Australian Shareholders' Association

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CBA well placed for emerging economic headwinds

Company/ASX Code	Commonwealth Bank/CBA
AGM date	Wednesday 12 October 2022
Time and location	9:30am AEDT Melbourne Cricket Ground (MCG)
Registry	Link Market Services
Type of meeting	Physical in Melbourne with live webcast
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by Julieanne Mills and John Lin
Pre-AGM Meeting?	Yes, with Chair Paul O'Malley, Melanie Kirk Investor Relations

Monitor Shareholding: Some of the individuals involved in the preparation of this voting intention have a shareholding in this company.

Please note: Unless attending in person, proxies are due by 9:30 am Monday 10 October and questions must be submitted by 5pm on the 5 October. Refer to Notice of Meeting for details. The ASA will be attending the meeting which will be webcast.

Summary of issues for meeting

1.In-person AGM and live webcast with no opportunity for online questions or voting on the day.

The bank is keen to get back to physical meetings and will webcast the meeting live. The bank is determined to improve the AGM experience for all shareholders. Past meetings have been overtaken by repetitive questions and personal issues that may not be appropriate in the context of an AGM. This year's meeting in Melbourne, is a return to AGMs in different states for a more equitable shareholder experience. The ASA agrees with the rotation but feels that a far more equitable experience for shareholders would be to provide a hybrid AGM whereby shareholders can vote and ask questions online on the day.

Since the pandemic technology has improved and will continue to do so. We feel the opportunity to participate in a meeting from anywhere in Australia would encourage more engagement. The bank has said it will review the impact of the current strategy after the AGM.

2.The ASA wanted to understand the new chair's approach and his priorities for the bank.

Mr O'Malley is very aware of the boots he will be filling and acknowledged the achievements of his predecessor and her continued support. He is keen to maintain an open and transparent approach and promote a balanced view, one that works for all stakeholders. The board renewal and succession will focus on different skills and geographies, operations and compliance to support the bank's strategy for the future and one that will be shaped by technology.

3. CBA approach to gas investment given the European energy crisis.

The chairman confirmed CBA fully supports the aim of no more than 1.5 degrees warming by 2050 but also recognises that it will be difficult without understanding global perspectives on transition energy sources. While he sees thermal coal and oil are on their way out, gas is another matter and may be needed in Australia and globally for some time to provide base load power and aid the transition. There is a need for international guidance on transition fuels. He sees the bank has a role in providing leadership and support to the transition and to address the social consequences and impacts on particular communities.

4. Addressing the uncertainties of the emerging economic headwinds

Mr O'Malley emphasised the uncertainty around the economy with the RBA raising interest rates as it seeks to control inflation, and with double the usual amount of fixed interest rates loans about to unwind. The bank has significant buffers in place for a soft landing, however there is a still a chance that it will not be soft, and more provisions may be needed. Rising interest rates would normally lead to an increased net interest margin for banks, however he stressed the very competitive market in banking and possible economic impacts of rising interest rates may mitigate these possible benefits.

Proposed Voting Summary

No.	Resolution description	
2a	Re-election of Paul O'Malley as a Director	For
2b	Re-election of Genevieve Bell AO as a Director	For
2c	Re-election of Mary Padbury as a Director	For
2d	Election of Lyn Cobley as a Director	For
3	Adoption of 2022 Remuneration Report	For
4	Approval grant of securities to CEO/Managing Director Matt Comyn	For
5a	Amendment to Constitution	Against
5b	Ordinary resolution on Climate Risk Safeguarding	Against

Item (1) Consideration of financial statements and reports - No vote required

<u>Governance and culture</u>

"Transformative" changes due to Remedial Action Plan (RAP) implementations have been evident over the past year or two. A "Should we" code of conduct is in place. Employee engagement is rated at 82%, while proud to work at CBA is at 90%.

Gender diversity at Executive level needs some improvement but has improved 14% over the year to 43%. However, of the 10 Key Management Personnel (KMP), only 2 are women. Gender pay equality is at a gap of 1% or less.

Diversity and inclusion are encouraged. The cultural diversity index aims for an equal representation of the community. Indigenous workforce needs some work as it is well below the 3% target for 2026 at 0.9%. The reconciliation action plan is well developed and now at "Elevate" level and 60% of workforce has had cultural awareness training.

CBA provides a flexible and hybrid workplace, along with generous parental leave to both parents and is seen as family friendly. It is recognised by LinkedIn as a top company employer. There is a focus on re-skilling and up-skilling.

The bank has doubled its cyber-crime prevention team.

Financial performance

CBA has 16 million customers, and processes 23% of all bank lending and 40% of all financial transactions.

Statutory net profit after tax (NPAT) was $9.673 billion, up 9% on 2021 financial year (FY21) while Cash NPAT was $9.595 billion, up 11%

A fully franked total dividend of $3.85, was up 10% on FY21

Net Interest Margin was 1.90%, down 18 basis points (or 0.18%) from FY21

Cost to income ratio was 45.9%, down from 47.0% in FY21

Volume growth in home loans of $36.4 billion was 0.9x system and balanced by the growth in household deposits of $40.9bn, while business lending increased significantly achieving 1.3x system.

Key events

Capital management: $6.6 billion in dividends paid, $6.5 billion off-market share buy-back implemented and a further $2 billion buy-back launched in early 2022

Divestments: 55% of Colonial First State to KKR (CBA retains 45%), 10% of Bank Hangzhou (full divestment by CBA)

The RAP with its 35 recommendations was completed in September 2021.

Aligned advice remediation provisions of more than $1bn remain in place and has still not been fully refunded. The additional costs in interest and management will soon outweigh the payments.

Key board or senior management changes

A change in board leadership, with the departure of chairman Catherine Livingstone to Paul O'Malley. It is important to acknowledge the transformation of CBA that has occurred under Catherine's leadership in regard to culture, transparency, accountability and sustainability. Big shoes to fill!

Simon Moutter will become Chair of the People and Remuneration Committee and Julie Galbo will join the Audit, Risk and Compliance Committee.

Sustainability

CBA recognises the importance of decarbonisation for the economy and its customers. Aligned with its purpose of "building a brighter future for all", a core strategy is to provide leadership by lending to enable a transition to Net Zero.

Matt Comyn acknowledges the need for rapid decarbonisation, for CBA to be able to achieve net zero emissions by 2050. He is projecting a need for $2.5-3 trillion of investment for Australia to get to net zero by 2050. "This is similar in scale to Australia's investment in the mining boom from 2005-2015" he said.

In 2022, CBA produced its first stand-alone Climate Report aligned to the 11 recommendations of Task force for Climate-related Financial Disclosures (TCFD). The report is not an easy read for the uninitiated. We have summarised some of the key points of the report below. We recommend that shareholders start their journey in attempting to comprehend the complexity around climate risk and opportunity by reading the climate report.

- First Australian bank to report Scope 3 “financed” emissions. (Financed emissions refers to the emissions attached to the loans to property and businesses.)
- Transition roadmaps target the high emissions sectors first. In 2021-22 thermal coal, upstream oil and gas and power generation have been addressed. (1% of CBA’s lending that goes to energy companies contributes 27% of its 2020 financed emissions.)
- CBA’s financed emissions of the property, agriculture and transport sector contribute another 60% of emissions.
- 2023 will focus on home loans, iron and steel, aluminium and cement.
- 2024 will focus on agriculture, transport and commercial property.
- By 2025, CBA wants to have targets on sectors that account for 75% of its financed emissions.
- CBA is funding CSIRO research to further develop data around climate risk and will make this research public.
- CBA “operational” footprint has reduced 90% of its Scope 1 & 2 emissions since 2014. (“Operational” footprint does not include financed emissions.)
- CBA has joined Taskforce for Nature-relate Financial Disclosures (TNFD) and is producing a roadmap/guide to addressing its impact on biodiversity.
- $70 bn is committed to sustainability funding by 2030. $30.6bn has already been allocated.
- Partnering with Xpansive to develop a carbon credit market.

5 Year Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
Cash NPAT ($m)	9,595	8,653	7,225	8,174	8,587
Statutory NPAT ($m)	10,771	10,181	9,592	8,566	9,329
Share price ($)	90.38	99.87	69.42	82.78	72.87
Dividend (cents)	385	350	298	431	431
Simple TSR (%)	(5.6)	48.9	(12.5)	19.5	(6.8)
Cash EPS (cents)	563.7	496.9	418.8	492.7	538.8
CEO total remuneration, actual ($m)	6.969	5.174	3.896	3.412	2.8

Item (2) Re-election and election of directors

The board has a majority of independent directors with one executive director, the CEO. The gender diversity policy 40:40:20 has been met with changes after the AGM to reflect 50% women. Catherine Livingstone retired at the time of the August results, with Paul O'Malley replacing her as chairman, Shirish Apte retires at the AGM and Lyn Cobley will be added to the board, from October 2022. The board currently has 11 members but that drops back to 10 with the impending retirement of Shirish Apte.

The current board skills matrix suggests that there is scope to better articulate director strengths that align with its strategy, particularly in technology and core banking experience.

Mr Paul O'Malley was appointed in January 2019. He became chairman in August 2022.

Paul has a background in finance accounting and investment banking and 10 years as MD/CEO and CFO of BlueScope Steel.

He is Chair of Nominations Committee, member of Audit Risk & Compliance Committee and People & Remuneration Committee and was Chair of the People and Remuneration Committee from 2020 -2022.

Current other directorships: non-executive director (NED) of Coles and a trustee of the MCG.

Given his extensive industry and public company director experience, and his new role as Chairman, the ASA will be voting all undirected proxies in favour of his re-election.

Ms Genevieve Bell AO was appointed in January 2019. She is a member of the Nominations and the People & Remuneration Committees. As a cultural anthropologist, technologist and futurist, she brings a deep knowledge of technology, society and business as well as a diverse perspective and understanding of social science, design, computing and engineering. She is a Professor at the ANU School of Cybernetics. No other directorships

Genevieve's past experience includes 18 years at INTEL in US.

Given her performance to date on the board and the diversity of her experience, the ASA will be voting all undirected proxies in favour of her re-election.

Ms Mary Padbury was appointed June 2016. She is a member of Nomination and People & remuneration Committee. She has a background in intellectual property law with a particular focus on technology. She was a partner and past Chair of Ashurst Australia. She has recently retired from a number of other boards and is chairman of Macfarlane Burnett Institute for Medical Research, a director of the Australian Brandenburg Orchestra and a member of Chief Executive Women.

Given her performance to date on the board and the diversity of her experience, the ASA will be voting all undirected proxies in favour of her re-election.

Ms Lyn Cobley will be appointed from 1 October 2022 and is standing for election at this AGM.

Lyn has 30 years of experience in financial services having worked for Westpac as CEO of its Institutional Banking business from 2015-2019 and was on the ASIA advisory board. She was Group Treasurer of CBA during the financial crisis and was highly regarded for her efforts to ensure the bank raised sufficient funds. She has also worked at Barclays and Citibank.

Her time at Westpac was marred by the AUSTRAC money laundering allegations and associated heavy fines, and by the ASIC allegation into insider trading over an AUSGRID swap deal. The ASA questioned the Chairman on his rationale for Ms Cobley's addition to the board and we are now satisfied that she will provide much needed Australian banking experience, given the loss of Shirish Apte, and the potential for a slowing economy. Her credit and balance sheet knowledge, and mortgage book experience is well regarded. Further to this she was well regarded within the bank and banking community and seen as a role model who will provide the right tone from the top.

The ASA also reviewed the reports of the AUSTRAC and ASIC issues during her time at Westpac and is satisfied that the board has exercised appropriate due diligence. This background is seen as a useful learning experience that will only enhance her ability as a director and are confident that she reflects the values of the CBA. She also brings a keen interest and skills in sustainability with further studies in ESG from Cambridge.

The ASA recognises that some members will be opposed to Ms Cobley's election due to her recent association with Westpac. On review and analysis of the events, however, the ASA believes she merits favourable consideration and will be voting all undirected proxies in favour of her election.

Item (3) Adoption of the 2022 remuneration report

The remuneration framework as presented in the Annual Report is clear and transparent. Variable remuneration is assessed against financial and non-financial measures, and against group and individual performance.

Variable remuneration is predominantly in equity with up to 7 years vesting periods and is subject to malus and clawback at board discretion.

The CEO's actual received remuneration for FY22 has increased 35% year on year and it has more than doubled in the last 4 years while average pay of fulltime team members has been relatively static over this period. The CEO's actual remuneration for 2022 of $6.968m, included 87% of short-term variable remuneration (STVR) maximum award, and 100% of the 2019 long-term variable remuneration (LTVR) award. There is a breakdown for the CEO performance against shareholder, customer, leadership, and strategy execution. It should be noted that the CEO and other KMP's are now benefiting from the vesting of past awards after several years of no or minor increases in variable pay.

Executive fixed remuneration (FR) increased 3.6% for 5 of 10 KMP inclusive of the CEO.

The KMP also received actual remuneration increases this year between 11-30%. An issue going forward if the divide between management and team members continues to increase, given the struggle for a recent 3.6% pay rise, then pay equity issues within the bank are likely to be exacerbated.

Dividends for the performance period are paid on vesting of LTVR and long-term alignment remuneration (LTAR) shares.

Changes to the remuneration framework for 2023 are aligned to Australian Prudential Regulation Authority's new prudential standard CPS-511 and will include an assessment before vesting of LTAR and a reduction in LTVR holding period from 7 to 6 years with 100% vesting rather than the 50% in years 6 and 7.

Minimum Shareholder Requirement (MSR) for the CEO is 300% of FR over 5 years. He is well in excess of this requirement with 510% of required shares. MSR for directors is

100% of base fees over 5 years from 2019 or their start date. Paul O'Malley and Peter Harmer have met those expectations and the other directors are on track. The problem with this is that the alignment with shareholders doesn't necessarily occur until closer to their end of tenure. ASA prefers a 3-year time frame.

Chairman fees increased by $20,000 to $890,000, no committee fees apply for the chairman, committee member fees increased by $2,500 to $35,000. These increases were the first increases since 2015, reflecting the increased regulatory and governance oversight and time commitment.

Notwithstanding the above comments on relative pay differentials within the bank, the ASA considers that the remuneration report recognises the need for top-performing executives balanced against the needs of shareholders and will vote all undirected proxies in favour of the resolution.

Item (4) Grant of securities to CEO, Matt Comyn

The bank is proposing a grant of 19,032 restricted share units for FY23 LTAR and 19,032 performance rights for the 2023 LTVR under the employee equity scheme. Face value allocation for both sets of rights was the volume weighted average price 5 days prior to 1 July, being $91.95 or $1,750,000 for each of LTAR and LTVR.

LTAR is subject to 4- and 5- year restriction periods. A pre-grant assessment takes into account financial and non-financial outcomes relating to strategy and leadership and allows for board discretion.

LTVR is subject to relative total shareholder return (TSR) performance over 4 years. 50% is measured against an ASX general peer group and 50% against a financial services peer group. Performance rights are subject to an additional holding period, post-performance period of 50% for 2 years and 50% for 3 years. A face value volume weighted average price allocation approach has been used to calculate performance rights for LTVR. Pro-rata vesting occurs from 50% to 100% between the median and 75th percentile.

The grant of securities to the CEO is seen as reasonable and aligned with regulatory and industry expectations. The ASA will be voting all undirected proxies in favour of the resolution.

Item (5a) Amendment to constitution

This is a change to the constitution in order to allow shareholders to raise issues of material risk in a non-binding advisory resolution at a general meeting. The ASA does not consider it appropriate to use a resolution to amend the constitution to give shareholders new voting rights or to impose reporting obligations on Directors. The board is responsible for making decisions in the best interests of the company and this could impact their ability to do so.

The ASA will therefore be voting any undirected proxies against this resolution.

Item (5b) Climate risk safeguarding

CBA has this year produced its first Climate Report. It is the first Australian bank to report Scope 3 financed emissions and has provided a roadmap of how it is going to address those emissions over the coming 3 years. It has reduced its financed emissions from thermal coal and upstream oil and will only consider funding to the gas and energy industries based on commitments and visible actions by those companies towards reaching CBA's net zero goals. It has funded the CSIRO to produce detailed information to help with its transition pathways and scenario planning which it will make public. CBA has embedded sustainability within its strategy and remuneration. A more detailed response from the bank is presented in the Notice of Meeting and in the Climate report.

Addressing climate change is a work in progress for many businesses and the economy and it is complicated. CBA is committed to leading in this, supporting its customers and the economy in the transition, and leading the narrative with government and institutions. It acknowledges there is much work ahead, but it is making good progress.

Market Forces' concerns revolve around the bank's investments in oil, gas and coal today. CBA has reduced their exposure significantly but also acknowledges that there is a need for transition fuels as we progress to net zero. By focusing first on measuring their exposure and putting in place a plan to address it over time they believe a smooth transition can be achieved. If CBA simply cuts off funding, not only will shareholders and companies be exposed to extreme uncertainty, the economy will not have time to adapt and change. It is a very fine balancing act that CBA is attempting to maintain. It is exhibiting leadership amongst its peers and within the community and is to be commended.

The ASA acknowledges the concerns of Market Forces but does not support this resolution at this stage. We trust the CBA will keep moving forward.

Appendix 1
CEO remuneration framework detail for FY23

Rem component	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.50	32	2.50	30%
STVR Cash 50% Year 1	0.9375	12	1.175	14%
STVR Equity 50% Year 2 & 3	0.9375	12	1.175	14%
LTAR- Restricted shares 50% Year 4 and 50% Year 5	1.75	22	1.75	21%
LTVR- Performance rights 50% Year 6 and 50% Year 7	1.75	22	1.75	21%
Total	7.875	100%	8.35	100%

Note: CBA has no target levels for LT awards so max opportunity figures have been used.