

# CORPORATE GOVERNANCE STATEMENT

2015

**Commonwealth**Bank



# 2015 Corporate Governance Statement

## INTRODUCTION

This statement outlines the key aspects of the Commonwealth Bank's and its related bodies corporate (Group), corporate governance framework. The Group is committed to ensuring that its policies and practices reflect a high standard of governance. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to balance properly performance and conformance. This enables the Group to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business.

Throughout the 2015 financial year, the Group's governance arrangements were consistent with the Corporate Governance Principles and Recommendations (3<sup>rd</sup> edition) published by the ASX Corporate Governance Council.

This statement is current as at 12 August 2015, and has been approved by the Board of the Commonwealth Bank (Bank).

## THE BOARD

The Board's Directors are accountable to the shareholders for the Group's performance and governance. Management is responsible for implementing the Group's strategy and objectives, and for carrying out the day-to-day management and control of the Group's affairs.

### Charter

The Board's role and responsibilities are set out in the Board Charter. The responsibilities include:

- The Group's corporate governance, including the establishment of Committees;
- Oversight of the business and affairs of the Group by:
  - Establishing, with management, and approving the strategies and financial objectives;
  - Approving major corporate and capital management initiatives, capital expenditure, acquisitions and divestments in excess of limits delegated to management;

- Overseeing the establishment of appropriate risk management systems, including defining the Group's risk appetite and establishing appropriate financial policies such as target capital and liquidity ratios;
- Monitoring the performance of management and the environment in which the Group operates;
- Approving documents (including reports and statements to shareholders) required by the Bank's Constitution and relevant regulation;
- Approving the Group's major HR policies and overseeing the development of strategies for senior and high performing executives;
- Employing the Chief Executive Officer (CEO); and
- Reviewing diversity initiatives and progress, including monitoring and reporting on the relative proportion of women and men in the workforce at all levels of the Group.

A copy of the Board Charter is available on the Group's website.

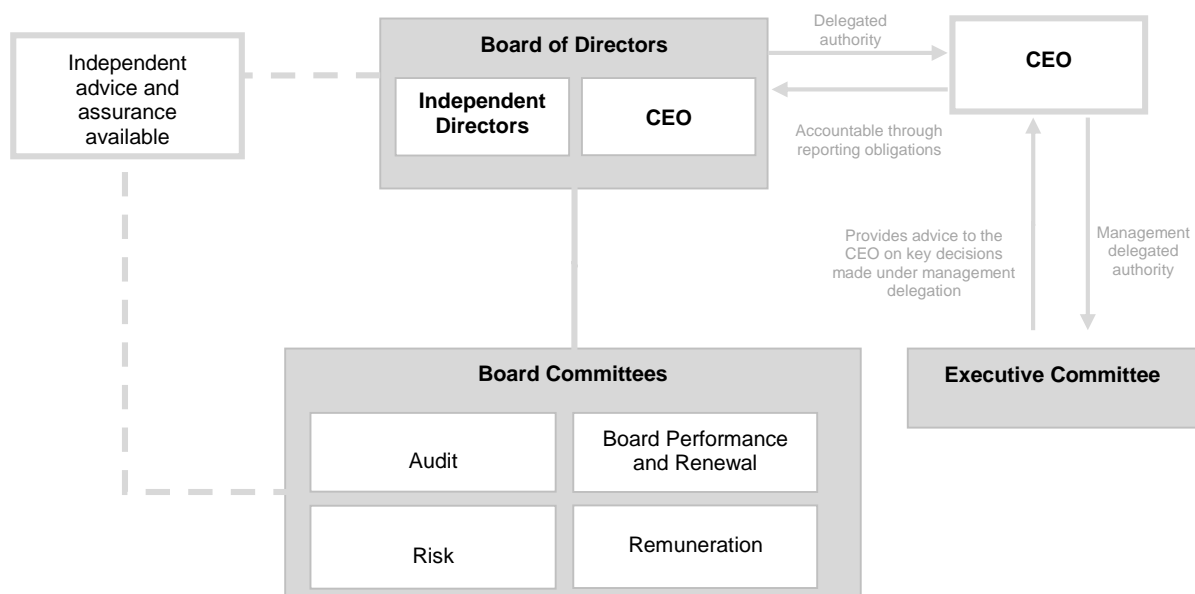
### Delegation of Authority

The Board has delegated to the CEO and, through the CEO, to other senior executives, responsibility for the day-to-day management of the Group's business and implementation of the Group's strategy and policy initiatives. The CEO and other senior executives operate in accordance with a comprehensive set of management delegations under the Group's Delegation of Authorities framework. These delegations cover commitments around project investment, operational expenditure and non-financial activities and processes, and are designed to accelerate decision-making and improve both efficiency and customer service.

### Overview of Corporate Governance Framework

An overview of the Group's Corporate Governance Framework is depicted below.

## Corporate Governance Framework





## Company Secretary

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

## Composition of the Board

The Bank's Constitution provides that there will be a minimum of nine (9) Directors and a maximum of thirteen (13) Directors on the Board, including the Managing Director/ CEO, and not more than three Executive Directors

The Board currently comprises of eleven (11) Directors of which ten (10) are independent Non-Executive Directors and one is an Executive Director, being the CEO.

The roles of Chairman and CEO are not exercised by the same individual, and the Bank's Constitution provides that the CEO and any other Executive Directors are not eligible to stand for election as Chairman of the Bank.

Details of the period of office held by each current Director and the year of their last election are as follows:

Director	Appointed	Last Elected at an AGM
David Turner (Chairman)	2006	2012
Ian Narev (CEO)	2011	-
Sir John Anderson	2007	2013
Shirish Apte	2014	2014
Jane Hemstritch	2006	2013
Sir David Higgins	2014	2014
Launa Inman	2011	2014
Brian Long	2010	2013
Andrew Mohl	2008	2014
Wendy Stops	2015	-
Harrison Young	2007	2012

Details of the number of times the Board met throughout the 2015 financial year and the individual attendances of the Directors at those meetings is contained in the Directors' Meetings section of the Directors' Report on page 40 of the 2015 Annual Report.

## Chairman

The Chairman is an independent Non-Executive Director. The Chairman leads the Board and sets its tone, and is responsible for the effective organisation and conduct of the Board's affairs. The Chairman builds and maintains an effective working relationship with the CEO, and encourages contribution by all Board members. The Chairman also represents the Bank to shareholders and in the wider community.

## Committees

To assist the Board to carry out its responsibilities, the Board has established a Board Performance & Renewal Committee, a Remuneration Committee, an Audit Committee, and a Risk Committee.

These Committees review matters on behalf of the Board and as determined by the relevant Charter:

- Refer matters to the Board for decision, with a recommendation from the Committee, or

- Determine matters (where the Committee acts with delegated authority), which the Committee then reports to the Board.

The Chairman of each Committee provides a report to the Board following each Committee meeting.

## Tenure

The Bank's Constitution specifies that at each Annual General Meeting (AGM), one third of Directors (other than the CEO) will retire from office and may stand for re-election.

The policy of the Board is that Non-Executive Directors are normally expected to serve a term of six (6) years from the date of first election by shareholders, subject to re-election by shareholders as required under the Bank's Constitution and the Australian Securities Exchange (ASX) Listing Rules. That term may be extended to nine (9) years where, at the end of the initial six (6) year period, the Board determines that such an extension would be of benefit to the Bank and the Director is agreeable. On an exceptional basis, the Board may annually exercise its discretion to further extend the term of a Director should the circumstances be such that the Board deems it appropriate, subject to the total term of appointment not exceeding twelve (12) years. The Chairman would normally be expected to serve a term of at least five (5) years in that capacity.

## Director Independence

The Bank's Non-Executive Directors are required to be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement. The Board regularly assesses each Director's independence to ensure ongoing compliance with this requirement.

Directors are required to conduct themselves in accordance with the ethical policies of the Bank and be meticulous in their disclosure of any material contract or relationship. This disclosure extends to the interests of family companies and spouses. Directors must also strictly adhere to the participation and voting constraints in relation to matters in which they may have an interest. Each Director may from time to time have personal dealings with the Bank or be involved with other companies or professional firms which may have dealings with the Group. Details of offices held by Directors with other organisations are disclosed in the Directors' Report on pages 36 to 40 of the 2015 Annual Report and on the Group's website. Full details of related party dealings are set out in the notes to the Financial Statements as required by law in the 2015 Annual Report.

All the current Non-Executive Directors of the Bank have been assessed as independent Directors. In reaching that determination, the Board has taken into account (in addition to the matters set out above):

- The specific disclosures made by each Non-Executive Director;
- Where applicable, the related party dealings referable to each Non-Executive Director;
- That no Non-Executive Director is, or has been associated directly with, a substantial shareholder of the Bank;
- That no Non-Executive Director has ever been employed by the Bank or any of its subsidiaries;

- That no Non-Executive Director is, or has been associated with, a supplier, professional adviser, consultant to or customer of the Group which is material under the accounting standards;
- That no Non-Executive Director personally carries on any role for the Group otherwise than as a Director of the Bank; and
- That no Non-Executive Director has a material contractual relationship with the Group other than as a Director of the Bank.

David Turner has served on the Board for more than nine (9) years. In October 2015 Jane Hemstritch will have served on the Board for nine (9) years. The Board does not believe that their tenure interferes with their ability to act in the best interests of the Group or compromises their ability to exercise independent judgement.

## Director Induction and Education

Directors participate in an induction program upon appointment and in ongoing education sessions on a regular basis. This program of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It also includes sessions with local and overseas experts in the particular fields relevant to the Group's operations.

## Board Performance and Renewal Committee

The Board Performance and Renewal Committee assists the Board's function by considering and advising the Board on issues relevant to:

- The Governance of the Group;
- The selection, remuneration, education and evaluation of Directors;
- The relationship between Board and Management; and
- Policies relating to diversity for the Board and the Group Executives.

The Board Performance and Renewal Committee consists solely of independent Non-Executive Directors. The minimum number of Committee members is three (3) and the Chairman of the Board chairs the Committee.

A copy of the Board Performance and Renewal Committee Charter is available on the Group's website.

The Committee's members are:

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David Turner (Chairman)

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Sir John Anderson

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Brian Long (from 12 August 2015)

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Harrison Young

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Details of the number of times the Board Performance and Renewal Committee met throughout the 2015 financial year and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 41 of the 2015 Annual Report.

The Board Performance and Renewal Committee annually reviews the Group's corporate governance procedures. It considers the composition and effectiveness of the Bank's Board and also the boards of the Bank's major wholly owned subsidiaries. It also

ensures that the Board annually reviews its own performance, policies and practices. These reviews seek to identify where improvements can be made in Board processes. The review also assesses the quality and effectiveness of information made available to Directors.

## Evaluation of Board Performance

The Board conducts regular evaluations of the performance of the Board, individual Directors and the Board's Committees. Every two (2) years, this process is facilitated by an external consultant. Every other year, the assessment is carried out internally.

During the 2015 financial year the Board used an external consultant to evaluate the performance of the Board and of individual Directors.

The assessment has been considered by the Board, enhancements to process were implemented, and individual Director assessments have been discussed.

After considering the results of the performance review, the Board determined to endorse the Directors to stand for re-election at the 2015 AGM.

The Non-Executive Directors meet several times a year without management, in a forum intended to allow for an open discussion on Board and management performance. This is in addition to the consideration of the CEO's performance and remuneration, which is conducted by the Board in the CEO's absence.

Non-Executive Directors spend at least sixty (60) days each year (considerably more in the case of Committee Chairmen) on Board business and activities, including Board and Committee meetings, meetings with senior management to discuss strategy, visits to operations, and meetings with employees, customers and other stakeholders. During the 2015 financial year, the Board spent a week in Silicon Valley in the United States (US) and met with several companies and leaders in the technology space. The Board also spent a week in South Africa where it met with a range of political, business and other leaders across the country in various industries including financial services, retail and technology.

## Assessment of Senior Executive Performance

Senior executives are provided with a written employment agreement which sets out the terms and conditions of their appointment. Senior executives' annual performance evaluations are conducted following the end of the financial year. For the 2015 financial year, the evaluations were conducted in July 2015.

Details on the Group's short and long-term performance approach and outcomes are contained in the Remuneration Report section of the Directors' Report on pages 44 to 65 of the 2015 Annual Report.

## Selection of Directors

The Board Performance and Renewal Committee's set of criteria for Director appointments is reviewed annually and adopted by the Board. The criteria is aimed at creating a Board capable of challenging, stretching and motivating management to achieve sustained, outstanding performance in all respects. The Group's aim is to ensure that any new appointee is able to contribute to the Board constituting a competitive advantage for the Group. Based on these criteria, each Director should:

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- Be capable of operating as part of an effective team;
- Vigorously debate and challenge management in a constructive manner;
- Contribute outstanding performance and exhibit impeccable values;
- Be capable of contributing strongly to risk management, strategy and policy;
- Provide a mix of skills and experience required to challenge and contribute to the future strategy of the Group;
- Be well prepared and receive all necessary education; and
- Provide important and significant insights, input and questions to management from their experience and skill.

Professional intermediaries are engaged to identify a diverse range of potential candidates for appointment as Directors based on the identified criteria.

The Board Performance and Renewal Committee assesses the skills, experience and personal qualities of these candidates. It also takes into consideration other attributes, including diversity, to ensure that any appointment decisions adequately reflect the environment in which the Group operates. Information on the Group's diversity strategy more generally can also be found in the Corporate Responsibility section of the 2015 Annual Report on pages 32 to 35.

Appropriate checks are undertaken prior to appointing a person and recommending that person for election as a Director. These include checks as to the person's character, experience, education, criminal record and bankruptcy history. As a Director is a responsible person under the applicable Australian Prudential Regulation Authority (APRA) Prudential Standard background checks as to fitness and propriety are carried out before a person is appointed to the Board.

Candidates who are considered suitable for appointment as Directors by the Board Performance and Renewal Committee are then recommended for decision by the Board and, if appointed, stand for election at the next AGM, in accordance with the Constitution. The Bank includes in the Notice of Meeting for the AGM all material information known to the Bank which is relevant to a decision whether or not to elect or re-elect a Director.

On behalf of the Bank, the Chairman provides a letter to each new Director upon appointment, setting out the terms of appointment and relevant Board policies. These include time commitment, code of ethics and continuing education. All current Directors have been provided with a letter confirming the terms of their appointment. A copy of the form of the appointment letter is available on the Group's website.

### Director skills and experience

The skills, experience and expertise of each Director is described in the Directors' Report on pages 36 to 39 of the 2015 Annual Report.

The Directors possess a range of skills which, as a group, enable the Board to discharge its obligations effectively, challenge management and contribute to the Bank's strategic debate. Every Director has had considerable exposure to current corporate governance practices and all Directors possess significant financial

acumen, with five (5) of the Directors being qualified accountants.

The following table summarises the key skills and experience of the Directors:

Skills and Experience	No. of Directors
Retail & Corporate Banking/ Financial Institutions	5
Financial Acumen	11
New Media & Technology	4
Experience as a non-executive director of at least two other listed entities	7
General management exposure to international operations	11
Held CEO or similar position in non-financial organisation	6
Expert experience in financial regulation	5

The Board currently comprises of eleven (11) Directors of which ten (10) are independent Non-Executive Directors and one (1) is an Executive Director, being the CEO.

### Policies

Board policies relevant to the composition of the Board, its Committees and the functions of Directors and Committee Members include that:

- The Board will consist of a majority of independent Non-Executive Directors. The Chairman of the Board will be an independent Non-Executive Director;
- The Board Performance and Renewal Committee will consist of at least three (3) members. All members must be independent Non-Executive Directors. The Chairman of the Board should chair the Committee;
- The Remuneration Committee will consist of at least three (3) members. All members must be independent Non-Executive Directors and have an appropriate level of knowledge and understanding of remuneration practice, including legal and regulatory requirements. The Board will determine the Committee Chairman;
- The Audit Committee will consist of at least three (3) members. All members must be independent Non-Executive Directors and financially literate. The Audit Committee shall be chaired by an independent Non-Executive Director who is not the Chairman of the Board;
- The Risk Committee will consist of at least four (4) members. All members must be independent Non-Executive Directors. The Risk Committee shall be chaired by an independent Non-Executive Director who is not the Chairman of the Board;
- The Board will meet on a regular and timely basis. The meeting agendas and papers will provide adequate information about the affairs of the Group. They also enable the Board to guide and monitor management, and assist in its involvement in discussions and decisions on strategy. Strategic matters are given priority on regular Board meeting

agendas. In addition, ongoing strategy is the major focus of at least one Board meeting annually;

- The Directors are entitled to obtain access to Group documents and information, and to meet with management; and
- The Directors are entitled, after appropriate consultation, to seek independent professional advice, at the expense of the Group, to assist them to carry out their duties as Directors. The policy of the Group provides that any such advice is generally made available to all Directors.

## ETHICAL STANDARDS

### Conflicts of Interest

In accordance with the Bank's Constitution and the Corporations Act 2001 (Corporations Act), Directors are required to disclose to the Board any material contract in which they may have an interest. In compliance with section 195 of the Corporations Act, any Director with a material personal interest in a matter being considered by the Board will not vote on the matter or be present when the matter is being considered. If the material personal interest is disclosed or identified before a Board or Committee meeting takes place, those Directors will also not receive a copy of any paper dealing with the matter.

### Share Trading

The Board has adopted a Group Securities Trading Policy. Under that Policy, Directors are permitted to deal with the Group's securities only within certain periods, as long as they are not in the possession of unpublished price-sensitive information.

These periods include the thirty (30) days after the half yearly and final results announcements, and fourteen (14) days after quarterly trading update releases.

The Policy also requires that Directors do not deal on the basis of considerations of a short term nature or to the extent of trading in those securities. Similar restrictions apply to Executives of the Group, which is in addition to the prohibition of any trading (including hedging) in positions prior to vesting of shares or options.

Directors and Executives who report to the CEO are also prohibited from:

- Any hedging of publicly disclosed shareholding positions; and
- Entering into or maintaining arrangements for margin borrowing, short selling or stock lending, in connection with the securities of the Group.

A copy of the Group Securities Trading Policy is available on the Group's website.

## REMUNERATION

### Remuneration Committee

The Remuneration Committee assists the Board to fulfil its responsibilities to shareholders and regulators in relation to remuneration within the Bank and the Group. In general, the Remuneration Committee is responsible for recommending to the Board for approval:

- Remuneration arrangements and all reward outcomes for the CEO, senior direct reports to the CEO and other individuals whose roles may affect the financial soundness of the Group;
- Remuneration arrangements for Finance, Risk & Internal Control Personnel; and

- Significant changes in remuneration policy and structure, including superannuation, employee equity plans and benefits.

The Remuneration Committee also serves as the remuneration committee for those entities within the Group that are regulated by APRA, and those offshore entities subject to remuneration-related regulation that may delegate their remuneration committee function to the Board's Committee from time to time.

The Remuneration Committee consists solely of independent Non-Executive Directors who are free from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of his or her independent judgement as a member of the Remuneration Committee. The minimum number of Committee members is three (3) and meetings are chaired by an independent Non-Executive Director.

Committee members are expected to have an appropriate level of knowledge and understanding of remuneration practice, as well as legal and regulatory requirements relating to remuneration.

A copy of the Remuneration Committee Charter is available on the Group's website.

The Committee's members are:

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Jane Hemstrich (Chairman)

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Launa Inman

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Andrew Mohl

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David Turner

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David Higgins

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Wendy Stops

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Meetings are held quarterly or more frequently if required. Details of the number of times the Remuneration Committee met throughout the 2015 financial year and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 41 of the 2015 Annual Report.

The Remuneration Committee is authorised to appoint independent remuneration experts to advise them on specific remuneration issues, and will do so independently of management.

The Remuneration Committee has free access at all times to risk and financial control personnel and any other parties (internal and external) in carrying out its duties.

The Remuneration Committee has the power to call any individuals to attend Committee meetings.

### Remuneration Arrangements

Details of the governance arrangements and policies relevant to remuneration are set out in the Remuneration Report on pages 44 to 65 of the 2015 Annual Report.

## AUDIT

### Audit Committee

The Audit Committee assists the Board in fulfilling its statutory, regulatory and fiduciary responsibilities. It provides an objective and independent review of the effectiveness of:

- The external reporting of financial information, including the suitability of accounting policies, and the application of accounting requirements;



- The internal control environment of the Group, including the governance of financial, tax and accounting risks;
- The Group Audit's and external audit functions, including an assessment of the independent, adequacy and effectiveness of these functions; and
- The Group's Risk Management Framework, in conjunction with the Risk Committee.

The Audit Committee consists solely of independent Non-Executive Directors who are financially literate. Members between them have the accounting and financial expertise and sufficient understanding of the financial services industry to be able to discharge the Audit Committee's mandate effectively. The term of each member will be determined by the Board through annual review.

The minimum number of Committee members is three (3) and meetings are chaired by an independent Non-Executive Director who is not the Chairman of the Board. The Risk Committee Chairman is a member of the Audit Committee and vice-versa to assist with the flow of relevant information between the two Committees.

A copy of the Audit Committee Charter is available on the Group's website.

The Committee's members are:

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Brian Long (Chairman)

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Sir John Anderson

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Shirish Apte

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Sir David Higgins

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Launa Inman

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Harrison Young

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Meetings are held at least quarterly or more frequently if required. Details of the number of times the Audit Committee met throughout the 2015 financial year and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 41 of the 2015 Annual Report.

The external auditor and the Group's internal auditor will be invited to all meetings. Meetings will be held from time to time with the external and internal auditor without management or others being present.

The Audit Committee has the power to call attendees as required, including open access to management, external and internal auditors and the right to seek explanations and additional information.

Senior management and the external and internal auditor have free and unfettered access to the Audit Committee with the Group Auditor having a direct reporting line, while maintaining a management reporting line to the Chief Financial Officer (CFO).

The Committee has the option, with the concurrence of the Chairman of the Board, to retain independent legal, accounting or other advisors, to the extent the Committee considers necessary, at the Group's expense.

Prior to approval of the Group's financial statements for the 2015 financial half-year, the CEO and the CFO gave the Board a declaration that, in their opinion, the financial records of the Group had been properly maintained in accordance with the Corporations Act,

that the financial statements complied with the appropriate accounting standards and gave a true and fair view of the financial position and performance of the Group, and that their opinion had been formed on the basis of a sound system of risk management and internal compliance and control which was operating effectively.

### Internal Audit

The Bank has an Internal Audit function, called Group Audit and Assurance (GAA). GAA comprises of three main functions which include Internal Audit, Credit Portfolio Assurance and Retail Network Assurance.

GAA's responsibilities include the following:

- Develop a risk based Annual Audit Plan (Plan) for approval by the Audit Committee, and adjust the Plan, where necessary, to reflect current and emerging risks and changes in the Group's business, risks, operations, programs, systems and controls;
- Execute the approved Plan in line with the relevant GAA methodologies, and report the results of work performed to senior management and the Audit Committee;
- Issue periodic reports summarising progress against the approved Plan, any significant changes to the Plan, the results of GAA activities including reportable issues (defined as very high or high rated) raised, and other matters that need to be brought to the attention of the Audit Committee;
- Maintain regular and formal dialogue with the external auditors and other assurance functions (e.g. Operational Risk and Group Security) to share knowledge of significant issues, and ensure effective collaboration and appropriate reliance on each other's work;
- Escalate to senior management and the Audit Committee, as appropriate, instances where GAA believes that management has accepted a level of risk in excess of any relevant approved risk appetite;
- Maintain effective relationships with regulators, including providing access to relevant work files in the event of an inspection or if otherwise required by law;
- Maintain a professional team of GAA personnel with appropriate skills, knowledge and experience;
- Agree annually, with the Chairman of the Audit Committee, the Bank's Directors' Key Performance Indicators (KPIs) and report at least annually to the Audit Committee against KPIs;
- Maintain an appropriate Quality Assurance programme to ensure the effectiveness and continuous improvement of the GAA function, including annual reporting of the results of internal assessments and independent assessments at least once every five (5) years;
- At the request of management, provide assurance to external parties to meet their respective risk management requirements. GAA will establish in writing the scope and objectives of such assurance, with clear definition of the acceptable use and distribution of the results; and
- Fulfil all regulatory requirements pertaining to GAA.

While maintaining a management reporting line to the CFO, the head of GAA has a direct reporting line to the Audit Committee so as to bring the requisite degree of independence and objectivity to the role.

## External Auditor

PricewaterhouseCoopers (PwC) was appointed as the external auditor of the Bank at the 2007 AGM, effective from the beginning of the 2008 financial year.

The PwC partner managing the Group's external audit will attend the 2015 AGM and be available to respond to shareholder questions relating to the external audit.

In line with current legislation, the Group requires that the partner be changed within five (5) years of being appointed. The lead partner from PwC was changed with effect from 1 July 2012.

The Group and its external auditor must continue to comply with US Auditor independence requirements. US Securities and Exchange Commission (SEC) rules still apply to various activities that the Group undertakes in the US, even though the Bank is not registered under its Exchange Act.

## Non-Audit Services

The External Auditor Services Policy (Policy) requires the Audit Committee (or its delegate) to approve all audit and non-audit services before engaging the external auditors to perform the work. The Policy also prohibits the external auditors from providing certain services to the Group or its affiliates. The objective of this Policy is to avoid prejudicing the external auditor's independence.

The Policy is designed to ensure that the external auditors do not:

- Assume the role of management or act as an employee;
- Become an advocate for the Group;
- Audit their own work;
- Create a mutual or conflicting interest between themselves and the Group;
- Require an indemnification from the Group to themselves;
- Seek contingency fees; or
- Have a direct financial or business interest or a material indirect financial or business interest in the Group or any of its affiliates, or an employment relationship with the Group or any of its affiliates.

Under the Policy, the external auditor must not provide certain services, including the following services:

- Bookkeeping or other services relating to accounting records or Financial Statements of the Group;
- Financial information systems design and implementation;
- Appraisal or valuation services (other than certain tax only valuation services) and fairness opinions or contribution-in-kind reports;
- Actuarial services unless approved in accordance with independence guidelines;
- Internal audit outsourcing services;
- Management functions, including acting as an employee and secondment arrangements;
- Human resources;

- Broker-dealer, investment adviser or investment banking services;
- Legal services;
- Expert services for the purpose of advocating the interests of the Group;
- Services relating to marketing, planning or opining in favour of the tax treatment of certain transactions;
- Tax services in connection with certain types of tax transactions;
- Tax services to individuals, and any immediate family members of any individuals, in a Financial Reporting Oversight Role;
- Certain corporate recovery and similar services; and
- Certain assurance or other services relating to regulatory investigations or potential contravention of legislation.

In general terms, the permitted services are:

- Audit services to the Group or an affiliate;
- Related services connected with the lodgement of statements or documents with the Australian Securities and Investments Commission (ASIC), ASX, APRA or other regulatory or supervisory bodies;
- Services reasonably related to the performance of the audit services;
- Agreed-upon procedures or comfort letters provided by the external auditor to third parties in connection with the Group's financing or related activities; and
- Other services pre-approved by the Audit Committee.

## RISK MANAGEMENT

Risk Management governance originates at Board level, and cascades through the Group via policies, delegated authorities and committee structures. The Board and its Risk Committee operate under the direction of their respective Charters.

The Board sets the foundation for risk management via its articulated Risk Appetite Statement (RAS). It is also responsible for overseeing the establishment of systems of risk management by approving management's Risk Management Strategy (RMS) document and the key frameworks and policy components.

## Risk Committee

The Risk Committee oversees and annually reviews the Group's Risk Management Framework (RMF) and helps formulate the Group's risk appetite for consideration by the Board. It reviews regular reports from management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal controls systems. Such reviews took place in the 2015 financial year. Tax and accounting risks are governed by the Audit Committee.

The Committee monitors management's compliance with the Group's RMF, including management's implementation of key policies that underpin the Group RMS.

The Risk Committee also monitors the health of the Group's risk culture, and reports any significant issues to the Board.



The Risk Committee consists solely of independent Non-Executive Directors. The minimum number of Committee members is four (4) and meetings are chaired by an independent, Non-Executive Director of the Board. The Audit Committee Chairman is a member of the Risk Committee and vice-versa to ensure the flow of relevant information between the two Committees.

A copy of the Risk Committee Charter is available on the Group's website.

The Committee's members are:

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Harrison Young (Chairman)

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David Turner

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Sir John Anderson

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Shirish Apte

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Jane Hemstritch

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Brian Long

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Andrew Mohl

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Meetings are held at least quarterly or more frequently if required. Details of the number of times the Risk Committee met throughout the 2015 financial year and the individual attendances of the members at those meetings is contained in the Committee Meetings section of the Directors' Report on page 41 of the 2015 Annual Report.

The Risk Committee will meet the regulators on request. The Risk Committee has the option, with the concurrence of the Chairman of the Board, to retain independent legal, accounting or other advisors, to the extent the Committee considers necessary, at the Group's expense.

### **Risk Management Framework**

The Group has an integrated RMF in place to manage risks and risk adjusted returns on a consistent and reliable basis.

The Group's RMF incorporates the requirements of APRA's prudential standard for risk management (CPS220) and is structured around the interaction and integration of its key documentary components, which consists of RAS, RMS and the Group's business plan.

A high-level description of the RMF including the Group's material risks is set out in Note 31 to the Financial Statements on page 134 of the 2015 Annual Report.

### **Material Exposure to Economic, Environmental and Social Sustainability Risks**

There are a number of material business risks that could adversely affect the Group and the achievement of the Group's financial performance objectives. Those risks and how they are managed by the Group are described in Notes 31 to 34 to the Financial Statements on pages 135 to 157 of the 2015 Annual Report. Environmental, social and governance (ESG) risks and how those risks are managed by the Group are also described in the Corporate Responsibility section of the 2015 Annual Report on pages 32 to 35.

### **CONTINUOUS DISCLOSURE**

Matters which could be expected to have a material effect on the price or value of the Bank's securities must be disclosed under the Corporations Act and the ASX Listing Rules. The Group's Guidelines for

Communication between the Bank and Shareholders is available on the Group's website. These set out the processes to ensure that shareholders and the market are provided with full and timely information about the Group's activities in compliance with continuous disclosure requirements.

Continuous disclosure policy and processes are in place throughout the Group to ensure that all material matters which may potentially require disclosure are promptly reported to the CEO. This is achieved via established reporting lines or as part of the deliberations of the Group's Executive Committee. Matters reported are assessed and, where required by the ASX Listing Rules, advised to the market. The Bank's Company Secretary is responsible for communications with the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market.

### **SHAREHOLDER COMMUNICATION**

The Group believes it is very important for its shareholders to make informed decisions about their investment in the Bank. In order for the market to have an understanding of the business operations and performance, the Group aims to provide shareholders with access to quality information in the form of:

- Interim and final results;
- Annual Reports;
- Shareholder newsletters;
- Matters discussed at the Annual General Meeting;
- Quarterly trading updates and Business Unit briefings where considered appropriate;
- All other price sensitive information will be released to the ASX in a timely manner;
- The Group's website at [www.commbank.com.au](http://www.commbank.com.au); and
- The Group's investor relations app.

The Group employs a wide range of communication approaches, including direct communication with shareholders, publication of all relevant Group information on the shareholder centre section of the website and webcasting of most market briefings for shareholders. Upcoming webcasts are announced to the market via ASX announcements and publicised on the website to enable interested parties to participate. To make its general meetings more accessible to shareholders, the Group moves the location of its AGM between Australian capital cities each year and live webcasts are available for viewing online. The Group has taken these actions to encourage shareholder participation at general meetings. Shareholders have the option to receive communications from, and send communications to, the Bank and its share registry electronically.

The Group has in place an investor relations programme to facilitate effective two way communication with investors. A summary record of issues discussed at one-on-one or group meetings with investors and analysts, including a record of those present, time and venue of the meeting, is kept for internal reference only.

The Group is committed to maintaining a level of disclosure that meets the highest of standards and provides all investors with timely and equal access to information.

## ETHICAL POLICIES

The values of the Group are integrity, collaboration, excellence, accountability and service. The Board carries out its legal duties in accordance with these values and having appropriate regard to the interests of the Group's customers, shareholders, people and the broader community in which the Group operates.

Policies and codes of conduct have been established by the Board and management to support the Group's objectives, vision and values.

### Statement of Professional Practice

The Group's code of ethics, known as the Statement of Professional Practice, sets standards of behaviour required of all employees and Directors including:

- To act properly and efficiently in pursuing the objectives of the Group;
- To avoid situations which may give rise to a conflict of interest;
- To know and adhere to the Group's Equal Employment Opportunity policy and programs;
- To maintain confidentiality in the affairs of the Group and its customers; and
- To be absolutely honest in all professional activities.

These standards are regularly communicated to the Group's people. In addition, the Group Securities Trading Policy is designed to ensure that unpublished price-sensitive information is not used in an illegal manner for personal advantage.

## OUR PEOPLE

The Group has implemented various policies, processes and systems to enable its people to carry out their duties in accordance with the Group's values. These include:

- Workplace Conduct (EEO);
- Work Health and Safety;
- Recruitment and Selection;
- Performance Management;
- Talent Management and Succession Planning;
- Remuneration and Recognition;
- Employee Share Plans; and
- Supporting Professional Development.

### Diversity

Information on the Group's Diversity and Inclusion Strategy can be found in the Corporate Responsibility section on pages 32 to 35 of the 2015 Annual Report.

In December 2009 the Group set a target to increase the representation of women in Executive Management and above roles from 26.6% to 35% by December 2014. As at 30 June 2015 the Group achieved 35% women in Executive Management and above roles. Overall, women make up almost 60% of the Group's workforce and 43% of them are in management roles.

In the senior leadership roles, women make up 33.3% of the Executive Committee and 30% of the Non-Executive Directors on the Board.

The Group's most recent Gender Equality Indicators, as defined in and published under the Workforce Gender Equality Act, can be viewed at [www.wgea.gov.au](http://www.wgea.gov.au)

## Workplace Responsibilities, Behaviours and Compliance

The Group is strongly committed to maintaining an ethical workplace and to complying with its legal and ethical responsibilities. The Group has a number of policies relating to workplace responsibilities, behaviours and compliance that apply to and must be observed by Group staff.

The Group has a system in place which allows staff to report (and remain anonymous if they wish) suspected fraud or corrupt, unlawful or improper conduct. The Group also has a "SpeakUP Hotline" which is available for staff to raise issues (anonymously if they wish) affecting their role or their wellbeing at work. The SpeakUP Hotline is an external telephone and email service staffed by independent consultants qualified and equipped to respond to such matters.

## CODE OF CONDUCT

The Board operates in a manner reflecting the Group's values and in accordance with its Corporate Governance Guidelines, the Bank's Constitution, the Corporations Act and all other applicable regulations.

The Board employs and requires at all levels impeccable values, honesty and openness. Through its processes it achieves transparent open governance and communications, and it addresses both performance and compliance.

The Board's policies and codes include detailed provisions dealing with:

- The interaction between the Board and management to ensure there is effective communication of the Board's views and decisions, resulting in motivation and focus towards long term shareholder value behaviours and outcomes;
- Disclosure of relevant personal interests so that potential conflict of interest situations can be identified and appropriate action undertaken to avoid compromising the independence of the Board; and
- Security dealings in compliance with the Group's strict guidelines and in accordance with its values of integrity, collaboration, excellence, accountability and service.

## WEBSITE

The current Charters and summary of Policies and Guidelines referred to in this statement can be viewed at:

<https://www.commbank.com.au/about-us/shareholders/corporate-profile/corporate-governance.html>

## CONCLUSION

The Board recognises that practices and procedures can always be improved. Accordingly, the Group's Corporate Governance Framework is kept under review to take into account changing standards and regulations.