Commonwealth Bank of Australia (Europe) N.V.

Capital Adequacy and Risk Management Report 2021

Pillar 3

30 June 2021

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Attestation Statement

The 2021 Pillar 3 Report was approved by both the Management Board and Supervisory Board.

CBA Europe N.V. will publish the required Pillar 3 disclosures at least annually, the basis is in conjunction with the publications of financial statements.

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The release of this announcement was authorised by the Board.

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1. Introduction

The directors present the Capital Adequacy and Risk Management Report (Pillar 3) disclosure of Commonwealth Bank of Australia (Europe) N.V. (hereinafter CBA Europe N.V., or the "Bank") for the financial year ended 30 June 2021.

Principal activities

CBA Europe N.V. was incorporated on 26 October 2018 and is a public limited company (Naamloze Vennootschap) in the Netherlands. It is a wholly owned subsidiary of Commonwealth Bank of Australia (the "Group"), an Australian banking corporation.

On 1 December 2020, the Governing Council of the European Central Bank granted the Bank an authorisation as a credit institution (banking license), taking effect on 2 December 2020. On 26 May 2021, the first group of lending clients from Group's subsidiary in Malta were migrated to the Bank marking the commencement of lending banking activities. This migration of the Malta loan portfolio was completed early June 2021.

The Bank's activities are part of the Group's wholesale banking division, Institutional Banking and Markets ("IB&M").

About Institutional Banking & Markets

The IB&M division serves the financial needs of large institutions and governments across Australia and New Zealand and in select international markets, such as Europe. IB&M's purpose reflects the unique and pivotal role it plays for the Group and the Australian economy: "IB&M combines global connectivity and capability to build a better Australia". The IB&M division is the Group's centre of excellence for high-value, low frequency, wholesale client-tailored financial solutions. It provides clients with access to capital, risk management solutions and facilitates cross-border trade and capital flows.

About the Bank

The Bank's focus is on the IB&M division, focusing on wholesale clients in the European Economic Area ("EEA"). The Bank's strategic ambition is to provide a "Gateway to Australia and New Zealand" for EEA clients as well as access to the European market for Australian corporates, governments and financial institutions. This Australian focus forms the basis of the Bank's strategy and differentiation in the European market. It will also provide a platform for the Group's global capabilities (such as commodities, renewable energy financing and securitised asset financing) in the European market where it is able to be competitive.

In order to achieve its strategic ambitions, the Bank will offer a suite of products across Lending and Global Markets. These products are tailored into bespoke structures to meet the specific needs of the Bank's clients. The structures it offers will be developed from this core product set:

- Lending: The Bank offers funds financing, corporate lending, securitised asset lending and project finance structures. It will target large European corporate clients that have a need for these solutions, particularly those with strong links to Australia; and

- Global Markets: This Bank will provide access into the European Union ("EU") investor base for Australian and New Zealand issuers of fixed income securities to provide them with liquidity. This suite of products will also help clients manage their risk by offering foreign exchange and interest rate solutions, as well as offering commodity hedging solutions including carbon certificates.

2. Scope of Pillar 3 Disclosure

In accordance with the Capital Requirements Regulation (CRR) and Capital Requirements Derivatives (CRDs), of the European Union, which has been incorporated in the Dutch Financial Supervision Act (Wft), and associated guidelines and technical standards issued by the European Banking Authority (EBA), CBA Europe N.V. publishes this disclosure of the Pillar 3.

Pillar 3 aims to introduce market discipline to complement the capital and liquidity requirements from the first (generic minimum capital requirements for credit, market and operational risk) and the second pillar (institution-specific capital and liquidity adequacy).

This disclosure is published in accordance with CRR Part Eight, Title II and II in the manner set out in Articles 433a, 433b and 433c. Based on the year-end figures of CBA Europe N.V. as per 30 June 2021, CBA Europe N.V. opted to use the classification of small and non-complex entity as described under CRR Article 433b for the purpose of this report.

This document presents information on CBA Europe N.V's capital adequacy, Risk Weighted Assets (RWA) calculations, and leverage and liquidity ratios. The report provides a comprehensive overview of the risk profile of CBA Europe N.V..

For information on the Commonwealth Bank of Australia reference should be made to the Group disclosures, which are available on the Group website (https://www.commbank.com.au/).

3. Capital

Table 1 – Regulatory Capital Position

Regulatory Capital Position as at 30 June 2021	€M
Ordinary share capital	360
Retained earnings	-20
Common Equity Tier 1 Capital before regulatory adjustments	340
Common Equity Tier 1 regulatory adjustments	-7
Common Equity Tier 1 Capital	333
CET1 Capital ratio	58.01%
T1 Capital ratio	58.01%
Total Capital ratio	58.01%
Additional CET1 buffer requirements as a percentage of RWAs	
Capital conservation buffer	2.50%
Institution specific countercyclical capital buffer	0.43%

Notes:

1. The Bank did not declare any dividend during the current year.
2. The institution specific countercyclical buffer requirement is based on the weighted average of the buffer rates in effect for the countries in which institutions have exposures.

4. Risk Weighted Assets

Table 2 – Risk Weighted Assets

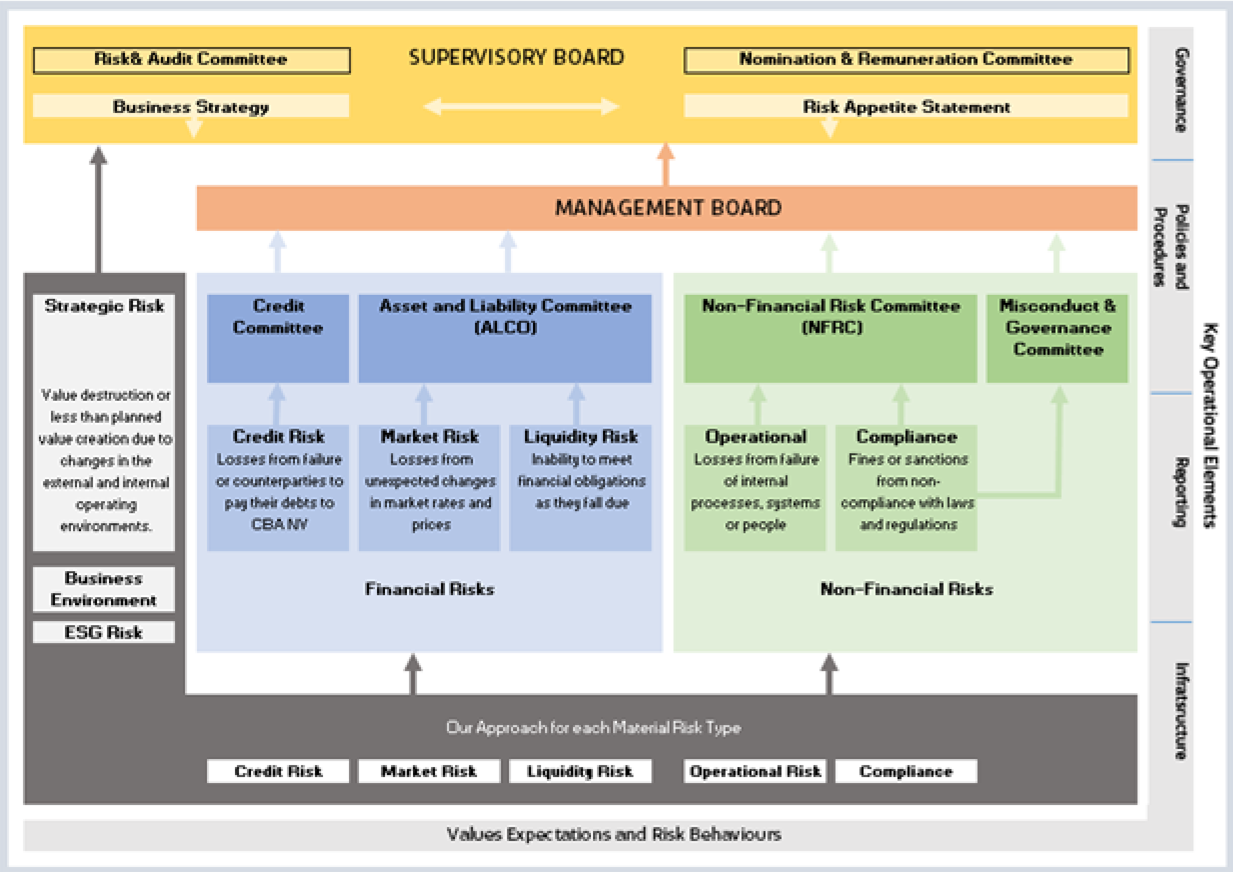
RWA as at 30 June 2021 Asset Category	€M
Credit Risk	
Subject to standardised approach	
Corporate	429
Bank	2
Institutions and Corporates with short term credit assessment	55
Other assets	6
Total RWA subject to standardised approach	**492**
Total RWA for credit risk exposures	492
Position, foreign exchange and commodities	2
Operational risk (BIA approach)	80
Total Risk weighted assets	**574**

5. Risk Management

Overview

The Bank is exposed to financial risks, non-financial risks and business risks arising from its operations. The Bank manages these risks through its Risk Management Framework (RMF) which evolves to accommodate changes in its business operating environment, better practice approaches, and regulatory expectations. The components of the RMF are illustrated below, including the governance that enables directors and Board oversight of these risks.

Risk Management Framework



The RMF articulates the key risk management practices across all material risk classes, and demonstrates how the Bank ensures the comprehensive management of risks in support of achieving strategic goals. The main building blocks of the RMF are risk governance & reporting, policies & procedures, risk management infrastructure and risk culture.

The RMF provides the framework in respect of the Bank's strategy for managing risks. The four key objectives of this strategy are i) to protect the balance sheet and profitability of the Bank; ii) to optimise its risk and return; iii) to promote consistent behaviour including decision making; and iv) to communicate to external stakeholders. The RMF is to be read in conjunction with the below documents:

- CBA Europe N.V. Business Plan – The Business Plan describes the Bank's objectives for the near future, how it will be structured and how it will operate.

- CBA Europe N.V. Risk Appetite Statement (RAS), articulating the key risk management practices across all material risk classes, and demonstrates how the Bank ensures the comprehensive management of risks in support of achieving strategic goals.

- CBA Europe N.V. Internal Capital Adequacy Process (ICAAP) used in combination with other risk management practices to understand, manage and quantify the Bank's risks. The outcomes of which are used to inform risk decisions, set capital buffers and assist strategic planning.

- CBA Europe N.V. Internal Liquidity Adequacy Assessment Process (ILAAP), documenting the liquidity and funding management framework for the Bank in accordance with statutory liquidity requirements and the Bank's Liquidity Management Policy and Standard.

Risk Management System Assurance

The Management Board of CBA Europe N.V. declares that the risk management arrangements and the risk management system as a whole which have been put in place by the Bank, and of which key elements are set out below, are adequate with regard to the Bank's nature, size and complexity, as well its strategy.

5.1 Strategies and processes to manage main risks

Below table provides an overview of the main risks the Bank is exposed to, governing policies, management committees, as well as the key controls and risk mitigation strategies which have been put in place.

Material risk types

Below table provides an overview of the main risks the Bank is exposed to, governing policies, management committees, as well as the key controls and risk mitigation strategies that have been put in place.

Description	**Governing Policies and Key Management Committees**	**Key Controls and Risk Mitigation Strategies**
Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Bank. The Bank is primarily exposed to credit risk through: • Lending to large corporates; • Deposits with other institutions; and • Markets exposures (e.g. in the form of derivatives, repos or debt securities).	**Governing Policies:** • Credit Risk Management Policy; • Credit Risk Concentration Policy; • Definition of Default, Non-Performing and Forbearance Policy; and • Troublesome and Impaired Assets Management Policy. **Key Management Committees:** • Credit Risk Committee	• Defined credit risk indicators and thresholds set in the Risk Appetite Statement; • Additional credit risk indicators defined at the Group Business Unit level (shipping, aviation, rail); • Transacting with counterparties that demonstrate the ability and willingness to service their obligations through performance of due diligence and thorough credit quality assessments; • Having a clear business strategy and dealing with clients where the Bank has a deep understanding of their industry and business; • Applications assessed by independent credit function and reviewed by credit committee, with less complex applications referred to credit authority holders; • Taking collateral where appropriate; • Pricing appropriately for risk; • Credit concentration frameworks that set exposure limits to counterparties, groups of related counterparties, and countries; • Regular monitoring of credit quality, concentrations, arrears, policy exceptions and policy breaches;

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
		• Working with impaired counterparties, or those in danger of becoming so, to help them rehabilitate their financial positions; and • Stress testing, either at counterparty or portfolio level.
Market Risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Bank. The Bank is primarily exposed to market risk through: • Traded Market Risk; • FX Risk stemming from the mismatch between EUR as reporting currency and the denomination of large parts of its assets in USD, GBP and NOK; and • Interest Rate in the Banking Book (IRRBB).	**Governing Policies:** • Market Risk Management Policy **Key Management Committees:** • Assets & Liabilities Committee	• Focusing on facilitating customer transactions with moderate traded market risk being held within the Bank; • Hedging any foreign currency volatility on the Balance Sheet; • Defined market risk indicators and thresholds set in the Risk Appetite Statement; • Daily monitoring and attribution of traded and non-traded market risk exposures including risk sensitivities, VaR and stress testing; • Managing the Balance Sheet with a view to balancing Net Interest Income profit volatility and market value; and • Monthly monitoring of Net Interest Earnings at Risk versus limits;
Liquidity and Funding risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk) and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk). The Bank is exposed to liquidity risk primarily through: The funding mismatch between CBA Europe N.V.'s loans, investments and sources of funding.	**Governing Policies:** • Liquidity Management Policy; and • Contingent Funding Plan **Key Management Committees:** • Assets & Liabilities Committee	• Defined liquidity risk indicators and thresholds set in the Risk Appetite Statement and contingent liquidity plans; • Ambition to develop a diverse, yet stable pool of potential funding sources, to reduce dependency from the Group; • Maintaining adequate liquidity buffers, and gradually reducing the dependency on the parent company in the coming years, by building a more diverse (by geography, currency, counterparty, term, product, marketability) yet stable pool of potential funding sources; • Reducing potential mismatch between assets and liabilities maturities by applying mostly match funding; • Daily monitoring of liquidity risk exposure, including LCR and NSFR; • Market and idiosyncratic stress test scenarios; and • The Contingency Funding Plan provides strategies for addressing liquidity shortfalls in a crisis situation
Operational risk is the risk of loss arising from inadequate or failed internal processes and systems or from external events. The Bank is exposed to operational risks primarily through: • Process execution errors; • Cyber security issues; • Technology failures;	**Governing Policies:** • Operational Risk Management Framework; • Operational Risk Management Policy; • Outsourcing Policy; • IT Management Policy; • Information Security Policy;	• Defined operational risk indicators and thresholds set in the Risk Appetite Statement; • Robust set of controls to prevent, detect and mitigate the specific operational risks that CBA Europe N.V. is exposed to; • Regular Risk and Control Self-Assessment (RCSA) to assess key risks and controls; • Routine Controls Assurance Program tests to assess whether controls are designed and operating effectively to maintain risk exposures within acceptable levels; • Incident management processes to identify, assess, record, report and manage actual operational or compliance events that have

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
• Data management Issues; • Model risks; • Accounting, legal and taxation risks; • Third parties; • People (employment practice and workplace safety); • Fraud (external and internal); and Non-technology business disruption.	• Privacy Framework; • Business Continuity Plan; • Customer Complaint Policy; • Training Policy; • Risk Adjustment Policy (remuneration); • Product Review, Approval and Distribution Policy; **Key Management Committees:** • Non-Financial Risk Committee	occurred. This data is used to guide management to strengthen processes and controls; • Risk in Change process to effectively understand and manage the risks from changes to the business through projects or initiatives; • Quantitative Risk Assessments to provide an understanding of potential unexpected losses; • Establishment of additional Key Risk Indicators to monitor movements in risk exposure over time; • Assurance undertaken by Line 2 Risk to assess that operational risks are appropriately identified and managed across the Bank; and Having Service Level Agreements (SLA) in place to govern all activities which are outsourced to the Group and/or third parties and having an Outsourcing oversight in place.
Compliance risk is the risk of sanctions and financial loss the Bank may suffer as a result of the bank's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities. The Bank is exposed to compliance risk primarily through: • Regulatory and licencing obligations, including privacy and conflicts of interest obligations; • Financial crime (Anti Money Laundering (AML), Counter-Terrorism Financing (CTF), Anti-Bribery and Corruption, and Sanctions); and Poor conduct (product design and distribution, market conduct and employee misconduct).	**Governing Policies:** • Compliance Handbook including a • Whistleblower Policy • Anti-Money Laundering and Counter Terrorist Financing Policy • Sanctions Policy • Anti-Bribery and Corruption Policy • Compliance Incident Management Policy • MIFID II Order Execution Policy • Code of Conduct • Conflicts of Interest Policy • Bankers' Oath Policy **Key Management Committees:** • Non-Financial Risk Committee • Misconduct & Governance Committee	• Defined compliance risk indicators and thresholds set in the Risk Appetite Statement; • Mandatory online compliance training and awareness sessions for all employees; • Mandatory bankers' oath; • Maintenance of obligatory registers; • Compliance risk profile through RCSA; • Review of key compliance and conduct processes and controls and compliance monitoring; • Co-operative and transparent relationship with the Regulators; • Board and management governance and reporting; • Pre-employment due diligence and screening on the employees • Customer on-boarding processes to meet AML/CTF identification and screening requirements; • Ongoing customer due diligence to ensure information is accurate; • Monitoring customer transactions to manage the AML/TCF and sanction risks identified; • Undertake statutory reporting requirements including Suspicious Matter Reports; • Controls to prevent corruption by employees, representatives, suppliers or third party agents, including disclosure and approval of gifts and entertainment, charitable donations and sponsorships; and • Code of Conduct, supported by mandatory training for all staff.
Strategic risk is the risk of material stakeholder value destruction or less than planned value creation. The Bank is exposed to strategic risk primarily through: • Changes in the Bank's external and internal operating environments; and Risk	**Governing Policies:** • ESG Policy **Key Management Committees:** • Management and Supervisory Board	• Having a clear business strategy and dealing with clients where the Bank have a deep understanding of their industry and business; • Annual business strategy review; • Identifying and monitoring changes and potential changes to the operating environment through business and risk review processes; • Monitoring execution of progress of the strategy;

Description	Governing Policies and Key Management Committees	Key Controls and Risk Mitigation Strategies
associated with the process for strategy development and monitoring of strategy implementation.		• Assessment of risk and capital profile in conjunction with the business strategy and risk appetite (ICAAP); and • Consideration of Environmental, Social and Governance matters and risks during credit reviews. • Capability and Culture development initiatives; and • Performance and Remuneration process

5.2 Credit Risk

The Risk Department reviews credit portfolios and compliance with policies, application of credit risk ratings and other key practices on a regular basis. Findings are reported to the Credit Committee and the Board Risk and Audit Committee as appropriate.

The Risk Appetite Statement of CBA Europe N.V. requires that credit risk in relation to newly originated loans and credit risk at portfolio level stays within predefined boundaries, and is diversified proportionate to the own funds of the Bank.

The tables below illustrate the approach taken to manage credit risk within CBA Europe N.V. They show the gross carrying values of credit risk exposures by regulatory approach, exposure class, sector, geography, risk weights and credit conversion factors.

Gross carrying value comprises both on and off-balance sheet exposures, but exclude indirect exposure to the group relating to loan commitments received to manage large exposures. As at 30 June 2021 these loan commitments totalled an amount of €16m.

Table 3 – Direct Credit risk exposures by portfolio type – on/off balance split

Balance as at 30 June 2021	**On balance sheet**	**Off-balance sheet**	**Total**
Portfolio Type	**€M**	**€M**	**€M**
Subject to standardised approach			
Corporate	441	114	**555**
Bank	4	-	**4**
Central Bank	262	-	**262**
Other assets	6	-	**6**
Total credit exposures [1]	**713**	**114**	**827**

[1] Total gross carrying values for direct credit risk exposures. Indirect exposures as at June 2021 account to €16m and relate to Loan commitments received from Group

Table 4 – Direct Credit risk exposures by portfolio type and geographic distribution

Portfolio Type as at 30 June 2021	Corporate €M	Bank €M	Central Bank €M	Other assets[1] €M	Total €M
European Union					
Denmark	55	-	-	-	**55**
France	48	-	-	-	**48**
Germany	-	-	-	3	**3**
Ireland	68	-	-	-	**68**
Luxemburg	99	-	-	-	**99**
Netherlands	-	4	262	3	**269**
Rest of the World					
Norway	224	-	-	-	**224**
United Kingdom	61	-	-	-	**61**
Total credit exposures [2]	**555**	**4**	**262**	**6**	**827**

1 Other assets – Lease and building 'right of use' assets
2 On and off balance sheet pre – conversion factors

Table 5 – Direct Credit risk exposures by portfolio type and industry sector

Portfolio Type as at 30 June 2021	Finance & Insurance €M	Mining, Oil & Gas €M	Transport & storage €M	Other €M	Total €M
Corporate	-	200	355	-	**555**
Bank	4	-	-	-	**4**
Central Bank	262	-	-	-	**262**
Other assets	-	-	-	6	**6**
Total credit exposures	**266**	**200**	**355**	**6**	**827**

Table 6 – Direct Credit risk exposures by portfolio type and residual contractual maturity

Portfolio Type as at 30 June 2021	≤ 12mths €M	1 ≤ 5yrs €M	> 5 years €M	No specified maturity €M	Total €M
Corporate	126	307	122	-	**555**
Bank	4	-	-	-	**4**
Central Bank	262	-	-	-	**262**
Other assets	-	-	-	6	**6**
Total credit exposures	**392**	**307**	**122**	**6**	**827**

Table 7 - Exposures by regulatory risk weights

Exposures as at 30 June 2021	€M
Risk Weight	
0%	262
20%	4
35%	-
50%	-
75%	-
100%	561
150%	-
> 150%	-
Total	**827**

Table 8 – Off balance exposures by regulatory conversion factors

Exposures as at 30 June 2021	€M
Conversion factors	
0%	-
20%	7
50%	107
100%	-
Total	**114**

Table 9 – Credit Risk Mitigation

Exposures as at 30 June 2021	Eligible exposure €M	Exposures collateral €M	Covered by total guarantees €M	Financial derivatives €M	Covered by coverage %
Corporate	561	-	16	-	**2.80%**
Bank	4	-	-	-	**-**
Central Bank	262	-	-	-	**-**
Total exposures	**827**	**-**	**16**	**-**	**1.90%**

5.3 Market Risk

The Risk Department is responsible for the daily monitoring and analysis of risk positions. Senior management has oversight of market risk performance against risk and return expectations on a monthly basis.

CBA Europe N.V. makes a distinction between traded and non-traded market risk for the purposes of risk management, measurement, and reporting. Traded market risk principally arises from the Group's trading book activities within the IB&M business and its subsidiary financial institutions.

Non-traded market risk includes interest rate risk that arises from banking book activities, non-traded equity risk, structural foreign exchange risk and lease residual value risk.

CBA Europe N.V.'s appetite for market risk is expressed via CBA Europe N.V.'s Risk Appetite Statement and its framework of limits and policies. The limits are designed to manage the volatility in earnings and value due to market risk.

CBA Europe N.V. uses Value-at-Risk (VaR) as one of the measures of traded and non-traded market risk. VaR measures potential loss using historically observed market movements and correlation between different markets.

VaR is modelled at a 99.0% confidence level. This means that there is a 99.0% probability that the loss will not exceed the VaR estimate on any given day.

VaR is driven by historical observations and is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at confidence levels significantly higher than 99.0%.

As at 30 June 2021, Global Markets had not yet started its activities, hence both the trading book and market risk were insignificant compared to the current balance sheet.

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is the current and prospective impact to CBA's financial condition due to adverse changes in interest rates to which the Bank's Balance Sheet is exposed due to mismatches in the repricing terms of asset and liability positions. These mismatches may have undesired earnings and value outcomes depending on the interest rate movements.

Stress testing of IRRBB measures the impact of extreme but plausible market movements on an earnings and economic value basis. The results are reported to the ALCO on a regular basis.

As at 30 June 2021, the expected net change in the economic value of assets and liabilities, held for purposes other than trading, based on a 200 basis point parallel rate shock was approximately 0.1% of own funds.

5.4 Operational Risk

The Operational Risk Management Framework (ORMF) is integral to the achievement of the Bank's operational risk objectives and is embedded within business practices of the Bank. It comprises four core components to ensure sound management and measurement of the Group's operational risk:

- Governance;
- Management, Measurement and Systems;
- Analytics, Review and Reporting; and
- People and Culture

The ORMF is supported by a single IT platform (RiskInSite), which enables consistent application of the ORMF across the Group. This includes the assessment of operational risks, monitoring and review activities, escalation and remediation of control weaknesses, loss incident management and reporting to management and the Board.

Every staff member has a responsibility for managing operational risk and compliance. Individual responsibilities are articulated within the position descriptions for each role.

Within the Bank, accountability for operational risk and compliance has been structured into a Three Lines of Accountability model.

The Bank insures against selected unexpected insurable operational risk losses.

5.5 Liquidity Risk

CBA Europe N.V. calculates its Liquidity Coverage Ratio (LCR) position on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement of 100% and the Bank's risk appetite. CBA Europe N.V.'s liquid assets mainly consist of deposits with the Dutch Central Bank.

Table 10 – Liquidity Coverage Ratio (LCR)

Values as at 30 June 2021	Total unweighted value €M	Total weighted value €M
Liquid Assets, of which:		
High quality liquid assets (HQLA)	262	262
Of which Central Bank reserve	262	262
Total cash outflows	147	43
Of which contractual funding obligations	114	11
Total cash inflows	4	4
Total net cash outflows		39
Liquidity Coverage Ratio (%)		677.57%

CBA Europe N.V. is required to have sufficient Available Stable Funding (ASF) to meet its Required Stable Funding (RSF) over a one year horizon. CBA Europe N.V. calculates its Net Stable Funding Ratio (NSFR) positions by applying factors prescribed by the regulator, to liabilities, assets and off balance sheet commitments.

Table 11 – Net Stable Funding Ratio (NSFR)

Values as at 30 June 2021	Total unweighted value €M	Total weighted value €M
Available Stable Funding (ASF) Item		
Regulatory Capital	351	351
Wholesale funding	371	283
Other liabilities	4	-
Total Available Stable Funding	**726**	**634**
High Quality Liquid Assets (HQLA)		
Central bank assets	262	262
Required stable funding (RSF) Item		
Performing Loans	447	344
Other assets	6	6
OBS items	114	6
Total Required Stable Funding	**567**	**356**
Net Stable Funding Ratio (%)		177.70%

Table 12 – Leverage Ratio

Values as at 30 June 2021	€M
Summary Leverage Ratio[1]	
Tier 1 Capital	333
Total Leverage Ratio Exposure Measure	490
Leverage Ratio (%)	68

[1] The Capital Requirements Regulation (CRR) includes the temporary exemption of the central bank reserves from the exposure measure.

6. Remuneration Disclosure

Background

This chapter sets out the remuneration disclosures required under Article 450 of the Capital Requirements Regulation (‘CRR’) in relation to CBA Europe N.V., and in respect of the remuneration period (‘Performance Year’) ending 30 June 2021.

CBA Europe N.V. complies with the requirements set out in the Article in a manner that is appropriate to its size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Directive 95/46/EC.

CBA Europe N.V.’s remuneration is aligned with the Group Remuneration Policy (‘GRP’), except where local regulation requires a different position. A summary of the applicable local rules and regulation that are applicable to CBA Europe N.V. is detailed in an appendix to the GRP.

6.1 Qualitative Information

This section sets out general principles as appropriate, taking into consideration the assessment of CBA Europe N.V. as a ‘small institution’ under the Proportionality Principle encoded in article 92 (2) of Directive 2013/36/EU.

Remuneration policy and practices for Identified Staff

CBA Europe N.V. complies with the EBA Guidelines on Sound Remuneration Policies (‘EBA Guidelines’), which state that a firm must undertake a self-assessment to identify all staff whose professional activities have or may have a material impact on the institutions risk profile at least annually (‘Identified Staff’).

CBA Europe N.V. undertakes a self-assessment that is based on the qualitative and quantitative criteria set out in the Fifth Capital Requirements Directive (EU) 2019/878 (‘CRD V’) and the Regulatory Technical Standards on Identified Staff (‘RTS’).

As part of the FY21 CBA Europe N.V. Identified Staff Review, 20 individuals have been identified and documented as Identified Staff of CBA Europe N.V.

The ratios between fixed and variable remuneration

For the full year 2021 CBA Europe N.V. has been assessed to be a ‘small institution,’ and therefore eligible to apply for the proportionality principle as encoded in CRD V.

In this respect, CBA Europe N.V. and Identified Staff are exempt from certain requirements under CRD V. Based on local regulation, the 20% Bonus Cap (‘Bonus Cap’) remains applicable and is applied on the basis that the average individual short-term variable remuneration (‘STVR’) payout ratios do not exceed 20%.

Any variable remuneration awarded to Identified Staff is subject to testing that the Total Variable Remuneration does not exceed the Bonus Cap. The Total Variable Remuneration includes any amounts determined under STVR plan and any other variable reward arrangements the employee was eligible to receive during the performance year.

6.2 Remuneration framework

Fixed and Variable Remuneration

In CBA Europe N.V.'s remuneration framework, there is a clear distinction between the criteria for setting fixed remuneration and variable remuneration. Fixed pay is set to ensure that it reflects the role undertaken as well as relevant skills and experience of the individual. Variable remuneration is dependent on performance and positive risk outcomes and is assessed against both financial and non-financial criteria.

CBA Europe N.V. has a balanced, STVR plan covering all employees, including Identified Staff. The plan plays a significant role in the ability to attract, retain and motivate the talent needed to sustain long-term value for its shareholders, to effectively service customers, and to make a positive impact as a corporate citizen.

All permanent employees who commenced employment prior to 1 April 2021 are eligible to participate in STVR Plan. In the financial year ending 30 June 2021, 13 individuals categorised as Identified Staff participated in the STVR scheme.

In accordance with the EBA Guidelines, members of the supervisory function are compensated only with fixed remuneration.

Deferral policy and vesting criteria

In accordance with CBA Europe N.V's assessment as a 'small institution' under the Proportionality Principle, Identified Staff are not subject to the mandatory deferrals using instruments stipulated under the (i) 2016 Dutch corporate governance code, (ii) Financial Supervision Act (Wet op het financieel toezicht, 'Wft'), (iii) the regulation on sound remuneration policies as issued by the Dutch Central Bank (Regeling beheerst beloningsbeleid 2017), (iv) CRD V and the RTS, and (v) the EBA Guidelines on Sound Remuneration Policies (collectively, the 'Regulatory Remuneration Rules').

The minimum deferral requirements set out in the GRP apply where applicable in relation to positions of General Manager and above and those with Significant Variable Remuneration of the equivalent of AUD 150,000 or more. The most senior employees and those with STVR outcomes at or above the threshold are subject to deferral of one-third of their STVR into cash-settled CBA equity-linked instruments to align with shareholder interests. The deferred component vests in three equal tranches over a three-year period subject to continued employment, as well as ongoing satisfactory risk management and compliance.

Consistent with the policy for all CBA employees, Identified Staff are prohibited from undertaking personal hedging strategies or entering into remuneration or liability-related insurance contracts that would undermine the risk alignment efforts embedded in the remuneration arrangements.

Risk and compliance is actively managed at Group and CBA Europe N.V. level, which influence individual STVR outcomes including deferrals, which may be reduced for material issues.

Risk Adjustment: Malus and Clawback

Where a failure of risk management occurs, CBA Europe N.V. will apply ex-post risk adjustments through in-year adjustments, malus or clawback under certain circumstances, inducing issues or events with a financial impact. CBA Europe N.V. will use specific criteria, including where the institution or the relevant business unit suffers a material downturn in its financial performance and/or there is a significant increase in the Group's economic or regulatory capital base, including in relation to CBA Europe N.V.

Variable Remuneration Funding

When setting the STVR pool, CBA Europe N.V. takes into account a number of factors, including:

- the ratio between the variable and the fixed components of total remuneration;
- performance risk criteria defined for the Group as a whole and locally by CBA Europe N.V.;
- control objectives and the financial situation of CBA Group and CBA Europe N.V. including capital base and liquidity;
- the need for consistency with the timing and likelihood of the firm receiving potential future revenues incorporated in the current earnings.

The performance indicators used to calculate the STVR pool include long-term performance indicators and take into account realised financial results. CBA has appropriate processes and controls in place when determining the overall STVR pool.

Variable remuneration is designed to reflect sustainable and risk-adjusted performance against financial and strategic measures as well as behaviour towards risk and controls, with input from risk and compliance functions as required.

Variable remuneration is only awarded if CBA Europe N.V. has a strong and sound capital base, as the Supervisory Board is mindful that variable pay should not limit the institution's ability to strengthen its capital base.

6.3 Link between pay and performance

CBA Europe N.V. defines the objectives of the institution, business units and staff, which are derived from its business and risk strategy, corporate values, risk appetite and long term interests. As part of this process, CBA Europe N.V. takes into account all current and future risks, whether on or off balance sheet, differentiating amongst risk relevant for the institution as a whole business unit and individuals and recognising the only some types of risk may be relevant to the level of individual identified staff member or business units.

Whilst under the Proportionality Principle, Identified Staff in respect of CBA Europe N.V. are not subject to the Regulatory Remuneration Rules mentioned above, the relegations set expectations for any variable remuneration awarded to be based on the assessment of individual performance against financial and non-financial criteria.

STVR awards are discretionary and informed by performance outcomes that include the CBA Europe N.V. values, risk expectations and a balanced scorecard to assess short-term performance against specific KPIs. Individual performance outcomes for Values and KPIs inform the payment range available for STVR recommendations. The Risk assessment outcome informs whether an STVR reduction is required. Not fully meeting expectations for Values, Risk or KPIs has an impact on the STVR outcome, including the reduction of any STVR award to zero.

The relative importance of the performance criteria is determined upfront and adequately balanced to take into account the objectives at each level, the position or responsibilities held by the staff member, the business unit they are active in and the current and future risks.

To this extent, the CBA Europe N.V. senior management provides input into the annual performance review for Identified Staff to the relevant line management for oversight, including an assessment of the extent to which their professional activities have positively or negatively materially impacted the institution's risk profile.

Control Functions

Control personnel are independent from the Business that they oversee, having the appropriate authority and sufficient resources, knowledge and experience to perform their risks in relation to the Remuneration Policy. Independence is reinforced by reporting lines to the Group Heads of their respective functions, goals and KPIs, which are distinct from the business that they oversee.

The remuneration of Control Personnel, including those who are members of the Management Body, is in line with the principles set out in the GRP, including that they will be remunerated in accordance with the achievement of the objectives link to their functions, independent of the business areas that they control, so that the methods for determining their Variable Remuneration do not compromise the objectivity and independence of their roles.

6.4 The composition and the mandate of the Remuneration Committee

The Supervisory Board

The Supervisory Board is comprised of four members, two being CBA executives, and two non-executive directors.

The responsibilities of the Supervisory Board include proposing the remuneration policy of setting the remuneration (in accordance with the remuneration policy) and contractual terms and conditions of employment of members of the Management Board.

Furthermore the Supervisory Board submits a clear and understandable proposal for its own appropriate remuneration to the General Meeting. The remuneration of Supervisory Board members is intended to promote an adequate performance of their role and is dependent on the results of the company, and references appropriate external benchmarks.

The remuneration of the Supervisory Board members reflect the time spent and the responsibilities of their role.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee (‘NRC’) assists CBA Europe N.V’s Supervisory Board in discharging its responsibilities in relation to CBA Europe N.V. on matters relating to:

- The remuneration strategy of CBA Europe N.V. considered in the context of the remuneration strategy of Commonwealth Bank of Australia (“Group”) and CBA Europe N.V.’s and Group’s strategy, objectives, culture, values and long-term interests;
- CBA Europe N.V. Remuneration Policy and procedures regarding Management Board members, Identified Staff and Control Personnel, as applied under the Group Remuneration Policy (GRP);
- The identification of CBA Europe N.V. Identified Staff, in relation to Management Board members, Identified Staff and Control Personnel and the approval of remuneration elements and arrangements.

The NRC consists of four individuals, (a majority) of whom are independent, meeting the same criteria as for Supervisory board independence. They have an appropriate mix of skills and professional experience in relation to remuneration policies and practices, and the incentives and risks that can arise from such.

The NRC and Supervisory Board have met at least quarterly or more frequently if necessary.

The decision making process used for determining the remuneration policy

In carrying out its role, the CBA Europe N.V. NRC:

Oversees CBA Europe N.V's remuneration practices so that they:

I. are aligned with CBA Europe N.V's overall corporate governance framework and related governance processes, as well as its business and risk strategy, objectives, culture, values and long-term interests;

II. have regard to performance;

III. are aligned with current CBA Europe N.V. governance, legal and regulatory requirements, including under the remuneration rules of the Dutch Financial Markets Supervision Act (FMSA) and the Dutch Regulation of Sound Remuneration Policies 2017 (Regeling Beheerst beloningsbeleid 2017, "Rbb 2017") and other applicable regulatory guidance;

IV. encourage behaviours which appropriately mitigate against operational, financial, regulatory and reputational risk and do not promote excessive risk-taking;

V. take into account liquidity and capital levels (including ensuring that the policies support the maintenance of sound capital base);

VI. seek input from control functions (Risk and Compliance, Human Resources and Legal) and the Group in relation to the design, implementation and oversight of CBA Europe N.V's remuneration policies;

VII. receive information, advice and input from local Compliance, Risk and Internal Audit functions and relevant committees on risk, financial and reputation-related matters relevant to the determination of variable remuneration outcomes for management Board, identified Staff and Control Personnel; and

VIII. endorse and recommends to the Supervisory Board for approval CBA Europe N.V.'s remuneration principles informed by emerging market practice and legislative and regulatory requirements in the Netherlands within the parameters of the GRP and the strategic objectives for the remuneration frameworks of the Group.

The NRC ensures that the Management Board maintains regular contact with the Group in respect of relevant remuneration matters.

The Supervisory Board will, based on review and recommendation of the NRC, recommend to the Group People & Remuneration Committee ('PRC') on behalf of the General Meeting to approve any proposed changes to the GRP in relation to the CBA Europe N.V. that is considered to be material in the context of revisions from other businesses within the Group.

The Control Function Role

Under the Terms of Reference, the NRC seeks input from the control functions (Risk, Compliance, Human Resources and Legal) and the Group in relation to the design, implementation and oversight of CBA Europe N.V's remuneration policies, and receives information, advice and input from the local Compliance Risk and Internal Audit functions and relevant committees on risk financial and reputation related matters relevant to the determination of variable remuneration outcomes for Management Board, Identified Staff and Control Personnel.

The Control Functions also perform a comprehensive review of all the relevant financial, non-financial and discretionary metrics to provide input to the NRC for the purposes of determining any local risk adjustment to the CBA Europe N.V. STVR pool as appropriate.

6.5 Quantitative Information

This section sets out the quantitative information relevant to CBA Europe N.V. for the 2021 performance year, taking into consideration the assessment of CBA Europe N.V. as a ‘small institution’ under the Proportionality Principle.

Table 13 –Value of Identified Staff Remuneration

All eligible Identified Staff full financial year 2021	**Headcount**	**Total Compensation (€T)**	
		Fixed Compensation	Variable Compensation
Management Body	4	889.6	237.9
All Other	9	850.6	104.3
Total	**13**	**1,740**	**342.2**

Amounts and forms of variable remuneration

All of the variable remuneration paid to Identified Staff in respect of the 2021 performance year was delivered in immediate cash, with the exception of one individual, who was subject to deferral in relation to the GRP of one-third of their annual incentive payment into cash settled CBA equity-linked instruments vesting in three equal tranches over a three-year period subject to continued employment, as well as ongoing satisfactory risk management and compliance.

Prior to vesting or release of deferred awards, confirmation is obtained from the relevant Group Executive (with input from Risk and Human Resources) and the NRC. No malus or clawback reductions were applied to any awards vesting during the performance period.

Finally no new sign-on awards and severance payments were made during the financial year.