2013
BASEL III
PILLAR 3 DISCLOSURE

YEAR ENDED 30 SEPTEMBER 2013

APS330: PUBLIC DISCLOSURE
REMUNERATION DISCLOSURE

ANZ

Important notice

This document has been prepared by Australia and New Zealand Banking Group Limited (ANZ) to meet its disclosure obligations under the Australian Prudential Regulation Authority (APRA) ADI Prudential Standard (APS) 330: Public Disclosure.

This disclosure was prepared as at 30 September 2013. ANZ has a continuous disclosure policy, under which ANZ will immediately notify the market of any material price sensitive information concerning the Group, in accordance with legislative and regulatory disclosure requirements.

Remuneration Disclosure

Basis of Disclosure

This document presents the 2013 financial year (2013) remuneration disclosures of Australia and New Zealand Banking Group Limited (ANZ), as required by the Australian Prudential Regulation Authority (APRA) ADI Prudential Standard APS 330 Public Disclosures.

The disclosures contained in this document are based on information that is consistent with information provided to ANZ's external auditor. However, the information provided is for regulatory disclosure purposes, rather than accounting disclosures, and may not be comparable to other information disclosed by ANZ. Additional information on ANZ's remuneration policies and structures is contained in the ANZ Annual Report.

Bodies that oversee Remuneration

The ultimate responsibility for the sound and prudent management of remuneration at ANZ rests with the ANZ Board. The Board is assisted in overseeing remuneration matters, including adherence to ANZ remuneration policies and practices, by the Board Human Resources Committee (HRC).

The HRC met five times during the 2013 financial year. Committee fees for the HRC chair for the 2013 financial year were $55,000 and for HRC members were $25,000.

The purpose, powers and duties of the HRC are set out in the HRC Charter. The HRC pays particular attention to the remuneration of the senior executive population, the highest paid individuals, individuals who could have a material impact on ANZ's financial soundness, the remuneration structures of individuals who perform a risk and financial control role and adherence to the ANZ Remuneration Policy.

The ANZ Remuneration Policy applies to all ANZ employees globally, including:

- **Senior Managers**
  Senior Managers are the Responsible Person roles as detailed in ANZ's Remuneration Policy. ANZ's current Responsible Persons are the CEO, Management Board members and other key roles identified in ANZ's Fit and Proper Policy. For 2013, ANZ had a total of 23 senior manager roles.

- **Material Risk Takers**
  Material Risk Takers (MRT) are any other persons (not covered by the Senior Manager definition above), for whom a significant portion of total remuneration is based on performance and whose activities, individually or collectively, may affect the financial soundness of ANZ. For ANZ these are Senior Executives who can influence the Group's capital; funding and liquidity; market risk; underwriting risk; and/or credit and counterparty risk and for 2013 represented 8 roles.

As at 30 September 2013, the HRC consisted of six members, all of whom are independent Non-Executive Directors[1].

Throughout the course of the year the HRC has made all remuneration-related decisions, and recommendations to the Board, independently of management. The HRC also has free and unfettered access to ANZ employees, and to relevant external advisors, when required.

During 2013, management commissioned information, which was provided to the HRC, from external advisors including Ernst & Young, Hay Group, Herbert Smith Freehills, McLagan, Mercer (Australia) Pty Ltd, Oliver Wyman and PricewaterhouseCoopers. Information received from external advisors related to remuneration market data and analysis, market practice on the structure and design of incentive programs, legislative requirements and interpretation of governance and regulatory requirements.

Design and Structure of Remuneration Processes

The ANZ Remuneration Policy provides the HRC and management with a consistent framework for managing remuneration and remuneration-related matters, the framework addresses:

- Remuneration mix and market positioning
- Fixed and variable remuneration
- Shareholding guidelines and hedging prohibitions
- Independence of Risk and Financial Control Personnel
- Requirements for other ANZ APRA Regulated Entities and Registered Superannuation Entity Licensees and United Kingdom based employees
- Engagement of remuneration consultants

[1] ANZ Board Chairman is an ex-officio member of the Committee and does not receive a Committee member fee.

The primary objectives of the ANZ Remuneration Policy are:

- creating and enhancing value for all ANZ stakeholders;
- emphasising the 'at risk' components of total rewards in order to increase alignment with shareholders and encourage behaviour that supports both the long-term financial soundness and the risk management framework of ANZ, and deliver superior long-term total shareholder returns;
- differentiating rewards in line with ANZ's culture of rewarding for out-performance and demonstration of values led behaviours; and
- providing a competitive reward proposition to attract, motivate and retain the highest quality individuals in order to deliver ANZ's business and growth strategies.

Performance and remuneration outcomes for all Risk and Financial Control Personnel are determined by the appropriate reporting manager within these functions directly, and not the business that the individual supports. This ensures individuals are remunerated independently of the business they oversee.

The HRC last reviewed the ANZ Remuneration Policy in February 2013. As a result of the review, the Board approved changes to the ANZ Remuneration Policy to include the new Institutional Total Incentives Performance Plan (TIPP) and new regulatory requirements for Registrable Superannuation Entities.

Remuneration at ANZ

ANZ's short-term incentive spend is adjusted each year to reflect ANZ's performance outcomes, and is approved by the Board. Individual remuneration at ANZ is comprised of fixed remuneration and variable remuneration.

Fixed remuneration: Fixed remuneration is designed to reward individuals for their skills and experience, and the accountability of their role. Fixed remuneration is reviewed annually with regard to local market practices and affordability.

Variable remuneration: ANZ's variable remuneration opportunity provides relevant employees with "at risk" reward component(s) designed to drive performance in the short-term and the medium to long-term.

The Board has on-going and absolute discretion to adjust unvested performance-based variable remuneration downwards, or to zero at any time.

Adjustments may occur to assist in protecting the financial soundness of ANZ or if the Board subsequently considers that having regard to information which has come to light after the grant of deferred remuneration, the deferred remuneration was not justified.

Each year the mix of cash and equity an individual receives varies, as the value of the variable remuneration increases or decreases, to reflect individual, business and ANZ overall performance outcomes for the year.

An individual's variable remuneration may comprise a short-term incentive opportunity and a long-term incentive opportunity, or a blended short and long-term incentive opportunity.

Short-term incentives

The short-term incentive opportunity supports ANZ's strategic annual performance objectives. To determine and approve the annual short-term incentive pool, the Board assesses performance against a balanced scorecard of measures.

For 2013, examples of some of the key performance measures under each of the balanced scorecard categories used to assess performance are provided below. ANZ has used a balanced scorecard approach for a number of years. The categories within the balanced scorecard were refined from six categories in 2012 (Finance, Customer, Shareholder Returns, People, Connectivity and Process/Risk) to the following five categories in 2013.

High Performing

- Cash profit
- Economic profit
- Return on equity
- Cash earnings per share

Most Respected

- Senior leaders as role models
- Employee engagement
- Workforce diversity

Well Managed

- Maintain strong credit rating
- Core funding ratio
- Cost to income ratio
- Number of outstanding internal audit items

Best Connected
- Growth in Asia Pacific, Europe and America

Customer Driven
- Customer satisfaction (based on external survey outcomes)

Performance measures within each of the division's balanced scorecards are strategically aligned to the performance measures within the ANZ balanced scorecard.

Individual performance metrics, which form part of an individual's annual objectives, are tailored to reflect the nature of the role.

Individual remuneration outcomes are discretionary and linked to both ANZ and individual performance outcomes for all senior managers and material risk takers. Each individual's performance is assessed at year end against their agreed balanced scorecard of financial and non-financial objectives. Demonstration of the ANZ Values and an assessment of compliance, risk management and behaviour forms a fundamental aspect of the performance assessment. Risk and Compliance input is a critical part of the assessment process in determining the performance of ANZ and in ensuring that individual remuneration has been appropriately assessed with regard to risk. Individual reward outcomes are then determined, taking into consideration both the individual's performance and the performance of ANZ overall. Awards may be below, at or above the individual's target opportunity.

Short-term incentives are delivered in cash up to the mandatory deferral threshold. The HRC regularly reviews the threshold at which mandatory deferral is applied, the quantum of variable remuneration which is subjected to deferral and the time period over which deferral occurs.

For 2013, deferral applies to 50% of short-term incentive payments exceeding $100,000[2]. Half the deferred portion is deferred for one year and half is deferred for two years; the deferred equity remains at risk, and can be clawed back at the discretion of the Board until the vesting date.

Long-term incentives

The Board/HRC approves the allocation of long-term incentives to senior managers and material risk takers. The long-term incentive plan is delivered in equity, which provides alignment of a significant portion of an individual's remuneration to sustained growth in shareholder value over the longer-term.

To further align an individual's remuneration with ANZ's actual performance outcomes, ANZ determines LTI grants after the end of the performance year to which the grant relates (i.e. grants made during 2013 related to performance during 2012).

All long-term incentive equity is deferred for three years and remains at risk, and can be clawed back, until vesting.

Equity granted to the CEO and Management Board[3] is delivered as Performance Rights and in order to vest must meet both a time and a relative Total Shareholder Return (TSR) performance hurdle[4]. If the hurdles are not met then the awards lapse.

Equity granted to individuals in roles below the level of CEO and Management Board in the 2013 financial year was delivered as ANZ Deferred Equity (shares or share rights) subject to a time based hurdle[5].

Total Incentive Performance Plan (TIPP)

In determining the incentive pool for TIPP, which applies to Institutional specific Product and Relationship businesses, the Board takes into consideration performance against a balanced scorecard of measures. The TIPP balanced scorecard considers a range of Financial, Customer, Risk, Process Efficiency and People measures.

Individual reward outcomes are determined after taking into consideration the individual's performance and relevant business performance.

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[2] Or the local equivalent for overseas individuals, mandatory deferral is subject to a minimum deferral amount of $25,000 (or the local equivalent).

[3] With the exception of the CRO whose deferred share rights were subject to a 3 year time-based hurdle to ensure greater impartiality and independence of this role.

[4] From 2014, Performance Rights granted during the period will be divided into two equal tranches with Tranche 1 subject to TSR relative to a select Financial Services Comparator Group and Tranche 2 subject to TSR relative to an ASX50 Comparator Group.

[5] Equity delivered in the 2014 financial year was delivered as a blend of Performance Rights and Deferred Equity.

Payments made under the TIPP are delivered in cash up to $80,000. Mandatory deferral applies to 60% of payments exceeding $80,000[6] and this is deferred evenly over three years. The equity remains at risk and can be clawed back until the vesting date.

Current and Future Risks

ANZ has an Enterprise-wide risk management framework which takes into account a range of risks managed within ANZ, both at the Enterprise level and individual business level.

Risk appetite is set using both qualitative and quantitative measures across the major risk classes including liquidity, market, financial, credit and operational risk to ensure business objectives and performance are measured and monitored on a risk-adjusted basis and within appetite.

To ensure consistent monitoring year on year, the Board considers performance against a balanced scorecard of measures to determine the incentive pools. This helps to ensure that the incentive pools are shaped by risk considerations. The CRO reviews and provides input to the Board/HRC on incentive pools taking into consideration the risk and return tradeoffs.

The ANZ Remuneration Policy through the risk management framework ensures the design, monitoring, measurement and remuneration outcomes occur within the broader framework of ANZ's risk management targets and thresholds.

The design and operation of all variable remuneration schemes are required to adhere to a set of policy principles and governance standards which require the approval of the Finance, Risk, and HR functions.

Individual incentive awards are made on the basis of a risk adjusted view of both financial and non-financial performance. However, if the assessment of performance subsequently proves to be inaccurate or incorrect, the unvested deferred awards can be clawed back by the Board.

Quantitative Disclosures for Senior Managers and Material Risk Takers

The following quantitative disclosures are provided with reference to the ANZ Remuneration Policy and current practices, and include individuals who met the definitions of Senior Manager or Material Risk Taker at any stage during the financial year.

Table 1 (H & J): Remuneration - fixed, variable and other remuneration

Table 1 provides a view of how remuneration is paid or communicated to individuals. Consistent with the Remuneration Report Non Statutory Remuneration Disclosure table approach: Fixed remuneration relates to amounts for/paid during the financial year. Variable remuneration relates to the communicated cash and equity values (fair value) received, that is paid/granted, in/during the financial year that relate to the prior financial year. This approach has been chosen over the Statutory Remuneration Disclosure approach (i.e. the inclusion of cash STI for the financial year and also the accounting expense of prior year STI and LTI share-based payments in the financial year) as it provides greater transparency to the value communicated and actually granted to individuals during the financial year.

No guaranteed bonuses, sign-on awards or termination payments have been paid/granted in the financial year to Senior Management or Material Risk Takers.

	Financial Year 2013	
	Senior Management	Material Risk Takers
Number of people	23	8
Fixed remuneration (cash – non-deferred) $'000	19,167	4,134
Variable remuneration		
Number of people	22	7
Cash (non-deferred) $'000	16,371	8,558
Shares and share-linked instruments (deferred) $'000	26,574	10,413

6 Or the local equivalent for overseas individuals, mandatory deferral is subject to a minimum deferral amount of $18,000 (or the local equivalent).

Table 2 (I & K): Deferred remuneration exposed to implicit and explicit adjustments

Value is 1-day Volume Weighted Average Price of ANZ shares on vesting date (paid out)/30 September 2013 (outstanding), by the number of shares/rights (face value). Reductions are determined comparing these values to the allocation value at grant. All outstanding deferred remuneration is exposed to ex post explicit and implicit adjustments. ANZ does not provide retained remuneration.

Explicit adjustments reflect lapse, due to performance conditions not being met and/or due to cessation of employment. Implicit adjustments reflect share price reductions in the value of equity from grant.

All deferred remuneration is deferred into equity.

	Financial Year 2013	
	Senior Management	Material Risk Takers
Deferred remuneration paid out		
Vested shares and share-linked instruments $'000	34,768	9,160
Outstanding deferred remuneration		
Unvested shares and share-linked instruments $'000	110,811	33,286
Deferred remuneration reductions		
Total reductions due to ex post explicit adjustments $'000	(8,603)	(1,565)
Total reductions due to ex post implicit adjustments $'000	-	-

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