

Capital Requirements Regulation (CRR)

2018
Remuneration
Disclosure ING
Bank N.V.

Introduction

This 2018 remuneration disclosure provides detailed information on ING's remuneration policy and practices for Identified Staff, including the Executive Board and Management Board Banking. In addition, it confirms ING's compliance with the applicable regulations on remuneration in the financial services sector.

The data presented is based on policies and processes applicable in 2018 and relates to performance year 2018. Where reporting is done for CRR disclosure, this includes the Pillar III disclosure.

This report should be read in conjunction with our Remuneration Report on pages 124 - 139 of the ING Group Annual Report 2018.

Identified Staff selection

ING's selection of Identified Staff is based on the Regulatory Technical Standards (RTS) developed by the European Banking Authority in 2014 for this purpose.

The RTS comprises (i) qualitative and (ii) quantitative selection criteria. ING has carefully considered how to apply these criteria within its organisation and, based on this, has identified positions and individuals that qualify as Identified Staff.

The selection of Identified Staff is an ongoing process, with periodic checks.

The application of the Identified Staff selection criteria at ING is reviewed annually and, if necessary, amended, to make sure it continues to comply with applicable regulations and align with the ING organisation.

The number of Identified Staff at ING showed a small increase in 2018 (777), compared to 2017 (766). There is no specific reason why the number has increased.

Performance management

Performance management is a core people management process at ING. It aligns individual performance objectives with ING's strategy and priorities in order to build a sustainable and successful business for all its stakeholders. Performance management is linked to remuneration and prevents reward for failure via the risk appetite framework.

Performance management supports ING's long-term interests. Assessing the performance of Identified Staff and subsequently awarding variable remuneration to those who qualify, is done as a part of a multiple-year framework. This longer-term performance management horizon ensures that variable remuneration continues to be 'at risk' throughout the deferral period by means of holdback or through clawback if any so-called failure is detected after vesting. Variable remuneration is linked to non-financial and financial performance. At least 50% of the actual variable remuneration award must be based on non-financial performance criteria. Variable remuneration takes into account company performance, business line performance and individual performance. Any undesired risks taken or compliance issues that were not apparent when the variable remuneration was awarded, are taken into account at every deferred vesting of variable remuneration.

Remuneration policy and governance

Remuneration policy

ING's remuneration policy is designed to ensure that we offer well-balanced remuneration so we can recruit, engage and retain highly qualified staff and live up to our responsibilities towards our stakeholders.

ING's remuneration policy applies to all staff and is embedded in ING's Remuneration Regulations Framework (IRF). The IRF complies with relevant international and local legislation and regulations. It sets specific requirements for Identified Staff, Control Functions, the Executive Board and Management Board Banking. All countries where ING is located and all majority owned entities must adhere to this framework and are obliged to sign a certificate stating that their remuneration policy complies with the IRF. The only applicable deviations are those based on mandatory local legislation or in a limited transformation period (e.g. negotiations with employee representative bodies).

Remuneration requirements for Identified Staff

Fixed remuneration

The fixed remuneration for Identified Staff is sufficiently high to compensate for the respective level of expertise, skills and range of responsibilities required for fulfilling a specific job in a business unit and region.

Benefits

Identified Staff, like other staff, are, under predetermined conditions, eligible to receive various employee benefits such as pension, medical or accident insurance. Benefits are locally regulated and follow local market practice and therefore differ on a country-by-country basis. ING does not award discretionary pension benefits.

¹ For the Executive Board the total variable remuneration is paid out in shares.

Variable remuneration

Variable remuneration, where applicable, is primarily focused on creating long-term value and is based on individual, business line and bank-wide performance criteria. Where Identified Staff qualifies for variable remuneration it is subject to specific and/or regulatory conditions. These conditions aim, in part, to ensure the variable remuneration is aligned with the ongoing risk profile of ING Bank over a longer period.

With respect to variable remuneration for Identified Staff the following applies:

- Variable remuneration is split into two parts:
 1. An upfront award, which is delivered for a maximum of 50% in cash and a minimum of 50% in shares or other equity-linked instruments;
 2. A deferred award, which is delivered for a maximum of 50% in cash and a minimum of 50% in shares or (in a few countries) other equity-linked instruments¹;
- A minimum of 40% of variable remuneration is deferred over a period of three to five years (depending on job position) with a tiered vesting schedule;
- A retention period of at least one year is applied to all non-cash elements post vesting; and
- Vesting is conditional on continued employment, provided limited exceptions.

ING applies different percentages to the upfront and deferred portions of variable remuneration, varying from 40% to 60% upfront, depending on job position.

Sign-on/buy-out arrangement

Buy-out arrangements and sign-on arrangements are types of variable remuneration that are only awarded in exceptional cases and relate to the commencement of employment. The buy-out arrangement or sign-on arrangement is solely awarded:

- I. to a new staff member in view of their employment at ING;
- II. during the first year of service of the new staff member;
- III. if the staff member did not work at ING in the year prior to being hired; and
- IV. if ING has a sound and strong capital base.

Sign-on arrangement

In the event of a sign-on arrangement, remuneration is paid to a new staff member during their first year of service in view of their employment with ING, to compensate for a loss of variable remuneration at their previous employer. Sign-on arrangements are excluded from the VR-ratio for the first performance period, where the sign-on arrangement is awarded to a new staff member hired before the first performance period starts.

Buy-out arrangement

In the event of a buy-out arrangement, ING offers compensation for deferred variable remuneration awarded by a prior employer that is forfeited as a direct result of leaving the former employer and joining ING. The buy-out arrangement should not compensate the new staff member for a loss of variable remuneration or for variable remuneration that has already been compensated. Written evidence needs to be provided to ING. The value of the forfeited deferred shares or other instruments is determined based on the fair market value at the commencement date.

For buy-out arrangements all requirements for variable remuneration apply, including deferral, retention periods, pay out in instruments, holdback and clawback. Buy-out arrangements are

subject to the vesting schedule of the previous employer (adjusted to ING vesting dates) and are awarded at least 50% in equity if the recipient qualifies as Identified Staff.

Severance

Severance payments are compliant with the remuneration regulations, including the locally applicable employment law. ING applies the principle of 'no reward for failure'.

ING will not pay out any form of severance payment to a staff member in the event of:

- early termination of the employment relationship at the initiative of a staff member, unless this results from seriously imputable acts or failures on the part of ING;
- seriously imputable acts or failures by the staff member in the performance of their position; or
- in the event that the staff member continues to work for ING.

The maximum severance payment that can be paid out to daily policymakers will amount to 100% of their annual fixed remuneration.

The amount of the severance payment is determined according to a predefined, generic calculation method and criteria as set out in the applicable local severance policy. Severance proposals for the Executive Board and Management Board Banking are decided on by the Supervisory Board but are contractually limited to 100% of their annual fixed remuneration.

Variable remuneration cap

Based on applicable laws and regulations, ING applies maximum percentages of variable remuneration compared to fixed remuneration for different categories of staff.

Geographic scope	Staff categories	Percentage
NL	Staff working mainly in NL and solely remunerated on the basis of the collective labour agreement (CLA)	20%
NL	Staff working mainly in NL who are not (solely) remunerated on the basis of the CLA	20% average 100% individual ²
EEA	Staff working mainly in the European Economic Area (EEA) and outside NL	100%
Non-EEA	Staff working mainly outside the EEA	100%, which may be increased to 200% subject to shareholder approval ³

Pre-award and post-award assessment process; adjustment, holdback and clawback

Based on the remuneration regulations, specific risk adjustment mechanisms must be applied to the pay-out process of variable remuneration for Identified Staff. To this end, ING operates a so-called pre-award and post-award assessment process when determining any variable remuneration, subject to the maximum variable remuneration percentages.

The pre-award assessment process aims to consider the full range of any current and potential future risks. As part of this process, ING takes into account the company performance at bank, business line and individual levels, as well as a solvency test. In addition, risk requirements apply to all Identified staff in so-called risk-taker roles. These risk requirements set the minimum standards

² Within ING this exemption is only used for a limited group of employees (i.e. employees meeting one or more of the three criteria: (i) very specific and unusual circumstances (ii) exceptional talent or (iii) a unique job function.

to be met during the performance year. Deviation from these standards may lead to a downward adjustment of variable remuneration (risk modifier).

The post-award risk assessment process analyses whether the outcomes of the initial pre-award risk assessment process were correct. This can, and in certain situations should, result in a downward adjustment of variable remuneration by applying a holdback (i.e. forfeiture of up to 100% of the awarded and unvested variable remuneration) and/or clawback (surrender of up to 100% of the paid or vested variable remuneration). Any decision to apply holdback or clawback is at the discretion of the Supervisory Board.

ING sets specific criteria for the application of holdback or clawback.

Holdback or clawback <u>can</u> be applied in the following circumstances	Holdback	Clawback
In the event of engaging in conduct or acts considered malfeasance or fraud	✓	✓
In the event of specific conduct that leads to the material re-statement of ING annual accounts and/or significant (reputational) harm to ING or any of its subsidiaries or affiliates	✓	✓
In the event that variable remuneration is awarded on the basis of inaccurate information – whether or not financial in nature – regarding: (i) the achievement of the performance targets (including KPIs) that determine the variable remuneration; or (ii) the circumstances under which the variable remuneration was awarded	✓	✓
In the event that the award of variable remuneration is contrary to the principles of reasonableness and fairness	✓	
In the event of evidence of misbehaviour or serious error by the relevant staff member, including a breach of a code of conduct or other internal rules, especially those concerning risk	✓	
In the event ING or the business line where the relevant staff member works suffers a significant failure of risk management	✓	
In the event of significant adverse changes in the institution’s capital, other than as a result of changing environment or usual business cycle changes	✓	

³ In 2017, the Annual General Meeting approved continuing with the increase of the variable remuneration percentage to 200% for performance years 2017 to 2021 for no more than 1% of ING’s staff globally. In financial year 2018, 15 employees worldwide received variable remuneration exceeding 100%.

If any other new material information arises that would have changed the original determination of the award of variable remuneration to an individual if it were known at the time of the award; such reassessment is also based on the criteria for the original award	✓	
Holdback or clawback <u>must</u> be applied in the following circumstances:		
If a staff member participated in or was responsible for conduct that resulted in significant losses to the institution	✓	✓
If a staff member failed to meet appropriate standards of fitness and propriety	✓	✓

Remuneration governance

The Remuneration Committee advises the Supervisory Board on remuneration decisions, with the support of ING's functions (e.g. Finance, Risk, Audit (CAS), Compliance, Legal and HR). To ensure the Remuneration Committee receives adequate and accurate information, there are compensation committees in place in the business lines. In addition, remuneration is a key topic of review of CAS.

On 31 December 2018, the members of the Remuneration Committee were Henk Breukink (chairman), Robert Reibestein and Hans Wijers. The Remuneration Committee met six times in 2018. Topics discussed at these meetings relating to Identified Staff included:

- the annual review of the ING remuneration framework;
- the application of the Identified Staff selection criteria;
- quarterly reports of remuneration proposals for Identified Staff;
- individual remuneration and severance proposals for Identified Staff and high earners;
- the annual compensation review for Identified Staff members, including the application of risk modifiers, the bank capital test (i.e. the RoE and CT1 hurdles) and determination of the bonus pool; and
- proposals for holdback or clawback of compensation.

With respect to the settlement agreement with the Dutch authorities a special ad-hoc committee of the Supervisory Board was charged with the accompanying management assessment and its proposed measures, including those encompassing impact on remuneration.

The services of the following external consultants were used with regards to remuneration: Stibbe, Willis Towers Watson, McLagan, Korn Ferry Hay Group and PwC. These are independent consultants who, at the request of ING, provide advice in the area of remuneration and related laws and regulations.

The roles and responsibilities of the Remuneration Committee of ING Bank N.V. are outlined in the Charter of the Remuneration Committee. These are similar to the roles and responsibilities of the Remuneration Committee of ING Groep N.V., as outlined in the charter of that committee, which is available on the ING website (www.ing.com).

Quantative information

The following tables show the remuneration awards made by ING to Identified Staff for the performance year 2018.

Table 1 – Details of remuneration of Identified Staff in relation to performance year 2018

Fixed and variable remuneration awarded to Identified Staff in relation to performance year 2018, split by instrument

	Supervisory Board	Executive Board	Management Board	Other Identified Staff	Other IDS – Control functions
Amounts in thousands of euros	ING Group	ING Group	ING Bank	ING Bank	ING Bank
Number of employees	9	3	4	471	290
Fixed remuneration¹	1,032	5,426	4,765	142,461	62,676
Variable remuneration²	-	-	-	29,062	7,908
Of which upfront cash	-	-	-	8,197	2,211
Of which upfront shares	-	-	-	8,409	2,270
Of which deferred cash	-	-	-	6,015	1,616
Of which deferred shares	-	-	-	5,169	1,234
Of which equity-linked instruments	-	-	-	946	383
Of which other instruments ³	-	-	-	326	194
Sign-on, buy out and retention awards in 2018					
- Number of beneficiaries	-	-	-	1	2
- Sign-on, buy-out, retention awards	-	-	-	126	158
Severance payments awarded in 2018⁴					
- Number of beneficiaries	-	1	-	3	1
- Severance awards	-	602	-	2,947	1,138

¹ Fixed remuneration of Supervisory Board members includes the standard fees per role and committee (VAT included). Fixed remuneration of Executive Board, Management Board Banking and Other Identified Staff includes employer pension contribution and collective fixed allowances (which for Dutch employees consist of two savings allowances applicable to all employees in the Netherlands; a savings allowance of 3.5% and a savings allowance to compensate for loss of pension benefits with respect to remuneration in excess of €105,075). Excluding severance awards.

² Excluding sign-on, buy-out, retention and severance awards.

³ Paid in 2018, including profit sharing and CLA-based variable remuneration.

⁴ The highest severance award to an employee is EUR 1,700,000.

Table 2 - Number of Identified Staff with total remuneration above € 1,000,000 per bracket

The decreased number of Identified Staff with total remuneration above EUR 1,000,000 (high earners) and the shifts between the brackets are the result of multiple factors, among which performance and exchange rate fluctuations. The vast majority of these employees (excluding the Executive Board) work outside the Netherlands.

Total remuneration¹

	Executive Board ING Group	Management Board ING Bank	Other Identified Staff ING Bank	Other IDS Control functions
€ 1,000,000 - € 1,500,000	-	4	2	-
€ 1,500,000 - € 2,000,000	2	-	-	-
€ 2,000,000 - € 2,500,000	1	-	1	-
€ 2,500,000 - € 3,000,000	-	-	-	-

¹ Excluding sign-on, buy-out and severance awards.

Table 3 – Details of remuneration Identified Staff ING Bank in relation to performance year 2018

Fixed and variable remuneration awarded to Identified Staff in relation to performance year 2018, split by instrument

Amounts in thousands of euros	Wholesale Banking	Retail Banking Market Leaders	Retail Banking Challenger & Growth	Treasury	Corporate Staff and Other	Other IDS – Control functions
Number of employees	292	65	70	13	31	290
Fixed remuneration¹	90,715	16,712	19,146	4,173	11,715	62,676
Variable remuneration²	20,838	1,644	4,517	1,139	923	7,908
Of which upfront cash	6,032	338	1,248	334	245	2,211
Of which upfront shares	6,105	481	1,244	334	245	2,270
Of which deferred cash	4,237	332	997	235	214	1,616
Of which deferred shares	4,139	-	636	180	214	1,234
Of which share-based instruments	197	332	360	56	-	383
Of which other instruments ³	128	161	32	-	5	194

¹ Excluding severance awards.

² Excluding sign-on, buy-out, retention and severance awards.

³ Paid in 2018, including profit sharing and CLA-based variable remuneration.

Table 4 – Analysis of deferred remuneration

This table includes deferred remuneration awarded or paid in financial year 2018 to current and former members of the Executive Board ING Group and Management Board Banking and other Identified Staff of ING Bank. This table does not include deferred remuneration granted to staff prior to their nomination as Identified Staff.

Analysis of deferred remuneration Identified Staff awarded or paid in financial year 2018¹

Amounts in thousands of euros	(Former) Executive Board ING Group & Management Board ING Bank	Other Identified Staff ING Bank (non-control functions)	Other Identified Staff ING Bank (control functions)
Outstanding, vested ²	2,869	10,983	1,572
Outstanding, unvested ³	675	9,607	2,116
Awarded during financial year ⁴	1,427	22,391	4,335
Paid out ⁵	2,048	26,696	3,608
Reduced amount through performance adjustment (holdback and clawback) ⁶	90	186	40

¹ Equity is valued at the opening stock price on 31 December 2018, being € 9,48.

² The amounts of outstanding deferred equity that vested in 2018.

³ The amounts of unvested deferred equity awarded in financial year 2018.

⁴ The amounts of deferred remuneration (cash and equity) awarded during the financial year 2018.

⁵ Payments in 2018 of deferred cash and equity.

⁶ In 2018, holdback and/or clawback has been applied to five Identified Staff members.