures of performance, to eligible employees;
- Demonstrate a clear relationship between individual performance and rewards;
- Comply with all regulatory and legal requirements; and
- Provide an appropriate level of transparency.

The Board Remuneration Committee meets three times a year with additional meetings organised as needed. It is comprised of the following members:

Mr. Ian MacDonald – Chairman (independent non-executive director)

Mr. Geoff Wild – Independent non-executive director (and Chairman of the Board)

Ms. Randa Sadik – Non-executive director (and Deputy Chief Executive Officer – Arab Bank Plc)

### **Responsibilities**

The Remuneration Policy was established by the Board Remuneration Committee and approved by the Board of Directors.

The Board Remuneration Committee operates under a charter approved by the Board of Directors.

The Charter sets out the Board Remuneration Committee's responsibilities including recommendations to the Board for the remuneration arrangements for employees and directors of the Bank within this policy.

The Remuneration Policy also recognises that the Board of Directors is responsible to the shareholder of the Bank to ensure that interests of all employees and directors of the Bank are aligned with the interests of the shareholder.

The Board Remuneration Committee reviews and recommends to the Board for approval, remuneration recommendations from the Managing Director for all his direct reports including Risk and Financial Control personnel as defined by the Bank.

Following review and recommendation from the Remuneration Committee recommendations are submitted to the Board of Directors for approval.

### **Remuneration packages – all employees**

The mix of fixed and variable components is considered in the determination of remuneration packages and varies for individual positions. There is no equity component in the Bank's performance-based remuneration for employees.

The mix of remuneration and performance measures used in the remuneration packages for risk and financial control personnel is designed to ensure there is no compromise in the independence of these personnel carrying out their risk and financial control duties. Although some of the responsibilities of the Executive Manager Finance (EMF) and Chief Risk Officer (CRO) include risk and financial control, the Bank has determined that based on the EMF's and CRO's overall responsibilities the remuneration policy for the EMF and CRO will be the same as the other Responsible Persons of the Bank.

Risk and Financial Control personnel are eligible to receive a smaller percentage of variable remuneration compared with other eligible participants as part of the Bank's risk management strategy.

### **Fixed remuneration**

This includes base salary, fixed benefits and superannuation. Base salaries are determined to attract and retain employees with skills required to effectively manage the operations and growth of the business to reflect best market practice for the specific circumstances of the Bank.

Fixed remuneration is benchmarked against the financial services industry through the use of external remuneration market surveys, conducted by professional, independent benchmarking organisations.

### **Performance-based remuneration**

Employee remuneration packages may include a 'variable' component with short term and long term incentive plans assessed by using a balanced scorecard method. Non financial metrics include compliance with risk management frameworks, adherence to corporate values and other performance indicators.

Arab Bank Australia does not pay product sales commissions or product based payments.

### **Board discretion regarding payment of performance-based remuneration**

The Board can adjust performance-based components of remuneration downwards, to zero if appropriate to protect the financial soundness of the Bank; or to respond to significant unexpected or unintended consequences that were not foreseen by the BRC. This adjustment can occur for the current year and/or future years.

The Board also has the discretion to vary upwards or downwards the incentive award amount that results from the application of the KPI measures and formula based calculations, including to

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recognise any deterioration in the performance measures during the deferral period, as well as give consideration of individual participant matters.

The Board also has the unconditional discretion to reduce or eliminate the incentive award (including future years vesting) as follows:

To protect the financial soundness of the Bank in adverse circumstances such as losses, not meeting prudential capital requirements or relying on public sector capital injections.

In circumstances where material unexpected outcomes arise, including material risk management breaches, unexpected financial losses, reputational damage or regulatory non-compliance.

The Board's discretion regarding payment of performance-based remuneration also includes adjustments to non-financial measures. These measures include but are not limited to:

- compliance with risk management frameworks,
- achievement of People metrics as defined in the Strategy, and
- adherence to corporate values and displaying acceptable corporate citizenship.

### **Short Term Incentive (STI)**

The aim of the STI is to reward eligible employees based on their overall performance and contribution to the profitability and overall success of the Bank, in addition to meeting or exceeding risk related measures. The incentive program balances the delivery of profitability with managing risk, and aligns with the core values of the Bank.

The broad principle is that employees' participation in the STI plan is conditional upon the Bank's financial performance exceeding the initial budget set at the beginning of the Bank's financial year and individual employees achieving an overall "exceeds expectations in several areas" rating.

The key STI design principles are quantitative measures that are calculated based on actual financial results achieved against budget plus selected qualitative goals. The quantitative and qualitative goals are set prior to the commencement of the performance period.

The STI award amount is inclusive of statutory superannuation payments.

The STI period is twelve months commencing 1 January and concludes 31 December, this period is referred to as the Performance Period.

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STI (non-deferred)

Employees may receive a cash payment of 100% of the STI award following the release of externally audited financial accounts for the performance period, provided the total STI payment does not exceed a predetermined dollar value.

STI (deferred)

Employees whose STI payment outcome is higher than the predetermined dollar value, may receive a cash payment of 50% of the STI award following the release of externally audited financial accounts for the performance period. The remaining 50% of the STI award is deferred for 12 months. The deferred component of the STI award is payable at the Board's discretion to ensure no deterioration in the performance measures during the deferral period, in addition to the other discretions exercised by the Board in respect of performance-based remuneration.

**Long Term Incentive (LTI)**

The aim of the LTI is to build long-term shareholder value of the business and align management with The Bank's longer term growth strategy and profit contribution by providing an incentive for the eligible executives to drive continuing improvement in performance in addition to meeting or exceeding risk related measures.

The key LTI design principles are Key Performance Indicators (KPIs) for quantitative measures.

The KPIs are set prior to the commencement of the performance period and are approved by the Board.

Payment of performance based remuneration is conditional upon the achievement of Board approved financial KPIs, with the payment determined upon finalisation of the Bank's audited accounts.

The LTI performance period is measured over the three years commencing from 1 January of year one, and concluding 31 December of year three. This period is referred to as the Performance Period.

**Payment of the LTI**

Eligible participants receive 50% of the LTI award following the release of externally audited financial accounts at the conclusion of the performance period as referred to above.

The second 50% of LTI payments are deferred for twelve months.

The Board has the unconditional discretion, as set out in above, to vary the LTI award amount.

### **Termination payments**

Severance payments on termination are limited to pre-established contractual arrangements that comply with statutory requirements and do not commit the Bank to making unjustified payments in the event of non-performance.

All incentive payments at the time of termination for the Managing Director and the direct reports of the Managing Director (excluding administrative positions) are approved by the Board.

### **Remuneration packages – Non-Executive Independent Directors**

Non-Executive directors receive fee payments as a form of remuneration. These base fees are determined based on industry benchmarking and are inclusive of 10.5% Superannuation payment. Directors also receive, in addition to their base fees, additional fees if they Chair other Committees (BRC, Board or Remuneration Committee).

Directors' fees are reviewed annually by the Board following recommendations from the Board Remuneration Committee. The Board Remuneration Committee may engage the services of an independent remuneration and benefits specialist to ensure the directors' remuneration packages appropriately compensate directors for the services they provide to the Bank.

Directors do not receive bonuses or incentive payments.

No retirement benefits, other than superannuation accrued is paid to existing or new Directors.

### **Policy Review**

The Remuneration Policy is reviewed triennially or as required by the Remuneration committee and approved by the Board of Directors.

Last review of the Remuneration policy was in 2015 and consequently approved by the Board in November 2015.

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**Risk Management Framework**

The Remuneration Policy forms part of the Bank’s risk management framework and a risk management declaration by the Board Chairman and Board Risk Committee Chairman is signed off annually.

**Total value of remuneration award for 2017 financial year\***

	<b>Total value of remuneration awards for 2017</b>	<b>Unrestricted</b>	<b>Deferred</b>
Senior Managers **	\$1,988,387	\$1,988,387	Nil
Variable remuneration	\$111,600	\$111,600	Nil

\*All remuneration is cash based

\*\*Senior Managers refers to Managing Director and all his direct reports excluding administration positions.