Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

A Challenging Year with More Balanced Reporting

Company/ASX Code	ANZ Group / ANZ
AGM date	Tuesday 17 December 2019
Time and location	10am, Brisbane Convention & Exhibition Centre, Southbank, Brisbane
Registry	Computershare
Webcast	Yes – Live
Poll or show of hands	Poll on all items
Monitor	John Whittington assisted by Geoff Bowd and Barbara Crook
Pre AGM Meeting?	Yes, with Chair David Gonski, Group General Manager Investor Relations Jill Campbell, Group General Manager Corporate Affairs Gerard Brown, Company Secretary Simon Pordage, and Remuneration & Governance Specialist Michelle Caruana

Item 1	**Annual Reports**
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

The findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry dominated the year. This identified many governance and culture issues across most of the Australian banks, including ANZ.

ANZ was the first bank to respond to the recommendations of the Royal Commission's final report outlining (in just over two weeks) the first 16 initiatives that would be taken to address the recommendations. The Annual Report also provides substantial discussion of the actions that ANZ have been taking to address the issues raised by the Royal Commission.

In August, ANZ was also the first bank to announce that remuneration throughout the bank would be restructured so that variable remuneration would be a smaller part of people's take-home pay and these reduced variable elements would be determined by the overall performance of the bank, not individual performance. They have also strengthened accountability frameworks to ensure there are "*appropriate consequences for [those] who do not meet standards of behaviour or performance*". The directors also took a 20% pay cut in FY19 as a consequence for the shared accountability for the failures highlighted by the Royal Commission.

We are also very happy to see that the Annual Report is far better balanced than previous years showing both the good and the bad. We hope that this better tolerance of bad news is occurring throughout the organisation.

Given the recent issues with AUSTRAC that have affected CBA, Westpac, and, to a lesser degree (so far), NAB, we asked ANZ what risk there was of a similar problem at ANZ. We were told that whilst nothing is certain they believe that they have an excellent relationship with AUSTRAC, have provided them with some algorithms to help spot suspicious transactions, and believe they are giving AUSTRAC all the information that AUSTRAC expects.

Financial performance

In the 2019 financial year (FY19), ANZ's total reported income was $18,785m (down 6%) with net interest income of $14,339m (down 1%) and other income of $4,446m (down 19%). Expenses were $9,071m (down 4%) and credit impairments $794m (up 15%), resulting in a reported net profit after tax (NPAT) of $5,968m (down 7%). Return on equity (RoE) was 10.0% (down 8%).

ANZ prefer to refer to underlying figures (which they call "cash") where total income was $19,029m (down 2%), other income $4,690m (down 3%), and NPAT for continuing operations $6,470m (flat).

Cash flow from operations was down significantly from $10,566m to -$4,550m, seemingly due to a number of factors which are unclear as ANZ continue to only provide an indirect method for presenting the cash flow statement rather than the direct method preferred by accounting standards and used by all their peers. Free cash flow was also down significantly from $10,732m to -$4,756m.

Total assets increased by 4% to $981b and total liabilities also by 4% to $920b. The Common equity Tier 1 (Basel 3) figure is now 16.4% (down from 16.8% last year).

Dividends remained steady at $1.60 per share and the total shareholder return for the year was 6.9% (5.7% from dividends plus 1.2% due to the increase in share price).

Key events

Other than the final report of the Royal Commission mentioned above there were no significant events during the year. Subsequent to the year end:

- The board indicated that whilst there would be no reduction in the final dividend (unlike some of its peers) future dividends would only be 70% franked.
- It was announced that the price for the previously announced sale of ANZ's OnePath to IOOF would be reduced by 13% or $125m.

Key Board or senior management changes

Mr Lee Hsien Yang retired from the board following the 2018 AGM after almost ten years on the Board. Subsequent to the end of the year Paul O'Sullivan, a previous CEO and now Chair of Optus, was appointed to the board in November.

In February Mark Hand was appointed Group Executive Australian Retail and Commercial Banking and Maile Carnegie appointed Group Executive Digital and Australia Transformation with both sharing responsibility for the financial performance of ANZ's business in Australia. The CEO of ANZ New Zealand, David Hisco, departed in June after the Board had "*concern about the characterisation of certain transactions following an internal review of personal expenses*" and was replaced by Antonia Watson who is acting in the role. Mr Hisco forfeited all his unvested equity (~$7.4m) and was not awarded any variable remuneration.

ASA focus issue

Board composition and skills seems good, remuneration disclosure this year appears excellent, probably the best this monitor has seen, Directors and Executives have good to excellent shareholdings ("skin in the game") and shareholder participation is satisfactory.

ASA does not support political donations however ANZ continues to donate money each year to both main political parties ($100,000 each in calendar year 2019) and accidentally underreported donations in last year's Annual Report.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT ($m)	5,968	6,416	6,421	5,720	7,507
UPAT ($m)	6,161	5,805	6,938	5,889	7,216
Share price ($)	28.52	28.18	29.60	27.63	27.08
Dividend (cents)	160	160	160	160	181
TSR (%)	6.9	0.6	12.9	8.5	-6.6
EPS (cents)	210.0	221.6	220.1	197.4	271.5
CEO total remuneration, actual ($m)	4.093	3.850	4.262	4.449	5.011

For FY19, the CEO's total actual remuneration was **46 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2a	**To Elect Mr P D O'Sullivan**
ASA Vote	**For**

Summary of ASA Position

Mr O'Sullivan, a former senior Executive with Singapore Telecommunications (SingTel) and CEO of Optus who previously held management roles with the Colonial Group and the Royal Dutch Shell Group, was appointed to the board in November 2017. He already has a shareholding equivalent to over 43% of his expected annual remuneration and is independent.

Mr O'Sullivan is a non-executive director of one listed company (Coca-Cola Amatil), Chair of one unlisted Government corporation (Western Sydney Airport), and non-executive director/board member of two unlisted organisations (St Vincent's Health Australia and the National Disability Insurance Agency). We do not consider his workload excessive.

We believe that Mr O'Sullivan is well qualified, can contribute to the board and we support his election.

Item 2b	**To Re-elect Mr GR Liebelt**
ASA Vote	**For**

Summary of ASA Position

Mr Liebelt, a former CEO and executive at Orica, was appointed to the board in July 2013. He has a shareholding equivalent to over 180% of his annual remuneration and is independent.

Mr Liebelt is currently Chair of one listed company (Amcor) and non-executive director of one other (Australian Foundation Investment Company) as well as being a director of a school. We do not consider his workload excessive.

We believe that Mr Liebelt is well qualified, can contribute to the board and we support his election.

Item 2a	**To Re-elect Ms S J Halton AO PSM**
ASA Vote	**For**

Summary of ASA Position

Ms Halton, who previously had a 33 year career in the public service being, at various times, Secretary to the Departments of Finance, Health and Ageing, and Deputy Secretary of the Prime Minister and Cabinet in the Commonwealth Government, was appointed to the board in October 2016. She has a shareholding equivalent to 97% of her annual remuneration and is independent.

Ms Halton is a non-executive director of one listed company (Crown Resorts), Chair of one unlisted company (Vault Systems) and two other organisations (Coalition for Epidemic Preparedness Innovations and Council on the Ageing Australia), a director of Clayton Utz, a member of the Executive Board of the Institute of Health Metrics and Evaluation at the University of Washington, an Adjunct Professor at the University of Sydney and University of Canberra, and a council member of the Australian Strategic Policy Institute. We do not consider her workload excessive.

We believe that Ms Halton is well qualified, can contribute to the board and we support her election

Item 3	Adoption of the Remuneration Report
ASA Vote	**For**

Summary of ASA Position

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.151	34%	2.151	23%
STI - Cash	1.050	16.5%	1.575	16.5%
STI - Equity	1.050	16.5%	1.575	16.5%
LTI	2.100	33%	4.200	44%
Total	6.351	100%	9.501	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.

ANZ made major improvements to the clarity and understandability their Remuneration Report in 2017 and this regressed slightly last year. This year they have made another step change improvement in clarity and understandability and this year's report is probably the clearest and most understandable Remuneration Report this monitor has read.

The executive remuneration structure is similar to last year except that all variable pay elements now vest over a period up to four years. We would prefer five years or longer but four is an improvement over the previous three years.

Remuneration is part fixed and part variable where the variable component should be considered variable pay rather than a bonus. Performance under target/expectations will result in lower pay, performance above target/expectations will result in higher pay.

The variable component consists of two parts – a short-term component and a long-term component. The short-term component is evaluated on the performance this year and paid half in cash and half in shares which vest progressively over four years. The long-term component will be evaluated on the performance over the next four years and will be paid in shares at the end of the four-year period.

The short-term component is assessed partly against a well disclosed set of risk, customer, people/culture, and financial metrics and partly against undisclosed personal achievement metrics. If the executive performs at target/expectation, then this component will be 133% (100% for the CEO) of fixed remuneration. If the executive performs exceptionally then the maximum possible award is 200% (150% for the CEO) of fixed remuneration. Assessments varied between 0-110% (CEO 71%) of target/expectation or 0-74% (CEO 48%) of the maximum possible.

The long-term component is split into two parts, the first (three quarters of the total) will be assessed against relative TSR over the four-year period to 21 November 2023. If this is below the 50th percentile of the performance of a (disclosed) financial services comparator group, then none of this component will vest. If it is between the 50th and 75th percentile then a linear scale will apply between 50% vesting at the 50th percentile and 100% vesting at the 75th percentile. If it exceeds the 75th percentile then all this component will vest.

The second part of the long-term component (one quarter of the total) is based on the absolute compound annual growth rate of TSR over the four-year period to 21 November 2023. If this is below 8.5% then none of this component will vest. If it is between 8.5-12.75% then a linear scale will apply between 50% vesting at 8.5% and 100% vesting at 12.75%. If it exceeds 12.75% then all this component will vest.

We applaud this approach and also like the shareholding policy which requires the CEO and all disclosed executives to, over a five-year period, accumulate ANZ shares to the value of 200% of their fixed remuneration and maintain this shareholding level while they remain an executive of ANZ.

In conclusion, we believe that the level of remuneration is not excessive, the incentives are generally aligned with shareholders, disclosure is good, and the clarity and understandability of the report itself is excellent. Last year we asked for a more comprehensible report and for all KMP performance rights to be at risk for at least four year and ANZ have delivered both. As a result, we will be supporting the report.

Item 4	**Spill Resolution (Conditional Item)**
ASA Vote	**Against**

Summary of ASA Position

We supported the ANZ Remuneration Report last year and note that whilst ANZ experienced a “strike” last year, with a 34% against vote, this was less than the against votes at NAB (88%) and Westpac (64%). We also believe that ANZ’s remuneration structure and Remuneration Report has improved further over the last year.

We see no reason to support this item and will vote against a spill resolution if it is held.

Item 5	**Grant of Performance Rights to Mr S C Elliott**
ASA Vote	**For**

Summary of ASA Position

This is for the issue of a maximum of 168,066 performance rights worth $4.2m (based on the volume weighted average price of the five trading days up to and including 22 November).

We have described the structure of the conditions of this award under item 3 so will not repeat the details here.

We believe that the level of award is not excessive and is aligned with shareholders so will support this grant.

Item 6	**Resolution Requisitioned by Members – Amendment to the Constitution**
ASA Vote	**Against**

Summary of ASA Position

This, together with item 7, is a non-Board endorsed resolution proposed by Market Forces to allow shareholders at an AGM to express, in a non-binding resolution, "an opinion or request information about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised". Item 8 is also dependent on the passing of this item.

We believe that shareholders do not need to change the company's constitution to express their views to management and the directors. ANZ has produced a very comprehensive suite of reports including the Annual Report, a Sustainability Review, and a Climate-related Financial Disclosures document which addresses many of these issues.

Item 7	**Resolution Requisitioned by Members – Transition Planning Disclosure (Conditional Item)**
ASA Vote	**Against**

Summary of ASA Position

This item is contingent on the passing (by 75% or higher vote) of item 6, an item which we do not support. It is another non-Board endorsed resolution, proposed by Market Forces, to make a non-binding shareholder resolution to disclose, in annual reporting, strategies and targets to reduce exposure to fossil fuel assets in line with the climate goals of the Paris Agreement.

Please refer to our comments under item 6.

Item 8	**Resolution Requisitioned by Members – Ordinary Resolution on Lobbying Inconsistent with the Goals of the Paris Agreement (Conditional Item)**
ASA Vote	**Against**

Summary of ASA Position

This item is contingent on the passing (by 75% or higher vote) of item 6, an item which we do not support. It is a non-Board endorsed resolution, proposed by the Australasian Centre for Corporate Responsibility (ACCR), to make a non-binding shareholder resolution to suspend membership of industry associations whose actions are inconsistent with the Paris Agreement's goals.

Please refer to our comments under item 6.

The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.