Executive Remuneration in the Major Banks:

is it implicated in failures of

Corporate Social Responsibility?

Submission to the Royal Commission

into Misconduct in the Banking, Superannuation

and Financial Services Industry

By: Geoff Nunn, Director

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Author's Note: Various facts and figures in relation to executive remuneration in the Big Four and the Bendigo and Adelaide Bank are quoted in this Submission. In all instances data is sourced from the publicly available Annual Remuneration Reports from these Bank's websites.

1. About Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of remuneration and organisation consulting services to the government and corporate sectors. We specialise in working with Boards, CEOs and Executive Teams in the areas of corporate governance, business advice, board and executive remuneration, organisation structuring and design.

We have completed over 1000 projects across Australia, New Zealand and Singapore.

Our services include:

- *Board Governance Advice*
- *Board and Committee Charter Drafting*
- *Business Advisory Services*
- *Board Remuneration Advice*
- *Executive Remuneration Advice*
- *Remuneration Governance Advice*

1.1 Geoff Nunn - Director

Geoff has been involved in human resource management for over forty years. He is a specialist in corporate governance, executive remuneration, performance measurement and organisation structuring.

He has consulted widely to the private sector. Organisations include those from manufacturing, utilities, engineering, finance, insurance, automotive, mining and petroleum industries. Geoff has consulted extensively to the government sector.

Before entering consulting in 1993, Geoff spent twenty years in a range of senior human resource and remuneration roles with the National Australia Bank, Public Transport Corporation of Victoria and RioTinto (previously CRA).

Geoff holds undergraduate qualifications in Accounting, a Graduate Diploma and a Master’s Degree in Organisational Behaviour from Swinburne University. He is a Fellow of the Australian Human Resources Institute, a Graduate Member of the Australian Institute of Company Directors and is published in the areas of performance and remuneration management.

2. Executive Summary

This Submission examines the structure of executive remuneration in the Big Four Banks and one regional bank in Australia in terms of its impact on corporate behaviour.

The heavy weighting attached to the financial metrics that drive a significant proportion of executive remuneration packages is investigated in light of the alleged misconduct and very serious failures of corporate social responsibility by the banks and other financial institutions.

2.1 Submission Overview

In this Submission to the Royal Commission (the Commission) Independent Remuneration Specialist, Geoff Nunn, explores the possibility that the configuration of Executive Remuneration in the "Big Four" banks in Australia, and other financial services organisations which follow a similar model, might be implicated in instances of negative corporate social behaviour that has been reported in recent years.

This Submission is made in relation to the Royal Commission's Terms of Reference points (a), (b), (d) (i)& (d) (ii) as reproduced below:

(a) whether any conduct by financial services entities (including by directors, officers or employees of, or by anyone acting on behalf of, those entities) might have amounted to misconduct and, if so, whether the question of criminal or other legal proceedings should be referred to the relevant Commonwealth, State or Territory agency;

(b) whether any conduct, practices, behaviour or business activities by financial services entities fall below community standards and expectations;

(c) whether the use by financial services entities of superannuation members' retirement savings, for any purpose, does not meet community standards and expectations or is otherwise not in the best interests of those members;

(d) whether any findings in respect of the matters mentioned in paragraphs (a), (b) and (c):

   (i) are attributable to the particular culture and governance practices of a financial services entity or broader cultural or governance practices in the relevant industry or relevant subsector; or

   (ii) result from other practices, including risk management, recruitment and remuneration practices, of a financial services entity, or in the relevant industry or relevant subsector;

Figure 1 Extract from the Royal Commission Terms of Reference

Australia has fared well in recent economic downturns. The 2008 GFC is a prime example where Australia outperformed many other Western nations. This economic resilience is attributable, at least in part, to the strength of our banks and financial institutions which rate amongst the best in the world. The flow of liquidity provided by these institutions underpins our economy. However, the Big Four are also amongst the top eight most profitable banks in the world.[1] Given their relative size in relation to major world banks this is a considerable achievement.[2]

In preparing this Submission there is no wish to suggest measures that would lessen the strength of the sector. Rather, that the Commission might consider recommendations which seek to enhance its ethical participation in our communities. In addition, to propose moves that restore public confidence in the banks, in particular, and to sharpen their focus on genuinely balancing the interests of all stakeholder groups in managing their operations.

2.2 Alleged Misconduct

Former Deutsche Bank Analyst, Mike Mangan, recently compiled and published a list of 1005 transgressions by the major banks and financial institutions In Australia over the past 10 years. See Appendix 1. These have proved to be the proverbial tip of the iceberg as the Commission continues to discover.

Some issues include:

- Providing poor financial advice;
- Providing unwanted overdrafts to clients;
- Disallowing legitimate insurance claims;
- Charging for annual review advice never given;
- Manipulating the interbank swap rate;
- Selling loan protection insurance to clients who don't need it.

Over the past few years a litany of bank transgressions have been reported ranging from the provision of poor quality financial planning advice (sometimes resulting in the loss of an individual's retirement savings), market manipulation and refusal of legitimate insurance claims. A significant percentage of these transgressions have been upheld by various regulators.

Recent revelations point to dubious commission schemes for lending partners accompanied by lax lending standards, and noted incidents of bribery and corruption by branch managers.

Two recently released reports into remuneration practice in the Australian Retail Banking and Mortgage Broking Sectors suggested that it is appropriate to reduce, or remove, performance based incentives from the remuneration packages of staff involved in the provision of front-line service and advice to customers.[3,4] The findings indicate that financial incentives might be encouraging sales staff to behave in

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[1] Australia Institute Submission to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, March 2018. Page 5.
[2] The Australian Big Four rate in the range of 42nd to 49th out of the World's top 100 banks by asset base. Wikipedia list of top 100, 2017.
[3] Review of Mortgage Broker Remuneration, Australian Securities and Investments Commission (ASIC), *March 2017.*
[4] Australian Bankers Association Retail Banking Review, Stephen Sedgewick AO, *April, 2017.*

ways that are not always in the best interests of customers. That is, pushing products and services that the customer does not need or cannot afford. We note that some of the banks have reported changing remuneration practices for front-line staff and either reducing or removing performance based incentives from their packages.

We do not suggest that front-line staff themselves are solely responsible for these transgressions. Rather, there is an underlying business model and culture in the big banks and financial institutions which prioritises sales and profit ahead of the best interests of customers and other stakeholders. This is driven by the Board and Executive Team.

2.3 Executive Remuneration Structuring

An argument can be made that the structure of executive remuneration in the Sector might be encouraging corporate behaviour that is not always in the best interests of various stakeholder groups; in particular customers, suppliers, employees and the community. In other words, the heavy weighting attached to financial metrics which drive a significant proportion of executive remuneration packages, might be implicated in these blatant failures of corporate social responsibility (CSR).

The structure of executive remuneration in the Big Four banks, and many other commercial corporations, follows a model which places a significant proportion of financial reward "at risk". That is, reward is contingent on the achievement of corporate and individual performance targets. This model was imported from the US during the late 1990s and is quite complex. It relies heavily on equity participation in an attempt to align executive's financial interests with those of shareholders. In other words, to deliver financial returns.

Prior to the adoption of this model bank executives were rewarded mostly through fixed remuneration. Some had modest bonus programs. Share plans existed but were mostly discounted pay as you go or supported by concessional loans.

Today a typical finance executive's remuneration package will be structured as follows:

Fixed Annual Remuneration	Short Term Incentives	Long Term Incentives
Job Evaluated and Market Aligned Progression via Individual Performance	Combination of Annual Corporate & Individual Performance	Strategic Long Term Corporate Performance
30% to 40% of Total Reward	*30% to 40% of Total Reward*	*30% to 40% of Total Reward*

Figure 2 Typical Big Four Executive Remuneration Structure

Short Term Incentives (STIs) are usually driven by a combination of corporate and individual performance Key Performance Indicators (KPIs). These may include financial and non-financial KPIs. Payment is usually annual, although some banks defer part of the STI. A mixture of cash and equity is employed as the delivery mechanism.

Long Term Incentives (LTIs) are usually driven by corporate financial measures such as Total Shareholder Return (TSR) and Return on Equity (ROE). Delivery is mostly in the form of performance share rights which vest over a 3-4 year period. In most instances 'claw back' provisions apply. That is, if financial performance, in particular, is not sustained, all or part of the award may be forfeited.

Substantial amounts of money are involved. In 2017 the Commonwealth Bank executive team's total reward varied from \$5.7m for the CEO to \$1.6m for the CIO with a range in between. Packages were down in 2017 as the Remuneration Committee cancelled all STI payments in response to the recent Commonwealth Bank money laundering scandal. In 2016 the figures ranged from \$8.8m for the CEO to \$2.2m for the Group Executive Marketing & Strategy.

The Commonwealth Bank reported the following figures for its CEO for 2016 and 2017:

Year	FAR	STI (Total)	Other	Long Term	LTI	Total Reward
	$ pa	$ pa	$ pa	$ pa	$ pa	$pa
2017	2,665,909	0	-33,007	113,341	2,966,120	5,712,363
2016	2,665,052	2,862,000	35,870	137,211	3,068,219	8,768,352

Table 1 Commonwealth CEO Total Reward 2016 and 2017

The following table sets out the basic structure of executive reward for CEOs in the Big Four banks plus one regional bank:

Bank	FAR	STI	LTI
	% of Total Reward	% of Total Reward	% of Total Reward
Commonwealth Bank	33.33%	33.33%	33.33%
National Australia Bank	30.00%	30.00%	40.00%
ANZ Bank	33.33%	33.33%	33.33%
Westpac Group	34.00%	34.00%	34.00%
Bendigo & Adelaide Bank	65.00%[1]	10.00%	25.00%

1. 40% payable, 25% deferred shares

Table 2 Configuration of CEO Remuneration Summary

In some instances part of the STI is deferred and realised though equity. All LTIs are in the form of equity and vest over a 3-4 year period. In the Big Four banks the CEO Total Reward target is in the range of \$6.0m pa to \$8.0m pa. There is further upside potential should financial and other targets be exceeded.

Level 2 executive packages in the Big Four banks follow a similar configuration to the CEO although the quantum opportunity is less and may range from \$1.5m pa to \$5.5m pa. Figures for the Bendigo & Adelaide Bank are substantially lower.

Some banks have minimum executive shareholding requirements. See Table 31. That is, executives are required to hold a minimum level equity in their employing financial institution (100% to 500% of Fixed Annual Remuneration). Thus a portion of their personal wealth is dependent upon the financial performance of their employer. This remuneration strategy endeavours to further align executive interests with those of shareholders.

Our argument here is not about the size of the reward packages for Bank Executives.[5] Rather, that the heavy weighting applied to financial metrics may be influencing executives to adopt a narrow focus on what constitutes corporate performance; that is, sales, revenue, costs, shareholder returns and return on capital. And, in turn, to neglect or place a lower relative value on, the interests of other stakeholder groups such as customers, suppliers, the environment, communities and governments.

2.4 Submission Scope

We commence this Submission with a brief look at the Australian Productivity Commission Review of Executive Remuneration 2009. We touch on the requirements of the *Corporations Act 2001* and changes to the UK *Companies Act 2006.*

We examine the executive remuneration strategy and structure of the four major banks and one regional bank as follows:

1. Commonwealth Bank of Australia (CBA);
2. National Australia Bank (NAB);
3. Australian and New Zealand Banking Group (ANZ);
4. Westpac Group;
5. Bendigo and Adelaide Bank.

We consider the corporate KPIs driving both STI and LTI and consider the balance of financial versus non-financial measures. These are summarised here:

Bank	Financial Drivers	Non-Financial Drivers
	% of Total	% of Total
Commonwealth Bank	40.00%	60.00%
National Australia Bank	62.50%	37.50%
ANZ Bank	Not Disclosed	Not Disclosed
Westpac Group	70.00%	30.00%
Bendigo & Adelaide Bank	Not Disclosed	Not Disclosed

Table 3 Drivers of Short Term Incentives

It should be noted that there is considerable variability in the levels of disclosure and reporting by the five banks covered in this report. See Sections 3 to 7 for further detail.

[5] Although in many instances the quantum may well be significantly above community expectations. And this is a serious issue. The Banks will argue that they seek expert advice and benchmark executive remuneration against like organisations. This is no doubt correct. However benchmarking can have a “ratchet” effect where corporations seek to position above the Percentile 50 to remain competitive against their peers.

Bank	Financial Drivers	Non-Financial Drivers
	% of Total	% of Total
Commonwealth Bank	75.00%	25.00%
National Australia Bank	100.00%	0.00%
ANZ Bank	Not Disclosed	Not Disclosed
Westpac Group	100.00%	0.00%
Bendigo & Adelaide Bank	70.00%	30.00%

Table 4 Drivers of Long Term Incentives

We review some contemporary literature on motivation and reward and conclude with suggestions for the Commission to consider in developing its findings.

2.5 Recommendation

In developing its findings we propose that the Commission consider a recommendation that the Boards and Remuneration Committees of our financial institutions undertake a radical re-think of their executive remuneration strategies. That Boards consider a new model, or a return to an old model, which places significantly less remuneration at risk, and endeavours to foster the interests of all stakeholder groups by re-balancing financial and non-financial priorities. An example is summarised here:

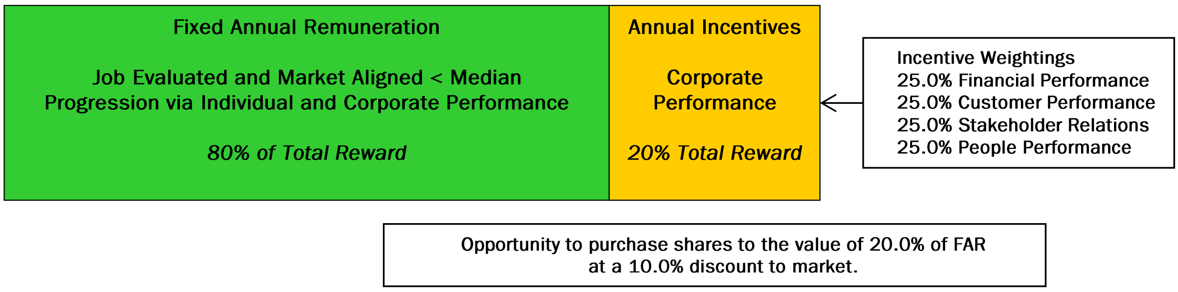


Figure 3 Towards a New/Old View

Positioning Fixed Annual Remuneration below the median places downward pressure on the executive remuneration market. Although, considering the substantial growth over the last decade, it will take some time to wind the market back. And the trend would need to become wide spread.

We propose that Boards consider the question of annual incentives or STIs, and if employed at all, that they are kept to a moderate level of say 20% of Fixed Annual Remuneration and that the KPIs driving the STI reflect the interests of all stakeholders.

We propose Boards consider abolishing LTIs altogether. To concentrate part of an executive's personal wealth around equity participation (in the employing organisation) creates the potential for self-serving behaviour. Whilst this self-serving behaviour might be in the immediate financial interests of shareholders it is ultimately not in the best interests of the community.

The focus for Boards must be to return to a more balanced and equitable approach to executive remuneration across the Sector. Not one that encourages corporate excess.

3. Productivity Commission Review of Executive Remuneration in Australia - 2009

In December 2009 the Productivity Commission released its long awaited report into Executive Remuneration in Australia. In the wake of the GFC there was widespread government and community concern that contemporary executive remuneration practices, particularly in the United States, United Kingdom, Europe, Australia and other developed economies, had been a contributing factor to the 2008 financial collapse. This concern covered both the quantum and structure of executive remuneration. Not only had the level of executive remuneration been rising at a significantly higher rate than average weekly earnings for the past 20 years but many believed that the structure of performance based incentive plans was encouraging short termism and excessive risk taking.

In undertaking its review the Productivity Commission was asked to consider trends in executive remuneration both in Australia and internationally including fixed remuneration, short and long term incentive plans, equity based incentive plans, and the relationship between remuneration and corporate performance. It was also asked to examine the effectiveness of the existing governance framework regarding executive remuneration for disclosing entities in Australia.[6]

The 520 page report provided an extensive analysis of trends and practices in Australia and overseas. In compiling its report the Productivity Commission considered submissions from companies, remuneration advisors, professional associations, proxy advisors, trade unions, academics and members of the general public. It also conducted a number of public forums and considered input from roundtable discussions of Chairs and CEOs.

The report proposed a range of recommendations to strengthen corporate governance of executive remuneration in disclosing entities in Australia. These recommendations resulted in subsequent changes to the *Corporations Act*. They are summarised in Appendix 2.

The report did not recommend any fundamental changes to the way executive reward is structured in Australia.

3.1 The Structure of Executive Remuneration and the Corporations Act 2001

In broad terms the larger the company, as measured by revenue and market capitalisation, the greater the 'At Risk' component in the executive's remuneration package. The Key Performance Indicators (KPIs) which drive STI and LTI schemes are generally aimed at 'aligning' the interests of executives and shareholders. Retail and institution shareholders are primarily focused on financial returns. Thus emphasis on measures such as Net Profit After Tax (NPAT), Total Shareholder Returns (TSR), and Growth

[6] Executive Remuneration in Australia, Productivity Commission Enquiry Report, No 49, *19 December, 2009.*

in Share Price. Sections 180-184 *Corporations Act 2001 (Cth)* enshrine in legislation that directors must act in the interests of the corporation (meaning shareholders).

There is nothing in the Corporations Act to prevent directors from considering the interests of other stakeholder groups, such as employees, customers, suppliers, communities, the environment and governments in their decision making. Several enquiries have held that the wording in the Act is adequate to allow directors to consider the interests of all stakeholder groups. Many corporations have statements in their annual reports and on their websites emphasising the importance of these groups to their ongoing operations and outlining their credentials as responsible corporate citizens. However, the lived experience of customers and suppliers is often vastly different to the promises made in this carefully crafted rhetoric.

From an organisational perspective the real message coming from Boards and Executive Teams is more about maximising profit and maintaining a show of concern for other stakeholders rather than embracing the message. Human Resources and Organisation Development Practitioners are well aware that corporate culture is not something that is “set” by directive. Rather it evolves organically through a complex process of conscious and unconscious messages that flow in all directions within the organisation. It is influenced by sector, markets, regulatory environment, leadership behaviour and significant events in the organisation’s history. When directors and executives maintain a strong focus on financial performance as the key driver of the business it influences the culture and sends a strong message to all employees.

We are not arguing that this should not be the case in commercial organisations. Rather that financial returns need to be balanced with a genuine wish to serve the best interests of all stakeholder groups. In the lead up to this Royal Commission various bank directors and executives began publicly making noises about needing to re-think their approach to corporate social responsibility. The Australian Bankers Association released a series of advertisements stating that 80% of bank profits are returned to shareholders. Wespac Chairman Lindsay Maxted was recently reported in the Australian Financial Review as making the following statement at the Bank’s 2017 AGM:

"The deterioration in the sector's reputation has been a great disappointment to me personally and the Board. It is our hope that, ultimately, the newly announced royal commission will play a role in restoring trust, respect and confidence in Australia's already strong financial system.”[7]

It is not clear from this statement that Mr Maxted fully appreciates that, as Chairman of one of the organisations accused of failures of corporate social responsibility, he and his Board are ultimately accountable (along with Boards of other Bank and Financial Services organisations).

[7] Australian Financial Review website 8.12.2017.

3.2 The UK the Companies Act 2006

In the UK the Companies Act 2006, Section 172 was amended in 2008 to read:

"A director of a company must act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –

(a) the likely consequences of any decision in the long term,
(b) the interests of the company's employees,
(c) the need to foster the company's business relationships with suppliers, customers and others,
(d) the impact of the company's operations on the community and the environment,
(e) the desirability of the company maintaining a reputation for high standards of business conduct,
(f) the need to act fairly as between members of the company."[8]

This wording remains contentious with some asserting that it raises more questions than it answers. Explanatory guidelines have been issued. However the intent is clear.

[8] Quoted from Should Australia Replace Section 181 of the Corporations Act 2001 (Cth) With Wording Similar to Section 172 of the Companies Act 2006 (UK) Patricia Damansky (L.L.B.) *April 2009.*

4. Executive Remuneration Practice in the Commonwealth Bank

The Commonwealth Bank's Executive Remuneration Strategy is typical of the major banks and financial institutions in Australia. In summary it is set out below:[9]

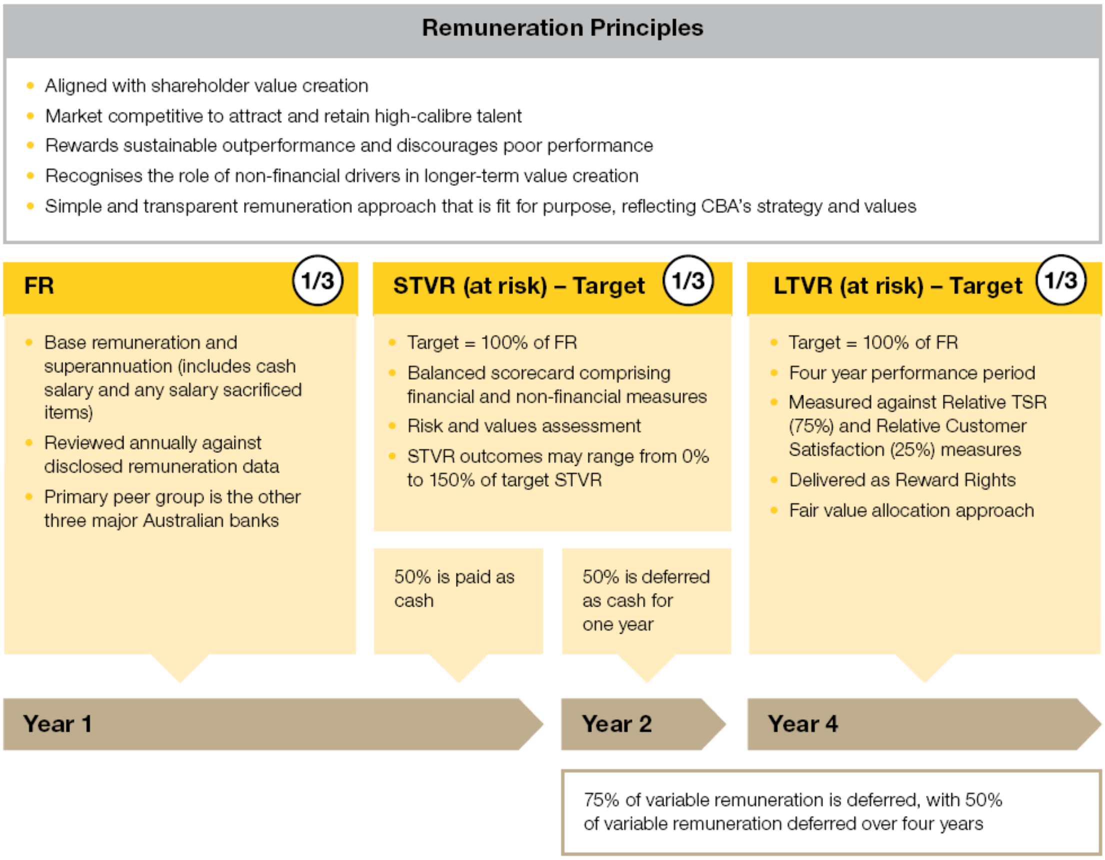


Figure 4 Commonwealth Bank Executive Remuneration Framework FY 2017

[9] Commonwealth Bank Annual Report (Remuneration Report), 2017. P 69.

4.1 Commonwealth Bank Group Executives FY 2017

This report covers executive remuneration for the following Commonwealth Bank Executives:[10]

Name	Position
Ian Narev (Outgoing CEO)	Chief Executive Officer and Managing Director
Kelly Bayer Rosmarin	Group Executive, Institutional Banking and Markets
Adam Bennett	Group Executive, Business and Private Banking
Barbara Chapman	Chief Executive and Managing Director, ASB (NZ Subsidiary)
David Cohen	Group Chief Risk Officer
Matt Comyn (Incoming CEO)	Group Executive, Retail Banking Services
David Craig	Group Executive, Financial Services and Chief Financial Officer
Rob Jesudason	Group Executive, International Financial Services
Melanie Laing	Group Executive, Human Resources
Anna Lenahan	Group General Counsel and Group Executive, Group Corporate Affairs
Vittoria Shortt	Group Executive, Marketing and Strategy
Annabel Spring	Group Executive, Wealth Management
David Whiteing	Group Executive, Enterprise Services and Chief Information Officer

Table 5 Commonwealth Bank Group Executives FY 2017

4.2 Short Term Variable Reward

The Commonwealth Bank uses the term "Short Term Variable Reward" (STVR) to describe what remuneration specialists generally call "Short Term Incentives" (STIs). In this submission we will use the term employed by the organisation when describing their specific structure and the market term in our overall analysis.

The following performance measures drove the Commonwealth Bank CEO STVR for the FY 2017:

Performance Category	Relative Weighing	Measures	Outcome
Sound Risk Management (Gate Opener)	NA	• Exemplary Leadership of risk culture	Not Met
Shareholder (Financial)	40.0%	• Group Cash Net Profit After Tax (NPAT) • Group Profit after Capital Charge (PACC) • Productivity	88.0%

[10] Source: Commonwealth Bank Annual Report FY 2017.

Performance Category	Relative Weighing	Measures	Outcome
Customer	15.0%	• Roy Morgan (6 month rolling average) four major banks • DBM Institutional + $300m or +$500m • DBM (whole of market)	67.0%
Strategy	15.0%	• Strategy Development and Execution	67.0%
People and Community	30.0%	• Reputation • Culture • Engagement • Safety	44.0%

Table 6 Commonwealth Bank CEO STVR KPIs FY 2017

The targets are disclosed in very general terms only and there is no elaboration of the assessment methodology. A similar model applies for other Group Executives (financial measures for Group Executives Managing Business Units 45% and other Group Executives 25%).

The Remuneration Report 2017 indicates that the relative weighting on financial measures for the CEO will increase to 60% for FY 2018. A similar increase in weighting for other Group Executives will occur (financial measures for Group Executives Managing Business Units 60% and other Group Executives 40%). Whilst not specifically stated, of necessity, this will result in a decrease in the weighting for other non-financial measures.

4.3 Long Term Variable Reward

The Commonwealth Bank uses the term "Long Term Variable Reward" (LTVR) to describe what remuneration specialists generally call "Long Term Incentives" (LTIs). Measures are as follows:

Performance Category	Relative Weighing	Measures	Target
Total Shareholder Return	75.0%	• Share Price at 30 June • Dividend per Share • Relative TSR (4 year period)	Not Disclosed
Relative Customer Satisfaction	25.0%	• Relative Customer Satisfaction	Not Disclosed

Table 7 Commonwealth Bank LTVR KPIs FY 2017

For 2018 the Commonwealth Bank will replace Relative Customer Satisfaction (25.0%) with Trust and Reputation (12.5%) and Employee Engagement (12.5%). Targets and measurement methodology are not disclosed.

4.4 Variable Reward Percentages

Variable Reward Plan	Relative Weighing Financial Measures (%)	Relative Weighting Non-Financial Measures (%)	Total
STVR – FY 2017	40.0%	60.0%	100.0%
STVR – FY 2018	60.0%	40.0%	100.0%
LTVR – FY 2017	75.0%	25.0%	100.0%
LTVR – FY 2018	75.0%	25.0%	100.0%

Table 8 Variable Reward Percentages

In FY 2018 of the available 200.0% variable reward for the CEO 135.0% is driven by financial performance.

4.5 Reward Outcomes FY 2016 and FY 2017

The Commonwealth Bank Annual Remuneration Report (p74) presents the following reward outcomes for the Executive Team in FY 2016 and FY 2017. Notes are reproduced in Appendix 3.

	FR (1)	Other Short-Term Benefits					Long-Term Benefits	Share-Based Payments		
	Base Remuneration (2) $	Super-annuation $	Non Monetary(3) $	Cash STVR (at risk)(4) $	Deferred STVR (at risk) (5) $	Other (6) $	Long-Term (7) $	Deferred Rights (at risk)(8)	LTVR Reward Rights (at risk)(9)	Total Statutory Remuneration (10) $
CEO										
Ian Narev										
FY17	**2,625,000**	**25,000**	**15,909**	**0**	**0**	**(33,007)**	**113,341**	**–**	**2,966,120**	**5,712,363**
FY16	2,625,000	25,000	15,052	1,431,000	1,431,000	35,870	137,211	–	3,068,219	8,768,352
Group Executives										
Kelly Bayer Rosmarin										
FY17	**1,025,600**	**25,000**	**15,909**	**0**	**0**	**18,037**	**(52,237)**	**70,583**	**833,943**	**1,936,835**
FY16	1,025,600	25,000	15,052	586,235	586,235	3,760	68,876	210,317	555,203	3,076,278
Adam Bennett										
FY17	**974,600**	**25,000**	**15,909**	**0**	**0**	**(36,560)**	**24,113**	**145,640**	**523,671**	**1,672,373**
FY16	955,000	25,000	15,052	554,239	554,239	9,385	51,361	183,108	283,329	2,630,713
David Cohen (11)										
FY17	**1,175,000**	**25,000**	**15,909**	**0**	**0**	**44,169**	**100,122**	**–**	**988,620**	**2,348,820**
FY16	875,000	25,000	15,052	529,594	529,594	60,308	35,088	–	964,254	3,033,890
Matt Comyn										
FY17	**1,030,750**	**25,000**	**14,599**	**0**	**0**	**24,802**	**25,425**	**–**	**1,078,073**	**2,198,649**
FY16	1,030,750	25,000	13,846	653,193	653,193	6,656	36,150	–	982,736	3,401,524
David Craig (12)										
FY17	**1,360,384**	**19,616**	**15,909**	**0**	**0**	**51,519**	**69,661**	**–**	**3,935,949**	**5,453,038**
FY16	1,355,000	25,000	15,052	812,044	812,044	57,916	60,057	–	1,478,428	4,615,541
Rob Jesudason (13)										
FY17	**1,149,030**	**3,073**	**–**	**0**	**0**	**972,349**	**41,466**	**–**	**987,414**	**3,153,332**
FY16	1,190,237	3,184	–	712,174	712,174	627,302	24,014	–	853,286	4,122,371
Melanie Laing										
FY17	**820,000**	**25,000**	**15,909**	**0**	**0**	**2,409**	**22,217**	**–**	**878,734**	**1,764,269**
FY16	820,000	25,000	15,052	483,499	483,499	(4,412)	17,412	–	885,233	2,725,283
Anna Lenahan (14)										
FY17	**497,966**	**11,555**	**10,455**	**0**	**0**	**18,571**	**3,292**	**1,158,780**	**118,307**	**1,818,926**
Vittoria Shortt										
FY17	**836,900**	**25,000**	**15,909**	**0**	**0**	**40,010**	**(41,739)**	**129,441**	**374,761**	**1,380,282**
FY16	820,000	25,000	15,052	501,455	501,455	(19,300)	25,425	126,107	185,175	2,180,369
Annabel Spring										
FY17	**1,030,750**	**25,000**	**14,599**	**0**	**0**	**13,905**	**34,003**	**–**	**1,078,073**	**2,196,330**
FY16	1,030,750	25,000	13,846	501,481	501,481	16,215	43,865	–	1,080,090	3,212,728
David Whiteing										
FY17	**979,984**	**19,616**	**14,599**	**0**	**0**	**(8,609)**	**19,620**	**52,634**	**585,192**	**1,663,036**
FY16	960,692	19,308	13,846	510,519	510,519	8,810	14,547	52,563	346,102	2,436,906

Table 9 Reward Outcomes FY 2016 and FY 2017

From an executive remuneration strategy perspective the Commonwealth Bank is strongly focused on financial metrics. Potential rewards attached to these metrics constitutes 135% of fixed remuneration for the CEO in 2018 or approximately $3.54m. Should targets be exceeded there is further upside potential. A considerable incentive to drive financial performance.

4.6 Minimum Shareholding Requirements

The Commonwealth Bank's executive remuneration policy requires executives to accumulate Commonwealth Bank shares over a five year period commencing 1.7.2013 to the value of 300% of Fixed Annual Remuneration for the CEO and 200% of Group Executives.

5. National Australia Bank Executive Remuneration Strategy 2017

Like the Commonwealth Bank the NAB utilises a mix of Fixed Annual Remuneration, Short Term Incentives and Long Term Incentives as its Executive Remuneration Strategy. The following model was in place for FY 2017:[11]

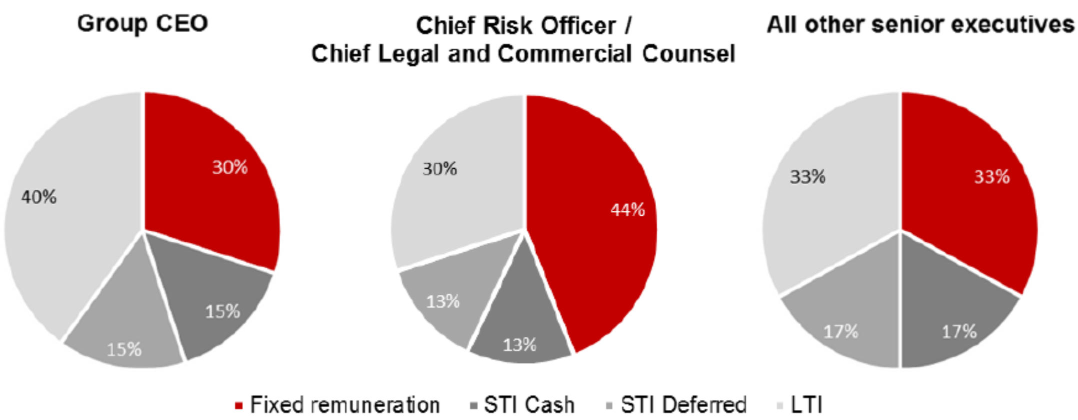


Figure 5 NAB Executive Remuneration Framework FY 2017

5.1 NAB Group Executives FY 2017

This report covers executive remuneration for the following NAB Executives:

Name	Position
Andrew Thorburn	Group Chief Executive Officer
Cathryn Carver (Act. Part Year)	Chief Customer Officer – Corporate and Institutional Banking
Michael Baird (Part Year)	Chief Customer Officer – Corporate and Institutional Banking
Anthony Cahill	Chief Operating Officer
Sharon Cook (Part Year)	Chief Legal and Commercial Counsel
David Gall	Chief Risk Officer
Andrew Hagger	Chief Customer Officer – Consumer Banking and Wealth
Anthony Healy	Chief Executive Officer Bank of New Zealand
Gary Lennon	Chief Financial Officer
Angela Mentis	Chief Customer Officer – Business and Private Banking
Lorraine Murphy	Chief People Officer
Matt Lawrence (Act. Part Year)	Chief Technology and Operations Officer
Patrick Wright (Part Year)	Chief Technology and Operations Officer

Table 10 NAB Group Executives FY 2017

[11] NAB Annual Remuneration Report 2017 P 37.

5.2 Short Term Incentives

The NAB uses the term Short Term Incentives (STIs) to describe its annual incentive plan.

The following performance measures drove the NAB's Executive STI for 2017:

Performance Category	**Relative Weighing**	**Measures**	**Target**
Group Performance	40%	• Cash Earnings	Not Disclosed
	30%	• Cash Return on Equity (ROE)	Not Disclosed
	30%	• ROTAE	Not Disclosed
Total	100%		
Individual Performance	25%	• Customer	-14
	25%	• Risk	100%
	25%	• Financial	Not Disclosed
	25%	• Strategy & Leadership	Various
Total	100%		

Table 11 NAB STI KPIs FY 2017

The NAB does provide some detail around the measurement of individual KPIs. There is overlap between Cash Earnings at the Group level and Financial Measures at the individual level. Likewise relative TSR as a Strategy & Leadership measure overlaps with the LTI TSR measure. The relative weighting between Group and Individual Performance in the STI is not disclosed. However assuming it is 50/50 then 62.5% of the opportunity is driven by financial performance.

The maximum STI opportunity for the NAB CEO is 150% of Fixed Annual Remuneration and 175% for other Group Executives. Substantial earnings can be generated if financial targets are met or exceeded. For example the CEO, based on current Fixed Annual of $2.29m would earn an additional $1.43m if financial targets alone are achieved and $2.15m if they are exceeded substantially. Note; this does not include the earning potential from other KPIs.

5.3 Long Term Incentives

The NAB uses the term "Long Term Incentives" (LTIs). Measures are as follows:

Performance Category	**Relative Weighing**	**Measures**	**Target**
Financial	50.0%	• Cash Return on Equity Growth	Not Disclosed
Financial	50.0%	• Relative Total Shareholder Return	Not Disclosed

Table 12 NAB LTI KPIs FY 2017

There are no non-financial measures in the NAB's LTI. The maximum LTI for the CEO is 130% of Fixed Annual Remuneration for the CEO, 100% for most other executives and 70% for the Chief Risk Officer and Chief Legal and Commercial Counsel.

5.4 Reward Outcomes FY 2016 and FY 2017

The NAB's Annual Remuneration Report (p43) presents the following reward outcomes for the Executive Team in FY 2016 and FY 2017. Notes are reproduced in Appendix 3.

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		**Cash salary[1] $**	**Cash STI[2] $**	**Non-monetary[3] $**	**Superannuation[4] $**	**Other long-term benefits[5] $**	**Shares[6] $**	**Rights[7] $**	**Other payments[8] $**	**Total[9] $**
Executive director										
AG Thorburn	**2017**	**2,216,311**	**977,500**	**2,534**	**30,646**	**37,881**	**42**	**3,366,164**	**-**	**6,631,078**
	2016	2,362,779	1,380,000	3,021	37,967	37,832	253	2,887,815	-	6,709,667
Other senior executives										
MB Baird (for part year)	**2017**	**535,766**	**227,754**	**6,931**	**13,358**	**2,184**	**-**	**100,852**	**-**	**886,845**
AJ Cahill	**2017**	**1,190,793**	**510,000**	**11,545**	**20,756**	**14,222**	**258,508**	**1,099,387**	**-**	**3,105,211**
	2016	1,028,323	600,000	18,947	21,246	12,710	26,205	882,560	-	2,589,991
SJ Cook (for part year)	**2017**	**375,843**	**92,779**	**4,691**	**12,383**	**1,483**	**-**	**44,995**	**-**	**532,174**
AD Gall	**2017**	**1,229,156**	**331,500**	**231,723**	**27,862**	**20,860**	**-**	**822,379**	**-**	**2,663,480**
	2016	1,204,456	432,000	243,026	31,849	17,558	-	669,414	-	2,598,303
AP Hagger	**2017**	**1,154,125**	**480,000**	**24,863**	**20,756**	**19,255**	**217,661**	**1,540,183**	**-**	**3,456,843**
	2016	1,043,257	660,000	65,367	21,072	17,558	818,731	1,456,083	-	4,082,068
AJ Healy	**2017**	**897,146**	**582,075**	**20,475**	**70,411**	**13,020**	**946**	**1,183,827**	**-**	**2,767,900**
	2016	894,030	486,777	11,224	67,686	9,149	935	908,721	-	2,378,522
GA Lennon	**2017**	**981,472**	**425,000**	**5,479**	**20,756**	**14,592**	**73,809**	**711,212**	**-**	**2,232,320**
	2016	502,412	274,809	3,045	12,508	7,241	99,752	254,128	-	1,153,895
A Mentis	**2017**	**1,100,800**	**660,000**	**52,419**	**20,756**	**19,413**	**258,508**	**1,150,227**	**-**	**3,262,123**
	2016	1,108,671	600,000	40,359	21,246	19,308	26,205	868,285	-	2,684,074
LN Murphy	**2017**	**752,193**	**340,000**	**165,534**	**21,000**	**4,840**	**313,090**	**441,885**	**-**	**2,038,542**
	2016	419,916	650,000	179,718	16,603	1,934	421,832	114,466	-	1,804,469
PF Wright (for part year)	**2017**	**647,019**	**552,500**	**227,465**	**-**	**2,293**	**-**	**159,946**	**2,796,294**	**4,385,517**

Table 13 Reward Outcomes FY 2016 and FY 2017

Like the Commonwealth the NAB is strongly focused on financial returns. At least 62.5% of its STI and 100.0% of the LTI are focused on financial results. Mr Thorburn has the potential to earn up to ~$7.7 m for achieving strong performance results of a significant proportion is attributable to financial metrics.

To its credit the NAB has followed the recommendations of the recent Retail Banking Review and refined its approach to variable reward for front line retail staff:[12]

"Retail banking managers, assistant managers and direct consumer team leaders have moved to a more customer-outcome focused incentive plan and will no longer receive at-risk remuneration based on a sales incentive plan. Instead they participate in the Group STI Plan, significantly reducing the link between sales and remuneration.

Scorecards for retail employees have been refined to ensure all balanced scorecard measures are customer-centric, product neutral and contain both quantitative and qualitative measures to drive improved quantity and quality of customer conversations, with no more than 33% weighted to financial measures."[13]

[12] Retail Banking Review, Stephen Sedgewick AO, *April, 2017.*
[13] NAB Annual Remuneration Report 2017 P 30.

6. ANZ Bank Executive Remuneration Strategy 2017

Like the Commonwealth Bank and the NAB the ANZ utilises a mix of Fixed Annual Remuneration, Short Term Incentives and Long Term Incentives as its Executive Remuneration Strategy for its CEO. It is defined somewhat differently to the other major banks for other ANZ Executives. The following model was in place for FY 2017:[14]

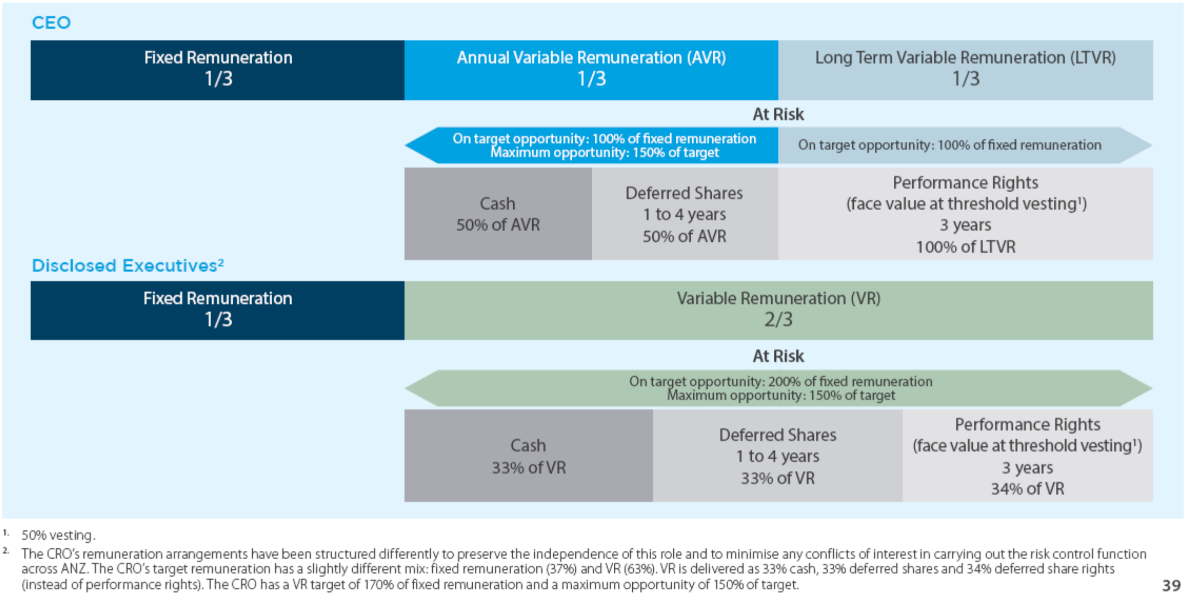


Figure 6 ANZ Executive Remuneration Framework FY 2017

6.1 ANZ Group Executives FY 2017

This report covers executive remuneration for the following ANZ Executives:

Name	Position
Shayne Elliott	Chief Executive Officer and Executive Director
Maile Carnegie	Group Executive Digital Banking
Alexis George Baird (Part Year)	Group Executive Wealth Australia
David Hiscoe	Group Executive and Chief Executive Officer New Zealand
Graeme Hodges	Deputy Chief Executive Officer
Michelle Jablko	Chief Financial Officer
Fred Ohlsson	Group Executive Australia
Mark Whelan	Group Executive Institutional
Nigel Williams	Chief Risk Officer

Table 14 ANZ Group Executives FY 2017

[14] ANZ Annual Remuneration Report 2017 P 39.

6.2 Overall Performance Measurement

The ANZ uses an holistic approach to performance measurement and does not separate the measures which drive various aspects of variable reward. The following performance measures drove the ANZ's Executive variable for 2017:

Performance Category	Relative Weighing	Measures	Results
Risk	Not Disclosed	• Maintain a culture of risk awareness • Employees to live ANZ value • Market products responsibly	Various See A/R Page 49
Financial and Discipline	Not Disclosed	• Strategy Execution – reducing risk weighted assets • Strategy Execution – asset divestment • Strategy Execution – investment spend • Profitability – reduction in opex • Returns – Total Shareholder Return • Returns – Return on Capital • Funding & Liquidity – Core funding and CET1 ratio	Various See A/R Page 49
Customer	Not Disclosed	• Customers as advocates – improve net promoter score (NPS) • Customers as advocates – maintain or improve customer satisfaction. • Diversification of sales channels – increase brand strength • Diversification of sales channels – launch customer innovations • Diversification of sales channels – increase profit from less capital intensive streams – Institutional • Diversification of sales channels – increase proportion of digital sales	Mostly qualitative See A/R Page 49
Market Share	Not Disclosed	• Increase Australia and NZ market share • Reduce customer attrition	Limited Disclosure
People and Reputation	Not Disclosed	• Diversifying workforce – increasing women in management • Staff engagement • Retention and performance management – reduce attrition in key talent pool • Retention and performance management – reduce poor performers • Sustainability – Employer of choice rating • Sustainability -	Various See A/R Page 49
Total	100%		

Table 15 ANZ KPIs FY 2017

Whilst broadly based, the ANZ corporate KPIs are strongly focused on financial performance. Marketing products responsibly and customer satisfaction are mentioned and there are significant people and reputation KPIs. However, the majority of KPIs are around driving financial performance. The relative weighting of the different KPI groupings is not disclosed.

6.3 Statutory Reward Outcomes FY 2016 and FY 2017

The ANZ's Annual Remuneration Report (p43) presents the following reward outcomes for the Executive Team in FY 2016 and FY 2017. These are statutory reward figures and not realised income. See next tables for further detail.

	Financial Year		Fixed remuneration $	Variable remuneration awarded $	Total remuneration awarded $
CEO and Current Disclosed Executives					
S Elliott	2017		2,100,000	4,100,000	6,200,000
	2016	(9 months as CEO)	1,887,500	3,650,000	5,537,500
M Carnegie	2017		1,000,000	1,700,000	2,700,000
	2016	(~3 months in role)	260,000	400,000	660,000
A George	2017	(10 months in role)	664,000	913,000	1,577,000
D Hisco	2017		1,195,013	2,200,550	3,395,563
	2016		1,186,570	2,199,905	3,386,475
G Hodges	2017		1,050,000	2,220,000	3,270,000
	2016		1,050,000	1,785,000	2,835,000
M Jablko	2017		1,000,000	2,240,000	3,240,000
	2016	(~2.5 months in role)	200,000	400,000	600,000
F Ohlsson	2017		1,000,000	1,620,000	2,620,000
	2016	(8 months in role)	660,000	848,100	1,508,100
M Whelan	2017		1,200,000	3,275,000	4,475,000
	2016		1,166,000	2,275,000	3,441,000
N Williams	2017		1,350,000	1,900,000	3,250,000
	2016		1,350,000	2,150,000	3,500,000

This table supplements, and is different to, the Statutory Remuneration table which presents the accounting expense for both vested and unvested awards in accordance with the Australian Accounting Standards.

Table 16 Reward Outcomes FY 2016 and FY 2017

The ANZ is strongly focused on financial returns. 80% of the total at risk remuneration is based on financial and customer measures. The customer measures are mostly related to sales, market share and increased profit from various channels. "Customers as Advocates" is part of the mix.

7. Westpac Group Executive Remuneration Strategy 2017

Like the other major banks Westpac utilises a mix of Fixed Annual Remuneration, Short Term Incentives and Long Term Incentives as its Executive Remuneration Strategy. The following model was in place for FY 2017:[15]

Total Reward Framework				
	Fixed Remuneration	At Risk Remuneration (Variable Reward)		
		Short-term Incentive (STI)		Long-term Incentive (LTI)
		Cash STI	Deferred STI	
Target pay mix	34%	34%		32%
Purpose	Provided to attract and retain executives, and takes into account the size and complexity of the role, individual responsibilities, experience and skills.	Rewards financial and non-financial performance consistent with the Group's strategy over the short to medium term. The deferred component provides: ▪ alignment with shareholders over the medium term; and ▪ at risk pay with malus provisions.		Aligns executive accountability and remuneration outcomes with the delivery of sustained group performance and shareholder interests over the long term. The LTI is also subject to adjustments via malus provisions during the performance period if required.
Delivery	Fixed remuneration comprises: ▪ cash salary; ▪ salary sacrificed items; and ▪ superannuation contributions.	STI delivered as: ▪ 50% cash; and ▪ 50% restricted ordinary shares or share rights (for Group Executives outside Australia).		LTI comprises: ▪ performance share rights which may vest to varying degrees if performance hurdles are achieved.
FY17 approach	Fixed remuneration is set with reference to relevant market benchmarks in the financial services industry.	STI performance measures include economic profit, earnings, risk, strategic programs, customer outcomes, people and sustainability. The STI performance measures have been selected to ensure focus in these key areas.		LTI performance measures (50:50): ▪ TSR is a comparative measure of Westpac's performance relative to peers; and ▪ ROE aims to reward achievement of returns above the cost of capital while generating shareholder value.
Performance, governance and risk-adjustment overlay				
All performance is assessed by the Board with reference to Group and divisional risk management policies. The Board retains the ultimate discretion to adjust remuneration outcomes and/or unvested variable reward (including to zero). This applies to equity granted under both the deferred STI and LTI plans if information comes to light that all or part of the award was not justified (malus).				

Figure 7 ANZ Executive Remuneration Framework FY 2017

7.1 Westpac Group Executives FY 2017

This report covers executive remuneration for the following Westpac Executives:

Name	Position
Brian Hartzer	Managing Director & Chief Executive Officer
Lyn Cobley	Chief Executive, Westpac Institutional Bank
Brad Cooper	Chief Executive Officer, BT Financial Group
Dave Curran	Chief Information Officer
George Frazis	Chief Executive, Consumer Bank
Alexandra Holcomb	Chief Risk Officer
Peter King	Chief Financial Officer

[15] Westpac Annual Remuneration Report 2017 P 44.

Name	Position
Rebecca Lim (Part Year)	Group General Counsel & Chief Compliance Officer
David Lindburg	Chief Executive, Business Bank
David McLean	Chief Executive Officer, Westpac New Zealand Limited
Christine Parker	Group Executive, Human Resources, Corporate Affairs & Sustainability
Gary Thursby	Group Executive, Strategy & Enterprise Services

Table 17 Westpac Group Executives FY 2017

7.2 Short Term Incentives – Group Balanced Scorecard

The Westpac uses the term Short Term Incentives (STIs) to describe its annual incentive plan.

The following performance measures drove the Wespac CEO STI for 2017:

Performance Category	Relative Weighing	Measures	Result/Target
Economic Profit	30.0%	• Underlying Returns that create value for shareholders.	\$3,774 profit 13.8% ROE
Core Earnings Growth	10.0%	• Delivering consistent and sustainable growth in core earnings.	1.0% growth
Capital Management	10.0%	• Providing a strong, stable and sustainable capital base.	10.6%
Group Risk Appetite	10.0%	• Ensuring we operate within accepted risk tolerances.	Various
Service Resolution	10.0%	• Putting Customers at the centre of everything we do.	Two customer surveys.
Building Growth Highways	10.0%	• Securing future growth in earnings	Various
Digital Transformation	10.0%	• Delivering solutions that anticipate the needs and expectations of customers	Various
People & Sustainability	10.0%	• Providing an environment that encourages our employees to be the best they can and drives the right behaviours.	Various

Table 18 Westpac CEO STI KPIs FY 2017

Whilst not reported individually, similar measures might apply to other Westpac Executives. The above table indicate 70.0% of the STI is driven by financial or related measures, 20.0% customer measures and 10.0% people measures.

The maximum STI opportunity is 150.0% of Fixed Annual Remuneration. In the case of the CEO this means an STI target of \$2.7m with a maximum of \$4.05m of which 70.0% is attributable to financial KPIs.

7.3 Long Term Incentives

Westpac uses the term "Long Term Incentives" (LTIs). Measures are as follows:

Performance Category	Relative Weighing	Measures	Target
Total Shareholder Return	50.0%	• TSR Index over a 4 year period. 10 Bank Comparators.	21.55 = 5.0% CAGR
Return on Equity	50.0%	• ROE returns above cost of capital while generating shareholder value.	14.5%

Table 19 Westpac LTI KPIs FY 2017

100.0% of the Westpac LTI is driven by financial performance. The target LTI opportunity for each executive is set by the Remuneration Committee each year. It is not disclosed in the Remuneration Report for FY 2017.

7.4 Minimum Shareholding Requirements

As with some other banks, Westpac has a minimum executive shareholding requirement as follows:

	Minimum shareholding requirement
CEO	Five times annual fixed remuneration ($13.43 million)
Group Executives	$1.2 million each

Table 20 Westpac Minimum Executive Shareholding

7.5 Statutory Reward Outcomes FY 2016 and FY 2017

Westpac's Annual Remuneration Report (p5) presents the following reward outcomes for the Executive Team in FY 2016 and FY 2017:

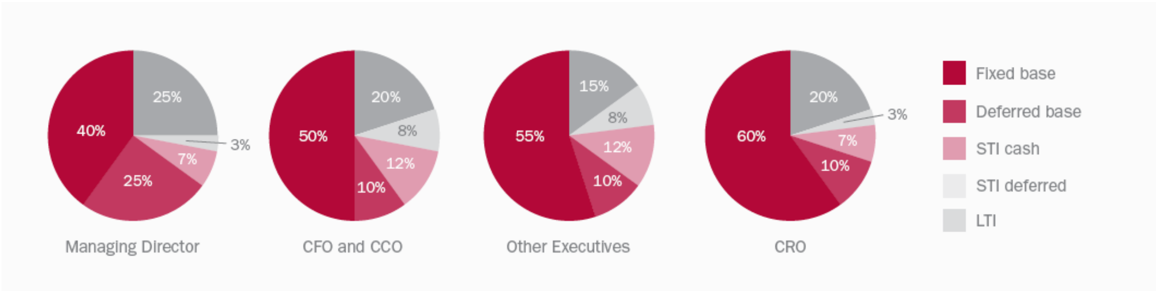
Name	Fixed Remuneration $	Cash STI awarded and paid $	Prior year Deferred STI vested $	Prior year LTI vested[2] $	Total realised remuneration $	Prior year LTI forfeited[2] $
Managing Director & Chief Executive Officer						
Brian Hartzer						
2017	2,686,000	1,490,730	1,280,114	-	**5,456,844**	3,046,592
2016	2,686,000	1,302,710	949,349	-	**4,938,059**	2,610,944
Current Group Executives						
Lyn Cobley, Chief Executive, Westpac Institutional Bank						
2017	1,122,000	640,000	244,864	-	**2,006,864**	-
2016	1,122,000	492,500	-	-	**1,614,500**	-
Brad Cooper, Chief Executive Officer, BT Financial Group						
2017	1,102,517	792,500	779,625	-	**2,674,642**	2,206,129
2016	1,102,517	735,000	733,887	-	**2,571,404**	1,350,495
Dave Curran, Chief Information Officer						
2017	952,000	552,500	510,291	-	**2,014,791**	-
2016	952,000	467,500	258,810	-	**1,678,310**	-
George Frazis, Chief Executive, Consumer Bank						
2017	1,150,000	872,500	876,225	-	**2,898,725**	1,155,565
2016	1,150,000	815,000	798,746	-	**2,763,746**	990,344
Alexandra Holcomb, Chief Risk Officer						
2017	1,003,000	532,500	498,536	-	**2,034,036**	772,487
2016	1,003,000	492,500	400,492	-	**1,895,992**	450,134
Peter King, Chief Financial Officer						
2017	1,088,000	615,000	536,202	-	**2,239,202**	1,132,480
2016	1,088,000	545,000	410,367	-	**2,043,367**	270,075
Rebecca Lim, Group General Counsel & Chief Compliance Officer						
2017	750,000	412,500	248,227	-	**1,410,727**	388,674
2016	---Not a KMP in 2016---					
David Lindberg, Chief Executive, Business Bank						
2017	952,000	532,500	419,808	-	**1,904,308**	709,083
2016	901,000	477,500	314,033	-	**1,692,533**	405,142
David McLean, Chief Executive Officer, Westpac New Zealand Limited						
2017	864,889	412,570	430,410	-	**1,707,869**	-
2016	854,565	363,050	285,422	-	**1,503,037**	-
Christine Parker, Group Executive, Human Resources, Corporate Affairs & Sustainability						
2017	850,000	517,500	481,816	-	**1,849,316**	1,365,665
2016	850,000	450,000	457,952	-	**1,757,952**	630,225
Gary Thursby, Group Executive, Strategy & Enterprise Services						
2017	840,000	485,000	371,764	-	**1,696,764**	409,680
2016	---Not a KMP in 2016---					

Table 21 Reward Outcomes FY 2016 and FY 2017

Westpac did not make an LTI grant in 2016 or 2017 due to missed targets.

8. Bendigo and Adelaide Bank Executive Remuneration Strategy 2017

The Executive Remuneration Strategy for the Bendigo and Adelaide Bank has been provided here as a counter-point to the Big Four as outlined in Sections 3-6. The Bendigo and Adelaide Bank also utilises a mix of Fixed Annual Remuneration, Short Term Incentives and Long Term Incentives as its Executive Remuneration Strategy. The following model was in place for FY 2017:[16]



As shown in the above chart, Executive remuneration includes the following components of equity-based remuneration:

- deferred base pay;
- deferred STI; and
- LTI.

The equity-based arrangements are designed to build the Executives' personal exposure to the Bank's share price performance and further align their interests with shareholders. The following chart sets out the approximate targeted mix of cash and equity for the year.

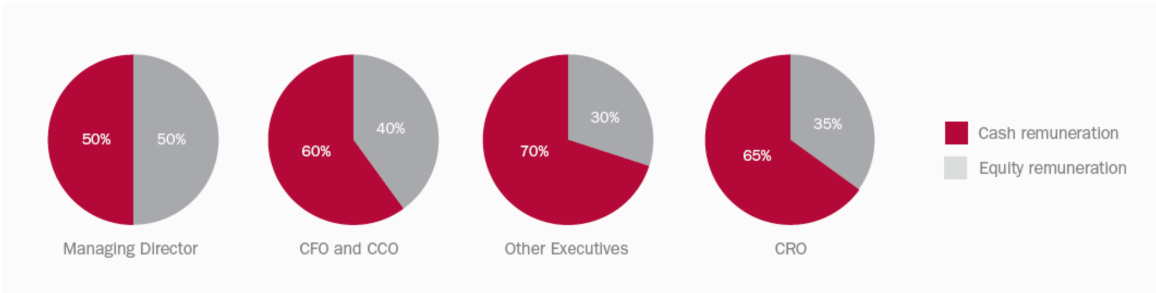


Figure 8 Bendigo and Adelaide Bank Executive Remuneration Framework FY 2017

The Bendigo and Adelaide Bank's Executive Remuneration Strategy differs from the Big Four in that a component of Fixed Annual Remuneration is paid by way of equity. This is perhaps this Bank's way of covering the mandatory shareholding requirements of the other banks.

[16] Bendigo and Adelaide Bank Annual Remuneration Report 2017 P 28.

8.1 Bendigo and Adelaide Bank Executives FY 2017

This report covers executive remuneration for the following Bendigo and Adelaide Bank Executives:

Name	Position
Mike Hurst	Managing Director and Chief Executive Officer
Marnie Baker	Chief Customer Officer
Richard Fennell	Corporate and Chief Financial Officer
Alexandra Gartman	Chief Executive Officer, Rural Bank
Robert Musgrove	Engagement Innovation
Tim Piper	Chief Risk Officer
Bruce Spiers	Partner Connection
Stella Thredgold	Business Enablement
Alexandra Tullio	Local Connection
Andrew Watts	Customer Service Improvement

Table 22 Bendigo and Adelaide Bank Executives FY 2017

8.2 CEO Short Term Incentives – Performance Measures

The Bendigo and Adelaide Bank uses the term Short Term Incentives (STIs) to describe its annual incentive plan. The following performance measures drove the CEO STI for 2017:

Performance Category	Relative Weighing	Measures	Result
Risk	Not Disclosed	• Risk within Group risk appetite • Effective risk culture	Met Met
Medium Term Targets	Not Disclosed	• Shareholder targets and value • Customer Targets: focusing on customer satisfaction, advocacy rankings and growth in the customer base and products per customer ratio • Improving economic performance including balance sheet and earnings growth • Partner targets • People Targets	Met Mostly Met Met Met Met
Strategic Projects	Not Disclosed	• Basel 11 Advanced Accreditation • Leadership Capability • Growth Opportunity	Mostly Met Mostly Met Met
Public Representation	Not Disclosed	• Effective representation at Federal and State Government levels	Met

Table 23 Bendigo and Adelaide Bank CEO STI KPIs FY 2017

These KPIs seem appropriate for the CEO and offer a well balanced mix of financial, customer, strategic, stakeholder and employee KPIs. The STI targets for other executives are not disclosed however, narrative commentary indicates that they are similar in nature to the CEO. The measures driving the STI bonus pool are set out below:[17]

Primary Measure	Performance Outcomes
Achieve 95% of target cash earnings (threshold hurdle)	The Group achieved the cash earnings threshold hurdle.
Secondary Measures	**Risk and Performance Outcomes**
Cash earnings per share	The Group outperformed the cash earnings per share hurdle. Cash earning per share improved on the previous year's performance using both the 'old' and the 'new' methodologies.
Return on Equity (cash basis)	The return on equity ratio for the year was 8.1 percent. This exceeded the targeted performance.
Return on Tangible Equity (cash basis)	The return on tangible equity ratio for the year was 11.6 percent. This exceeded the targeted performance.
Common Equity Tier 1 Equity	The Common Equity Tier 1 ratio at year end was 8.27 percent. This was above the targeted performance.
Cost to Income Ratio	The cost to income ratio for the year was 56.1 percent. This was in line with the targeted performance.
Liquidity Coverage Ratio	The liquidity coverage ratio was maintained in accordance with approved internal and regulatory limits during the year. This met the targeted performance.
Risk Weight Assets / Total Assets	The risk weighted asset to total asset ratio at year end was 53.3 percent. This was in line with the targeted performance.

Table 24 Measures Driving the STI Pool

All are financial measures.

8.3 LTI Performance Measures

The following measures drive the Bendigo and Adelaide Bank Executive LTI:[18]

	First Sleeve	Second Sleeve	Third Sleeve
Allocation and Measures (all grants)	30% of performance rights granted Subject to a 'Customer Hurdle'	35% of performance rights granted Subject to EPS and TSR measures	35% of performance rights granted Subject to TSR measure
Performance period: Managing Director	Customer Hurdle performance period: 1.7.16 to 30.6.20	EPS performance period: 1.7.16 to 30.6.17 TSR performance period: 1.7.16 to 30.6.20	TSR performance period: 1.7.16 to 30.6.20
Performance period: Senior Executives	Customer Hurdle performance period: 1.7.16 to 30.6.19	EPS performance period: 1.7.16 to 30.6.17 TSR performance period: 1.7.16 to 30.6.19	TSR performance period: 1.7.16 to 30.6.19

Table 25 Measures Driving the LTI

It is of note that the Bendigo and Adelaide Bank has included a customer hurdle as part of its LTI with a weighting of 30.0%. This measure is underpinned by a target of exceeding by 20 basis points the

[17] Bendigo and Adelaide Bank Annual Remuneration Report 2017 P 35.
[18] Bendigo and Adelaide Bank Annual Remuneration Report 2017 P 30.

median net promoter score (NPS). In other word it aims to be at the upper end of its peer group for customer rankings.

8.4 Statutory Reward Outcomes FY 2016 and FY 2017

Bendigo & Adelaide Bank's Annual Remuneration Report (P 39-40) presents the following reward outcomes for the Executive Team in FY 2016 and FY 2017:

Executive	Short-term employee benefits			Superannuation benefits [4]	Other long-term benefits [5]	Termination	Share-based payments [6]		Total	Performance related [11]
	Cash Salary [1]	Cash bonuses (STI) [2]	Non-monetary benefits [3]				Performance rights [7]	Deferred shares [8]		
M Hirst										
2017	$1,395,084	$160,000	$520	$19,616	($8,096)	-	$150,559	$488,945	$2,206,628	15%
2016	$1,365,435	-	$7,015	$19,308	($14,256)	-	$358,737	$996,058	$2,732,297	15%
M Baker										
2017	$545,945	$80,000	$16,038	$19,652	($15,144)	-	$146,572	$184,624	$977,687	24%
2016	$549,882	-	$12,174	$19,308	$8,625	-	$95,032	$186,633	$871,654	15%
R Fennell										
2017	$570,558	$100,000	$4,500	$19,616	$14,527	-	$149,364	$187,385	$1,045,950	25%
2016	$589,920	-	$4,500	$19,308	($3,113)	-	$97,824	$195,646	$904,085	15%
A Gartmann [10]										
2017	$306,332	$40,000	$720	$19,616	$4,759	-	$37,572	$69,426	$478,425	16%
2016	$194,964	-	-	$13,238	$3,131	-	$7,916	$30,000	$249,249	3%
R Musgrove										
2017	$295,489	$40,000	$24,252	$29,722	($13,788)	-	$59,185	$69,426	$504,286	20%
2016	$300,549	-	$18,288	$29,722	($4,400)	-	$29,530	$70,975	$444,664	9%
T Piper										
2017	$523,845	$40,000	$15,250	$19,616	$13,991	-	$118,372	$144,647	$875,721	18%
B Speirs [9]										
2017	$322,931	$50,000	$6,500	$19,652	$8,495	-	$50,764	$69,426	$527,768	19%
2016	$247,020	-	$4,902	$14,560	$10,934	-	$15,918	$22,623	$315,957	5%
S Thredgold										
2017	$347,509	$80,000	$5,000	$19,652	($6,817)	-	$61,978	$69,426	$576,748	25%
2016	$340,995	-	$5,000	$19,308	($15,209)	-	$43,624	$75,724	$469,442	12%
A Tullio										
2017	$340,228	$50,000	$18,939	$19,616	$5,923	-	$59,185	$89,327	$583,218	20%
2016	$346,635	-	$15,329	$19,308	$31,255	-	$29,530	$84,304	$526,361	9%
A Watts										
2017	$363,348	$33,333	$31,828	$19,616	$6,840	-	$61,978	$67,015	$583,958	18%
2016	$403,506	-	$17,558	$19,308	($7,604)	-	$49,275	$74,638	$556,681	13%

Table 26 Reward Outcomes FY 2016 and FY 2017

See Appendix 5. Whilst still heavily focused on financial performance the Bendigo & Adelaide Bank does seem to be genuinely concerned about its role in the community and its CSR obligations. Remuneration outcomes are likely to be more in line with community expectations, although this bank is significantly smaller than the Big Four. And executive remuneration is, in part, a function of company size.

9. Summary of Bank Executive Remuneration

This section summarises executive remuneration practices for the banks that are the subject of this Submission. There is some variability in the configuration of remuneration between the CEO and other Executives (in some cases). The KPIs driving STI and LTI Plans also vary considerably. However, all feature a strong focus on financial performance:

9.1 Configuration of CEO Remuneration - Summary

In the case of the Big Four banks it's basically a model of one third fixed and two thirds variable for CEO remuneration. The Bendigo & Adelaide Bank varies and is two thirds fixed and one third variable – although part of the fixed is by way of deferred equity. The following table summarises:

Bank	**FAR**	**STI**	**LTI**
	% of Total Reward	**% of Total Reward**	**% of Total Reward**
Commonwealth Bank	33.33%	33.33%	33.33%
National Australia Bank	30.00%	30.00%	40.00%
ANZ Bank	33.33%	33.33%	33.33%
Westpac Group	34.00%	34.00%	34.00%
Bendigo & Adelaide Bank	65.00%[1]	10.00%	25.00%

1. 40% payable, 25% deferred shares

Table 27 Configuration of CEO Remuneration Summary

There are, of course, nuanced variations within each of these package configurations. But this table provides an overall summary.

9.2 Configuration of Level 2 Executive Remuneration - Summary

As with the Big Four banks the model for executive remuneration is basically one third fixed and two thirds variable. As with its CEO The Bendigo & Adelaide Bank is two thirds fixed and one third variable. The following table summarises:

Bank	**FAR**	**STI**	**LTI**
	% of Total Reward	**% of Total Reward**	**% of Total Reward**
Commonwealth Bank	33.34%	33.33%	33.33%
National Australia Bank	33.00%	34.00%	33.00%
ANZ Bank	33.33%	66.66%	
Westpac Group	34.00%	34.00%	34.00%
Bendigo & Adelaide Bank	65.00%[1]	20.00%	15.00%

1. 40% payable, 25% deferred shares

Table 28 Configuration of Executive Remuneration Summary

There are also nuanced variations within each of these package configurations.

9.3 Drivers of Short Term Incentives

The following table summarises the performance drivers of Short Term Incentives: Financial versus Non-Financial:

Bank	Financial Drivers	Non-Financial Drivers
	% of Total	% of Total
Commonwealth Bank	40.00%	60.00%
National Australia Bank	62.50%	37.50%
ANZ Bank	Not Disclosed	Not Disclosed
Westpac Group	70.00%	30.00%
Bendigo & Adelaide Bank	Not Disclosed	Not Disclosed

Table 29 Drivers of Short Term Incentives

There is some variability between the CEO and other Executive in terms of weightings. Two banks do not disclose the relative weighting although in both cases there are a significant number of financial measures driving the STI. It should be noted that the Commonwealth Bank will increase the weighting on financial drivers for the STI in FY 2018. Delivery is mostly by a combination of cash and deferred payment (which may be in the form of shares).

9.4 Drivers of Long Term Incentives

The following table summarises the performance drivers of Long Term Incentives: Financial versus Non-Financial:

Bank	Financial Drivers	Non-Financial Drivers
	% of Total	% of Total
Commonwealth Bank	75.00%	25.00%
National Australia Bank	100.00%	0.00%
ANZ Bank	Not Disclosed	Not Disclosed
Westpac Group	100.00%	0.00%
Bendigo & Adelaide Bank	70.00%	30.00%

Table 30 Drivers of Long Term Incentives

There is a heavy weighting on financial drivers in all LTI Plans. Most provide for delivery in form of performance rights which vest over a 3-4 year period.

9.5 Minimum Shareholding

Some major banks have in place “Mandatory Shareholding Requirement”. That is, they are required to acquire and hold a certain value of shares in their employing bank. This requirement is designed to align their interests with those of shareholders. They are usually acquired through STI and LTI Plans. Such a requirement provides a powerful incentive for executives to pursue shareholder returns.

The following table sets out these requirements where they apply:

Bank	CEO	Other Executives
	Value	Value
Commonwealth Bank	300% of FAR	200% of FAR
National Australia Bank	No Disclosed or NA	No Disclosed or NA
ANZ Bank	200% of FAR	200% of FAR
Westpac Group	500% of FAR	$1.2m
Bendigo & Adelaide Bank	No Disclosed or NA	No Disclosed or NA

Table 31 Minimum Executive Shareholding Requirements

9.6 Commentary

Whilst non-financial measures do feature in the structure of executive remuneration in all of the Big Four banks and the Bendigo and Adelaide Bank, the structure of KPIs is strongly focused on financial performance. Packages are designed to provide executives with a strong incentive to drive financial results.

Non-financial metrics generally receive a low weighting when compared to financial ones in reward packages.

Financial results are important as will be detailed in the next section. However, when their pursuit undermines accountability to other stakeholders, particularly customers, suppliers and employees, then the question needs to be asked: "Have the banks got the balance right?"

10. Corporate KPIs Driving Executive STI and LTI Plans

As can be seen from the analysis of executive remuneration practice in the Big Four banks (and one regional bank) when it comes to Executive STI and LTI Plans, the corporate Key Performance Indicators (KPIs) driving these plans are heavily weighted toward financial performance. The banks include measures related to risk, people and reputation, staff engagement, customer satisfaction and strategy implementation in their executive STI Plans. Although the relative weighting is usually fairly low when compared to financial measures.

LTI Drivers typically include:

- Relative Total Shareholder Return (TSR)
- Compound Annual Growth Rate (CAGR)
- Return on Capital Employed (ROCE)

Non-financial KPIs are seldom used to drive LTI Plans. Although the Commonwealth does include a relative customer metric and the Bendigo and Adelaide Bank has a customer hurdle.

These financial KPIs provide useful measures of corporate performance. All informed shareholders, particularly institutional shareholders, will be keen to follow performance against these KPIs. However, their heavy weighting in relation to executive STI and LTI Plans may be a concern from a Corporate Social Responsibility (CSR) perspective. Also, if financial KPIs make up a significant percentage of an executive LTI Plan what message does this send to executives?

Some key questions that the Commission may consider when formulating its views include:

1. Is the heavy weighting attached to financial metrics in executive STI and LTI Plans in the banks influencing corporate behaviour that can potentially impact negatively on key stakeholder groups?

2. Does the trickle-down effect to other groups of employees have potential negative implications for some stakeholders? In particular employee groups such branch managers, front-line banking staff, personal bankers, business development executives, financial planners, brokers and other market traders where a proportion of remuneration is at risk.

3. Is there any evidence to suggest that de-coupling, or reducing the weighting of corporate financial KPIs from overall executive remuneration (and remuneration for other groups of employees) will negatively impact on overall corporate performance?

It is vital that the interests of shareholders be at the forefront of director and executive thinking. Share ownership carries risk and a fair return is a reasonable expectation. Most boards and executive teams work very hard to deliver returns. The four major banks do this very well. But should this return be achieved at the expense of other stakeholder groups. We all expect a little bit of argy-bargy in the competitive business world. *But sustained negative corporate behaviour is unacceptable and does not accord with community expectations.*

The Exposure Draft of the Treasury Laws Amendment (Banking Executive Accountability and Related Measures[BEAR]) Bill 2017 states that:

Division 2—Accountability obligations

37C The accountability obligations of an ADI

The accountability obligations of an ADI are to:

(a) conduct its business with honesty and integrity, and with due skill, care and diligence; and

(b) deal with APRA in an open, constructive and co-operative way; and

(c) take reasonable steps in conducting its business to prevent matters from arising that would adversely affect the ADI's prudential standing or reputation; and

(d) take reasonable steps to ensure that each of its accountable persons meets his or her accountability requirements under section 37CA; and

(e) take reasonable steps to ensure that each of its subsidiaries that is not an ADI complies with paragraphs (a), (b), (c) and (d) as if the subsidiary were an ADI.

37CA The accountability obligations of an accountable person

(1) The accountability obligations of an accountable person of an ADI, or of a subsidiary of an ADI, are to:

(a) conduct the responsibilities of his or her position as an accountable person with honesty and integrity, and with due skill, care and diligence; and

(b) deal with APRA in an open, constructive and co-operative way; and

(c) take reasonable steps in conducting those responsibilities to prevent matters from arising that would adversely affect the prudential standing or reputation of the ADI.

(2) If more than one of the accountable persons of an ADI or a subsidiary of an ADI have the same responsibility mentioned in section 37BA in relation to the ADI or subsidiary, all of those accountable persons have the accountability obligations jointly in relation to that responsibility.

Figure 9 Draft BEAR Accountability Obligations

The draft Bear Legislation contains many clauses which refer to performance and withholding measures associated with executive remuneration. In the light of the material before the Commission we ask: 'How bank executives would rate if the above represented the KPIs driving their remuneration packages?'

In an interesting article in the Harvard Business Review in February 2016, Professor Dan Cable and Associate Professor Freek Vermeulen of the London Business School argue for the abolition of performance based remuneration for executives.[19]

Two quotes are relevant:

"As the incoming Chief Executive of Deutsche Bank, John Cryan, recently said in an interview: 'I have no idea why I was offered a contract with a bonus in it because I promise you I will not work any harder of any less hard in any year, in any day because someone is going to pay me more or less.' "

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"We (Cable and Vermeulen) argue in favour of abolishing pay-for-performance for top managers altogether. We propose that, instead, most firms should pay their top executives a fixed salary.
Note: We are not arguing that top managers such as CEOs should be paid less. That may very well be the case too, but that's not the focus of our analysis. Here, we are merely arguing that, regardless of the size of a top manager's pay package, it should be fixed salary, rather than a variable amount of money dependent on performance criteria."

Page 2

Current models are based on the notion that positive re-enforcement through reward systems will result in continuous improvements in corporate and executive performance, however it is measured. Media Commentator and Editor, Dan Pink argues that setting focused performance measures attached to substantial reward may have an adverse effect on certain aspects of performance:

"Like all extrinsic motivators, goals narrow our focus. That's one reason they're effective; they concentrate the mind. For complex or conceptual tasks offering a reward can blinker the wide-ranging thinking necessary to come up with an innovative solution. Likewise, when an extrinsic goal is paramount – particularly a short term measurable one whose achievement delivers a big payoff – its presence can restrict our view of the broader dimensions of our behaviour. As a cadre of business school professors write: 'Substantial evidence demonstrates that in addition to motivating constructive effort, goal setting can induce unethical behaviours.'"[20]

We are not arguing for a complete de-coupling of corporate and individual performance from executive remuneration. Rather, we suggest that the Commission consider whether the existing FAR, STI and LTI model of remuneration for bank executives, where there is high proportion at risk driven primarily by financial performance, is the best approach to serve the interests of all stakeholder groups.

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[19] Stop Paying Executives for Performance. Dan Cable and Freek Vermeulen, Harvard Business Review, *February 23, 2016.*
[20] Drive. Daniel H. Pink, Canongate *2009.* P 50.

10.1.1 Case Study

In 2014 my company commenced working with a corporate entity that had strong community service obligations (as do the Banks). Its executive remuneration strategy was focused on Fixed Annual Remuneration with a generous STI based on a range of corporate and individual measures.

Fixed Annual Remuneration	Short Term Incentives
Job Evaluated and Market Aligned Progression via Individual Performance	Combination of Corporate & Individual Performance
60% to 80% of Total Reward	*20% to 40% of Total Reward*

Figure 10 Case Study – Before Remuneration Re-Structuring

One non-executive director was strongly opposed to STI Plans and challenged the Managing Director, Human Rources team and ourselves to come up with a new model.

The model that emerged was one based totally on Fixed Annual Remuneration. The existing STI Plan was discontinued with a percentage of the opportunity rolled into FAR. The challenge was then to build corporate as well individual performance into the annual remuneration review process. And this was done by linking balanced scorecard results to the target reference rate (%) for the annual review. The scorecard contained a range of measures around financial, operational, environmental and customer performance. Essentially the stronger corporate performance is, the higher the reference rate, and vice versa.

However, the range of variability was fairly narrow, with corporate and individual performance weighted about equally in the calculation of the annual increase.

A review was conducted four years post implementation and whilst achievement of scorecard KPIs varied from year to year, overall corporate performance progressively improved during that period, particularly safety and customer performance. Financial performance declined slightly due to increased capex spending on assets which had a 50 year life span.

Fixed Annual Remuneration
Job Evaluated and Market Aligned Progression via Corporate and Individual Performance
100% of Total Reward

Figure 11 Case Study – Remuneration Post Restructuring

11. Recommendation

In developing its findings we propose that the Commission consider a recommendation that the Boards and Remuneration Committees of our financial institutions undertake a radical re-think of their executive remuneration strategies. That Boards consider a new model, or a return to an old model, which places significantly less remuneration at risk, and endeavours to foster the interests of all stakeholder groups by re-balancing financial and non-financial priorities.

We ask whether it's time to return to a more simple model of executive remuneration in the financial services sector (and other sectors). A model that focuses primarily on Fixed Annual Remuneration and one which discontinues or substantially reduces the percentage of 'at risk' remuneration. Then to develop a mechanism which more closely integrates corporate as well as individual performance into annual review process for Fixed Remuneration.

In this way, executives still share in rewards associated with strong performance, but need to maintain a balanced perspective.

The following model illustrates.

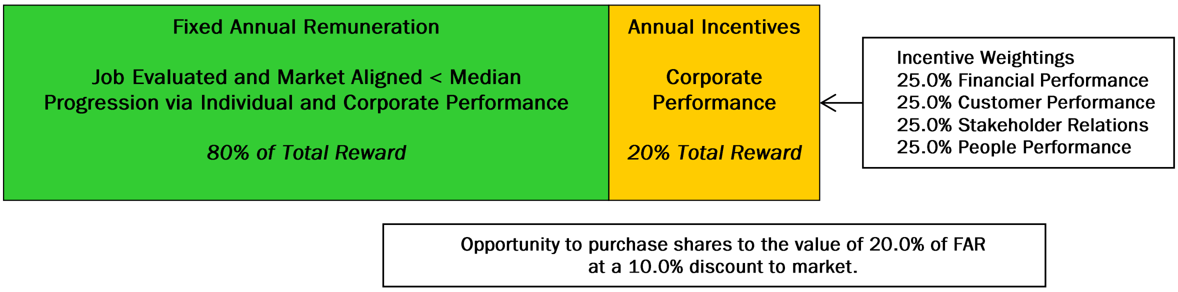

Figure 12 Towards a New/Old View

Discontinuing or reducing the potential value of STI and LTI Plans does not mean that the pursuit of financial and non-financial performance targets is no longer a central focus for executives. It simply means that less remuneration is attached to them. It changes the message and suggests that a broad based view of what constitutes corporate performance is more appropriate. One that will filter down to all organisational levels and assist to maintain a real focus on the interests of all stakeholder groups.

Positioning Fixed Annual Remuneration below the market median will result in downward pressure on the executive remuneration market. Although considering the substantial growth in executive remuneration over the last decade, it will take a long time to come back unless Board's actively reduce the offering with executive turnover.

We propose that Boards consider the question of annual incentives or STIs, and if employed at all, that they are kept to a moderate level of say 20% of Fixed Annual Remuneration and that the KPIs driving the STI reflect the interests of all stakeholders.

We also propose the Boards consider abolishing LTIs altogether. To concentrate part of an executive's personal wealth around equity participation (in the employing organisation) creates the potential for self-serving behaviour. Whilst this self-serving behaviour might be in the immediate financial interests of shareholders it is ultimately not in the best interests of the community. Equity participation for executives might be achieved by offering executives the opportunity to purchase shares in the company, on an annual basis, at a discount to market (10.0% to 15.0%) outside of the remuneration package. The choice should be theirs and not mandated via remuneration strategy.

To move to the above model challenges the current executive remuneration orthodoxy and as Jay Lorsch and Rakesh Khurana argue in the May-June 2011 edition of Harvard Magazine:

"Re-thinking the nature of executive pay within the context of our larger economic and social system and the challenges we face may enable us to create a new model of compensation rooted in a more realistic recognition of the social context in which firms operate. It should, and can, rest on valid assumptions and fundamental values that allow us to build a more inclusive and sustainable economic future .....".[21]

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The focus for Boards must be to return to a more balanced and equitable approach to executive remuneration across the Sector. Not one that encourages corporate excess and the pursuit of profit at the expense of other stakeholders.

[21] Jay Lorsch and Rakesh Khurana, The Pay Problem: Time For a New Paradigm for Executive Compensation. Harvard Magazine, *May-June 2011.*

A summary of bank transgressions during the past decade compiled by former Deutsche Bank analyst Mike Mangan:

Bank of Qld	Storm Financial	22-Sep-14 ASIC/borrowers class action	20
Macquarie	Storm Financial	01-Mar-13 Borrowers class action	81
Macquarie	No reasonable basis for client recommendations	2013 ASIC enforced compensation	19
Macquarie	Inadequate due diligence on China's Puda Coal US IPO	27-Mar-15 SEC	15
Macquarie	Conspiring to rig Malaysian ringit market in 2011	25-Nov-16 ACCC	5
Com Bank	Storm Financial	01-Dec-12 ASIC/borrowers class action	133
Com Bank	Inappropriate financial advice	01-Jun-14 Former clients	52
Com Bank	Bad Financial Advice	04-Apr-15 Former clients	22
Com Bank		Oct 15 8400 Agribusiness customers	6
Com Bank	Refund fees for Wealth Package customers	25-Nov-15 Former clients	58
Com Bank	Provided unwanted o'drafts to customers 2011-15	13-Sep-16 ASIC	2
ComSec	Flawed ID/ disclosure checks	02-Sep-16	1
Com Bank	Charging for annual review advice never given	?? ASIC	81
Com Bank	Front running, deliberately triggering client stop loss orders	21-Dec-16 ASIC	2
Com Bank	Various refunds: Credit Card, insurance, super,	14-Aug-17 Customers reimbursements	26
Com Bank	Austrac legals	09-Nov-17 Lawyers	77
NAB	Late payment fees	12-Nov-14 IMF led class action	40
NAB	Bad Financial Advice	16-Mar-15 Customers reimbursements	11
NAB	Navigator Wrap: errors in way income and tax calculated	Jul 15 Customer refunds	19
NAB	Charging for annual review advice never given	?? ASIC	13
NAB	Front running, deliberately triggering client stop loss orders	21-Dec-16 ASIC	2
NAB	Manipulating BBSW int rate 2010-11	28-Oct-17 ASIC	39
NAB	Manipulating BBSW int rate	?? ASIC	??
ANZ	Misled NZ rural customers about int rate spreads 2005-09	02-Dec-14 NZ Commerce Comm	15
ANZ	Charged for advice never given	16-Apr-15 client compo	38
ANZ	Manipulating BBSW int rate	?? ASIC	37
ANZ	Failure to disclose fees	05-Sep-16 self reported to ASIC	22
ANZ	Conspiring to rig Malaysian ringit market in 2011	25-Nov-16 ACCC	7
ANZ	Forex collusion	15-Mar-17 ASIC	2
Westpac	Selling loan protection insurance to customers who didn't need it	Oct 15	6
Westpac	Didn't tell customers they'd be charged Forex fees	08-Sep-16 self reported to ASIC	15
Westpac	Forex collusion	15-Mar-17 ASIC	2
Westpac-BT	"goodwill" paid on 103 rejected life & TPD super policies bought since '0	18-Sep-17 Life insurance customers	10
Westpac	"Conduct" refunds	06-Nov-17 Customer reimbursements	131
Total Australia			**1005**

Source: https://www.documentcloud.org/documents/4310476-A-Summary-of-Bank-Transgressions-During-the-Past.html

Recommendations of the Productivity Commission Review into Executive Remuneration in Australia 2009

The recommendations at a glance

Recommendation	*Targeted benefits*
Board capacities	
1. Any declaration of 'no vacancy' at an AGM to be agreed to by shareholders.	• Increases shareholder's input on board size and composition and addresses perceptions of a 'directors' club'.
Finding 1: *Support an 'if not, why not' requirement for boards to report progress against gender objectives.*	• Encourages boards to draw more widely from the available talent pool.
Conflicts of interest	
2. On an 'if not why not' basis: • remuneration committees to comprise at least three members, all non-executive directors, with a majority and the chair independent • companies to have a charter setting out procedures for non-committee members attending meetings.	• Constrains executive influence on pay. • Promotes best practice for all listed companies.
3. For ASX300 companies, executives to be prohibited from sitting on remuneration committees. (Listing rule)	• Constrains executive influence on pay. • Aligns with APRA initiative for finance sector and targets companies able to meet compliance cost.
4. Prohibit executives and directors voting their own shares on remuneration reports.	• Increases shareholder signal on non-binding vote.
5. Prohibit executives hedging unvested equity remuneration or vested equity subject to holding locks.	• Improves alignment between executives and shareholders. • Engenders confidence in pay practices.
6. Prohibit executives and directors voting undirected proxies on remuneration reports.	• Increases shareholder signal on non-binding vote.
7. Require proxy holders to cast all their directed proxies on remuneration reports.	• Increases shareholder signal on non-binding vote.
Disclosure	
8. Improve information content and accessibility of remuneration reports through: • a plain English summary of remuneration policies • reporting actual remuneration received and total company shareholdings of individuals in the report. • Expert panel to advise on revised Corporations Act architecture to support changes.	• Better informed shareholders. • Reduced confusion (and misreporting) about pay structures. • Enhanced engagement between boards and shareholders.
9. Remuneration disclosures to be confined to key management personnel.	• Aligns Act with accounting standards. • Reduces compliance costs. • Improves readability.

(Continued next page)

The recommendations at a glance (continued)

Recommendation	*Targeted benefits*
10. Companies to disclose executive remuneration advisers, who appointed them, who they reported to and the nature of any other work undertaken for the company. ('If not, why not')	• Constrains executive influence on pay through transparency. • Promotes best practice for all listed companies.
11. For ASX300 companies, advisers on executive pay to be commissioned by, and their advice provided directly to, the board, independent of management. (Listing rule)	• Constrains executive influence on pay. • Aligns with APRA initiative for finance sector. • Targets companies able to meet costs.
12. Institutional investors to voluntarily disclose how they have voted on remuneration reports (and other remuneration-related issues).	• Better informed (potential) investors. • Targets agency issues, particularly for compulsory superannuation contributors.
Remuneration principles	
13. Remove cessation of employment as the taxation point for deferred equity subject to risk of forfeiture.	• Removes barrier to deferred remuneration. • Consistent with longer term alignment. • Removes need for special tax rulings.
Finding 2: Remuneration 'check list' for boards to improve information content in remuneration reports.	• Enhanced quality of disclosure. • Provides guidance to encourage and promote better remuneration practices.
Shareholder engagement	
14. Confirm allowance of electronic voting without amendment of company constitutions.	• Improves efficiency and integrity of shareholder voting. • Potential for cost savings.
15. 'Two strikes and re-election resolution': • 25 per cent 'no' vote on remuneration report triggers reporting obligation on how concerns addressed • subsequent 'no' vote of 25 per cent activates a resolution for elected directors to submit for re-election within 90 days.	• Increases shareholder signalling and power. • Increases pressure on companies to respond to shareholder concerns. • Targets unresponsive boards.
Implementation issues	
16. The Australian Government to implement intent of recommendations 2, 3, 10 and 11 by legislation if the ASX and Corporate Governance Council do not make requisite changes.	• Ensures potential benefits from recommended reforms can be achieved.
17. Review within five years to consider: • the effectiveness and efficiency of the reforms, including to termination payments and employee share schemes • the regulatory architecture.	• Evaluation of efficacy and economic impact of reforms. • Identification of any unexpected outcomes that warrant corrective action.

Commonwealth Bank Remuneration Outcomes FY 2016 and 2017 – Notes P74

View @ 200%

(1) FR comprises Base Remuneration and Superannuation (post-employment benefit). Superannuation contributions for Rob Jesudason are made in line with Hong Kong Mandatory Provident Fund regulations.

(2) Total cost of salary including cash salary, short-term compensated absences and any salary sacrificed benefits.

(3) Cost of car parking (including associated fringe benefits tax).

(4) 50% of the FY17 STVR for performance during the 12 months to 30 June 2017 (payable September 2017). The FY17 STVR outcome for all Executives was adjusted downwards to zero, reflecting collective accountability for the overall reputation of the Group and risk matters.

(5) 50% of the FY17 STVR award that is deferred until 1 July 2018. Deferred STVR awards are subject to Board review at the time of payment. The FY17 STVR outcome for all Executives was adjusted downwards to zero, reflecting collective accountability for the overall reputation of the Group and risk matters.

(6) Includes company funded benefits (including associated fringe benefits tax where applicable), interest accrued in relation to the FY16 STVR deferred award, which vested on 1 July 2017, and the net change in accrued annual leave. For Rob Jesudason, this includes costs in relation to his Hong Kong assignment and relocation to Australia.

(7) Long service entitlements accrued during the year as well as the impact of changes to long service leave valuation assumptions, which are determined in line with Australian Accounting Standards. The FY16 comparative has been restated to reflect a disclosure methodology change where Deferred Rights are included in share-based payments instead of long-term benefits.

(8) FY17 expense for deferred STVR awarded under Executive General Manager arrangements, and sign-on and retention awards received as Deferred Rights. These equity awards are subject to forfeiture if the Executive ceases to be employed by the Group prior to the vesting date as a result of resignation. The FY16 comparative has been restated to reflect a disclosure methodology change where Deferred Rights are included in share-based payments instead of long-term benefits.

(9) FY17 expense for the FY14, FY15, FY16 and FY17 LTVR awards (including true up for the Customer Satisfaction performance hurdle portion of the FY13 LTVR award).

(10) The percentage of FY17 remuneration related to performance was: Ian Narev 52%, Kelly Bayer Rosmarin 47%, Adam Bennett 40%, David Cohen 42%, Matt Comyn 49%, David Craig 72%, Rob Jesudason 31%, Melanie Laing 50%, Anna Lenahan 70%, Vittoria Shortt 37%, Annabel Spring 49%, and David Whiteing 38%.

(11) David Cohen commenced in the Group Chief Risk Officer role from 1 July 2016. Prior year comparison reflects statutory remuneration for his prior role, Group General Counsel and Group Executive, Group Corporate Affairs.

(12) The LTVR Reward Rights value for David Craig reflects the disclosable accruals for all previously granted LTVR awards that remain unvested following his retirement on 30 June 2017 up to the end of each performance period. This means that up to three years of each unvested LTVR award has been disclosed in FY17, including those amounts which would otherwise have been included in future year disclosures. These LTVR awards remain 'on foot' and will only vest subject to the achievement of the pre-determined performance conditions and risk review.

(13) For Rob Jesudason, remuneration was paid in Hong Kong dollars and was impacted by movements in exchange rates.

(14) Anna Lenahan was appointed to the Group General Counsel and Group Executive, Group Corporate Affairs role effective 28 November 2016 and her remuneration reflects time in role.

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View @ 200%

(1) Includes cash salary, cash allowances and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year.

(2) The cash component of the STI received in respect of 2017 is scheduled to be paid on 15 November 2017 in Australia and 30 November 2017 in NZ. The amount reflects 50% of the STI to be provided to eligible current senior executives and the Group CEO. The amount reflects 75% of the STI to be provided to eligible former senior executives who were acting senior executives and remained on the remuneration arrangements associated with their previous role. The cash component of the STI received in respect of 2016 was paid in full during 2017 for all senior executives as previously disclosed, with no adjustment.

(3) Includes any motor vehicle benefits, parking, relocation costs and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included.

(4) Includes company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in NZ but such payments may be made as part of fixed remuneration.

(5) Includes long service leave entitlements accrued but not taken during the year. The long service leave entitlements are recognised as accruing on an annual basis subject to an actuarial calculation.

(6) The amount included in remuneration each year for share awards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Glossary for an explanation of the fair value approach used to determine equity-based benefits. Amounts shown for 2017 include portions of shares allocated under employee programs as follows:
a) General Employee shares granted in December 2013, December 2014, March 2016, December 2016 and to be granted in December 2017, to eligible senior executives at the relevant offer time. The shares vest after a three-year restriction period. In NZ the shares are subject to forfeiture conditions, including on resignation.

b) Deferred STI shares granted in March 2016 in respect of performance in 2015 and restricted until November 2016, February 2017 in respect of performance in 2016 and restricted until November 2017, and to be granted in February 2018 in respect of performance in 2017 and restricted until November 2018, subject to performance and service conditions.
c) Retention shares granted to Mr Hagger in May 2016. The shares were restricted for approximately 8 months and subject to achievement of key project deliverables and service conditions. The grant fully vested in January 2017.
d) Customer Advocacy Incentive shares granted to Mr Lawrance and Mr Lennon in March 2016 for performance in prior roles. The shares are restricted until December 2017 and are subject to achievement of 2017 NPS targets and service conditions which have been fully met. Customer Advocacy Incentive shares granted to Ms Carver and Mr Lawrance in February 2017. The shares are restricted until December 2018 and are subject to achievement of 2018 NPS targets and service conditions.
e) Commencement shares allocated to Ms Carver in March 2016 with 39% fully vested in January 2017 and 32% scheduled to vest in January 2018, subject to performance and service hurdles. The remaining 29% vested in July 2016 and is excluded as it was fully expensed prior to Ms Carver becoming a senior executive.
f) Commencement shares allocated to Ms Murphy in May 2016 with 35% vested in September 2016, 32.5% vested in September 2017 and 32.5% scheduled to vest in September 2018, subject to performance and service hurdles.
g) Retention shares granted in August 2016 to Mr Cahill and Ms Mentis are restricted for approximately 24 months. The shares are subject to performance and service conditions.
h) Restricted share awards granted in August 2016 to Ms Carver and to Mr Lawrance in October 2016 were restricted for approximately 12 months. The shares fully vested in July 2017 for Ms Carver and August 2017 for Mr Lawrance. The shares were subject to performance and service conditions.

(7) The amount included in remuneration each year for performance rights is the grant date fair value, amortised on a straight line basis over the expected vesting period. Refer to the Glossary for an explanation of fair value approach used to determine equity-based remuneration. Amounts shown for 2017 include portions of performance rights allocated under employee programs, as shown below:
a) Deferred STI rights granted in February 2015 in respect of performance in 2014, March 2016 in respect of performance in 2015, February 2017 in respect of performance in 2016, and to be granted in December 2017 in respect of performance in 2017. The performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.
b) LTI performance rights granted in December 2012, December 2013, December 2014 (and for the Group CEO in February 2015), December 2015 (and for the Group CEO in March 2016), December 2016 (and for the Group CEO in February 2017) and in December 2017 under the Group's LTI program.

(8) To compensate for awards from his prior employer which were forfeited as a result of joining NAB, Mr Wright received a commencement award of A$801,627 paid in cash on 3 May 2017 and A$328,906 paid in cash on 6 September 2017. The remaining amount is scheduled to be paid in cash: A$717,042 in March 2018, A$607,629 in March 2019 and A$341,091 in March 2020. In accordance with accounting standards the full amount of Mr Wright's commencement award has been expensed in 2017. An exchange rate as at 30 September 2017 has been used to determine the value shown. The amounts shown in 2016 for Ms Healey, Ms Roberts and Mr Slater are termination payments related to the cessation of their employment with NAB on 30 September 2016 (see the 2016 Remuneration report for further details).

(9) The percentage of 2017 total remuneration related to performance-based remuneration was: Mr Thorburn 66%, Mr Baird 37%, Mr Cahill 60%, Ms Cook 26%, Mr Gall 43%, Mr Hagger 65%, Mr Healy 64%, Mr Lennon 54%, Ms Mentis 63%, Ms Murphy 54%, Mr Wright 16%, Ms Carver 76%, Mr Lawrance 63%.

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View @ 200%

[1] Cash salary amounts include the net movement in the Executive's annual leave accrual for the year.
[2] These amounts represent STI cash awards to Executives for the financial year. The cash component is expected to be paid in October 2017. Refer also to footnote 8 below for discussion on the deferral of STI components.
[3] "Non-monetary" relates to sacrifice components of Executive salary such as motor vehicle costs.
[4] Represents company superannuation contributions made on behalf of executives. Company superannuation contributions form part of the executive's fixed base remuneration and are paid up to the statutory maximum contributions base. Mr Musgrove also receives an additional company contributions as part of an arrangement with former members of a defined benefit fund that was amalgamated with an accumulation fund in 1994.
[5] The amounts disclosed relate to movements in long service leave accruals.
[6] In accordance with the requirements of Australian Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year. The fair value of equity instruments is calculated as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The fair value of performance rights as at the grant date has been calculated under AASB 2 *Share-based Payments* applying a Black-Scholes-Merton valuation method incorporating a Monte Carlo simulation option pricing model to estimate the probability of achieving the Total Shareholder Return hurdle and the number of performance rights that vest. The assumptions underpinning these valuations are set out in Table 5.
[7] The amounts included in the performance rights column represent the fair value of performance right grants to Executives amortised over the applicable vesting period. The Managing Director's current year amount represents the amortised fair value allocation for the performance right grant made during the 2017 financial year. The comparative amount represents the final amortised fair value allocation for the previous performance right grant that completed on 30 June 2016. The Senior Executives current year amounts represent the amortised fair value allocation for the 2014, 2015, 2016 and 2017 performance right grants. The comparative amounts represent the amortised fair value allocation for the 2013, 2014, 2015 and 2016 performance right grants.
[8] The amounts included in the deferred share column comprise:
- The fair value of deferred STI components amortised over a two-year deferral period. The deferred STI component for the 2015 financial year is amortised over 2016 and 2017 financial years. There was no deferred STI component for the 2016 financial year.
- The fair value of the deferred base pay grants amortised over a two-year deferral period. The deferred base pay grant made during the 2016 financial year is amortised over the 2016 and 2017 financial years and the deferred base pay grant made during the 2017 financial year is amortised over the 2017 and 2018 financial years. The comparative figure includes the fair value of the deferred base pay grant made in the 2015 financial year amortised over the 2015 and 2016 financial years.

[9] Mr Dennis Bice ceased as a KMP on 31 March 2016 and Mr Bruce Speirs commenced as a KMP on 29 September 2015. The remuneration amounts for these KMP (except for the termination payment to Mr Bice) are presented on a pro-rata basis.
[10] Mr John Billington ceased as a KMP on 29 September 2015 and Ms Alex Gartmann commenced as a KMP on 26 October 2015.
[11] The performance related percentage comprises cash bonus (STI) payments, the amortised fair value of performance right grants and the amortised fair value of deferred STI components (which form part of the amount disclosed under the 'Deferred shares' column).

Definition of Terms

The following remuneration terms have been used in this Submission:

Fixed Annual Remuneration	**FAR** is the cost of all package items including base salary, other cash payments, motor vehicles, superannuation, club memberships, and any other benefits provided to the employee inclusive of Fringe Benefits Tax (FBT). It excludes Short Term Incentives.
Short Term Incentives (STIs)	Variable reward payable annually based on a combination of corporate and individual performance results. Part payment may be deferred and part may be awarded in equity.
Long Term Incentives (LTIs)	Is variable reward, usually in the form or shares or options based on the achievement of certain corporate performance criteria (measured over a defined period). Award usually vests over a 3-4 year period.
Potential Total Reward	is FAR plus the value of the STI and LTI opportunity.
Minimum Shareholding	is the required for the executive to hold a certain amount of equity (shares) in the employing company. In the major banks which have this requirement it can range from the value of 100% to 500% of Fixed Annual Remuneration.
Key Performance Indicators (KPIs)	are measures of performance usually expressed numerically either as a percentage of target or as a hard number (ie EBIT Target of $100m). Some non-financial KPIs may be expressed in qualitative terms (Corporate Strategy developed in full and on-time).

Remuneration Market terms include:

Percentile 25 (Quartile 1)	**P25** is the point in the distribution at which 75% of observations lie above and 25% below.
Percentile 50 (Median)	the **Median** is the 'middle' observation in a set of data arranged in sequence, that is 50% of observations lie above it and 50% below.
Percentile 75 (Quartile 3)	**P75** is the point in the distribution at which 25% of observations lie above and 75% below.