Basel III Pillar 3

Annual Remuneration Disclosures as at 30 June 2017

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Contents

Introduction

The following remuneration disclosures have been prepared in accordance with the Australian Prudential Regulation Authority's (APRA's) remuneration requirements under prudential standard APS 330 Public Disclosure (APS 330) and the Commonwealth Bank of Australia's Board (Board) approved policy. APS 330 requires that all Authorised Deposit-taking Institutions (ADIs) meet the minimum requirements for public disclosure of qualitative and quantitative information of their remuneration practices.

The prudential disclosures are separate to the existing Remuneration Report requirements applicable to all listed companies under the Corporations Act 2001, which only cover Key Management Personnel (KMP).

The qualitative remuneration disclosures are broader in scope and cover all individuals included in the Group's Remuneration Policy, as outlined in CPS 510 (Governance). The quantitative information relates to Senior Managers and Material Risk Takers of the Commonwealth Bank of Australia Group (Group), for the 2017 financial year (FY17).

Qualitative disclosures

In FY17, the following employees have been identified as Senior Managers and Material Risk Takers (as defined in paragraph 21 of APS 330):

Role	Number of Individuals FY17[1]	Description
Senior Managers[2]	71	All Responsible Persons included in the Group's Fit and Proper Policy[3] and those employees defined under the Hong Kong Monetary Authority (HKMA) Supervisory Policy Manual CG-5. This includes: • The Chief Executive Officer (CEO), all Group Executives, the Group Treasurer, the Executive General Manager Group Audit and the CEO of Colonial First State Global Asset Management (15 individuals); • Responsible Persons of the Group's regulated subsidiaries (44 individuals); and • KMP and Senior Managers who have been identified as holding a manager role for Hong Kong banking licence purposes under HKMA regulations and in accordance with Hong Kong Banking Ordinance 72B (12 individuals).
Material Risk Takers[4]	19	All 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 the Group. For the Group, this includes senior executives whose activities have a significant impact on the Group's balance sheet and/or the long-term financial performance of the Group (excluding Bankwest[5]).

(1) This is based on the individual's role as at 30 June 2017 or last role prior to 30 June 2017 that is subject to disclosure.
(2) There were 71 Senior Managers for FY16.
(3) Excluding the roles listed in Prudential Standard CPS 510, paragraph 59 (a).
(4) There were 23 Material Risk Takers for FY16.
(5) Bankwest have been excluded in FY17 due to an organisational restructure and change in reporting level.

1. Remuneration Governance

Remuneration Governance Framework

The Remuneration Committee (the Committee) is the main governing body for remuneration across the Group. The Committee develops the remuneration philosophy, framework and policies for Board approval.

The Committee has a robust framework for the systematic review of risk and compliance issues impacting remuneration and works closely with the Board's Risk Committee and management's Risk and Remuneration Review Committee (RRRC) to consider risk and reputational matters in the determination of variable remuneration outcomes.

The following diagram illustrates the Group's remuneration governance framework.

CBA Board

Risk Committee

Assists the Board in the governance of the Group's risks.

Advises the Remuneration Committee of material risk issues which may impact remuneration outcomes.

RRRC

Management committee that advises the Group Chief Risk Officer on material risk issues which may impact remuneration outcomes.

Remuneration Committee

Members

David Higgins (Chairman)
Launa Inman
Catherine Livingstone AO
Andrew Mohl
Mary Padbury
Wendy Stops

Roles and responsibilities

The responsibilities of the Remuneration Committee are outlined in its Charter and reviewed periodically: *www.commbank.com.au/corporategovernance*

Independent remuneration consultant (EY)

EY provides information to assist the Committee in making remuneration decisions. EY did not make any remuneration recommendations in FY17.

In FY17, the key information received from EY related to:

- Regulatory reforms
- Current market practice and data
- Incentive plans arrangements for Executive KMP

The Committee met ten times during FY17. The current fee for the Committee Chairman is $60,000 per annum and the current fee for Committee members is $30,000 per annum (including superannuation). Note: FY18 Committee Chairman and member fees will be reduced by an amount equivalent to 20% of their individual FY17 fees to reflect a shared accountability for the overall reputation of the Group and risk matters.

Group Remuneration Policy

Key features and purpose

The Group Remuneration Policy sets out:

- The remuneration principles that guide the design of the Group's remuneration framework;
- The remuneration framework that delivers the Group's remuneration principles; and
- The policies used to manage remuneration within the remuneration framework and the Group's risk management framework.

The Board has determined that the Group's remuneration policies will:

- Meet high standards of governance and all applicable regulatory requirements and guidelines;
- Align with the Group's vision, values and strategy;
- Be mindful of the interests of the Group's stakeholders including shareholders, employees, customers and the community;
- Be communicated to relevant stakeholders in a way that is clear and easy to understand;
- Support avoiding conflicts of interest; and
- Encourage behaviour that supports the long-term financial soundness and risk management framework of the Group.

Application of the policy

The Group Remuneration Policy applies to all controlled entities of the Group, with exceptions for some offshore entities where separate remuneration policies are required by local regulation. This includes:

- All executives and employees on individual contracts;
- All employees covered by collective agreements; and
- All executive and Non-Executive Directors on the CBA Board and the board of any majority owned Group subsidiaries (including offshore entities).

Policy reviews

The Group Remuneration Policy is typically reviewed by the Committee and approved by the CBA Board on an annual basis. The review includes an assessment of:

- The application and effectiveness of the Group Remuneration Policy;
- Compliance with relevant legislation or regulatory requirements; and
- The relevance of the Group Remuneration Policy in changing market conditions.

A review was conducted in June 2017 with amendments made to the Group Remuneration Policy to reflect regulatory and other policy changes.

Independence of Risk and Financial Control Personnel

The majority of risk and financial control personnel (as defined in paragraph 59(b) of CPS 510) are employed in centralised functions across the Group.

Remuneration outcomes are based on the performance of the Group and individual performance against Key Performance Indicators (KPIs). The KPIs:

- Must not compromise the independence of the individuals in these roles in carrying out their function;
- Financial KPIs may be linked to the Group's performance, but not to the business unit performance the employee advises / reviews;
- Non-financial KPIs may be linked to individual, team or business unit performance provided they are not related to areas where the employee performs a control function; and
- The ratio of annual variable remuneration to fixed remuneration should be appropriate.

2. Remuneration Framework

The structure of remuneration arrangements for most employees consists of the following components:

- Fixed Remuneration (FR); and
- Short-Term Variable Remuneration (STVR) (at risk).

The CEO and Group Executives also have a Long-Term Variable Remuneration (LTVR) (at risk) component.

The following table outlines the key remuneration components. The variable remuneration components are based on performance against key financial and non-financial measures. More detail on remuneration and the link to performance is included in section 4.

Element	Description	Applies to:
FR	• Base remuneration and superannuation (includes cash salary and any salary sacrifice items) • *For the CEO and Group Executives*: Reviewed annually by the Committee against applicable market remuneration data • *For other employees*: Reviewed annually taking into account any change in scope of role performed by the individual, changes required to meet the principles of the Group Remuneration Policy, internal equity and market competiveness. FR is approved by the individual's direct manager and the next level manager in the reporting line	All employees

Variable Remuneration (at risk)	• The current variable remuneration instruments include:
	  ◦ Cash (deferred and non-deferred);
	  ◦ Deferred / Restricted Rights (deferred equity);
	  ◦ Deferred / Restricted Performance Units (deferred cash); and
	  ◦ Reward Rights (deferred equity).
	• Cash is the only instrument which can be payable upfront and not deferred. Some of the Group's arrangements allow for variable remuneration to be deferred as cash over an appropriate deferral period
		See STVR and LTVR below

STVR	• STVR awards are discretionary and recognise annual performance over the financial year. Performance is measured using a balanced scorecard comprising financial and non-financial measures • All other instruments are in the form of deferred remuneration which vest over an appropriate deferral period. Deferred remuneration applies to senior roles in the Group, as their activities and accountabilities are more closely aligned to the longer term performance of the business	Most employees (Employees are eligible to participate in variable remuneration arrangements applicable to their position)
LTVR	• LTVR awards in the form of Reward Rights which vest after a four year period, subject to relevant performance hurdles, risk review and final Board approval	CEO and Group Executives

Deferral of variable remuneration

The table below provides a summary of the main deferral arrangements applicable to different roles across the Group. More senior roles (that have the potential to receive higher variable remuneration) have a greater portion of their variable remuneration deferred.

Role	Deferral Arrangement
CEO and Group Executives	• 50% of STVR award is deferred into cash. The awards vest over a one year period(1) • LTVR awards are deferred over a four year period (as Reward Rights) and subject to set performance measures
Executive General Managers and General Managers	• One third of STVR award is deferred into equity(2) that vests in three equal tranches over three years • There are certain executives who also participate in cash-settled award style arrangements that are specific to Colonial First State Global Asset Management (CFS GAM). These awards are deferred for up to three years and are aligned with either the business performance or the performance of the publicly available investment funds being managed by the relevant team
All other employees	• All employees with an STVR award of AUD150,000 or greater, defer one third of their STVR award into equity (as Deferred / Restricted Rights(2)) that vests in three equal tranches over three years • There are certain employees who also participate in cash-settled award style arrangements that are specific to Colonial First State Global Asset Management (CFS GAM). At least one third of these awards are deferred for at least three years into the instrument applicable to the relevant plan

(1) From FY18 onwards, the deferred component of the STVR will be delivered in equity, rather than cash, and the vesting period will be increased from one year to two years, with 50% vesting after one year and the remaining 50% vesting after two years.

(2) Deferred / Restricted Rights or Deferred / Performance Units. For offshore jurisdictions with restrictions on equity-based awards, the vested value is delivered as cash.

Vesting of all deferred cash and equity-based awards is generally contingent upon:

- The employee remaining employed by the Group throughout the vesting period. Typically when an employee leaves due to retrenchment, retirement or death, all unvested deferred STVR awards stay on foot and vest at the normal time subject to the remaining vesting conditions. Where an employee's exit is related to retrenchment, retirement or death, any unvested LTVR awards continue unchanged with performance measured at the end of the performance period related to each award (unless otherwise determined by the Board);
- In the case of LTVR awards, the performance hurdles being met;
- A review of any risk and compliance issues associated with any individual; and
- At vesting, the release of the deferred incentive amount not placing undue financial hardship on the Group.

Awards are governed by the relevant plan rules, which are subject to Board approval. If an individual resigns or is dismissed from the Group before the end of the vesting period, deferred STVR awards will generally be forfeited.

The Group's deferral policy assists in managing risk of losing key talent, and allows the Board to reduce, lapse or forfeit the deferred components of remuneration where business outcomes are materially lower than expected.

3. Remuneration and Risk Management

During FY17, the Board reviewed and strengthened its remuneration governance procedures, including developing an enhanced framework for the consideration of risk and reputation matters in the determination of CEO and Group Executive variable remuneration outcomes. The revised framework provides the Board with increased transparency, rigour and consistency when applying its discretion in assessing outcomes.

The key roles of the Committee are:

- Works closely with the Board's Risk Committee to ensure that any risks associated with remuneration arrangements are managed within the Group's risk management framework;
- Considers issues and recommendations raised by the RRRC, a management committee that advises the Group Chief Risk Officer on material risk issues which may impact remuneration outcomes; and
- May impose adjustments to remuneration outcomes of current and former employees before or after awards are made, subject to Board approval.

Under the Group Remuneration Policy, the Board has discretion to make adjustments to deferred remuneration in various circumstances. Adjustments can include partial reductions or complete forfeiture of deferred awards.

Our remuneration frameworks and policies are underpinned by the Group's risk management framework, as outlined in the Group Risk Appetite Statement. The Group Risk Appetite Statement contains details on the Risk Appetite concept and its three major components: Risk Culture, Risk Tolerances and Risk Limits and Triggers. All Group employees are required to adhere to the Group Risk Appetite Statement, as well as to their Business Unit's Risk Appetite Statement.

Remuneration practices are carefully managed within the Group's Risk Appetite. The Group takes into account the following key risks when implementing remuneration measures:

- Financial Risks (eg credit risk, market risk, insurance risk, liquidity risk);
- Strategic Risks;
- Reputation Risks;
- Operational Risks; and
- Compliance Risks.

4. Linking Remuneration to Performance

Variable remuneration is directly linked to both short-term and long-term performance goals.

FY17 STVR Performance measures

All employees have a balanced scorecard to assess both short-term Group and individual performance against specific KPIs.

Individual KPIs may include all or some of the Group performance metrics listed below. Any discretionary STVR award is linked to both the Group and individual performance outcomes.

Financial objectives have a substantial weighting, and non-financial objectives vary by role. For example in FY17:

- The CEO had a 40% weighting on financial measures
- Group Executives managing business units typically had a 45% weighting on financial measures
- Group Executives managing support functions typically had a 25% weighting on financial measures

Risk is an important factor in accounting for short-term performance. The Group uses Profit after Capital Charge (PACC), a risk-adjusted measure, as a key measure of financial performance. PACC takes into account the profit achieved, and also reflects the risk to capital that was taken to achieve it. Moreover, in managing risk, Executives are required to comply with the Group and relevant Business Unit Risk Appetite Statements and provide exemplary leadership of a strong risk culture.

The key FY17 performance measures for the CEO were:

Performance Category	Measures
Sound Risk Management Gate opener/STVR adjustment	Exemplary leadership of risk culture
Shareholder	• Group Cash Net Profit After Tax (NPAT) • Group Underlying PACC • Productivity
Customer	Customer satisfaction: • Retail • Business • Institutional • Wealth
Strategy	• Strategy development and execution
People and Community	• Reputation • Culture • Engagement • Safety

Reflecting the collective accountability of senior executives for the Group's overall reputation, the Board exercised its discretion to reduce to zero the STVR outcomes for the CEO and Group Executives in respect of FY17.

FY17 LTVR performance measures

The CEO and Group Executives are eligible to receive LTVR awards in the form of Reward Rights. The FY17 LTVR plan is the Group Leadership Reward Plan (GLRP). All FY17 LTVR awards are split and tested against:

- Relative Total Shareholder Return (TSR) (75% weighting of total award); and
- Relative Customer Satisfaction measures (25% weighting of total award).

Quantitative disclosures

The following tables have been prepared in accordance with the quantitative requirements outlined in APS 330 and are in Australian dollars (AUD):

- **Table (a)** provides a breakdown of the value of fixed and variable remuneration for Senior Managers and Material Risk Takers for the year ended 30 June 2017.
- **Table (b)** provides a summary of deferred cash and equity-based remuneration, including the total amount of outstanding awards, awards that have vested during FY17 and any reductions due to ex-post explicit and implicit adjustments.

(a) Total Value of Remuneration Awards

	Senior Managers[1] ($'000)		Material Risk Takers[1] ($'000)	
	FY17	FY16	**FY17**	FY16
Fixed Remuneration				
Cash-based (non-deferred)[2]	**32,726**	32,950	**9,598**	11,329
Other (non-deferred)[3]	**1,859**	2,239	**160**	376
Variable Remuneration				
Cash-based (non-deferred)[4]	**9,864**	18,055	**8,396**	9,870
Cash-based (deferred)	**3,504**	11,351	**-**	75
Shares and share-linked instruments (deferred)[5]	**21,109**	16,825	**4,434**	4,225
Other [6]	**173**	177	**-**	-

(1) Eighty-four Senior Managers and Material Risk Takers received a variable remuneration award during FY17. No guaranteed bonuses were made during FY17 to Senior Managers or Material Risk Takers. One sign-on award was made to Senior Managers and Material Risk Takers (a total value of $1,800,000) who joined the Group during FY17 (no sign-on awards were provided in FY16). Six Senior Managers and Material Risk Takers exited the Group during FY17. Most exits were resignations and accordingly termination payments were as per contractual arrangements. A total of $79,502 in termination payments was made to one Senior Manager in FY17 (in FY16, termination payments were $398,321). There was one termination payment made to Senior Managers under the HKMA Supervisory Policy Manual CG-5 for a total of $39,345 (in FY16 termination payments were $344,524).

(2) This includes base remuneration and all superannuation contributions / pension payments, and the annual grant of up to $1,000 of CBA shares through the Employee Share Acquisition Plan.

(3) This includes annual leave and long service leave accruals. For the CEO and Group Executives, it includes car-parking costs (including associated fringe benefits tax).

(4) This value represents the cash portion of the STVR awards made in relation to performance over FY17. For the CEO and Group Executives this represents 50% of their total FY17 STVR award. For most other Senior Managers and Material Risk Takers this represents two thirds of their total FY17 STVR award.

(5) For all deferred equity awards, this includes the FY17 accounting expense of previous deferred STVR awards, LTVR awards and amounts relating to equity sign-on and other equity-based arrangements. For deferred STVR awards, this includes the FY17 expense for deferred STVR awards. For deferred LTVR, this includes the FY17 expense for Reward Rights awarded in prior financial years under the GLRP (including true up for previous year award). It also includes the accounting expense for additional rights granted as part of the retail entitlement offer.

(6) This includes interest accrued in relation to the FY16 CEO and Group Executive deferred STVR award.

(b) Deferred Remuneration

	Senior Managers ($'000)		Material Risk Takers ($'000)	
	FY17	**FY16**	**FY17**	**FY16**
Outstanding Remuneration[1]				
Cash-based awards	**10,083**	17,731	**-**	300
Shares and share-linked instruments	**71,107**	62,820	**11,609**	10,442
Total Outstanding Remuneration (deferred)	**81,190**	80,551	**11,609**	10,742
Total amount of deferred remuneration vested[2]	**20,320**	37,005	**3,419**	4,486
Total amount of reductions due to explicit adjustments[3]	**(16,911)**	(3,110)	**(1,755)**	-
Total amount of reductions due to implicit adjustments[4]	**-**	(18,306)	**-**	(1,883)

(1) All deferred remuneration is exposed to ex-post explicit and/or implicit adjustments. This includes the sum of all outstanding deferred cash and equity awards as at 30 June 2017. For all equity-based deferred STVR awards this includes the total face value (calculated using the closing share price on 30 June 2017). Given that vesting of LTVR awards is subject to performance conditions, fair value has been used to determine the value of outstanding LTVR awards.

(2) The value of deferred cash and equity awards that vested during FY17. This includes the value of the awards that vested, plus any interest and/or dividends accrued during the vesting period. The value of the vested award is calculated using the Volume Weighted Average Closing Price (VWACP) for the five trading days up to and including the transaction date.

(3) This includes any reductions to awards which vested during FY17 due to revaluation of awards, downward adjustments to awards and award forfeitures. The value of the lapsed award is calculated using the VWACP for the five trading days preceding the transaction date.

(4) This includes any reductions to the value of the total outstanding awards due to downward movements in CBA share price during the year. The reduction in value is calculated using the VWACP for the five days up to and including 30 June 2016 and 30 June 2017, respectively for the beginning and end values.

Key Terms

To assist readers, key terms and abbreviations used in this report as they apply to the Group are set out below.

Term	Definition
Board	The Board of Directors of the Group.
Deferred Rights	Rights to ordinary shares in CBA granted under the Group Rights Plan subject to forfeiture on resignation. These are used for deferred STVR awarded under Executive General Manager and General Manager arrangements, deferred STVR awarded under Executive arrangements from 1 July 2017, sign-on and retention awards.
Fixed Remuneration (FR)	Consists of cash and non-cash remuneration, including any salary sacrifice items, paid regularly with no performance conditions (base remuneration) plus employer contributions to superannuation.
Group	Commonwealth Bank of Australia and its subsidiaries.
Group Executive	Key Management Personnel who are also members of the Group's Executive Committee (excludes the CEO).
Group Leadership Reward Plan (GLRP)	The Group's long-term variable remuneration plan for Executives.
Key Management Personnel (KMP)	Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.
Key Performance Indicators (KPIs)	Quantitative and qualitative measures, agreed at the start of the performance year to communicate expected performance outcomes at the Group, business unit and / or team and individual level.
Long-Term Variable Remuneration (LTVR)	A variable remuneration arrangement which grants instruments to participating Executives that may vest over a period of four years if, and to the extent that, performance hurdles are met. The Group's LTVR plan for Executives is the GLRP.
Reward Rights	Rights to ordinary shares in CBA granted under the GLRP and subject to performance hurdles.
Short-Term Variable Remuneration (STVR)	Variable remuneration paid subject to the achievement of predetermined performance hurdles over one financial year.
Total Shareholder Return (TSR)	TSR measures a company's share price movement, dividend yield and any return of capital over a specific period.
Variable Remuneration	Remuneration that depends on minimum performance standards being achieved within a defined period.