

FY18 Long-Term Variable Remuneration performance measures



How to use this document

The purpose of this document is to provide additional information on the FY18 Long-Term Variable Remuneration (LTVR) award further to the Company's FY17 Remuneration Report (which can be accessed at www.commbank.com.au/investors/annual-report.html, pages 63 – 81) and Notice of 2017 Annual General Meeting (NoM) (which can be accessed at www.commbank.com.au/investors/shareholders.html), including targets and assessment methodology for determining vesting outcomes in 2021.

Background

Following concerns raised in relation to the FY16 Remuneration Report, the Board consulted widely with stakeholders and undertook a comprehensive review of the executive remuneration strategy, framework and governance.

The Board has sought to provide greater transparency in the Company's remuneration framework, reporting, measures and progress against targets. As a result of the Board's consultation and review, changes have been made to the Company's executive remuneration framework, as summarised in the FY17 Remuneration Report and on pages 6 to 9 of the 2017 NoM.

Consistent with a transparent approach, the Board wishes to provide details on the FY18 LTVR performance measures which form part of those changes and relevant details are provided in this document.

Details of the FY18 LTVR award

The Company's executive remuneration framework is designed to attract and retain high-calibre executives by rewarding them for achieving goals that are aligned to the Company's strategy and shareholder interests. This underlying philosophy has been reflected in the changes to the FY18 LTVR award, with the new performance measures targeting challenging outcomes that will require sustained initiatives to be delivered throughout the Company, including long-term initiatives focusing on culture, risk and reputation.

Relative Total Shareholder Return (TSR) continues to be the measure against which the majority, 75%, of the LTVR award is tested. The relative TSR measure provides a direct link between executive reward and shareholder returns, relative to the Company's ASX peers. The remaining 25% of the award continues to be tested against non-financial measures. Two new measures were selected for the FY18 LTVR award, each of which will be applied to 12.5% of the total award.

In selecting the new measures, the Board has listened to and acknowledged concerns that:



- the People and Community measure for the originally proposed FY17 LTVR award (at the 2016 AGM) was seen to lack transparency and to be overly reliant on Board discretion to determine vesting outcomes;



- the use of non-financial measures was excessive, as the proposed introduction of the People and Community measure would have reduced the weighting on relative TSR to 50%; and



- the adoption of customer measures for the FY17 LTVR award created a duplication of performance measures between the short-term and long-term components of the variable remuneration framework.

The two non-financial LTVR measures introduced for FY18, are intended to drive a strong focus and improvement in the Company's trust and reputation and employee engagement (discussed in detail in this document). These measures are considered by the Board to be critical drivers of sustainable long-term value creation for shareholders, and are closely linked to the Company's strategic imperatives. In today's challenging and increasingly competitive environment the Board acknowledges the need to focus not only on direct financial returns, but also on the way the Company does business, how the Company supports its people and the Company's role in society.



- the Board recognises the critical importance for the Company and the industry of rebuilding and improving the trust of customers and the broader community. This is a key factor in ensuring the Company maintains its social licence to operate, as well as enhancing long-term financial performance and value to shareholders. Accordingly, this is a fundamental focus area for Executives and one for which they are accountable; and



- the Board views that an engaged workforce results in greater productivity and better customer outcomes and experience. It is therefore fundamental for the continued success of the Company that its employees are proud advocates of the Company and committed to its vision, values and strategy.

Details of the FY18 LTVR award (continued)

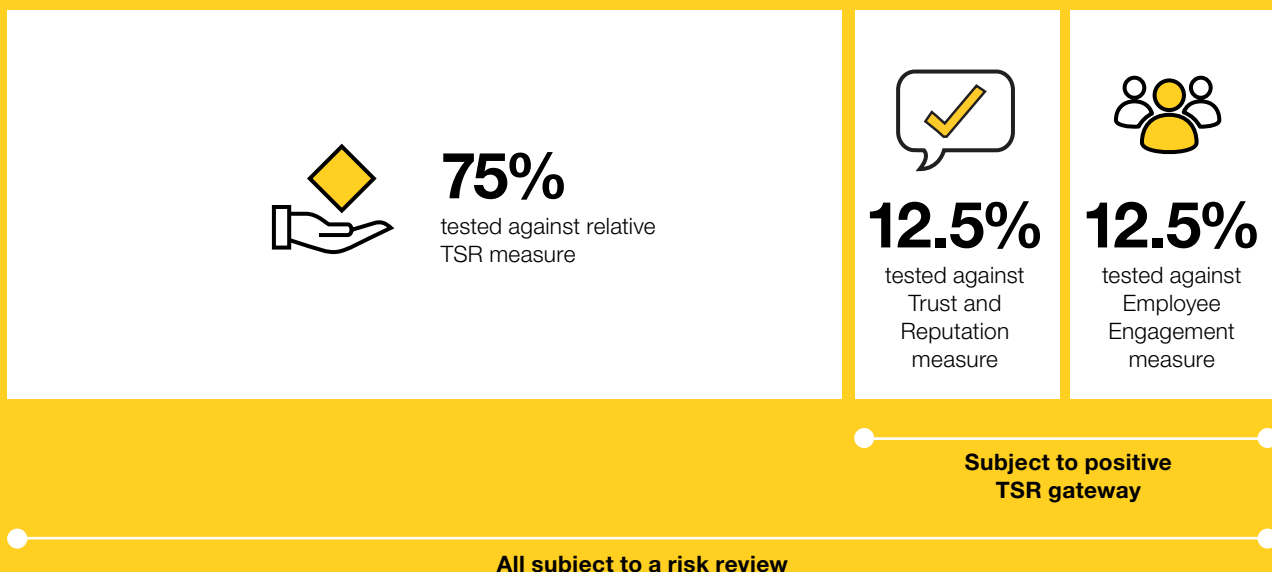
A thorough process was undertaken to ensure that the non-financial measures used to assess performance in these areas are robust and independently determined, and the Board is confident that targets have been set at a challenging level which requires true outperformance to achieve vesting.

A positive TSR gateway will be applied to the non-financial performance measures, such that no vesting of these measures can occur unless the change in TSR over the period is positive.

In addition, the total FY18 LTVR award will be subject to a risk review undertaken by the Board before any vesting can occur in 2021.

The diagram below provides an overview of the FY18 LTVR structure. The key features of the award are set out in more detail in the table on the following pages.

FY18 LTVR award



Explanation of FY18 LTVR performance measures



TSR (Relative)
(75%)



Trust and Reputation (Relative)
(12.5%)



Employee Engagement (Absolute)
(12.5%)

Performance Period

The performance period started on 1 July 2017 and ends after four years on 30 June 2021.

Performance Measures

75% of the award is subject to the Company's TSR performance relative to a set peer group.

The peer group is made up of the 20 largest companies on the ASX by market capitalisation at the beginning of the performance period, excluding resources companies, and the Company.

The next five largest companies listed on the ASX by market capitalisation will form a reserve bench of companies. These companies will be substituted (in order of market capitalisation as at the beginning of the performance period) into the peer group when a peer group company ceases to be listed on the ASX as a result of an acquisition, merger or other relevant corporate action or delisting.

For the FY18 award, the peer group comprises:

- AGL Energy Limited
- Amcor Limited
- AMP Limited
- Australia and New Zealand Banking Group Limited
- Brambles Limited
- CSL Limited
- Insurance Australia Group Limited
- Macquarie Group Limited
- National Australia Bank Limited
- QBE Insurance Group Limited
- Ramsay Health Care Limited
- Scentre Group
- Suncorp Group Limited
- Sydney Airport
- Telstra Corporation Limited
- Transurban Group
- Wesfarmers Limited
- Westfield Corporation
- Westpac Banking Corporation
- Woolworths Limited.

The reserve bench companies are:

- Aristocrat Leisure Limited
- Aurizon Holdings Limited
- Cimic Group Limited
- Goodman Group
- Stockland Corporation Limited.

12.5% of the award is subject to the Company's Trust and Reputation outcomes relative to a set peer group.

Measured against the independent RepTrak® Pulse Score survey conducted by the Reputation Institute, which uses a set of four equally weighted questions to test the trust, respect and admiration a respondent has for a particular company. The RepTrak® Pulse Score survey is conducted quarterly.

The peer group is made up of the 16 largest consumer facing companies listed on the ASX by market capitalisation at the beginning of the performance period, excluding resource companies, companies that do not have a base level of familiarity with the general public, companies that do not operate nationally, and the Company.

The next four largest consumer facing companies meeting the above selection criteria will form a reserve bench of companies. These companies will be substituted (in order of market capitalisation as at the beginning of the performance period) into the peer group when a peer group company ceases to be listed on the ASX as a result of an acquisition, merger or other relevant corporate action or delisting.

This cross-industry peer group has been chosen to ensure that the Company focuses on delivering Trust and Reputation outcomes that are among the best in class for all customer-focused industries, not just the major banks.

12.5% of the award is subject to the Company's Employee Engagement outcomes.

Employees of the Company are invited to participate in an externally conducted online survey. The Employee Engagement Index (EEI) is calculated using particular questions from the survey.

EEI is based on the proportion of employees responding that they "Strongly agree" or "Agree" with the four questions relating to Satisfaction, Commitment, Advocacy and Pride (each of which is equally weighted).

Explanation of FY18 LTVR performance measures (continued)



TSR (Relative)
(75%)

Performance Measures (continued)



Trust and Reputation (Relative)
(12.5%)

For the FY18 award, the peer group comprises:

- AGL Energy Limited
- AMP Limited
- Australia and New Zealand Banking Group Limited
- Crown Resorts Limited
- Insurance Australia Group Limited
- Lendlease Group Limited
- Macquarie Group Limited
- National Australia Bank Limited
- Qantas Airways Limited
- QBE Insurance Group Limited
- Stockland Corporation Limited
- Suncorp Group Limited
- Telstra Corporation Limited
- Wesfarmers Limited
- Westpac Banking Corporation Limited
- Woolworths Limited.

The reserve bench companies are:

- Bendigo and Adelaide Bank Limited
- BlueScope Steel Limited
- Coca-Cola Amatil Limited
- Medibank Private Limited.



Employee Engagement (Absolute)
(12.5%)

Performance will be measured based on the improvement in EEI outcomes over the four-year performance period.

The surveys will be conducted by an independent provider who will facilitate and collate the EEI results.

The change in the EEI scores between the base year (being the March 2017 EEI score of 78% and the end year (being the March 2021 score) will be used to determine the level of vesting. The target and stretch levels of performance have been set by the Board taking account of the IBM Kenexa gap closure method. An annual improvement of 5% to 10% of the gap to a natural EEI ceiling is considered an appropriate expectation. The Board has taken account of global benchmark scores provided by IBM Kenexa in setting the natural ceiling.

Calculation of the Performance Results

Each company in the peer group will be given a percentile ranking based on the growth in its TSR over the four year performance period.

TSR growth will be based on the arithmetic average of the TSR index figures for the 20 trading days up to and including the beginning of the Performance Period (1 July 2017) and the end of the Performance Period (30 June 2021).

TSR outcomes are calculated by an independent provider, Orient Capital.

The opening Pulse Score for each company will be calculated based on the average of the March, June and September 2017 surveys, while the closing Pulse Score will be calculated based on the November 2020, March and June 2021 surveys.

Each company in the peer group will be given a percentile ranking based on the change in its Pulse Score over the four year performance period.

Explanation of FY18 LTVR performance measures (continued)



TSR (Relative) (75%)

Vesting Framework

Target and stretch performance targets determine what proportions of the award vest, as set out below:

Peer Group Ranking	Vesting %
75th percentile or higher	100%
Median	50%
Below the median	0%

Vesting occurs on a straight line basis if the Company is ranked between the median and the 75th percentile.



Trust and Reputation (Relative) (12.5%)

Target and stretch performance targets determine what proportions of the award vest, as set out below:

Peer Group Ranking	Vesting %
75th percentile or higher	100%
Median	50%
Below the median	0%

Vesting occurs on a straight line basis if the Company is ranked between the median and the 75th percentile.

A positive TSR gateway will be applied to this component such that no vesting of this measure can occur unless the change in TSR over the period is positive.



Employee Engagement (Absolute) (12.5%)

Target and stretch performance targets determine what proportions of the award will vest, as set out below:

Performance	Vesting %
Stretch = EEI score of 82% or higher	100%
Target = EEI score of 80%	50%
Below target = EEI score of below 80%	0%

Vesting occurs on a straight line basis if the Company's performance is between the target and the stretch.

A positive TSR gateway will be applied to this component such that no vesting of this measure can occur unless the change in TSR over the period is positive.

Board Discretion

The total award is subject to a risk review. The Board also retains sole discretion to determine the amount and form of any award that may vest (if any), for example, in the event of a corporate restructuring or capital event. The Board has discretion to determine that some or all of the award will lapse in certain circumstances, including where, in the opinion of the Board:

- the vesting of reward rights is not justified or supportable having regard to the Executive's performance and/or conduct, the performance of the business unit or function relevant to the Executive or the performance of the Group as a whole; or
- the vesting of reward rights will impact on the financial soundness of the Company or a member of the Group; or
- a significant unexpected or unintended consequence or outcome has occurred.

Expiry

At the end of the performance period, any portion of the award that has not vested will lapse.