



CBA shows critical leadership through difficult times

Company/ASX Code	Commonwealth Bank of Australia/CBA
AGM date	Tuesday 13 October 2020
Time and location	9:30am AEDT Virtual AGM
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by Julieanne Mills
Pre AGM Meeting	Yes with Chairman Catherine Livingstone and Chairman of People & Remuneration Committee Paul O'Malley

The individuals or their associates involved in the preparation of this Voting Intentions have shareholding in this company.

Item 1	Consideration of financial statements and reports
ASA Vote	No vote required

Summary of ASA Position

Overall CBA has proven that by tackling the problems recognised by Hayne-led Royal Commission into the financial services industry and addressing the issues with transparency and cultural change, a company can move ahead and transform its business for the future. CBA, under Catherine Livingstone as chairman and Matt Comyn as CEO, is a different company to what it was 3 to 4 years ago. Its investment in technology, a shift to a more customer focused business, simplification and divestment of the problematic wealth businesses, have provided it with the ability and agility to adjust to the oncoming headwinds that arrived with the bush fires and COVID-19. Leadership from Matt Comyn at the beginning of the pandemic needs to be applauded along with the company's ongoing contributions during the bushfires and into the future. It is the CBA's proactive and socially responsible approach that will go a long way to improving the company's reputation post Royal Commission and benefiting shareholders in the long term.

Governance and culture

COVID-19 has rapidly increased and introduced new risks. A strengthened risk framework is central to board and management effectiveness. With eight pages of the annual report (AR) dedicated to key risks including COVID-19, global tensions, increased financial crime, climate change and increased regulatory scrutiny, CBA is clearly demonstrating its commitment to more effective risk management. CBA is in its third year of the APRA Remediation Action Plan (RAP) with

79% of required actions completed, it is designed to continually improve its risk management. CBA expects to complete all RAP actions on target and within the 3 year timeframe set by APRA.

CBA has good metrics and targets around environmental, social and governance (ESG), is delivering on many of them and continues to update and extend targets. It recognises the potential costs and opportunities that climate change presents. A sample includes: increased community investment to 3.2% of pre-tax profit, employee engagement has improved to 81% from 72% in 2019, gender diversity in the workforce is continuing to improve with a 5% increase in women in senior leadership to 27% overall, women in executive management has outperformed its 40% target by 2020 and a new target of 47-50% has been set for 2025, improved indigenous workforce participation to 1.5%. It has \$5.4 billion in low carbon funding, and it has beaten its greenhouse gas emission targets for financial year 2020 (FY20).

Financial performance

CBA delivered a statutory profit after tax of \$9,634m up 12.4% on FY19 which included gains on sales from divestments. The cash profit after tax was \$7,296m from continuing operations and \$7,459m including divested businesses. The cash profit from continuing operations was down 11.3% on FY19 due to the provisioning of about \$1,500m of loans as a direct result of agreed loan deferrals arising from COVID-19 impacts on borrowers. Total loan impairment expense for FY20 was \$2,518m compared with \$1,317m in FY19 resulting in the provision coverage ratio rising to 1.70%.

Core business volume growth was strong, business loans were up by 5.1%, home lending up by 1.3% system and household deposits up by 9.8%. The net interest margin dropped two basis points to a respectable (under the circumstances) 2.07%. Common Equity Tier 1 Capital Ratio increased by 90 basis points to 11.6%.

The full year dividend of \$2.98 fully franked was down 31% on FY19 due to a restricted final dividend of 98 cents which was effectively mandated by APRA, being just under the 50% payout ratio cap at 49.95%.

Key events

The most consequential event during FY20 was, of course, the arrival of the COVID-19 virus and the resulting human and economic effects from health impacts and government-imposed restrictions on movements, business activities and job losses. CBA responded promptly to requests from governments and its own customers for assistance and to directives from APRA and the Reserve Bank to ensure the ongoing strength of its own business. These matters are dealt with at some length in the annual report.

The bank processed over 250,000 home, personal and business loan deferrals and funded more than \$650m of new loans under the Government's Coronavirus SME Guarantee Scheme. As reported in August, CBA had deferred repayments on \$14 billion of business loans representing 15% of the total book but the affected 59,000 accounts are down from a peak of 86,000 and already 30% are back to making full repayments. At the end of July, the bank had 135,000 deferred home loans representing 8% of total home loans and \$48 billion in balances. Three quarters of customers with deferrals are not making any repayments, but the bank believes that most of these customers will be able to recommence payments once the deferral period expires. CBA continues to apply significant resources in terms of staff to deal as fairly as possible with these cases.

In the months prior to COVID-19 impacts becoming evident, the bank had to respond to many hardship cases arising from the January bushfires in regional NSW and Victoria. The CBA effectively lead the coordinated response of the major banks in addressing these urgent and unexpected needs.

There were numerous divestments during FY20, the most notable being a 55% interest in Colonial First State (CFS) to private equity group KKR. CFS, CommInsure Life, BoComm Life, CFSGAM and Indonesian operations PTCL were classified as discontinued operations in the FY20 accounts.

CBA made a \$US300m investment for a 5.5% equity holding in the Swedish-based Buy Now Pay Later (BNPL) provider Klarna that is currently used by 85 million shoppers worldwide.

There were no capital raisings during FY20.

Considerable attention has been given to cultural change and risk management practices as noted elsewhere.

Key Board or senior management changes

This year sees two directors retiring, being Sir David Higgins in December 2019 and Wendy Stops who will retire at the AGM after 5 years on the board. Simon Moutter joined the board on 1 September 2020, having been previously the managing director of Spark New Zealand Limited. These changes will see further renewal with the majority of directors having less than 5 years on the board. There are now four women and five men on the board and a reasonable level of diversity and expertise.

The board has just had an independent external review done. There is a clear skills matrix provided in the AR (Page 65).

Committee chairmen are encouraged to rotate after 3 years. Paul O'Malley was appointed chairman of People & Remuneration Committee and Rob Whitfield appointed chairman of Risk & Compliance

New appointments to the executive leadership team include Priscilla Brown as Group Executive, Marketing and Corporate Affairs (August 2019), Mike Vacy-Lyle as Group Executive, Business and Private Banking (February 2020) and Carmel Mulhern as Group General Counsel and Group Executive, Legal & Group Governance (January 2020).

Financial Summary

(As at FYE)	2020	2019	2018	2017	2016
Statutory NPAT (\$m)	9,634	8,571	9,329	9,928	9,223
Cash NPAT (\$m)	7,449	8,706	9,412	9,881	9,445
Share price (\$)	69.42	82.78	72.87	82.81	74.37
Dividend (cents)	298	431	431	429	420
TSR (%)	(12.5)	19.5	(6.8)	17.2	-7.8
Statutory EPS (cents)	545	486	534	577	542
CEO total remuneration, actual (\$m)	3.9	3.4	2.8	5.5	12.3

Note that Cash NPAT includes contribution from discontinued operations.

For 2020, the CEO's total actual remuneration was **42** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings")

Item 2	Re-election of Mr Rob Whitfield as a Director
ASA Vote	For

Summary of ASA Position

Rob Whitfield AM was appointed in September 2017. He has extensive experience in banking, finance and risk in the public and private sectors. His 30 years at Westpac included from 2009 to 2013 as CEO of the Institutional Bank, and CRO, group treasurer and chairman of the Asia Advisory Board. His deep knowledge of equity and capital markets, his experience in developing Westpac's risk management functions and strategies provide significant banking and treasury expertise on the board.

He is a director GPT Group, former chairman and director of NSW Treasury Corporation, former secretary NSW Treasury, and former secretary of NSW Industrial Relations and deputy chairman of the Australian Financial Markets Association.

Mr Whitfield's shareholding, currently 1,471 shares, is equivalent to 50% of a year's base fees required for directors to be achieved. He has until July 2024 to comply. Given that Mr Whitfield has been a director for 3 years already, the ASA considers that Mr Whitfield's shareholding does not represent the level of commitment expected of such a senior and experienced director. The ASA has raised its concerns with regard to Mr Whitfield's level of shareholding and has been advised that restrictions on share trading windows and Mr Whitfield's previous employment by Westpac have limited his opportunities to purchase more shares in CBA but that he intends to do so.

Given Mr Whitfield's considerable experience in banking and diverse financial roles, and his important role as chairman of the Risk & Compliance Committee, the ASA recommends a vote FOR Mr Whitfield.

Item 2b	Election of Mr Simon Moutter as a Director
ASA Vote	For

Summary of ASA Position

Mr Moutter was appointed to the board on 1 September 2020.

He is an engineer with extensive leadership experience in technology, process effectiveness and business strategy and change management. As managing director of Spark from 2012 to 2019 he rebranded and transformed the NZ Telecom to a customer focused business. He was the former CEO of Auckland Airport from 2008 to 2012, again transforming the company to a customer centric focus. He is also a former COO of Telecom NZ from 2003 to 2008.

Mr Moutter is a director and operator of 3 privately owned businesses Smart Environmental Ltd, Agility CIS Ltd and Intellihub Ltd.

It is understood that Mr Moutter brings considerable experience in developing operational effectiveness in business environments with increasing technology and automation needs, and has good strategic perspectives across the “fintech” world. He also brings experience of the New Zealand business environment which is increasingly important to the bank. The ASA therefore recommends a vote FOR Mr Moutter.

Item 3	Adoption of 2020 Remuneration Report
ASA Vote	For

Summary of ASA Position

A summary of the CEO’s remuneration plan for FY20 is presented in the following table. Actual remuneration received comprised \$2.20m fixed remuneration (FR) plus \$1.21m cash short term variable remuneration (STVR) plus \$0.486m deferred equity awards from previous years. Deferred equity shares are valued on the 5 day VWAP of the group’s ordinary shares immediately preceding the vesting date.

CEO Remuneration

CEO Remuneration	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.20	26	2.209	23
STVR - Cash	1.10	13	1.65	17.5
STVR - Equity	1.10	13	1.65	17.5
LTVR - Deferred	3.96	48	3.96	42
Total	8.36	100	9.46	100

Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

There was no increase in the CEO's fixed remuneration, however all executive leadership team (ELT) received increases in the fixed remuneration and most received increases in their total remuneration.

The short term variable remuneration (STVR) for the CEO was assessed at 73% of the maximum opportunity. This figure included 10 percentage points as a discretionary uplift by the board in recognition of the CEO's "exemplary leadership shown by (him) and his leadership team during the bushfires, drought and coronavirus pandemic, and ongoing commitment to supporting customers and other stakeholders through this unique combination of events".

STVR is split 50% paid in cash and 50% deferred equity spread over 2 years. They are measured against 30% financials, (NPAT and profit after capital charge (PACC)) and 70% non-financials (customer, people and strategic measures and delivery of RAP) with a board gateway subject to CBA values, risk and reputation. As NPAT was below threshold due largely to COVID and bad loan provisions, no payment was made for that financial component of the STVR but an award was made for the PACC component (based on risk adjusted capital allocation) which just met the lower hurdle.

Long term incentives or long term variable remuneration (LTVR) are vested subject to a 4 year performance period. The LTVR comprises 75% relative total shareholder return (TSR), 12.5% trust and reputation and 12.5% employee engagement (EE) with a positive TSR gateway applying to TSR and EE. The 2017 LTVR vested at 84.% of maximum opportunity at the end of the performance period on 30 June 2020.

It was noted that Mr Vacy-Lyle received a sign-on award to compensate him for unvested awards granted by his previous employer, forfeited or foregone upon termination of his previous employment. This award comprised a cash component of \$153,435 and a deferred grant of shares with an assessed fair value of \$1.803m to be granted in two tranches over FY21 and FY22. The ASA is normally opposed to sign-on awards and the matter was raised in the Pre-AGM meeting with the CBA. The bank advised that it, too, is adverse to sign-on awards but the world-wide shortage of experienced talent needed by many banks as they seek to restore their businesses makes it difficult to avoid such instances. In the case of Mr Vasy-Lyle, the bank sought and received evidence that he did indeed forego the claimed losses and compensation was mostly in the form of deferred shares rather than cash, in line with ASA expectations in such situations.

The new **2021 Remuneration framework** is largely a reflection of anticipated APRA regulations to limit the maximum short-term incentive (STI) and long term incentive (LTI) remuneration while also balancing interests of all stakeholders with a long term view.

Fixed remuneration (FR) has been by increased by 4.5% to offset some of the 34% reduction in the maximum STI and a 19% reduction in the LTI. The new total remuneration levels are considerably lower than previously applied, the total target remuneration has been reduced by 13% and the total maximum remuneration has been reduced by 19% from FY20 levels. LTI (being LTAR plus LTVR) is now capped at 140% of FR and STI (being STVR) is capped at 94% of FR.

The new structure includes vesting over a much longer time frame and the ability of the board to apply malus (the ability to cancel awards **before** they have vested or been paid) and clawbacks (the ability to cancel awards **after** they have vested or been paid) over a seven year period.

STI's are split 50% cash over one year and 50% deferred shares over 2 and 3 years. They are measured against a financial and non-financial scorecard.

LTI's are divided into long term alignment remuneration (LTAR) and long term variable remuneration (LTVR). LTAR is broken into 2 tranches of restricted shares deferred 50/50 over 4 and 5 years. LTVR provides rights to shares in two tranches of 50% over 6 and 7 years. The LTVR is still measured against relative TSR performance over 4 years. The LTAR is subject to a pre-grant assessment by the board and can only be adjusted downwards.

The CEO's current shareholding is 264% of the required 300% of fixed remuneration required by 2023.

PACC: The Group uses PACC, a risk-adjusted measure, as a key measure of financial performance. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments.

VWAP: volume weighted average price

Given the many improvements made by the bank to its remuneration structure and its diligent approach to assessing awards, the ASA recommends voting FOR this resolution.

Item 4	Grant of securities to CEO, Matt Comyn
ASA Vote	For

Summary of ASA Position

It is proposed that the CEO be granted a maximum of 23,394 restricted share units as his LTAR award and 23,394 performance rights as his LTVR award for his FY21 long term variable remuneration. The number of restricted shares and rights are based on the maximum value of the LTAR and LTVR opportunities (being \$1,610,000 for each) divided by the 5-day VWAP of CBA's ordinary shares up to 1 July 2020 (being \$68.82). The notional value of each of the LTAR and LTVR is based on the maximum allocation of 70% of the new FR of \$2.3m (being a 4.5% increase on the FY20 FR of \$2.2m).

Given the discussion above in Item 3, it is noted that the new arrangements are substantially lower in quantum and longer in vesting periods than applied in previous years. Given the significant improvements in culture and behaviours in CBA under the current CEO and the respectable financial outcomes achieved under the present difficult conditions, a vote FOR this resolution is recommended.

Item 5	Resolution requisitioned by members to amend the company's constitution.
ASA Vote	Against

Summary of ASA Position

This resolution has been sponsored by a small group of shareholders representing approximately 0.007% of total shares on issue. In essence, the resolution seeks to require shareholder approval by ordinary resolution should CBA participate in a Commonwealth Government initiative known as the Business Growth Fund (BGF) to provide loans to small and medium businesses (SME).

ASA is reluctant to vote in favour of changing company constitutions – our preference is for a public policy consultation on whether there should be a right to more non-binding shareholder resolutions.

The nature of this particular amendment would impose a binding requirement which directs the company to operate in a particular manner in a small part of its operations. We do not consider it an appropriate clause for a large publicly listed company's constitution.

The CBA has stated that it is a strong supporter of the SME market and sees this initiative as another form of assistance to a challenged sector vital to the national economy.

BGF will have its own governance arrangements to ensure it remains true to its mandate and, as mentioned above, we will monitor the impact of the scheme.

The ASA therefore recommends a vote AGAINST this resolution.

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