Basel III Pillar 3

CommonwealthBank

Annual Remuneration disclosures as at 30 June 2013

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Basel III Pillar 3 – Remuneration Disclosures

Annual remuneration disclosures as at 30 June 2013

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

The new 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 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 (CBA) Group, for the financial year ended 30 June 2013 (see section 6).

1 Remuneration Governance

The Remuneration Committee (Committee) of the CBA Board is the main body which oversees remuneration governance for the Group. This Committee is responsible for developing the Group's remuneration philosophy, framework and policies for approval by the Board. The Committee is made up of independent Non-Executive Directors and meets at least four times per year. The Committee consists of a Chairman, and three members which currently includes:

- Jane Hemstritch (Chairman);
- Carolyn Kay;
- Andrew Mohl; and
- David Turner.

In summary, the Committee is responsible for recommending to the Board for approval:

- Remuneration for senior executive appointments, and appointments where the remuneration target of the individual exceeds that of the head of their business/support unit;
- Remuneration arrangements and all reward outcomes for the CEO, senior direct reports to the CEO and other individuals whose roles may affect the financial soundness of the Group;
- Remuneration arrangements for finance, risk and internal control employees;
- Remuneration arrangements for employees who have a significant portion of their total remuneration based on performance; and
- Significant changes in remuneration policy and structure, including superannuation, employee equity plans and benefits.

The Committee's key responsibilities are set out in its Charter which is reviewed by the Board each year. The Charter is available on the Group's website at www.commbank.com.au/shareholder.

The Committee met eight times during the 2013 financial year. The fees paid to each of the members for their work on this Committee are set out below:

	Position	Fees [(1)] $
Remuneration Committee	Chairman	56,300
	Member	28,100

(1) Fees are inclusive of base fees and superannuation.

The Committee engages its external independent remuneration consultant Ernst & Young (EY) to provide input on specific remuneration issues. Throughout the 2013 financial year, the main information received from the Committee's remuneration consultant related to regulatory developments, current market practices, and material to support the Committee to complete its review of existing executive remuneration arrangements. While the Committee takes note of the input from its independent remuneration consultant, it is solely responsible for making decisions within the terms of its Charter.

The Group Remuneration Policy sets out the remuneration philosophy, principles and frameworks that apply to all controlled entities of the Group. 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).

The Committee has reviewed the Group's risk and remuneration structures and identifies the following types of roles as senior managers and material risk takers of the CBA Group for the 2013 financial year. This approach is aligned to the definitions provided in paragraph 17 of APS 330.

2	Number of Individuals	Description
Senior Managers	25	All Responsible Persons included in the Group's Fit and Proper Policy. This includes: ▪ The CEO, all Group Executives, the Group Treasurer and the CEO of Colonial First State Global Asset Management; and ▪ Responsible Persons of all our regulated subsidiaries, who are also listed in our Group Fit and Proper Policy.
Material Risk Takers	15	▪ 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 CBA 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.

2 Remuneration Design and Structure

The Group Remuneration Policy sets out the remuneration:

- philosophy of the CBA Group;
- principles that underpin the Group's philosophy;
- framework that delivers on the Group's remuneration philosophy; and
- policies used to manage remuneration within the Group's remuneration and risk management framework.

The Board has determined that the key objectives of the Remuneration Policy are to:

- meet high standards of governance and all applicable regulatory requirements and guidelines;
- align with the Group's 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; and
- encourage behavior that supports the long term financial soundness and risk management framework of the Group.

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

- Fixed Remuneration
- Short Term Incentive (STI) at Risk.

The CEO and Group Executives also have a Long Term Incentive (LTI) at Risk component.

The at risk 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 below.

Fixed Remuneration

Fixed remuneration is made up of base remuneration and superannuation. Base remuneration includes cash salary and any salary sacrifice items. Superannuation contributions are capped at the relevant concessional contribution limit.

Fixed remuneration is reviewed annually, following the end of the 30 June performance year. For the 2013 financial year there were no fixed remuneration increases for our most senior executives. This includes our CEO, Group Executives, as well as our Executive General Managers and General Managers.

Variable Remuneration

All employees are eligible to participate in variable remuneration arrangements applicable to their position. Variable pay consists of STI awards for most of our employees. STI awards are discretionary and recognise annual performance over the financial year. Performance is measured and reviewed against set goals, which include financial and non-financial metrics.

LTI awards are only made to the CEO and Group Executives, and assess performance against set hurdles over a four year period.

Further details on the link to performance and forms of variable remuneration are provided in sections 4 and 5 below.

The Committee reviews the Group's Remuneration Policy at least annually. During the 2013 financial year, the Committee conducted the annual review in December 2012, which mainly focused on simplifying the Policy through structural changes. A subsequent review was conducted in May 2013 to incorporate APRA's governance requirements for all regulated subsidiaries of the Group.

Risk and financial control personnel

The vast majority of risk and financial control personnel (as defined in paragraph 48(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; and
- be linked to the financial performance of the business unit they oversee.

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.

3 Remuneration and Risk Management

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

All our remuneration practices are carefully managed within our risk appetite. The Group takes into account the following key risks when implementing remuneration measures:

- Financial Risks;
- Operational Risks; and
- Compliance Risks.

Risk measures are used as a gate opener for any performance based remuneration. Remuneration outcomes are assessed against individual performance (which is set at the beginning of the performance year) and Business and/or Group Risk Appetite Statements. All incentive awards are reviewed and may be reduced or even eliminated in light of any risk management issues.

The Committee has a robust framework for the systematic review of risk and compliance issues impacting remuneration. The Committee:

- takes note of any material risk issues impacting remuneration, with issues raised by the Committee provided to the Board's Risk Committee for noting;
- considers issues and recommendations raised by the Risk and Remuneration Review Committee, a management committee that monitors material risk and compliance issues throughout the year;
- may impose adjustments to remuneration outcomes of employees before or after awards are made, subject to Board approval; and
- 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.

4 Linking Performance and Remuneration

Our remuneration practices are directly linked to both short term and long term performance goals of the Group. Key financial and non-financial performance measures are used to appropriately reward key talent for achieving goals that are aligned to the Group's business strategy. The key performance areas and metrics include:

Performance Area	Objective	Metric
Customer Focus	Continue to build a vibrant customer focused culture.	Measuring customer satisfaction results using external survey providers (1) across our core businesses, including retail, business and institutional banking and wealth management.
Strength	Maintain a strong and flexible balance sheet.	Group and business financial performance including Cash Net Profit After Tax (Cash NPAT) and Profit After Capital Charge (PACC).
Productivity	Continuous and ongoing focus on eliminating waste, whilst making things simpler and easier for the Group's customers and staff.	Drive productivity through integrated plans, sponsorship and sustainable financial benefits.
People	Develop a long term people focus.	Performance assessment against the following core areas: ▪ Talent Management ▪ Safety ▪ Diversity ▪ Engagement ▪ Culture Change.

(1) Customer satisfaction is measured by three separate surveys. For the Retail bank, this is measured by Roy Morgan Research. Roy Morgan Research Main Financial Institution (MFI) Retail Customer Satisfaction measures percentage of the Australian population 14+, % "Very Satisfied" or "Fairly Satisfied" with their relationship with that MFI, based on a 6-month rolling average to June 2013. CBA excludes Bankwest. For business banking, this is measured by DBM Consultants Main Financial Institution (MFI) Business Customer Satisfaction. Satisfaction average with relationship with that MFI, 6-month rolling average to June 2013. For Wealth Management, customer satisfaction is measured by the Wealth Insights 2013 Service Level Report, Platforms. This survey measures satisfaction with the service of master trusts/wraps in Australia, by financial advisers. It includes Colonial First State's FirstChoice and FirstWrap platforms. For Institutional Banking, customer satisfaction is measured by DBM Business Financial Services Monitor (June 2013) six month rolling average of MFI satisfaction ratings of Australian businesses. Institutional banking includes businesses with turnover of $100 million and above.

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 above). Any discretionary STI award is linked to both the Group and individual performance outcomes.

Financial objectives have a substantial weighting, and non-financial objectives vary by role. Executives managing business units typically have a 50% weighting on financial outcomes, while Executives managing support functions have a typical weighting of 30%.

The CEO and Group Executives (who form part of the Senior Manager group), are eligible to receive LTI awards in the form of Reward Rights. The current LTI plan is the Group Leadership Rewards Plan. Any LTI grant under this plan is subject to the following performance hurdles:

- Total Shareholder Return (75% weighting of total award)
- Customer Satisfaction (25% weighting of total award).

These performance hurdles assess the longer term performance of the Group and are aligned to our key business priorities of Customer Focus and shareholder interests.

Risk is a key factor in accounting for short term performance. Firstly, we use PACC, a risk-adjusted measure, as one of our primary measures of financial performance. It takes into account not just the profit achieved, but also considers the risk to capital that was taken to achieve it. Secondly, employees are required to comply with the relevant Group or Business Unit Risk Appetite Statement. STI awards are adjusted downwards where material risk issues occur. Thirdly, risk is also managed through the compulsory deferral of STI and LTI outcomes (see table below for further details).

Under the Group's 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.

Deferral and Vesting Policy

Risk is also a key factor in determining longer term performance. This is mainly facilitated by the Group's remuneration deferral policy. The table below provides a summary of the various deferral arrangements applicable to different groups across the Group. More senior roles (that have the potential to receive higher variable remuneration) also have a greater portion of their performance pay deferred. This enables appropriate risk reviews to be conducted before all remuneration is paid.

Group	Deferral Arrangement
CEO and Group Executives	▪ 50% of STI award is deferred as cash for 12 months (including interest accrued). ▪ LTI awards are deferred over a 4 year period and subject to set performance hurdles.
Executive General Managers and General Managers	▪ One third of total STI award is deferred into CBA restricted equity - i.e. shares, rights or performance units (for executives outside of Australia) (1) for 3 years. ▪ One third of total STI award is deferred into CBA restricted shares (or cash equivalent) for 3 years. For most executives outside of Australia deferral is made in the form of performance units (1).
All other employees	▪ All employees with STI outcomes of $200,000 or greater must have cash deferral of one third of their STI over 2 years. Deferred awards vest in 2 equal tranches, 50% vests in 12 months and the remaining 50% in 24 months from performance period start date (including interest accrued).

(1) For offshore jurisdictions with restrictions on equity-based awards one third of the STI will be deferred as cash for 3 years.

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

- the employee remaining employed by the Group throughout the vesting period. On exit of a good leaver, which generally includes retirement, redundancy and death, post 1 July 2013 STI awards stay on foot and vest in normal time subject to the remaining vesting conditions. There may be certain circumstances (including ill-health retirement or other reasons approved by the Board) where LTI awards may continue after cessation of employment and remain subject to the LTI performance hurdles, unless the Board determines that the grant vests or lapses on cessation;
- in the case of LTI awards, the LTI performance hurdles being met;
- actual realisation of original expected performance outcomes;
- a review of any risk and compliance issues associated with any individual (see section 3 above); and
- at vesting, the release of the deferred incentive amount not placing undue financial hardship on the Group.

Deferred awards into CBA shares and performance units 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, all deferred awards will be forfeited.

Our deferral policy assists in managing risk of losing key talent, and allows the Board to reduce or cancel the deferred components of remuneration where business outcomes are materially lower than expected.

5 Variable Remuneration

Variable remuneration is part of an individual's total remuneration mix and is made in various forms for different groups across the Group. The following is a list of all current variable remuneration instruments:

- Cash (deferred and non-deferred)
- Restricted Shares/Rights (deferred)
- Restricted performance units (deferred)
- Reward Rights (deferred)

As noted above, cash is the only instrument which can be payable upfront and not deferred. Some of the Group's arrangements (as noted in section 4 under deferral policy) allow for remuneration to be deferred as cash over an appropriate deferral period.

All other instruments are made in the form of deferred remuneration which vest over an appropriate deferral period. Deferred equity 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. For the CEO and Group Executives, although STI is deferred into cash, they also receive LTI awards in the form of restricted rights which vest after a 4 year period, subject to relevant performance hurdles, risk review and final Board approval.

6 Senior Manager and Material Risk Takers' Quantitative Remuneration for year ended 30 June 2013

The following tables have been prepared in accordance with the quantitative requirements outlined in APS 330. 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 2013. Table (b) provides a summary of deferred cash and equity-based remuneration, including total amount of outstanding awards, and those that have vested during the 2013 financial year, including any reductions due to ex post explicit and implicit adjustments.

(a) Total value of remuneration awards for senior managers and material risk-takers for the 2013 financial year

Name	Senior Managers [1] $'000	Material Risk Takers [2] $'000
Fixed Remuneration		
Cash-based (non-deferred) [2]	19,373	7,449
Other (non-deferred) [3]	3,324	581
Variable Remuneration		
Cash-based (non-deferred) [4]	8,531	7,828
Cash-based (deferred) [5]	8,624	300
Shares and share-linked instruments (deferred) [6]	13,132	3,174
Other	-	-

(1) All senior managers and material risk takers received a variable remuneration award during the 2013 financial year (total of 40 individuals). No guaranteed bonuses and termination payments were made during the financial year for both Senior Managers and Material Risk Takers. Only one sign-on award was made to an executive who joined the Group during the 2013 financial year. Total 2013 expense of this award is $32,018.

(2) This includes base remuneration and all superannuation contributions.

(3) This includes annual leave and long service leave accruals, any salary sacrificed benefits, car parking costs (including associated benefits tax) and interest accrued in relation to deferred cash awards which vested during 2013.

(4) This value represents the cash portion of the STI awards made in relation to performance over the 2013 financial year. For the CEO and Group Executives this represents 50% of their total 2013 STI award. For most other senior executives, this includes two thirds of their total STI award.

(5) For all cash deferred awards this includes the total value deferred.

(6) For all deferred equity awards, this includes the 2013 accounting expense of previous STI/LTI awards granted during 2010, 2011 and 2012 financial years and amounts relating to equity sign-on and other special equity-based arrangements.

(b) Summary of Deferred Remuneration (awards outstanding, vested and any downward adjustments)

Name	Senior Managers [1] $'000	Material Risk Takers [2] $'000
Outstanding Remuneration		
Cash-based awards	8,624	150
Shares and share-linked instruments	74,368	13,422
Total outstanding remuneration (deferred) [1]	82,992	13,572
Total amount of deferred remuneration vested during 2013 financial year [2]	25,913	3,302
Total amount of reductions during 2013 financial year due to explicit adjustments [3]	(14,698)	-
Total amount of reductions during 2013 financial year due to implicit adjustments [3]	-	-

(1) All deferred remuneration is exposed to ex post explicit and implicit adjustments. This includes the sum of all outstanding deferred cash and equity awards as at 30 June 2013. For all equity-based deferred STI awards this includes the total face value, and for all LTI awards this includes the total fair value of outstanding awards.

(2) The value of deferred cash and equity awards that vested during 2013 financial year. This includes the value of the awards that vested, plus any interest and/or dividends accrued during the vesting period.

(3) This includes any reductions to awards which vested during 2013 financial year. Explicit adjustments include all reductions due to revaluation of awards, downward adjustments to outcomes and forfeitures. Implicit adjustments include any change in the value of realised awards due to downward movement in CBA share price from grant date to vesting date.

7 Glossary of 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
Base Remuneration	Cash and non-cash remuneration paid regularly with no performance conditions.
Board	The Board of Directors of the Group.
Deferred Shares	Shares subject to forfeiture on resignation. Used for sign-on awards and deferred STI below Group Executive level.
Fixed Remuneration	Consists of 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.
Group Leadership Reward Plan (GLRP)	The Group's long term incentive plan from 1 July 2009 for the CEO and Group 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. For APS 330, this includes the CEO and all Group Executives (non-executive directors are not subject to the prudential disclosures).
Key Performance Indicators (KPIs)	Are quantitative and qualitative measures, agreed at the start of the performance year, to drive performance outcomes at the Group, Business Unit, team and individual level.
Long Term Incentive (LTI)	A remuneration arrangement which grants benefits to participating executives that may vest if, and to the extent that, performance hurdles are met over a period of three or more years. The Group's long term incentive plan is the GLRP.
NPAT	Net profit after tax.
Performance Rights	Rights to acquire a Commonwealth Bank of Australia ordinary share with no payment by the recipient if relevant performance hurdles are met.
PACC	Profit after capital charge.
Reward Shares	Shares in CBA granted under the GLRP during the 2010 financial year and subject to performance hurdles.
Reward Rights	Rights to ordinary shares in CBA granted under the GLRP from the 2011 financial year and subject to performance hurdles.
Salary Sacrifice	An arrangement where an employee agrees to forgo part of his or her cash component of Base Remuneration in return for non-cash benefits of a similar value.
Short Term Incentive (STI)	Remuneration paid with direct reference to the Group's and the individual's performance 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.
Total Remuneration mix	The total combination of fixed and variable remuneration (STI and LTI) that an employee has the potential to receive if they achieve target performance objectives.
Variable Remuneration	Performance-based remuneration, which includes short term incentives that reward performance over the financial year, and long term incentives that reward performance over a longer term.