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Steady as She Goes through the COVID Maelstrom

Company/ASX Code	ANZ Banking Group / ANZ
AGM date	Wednesday 16 December 2020
Time and location	Virtual at https://web.lumiagm.com/348909606
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	John Whittington, assisted by Peter Rae and Geoff Bowd
Pre AGM Meeting?	Yes with Chair Paul O'Sullivan and GGM Investor Relations Jill Campbell

One of the individuals (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

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

Summary of ASA Position

Governance and culture

Following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry which dominated last year, this was a year of addressing the issues highlighted by the Royal Commission. It seems that ANZ has been addressing the issues seriously by simplifying the business and improving the culture, all whilst coping with the unexpected COVID pandemic and its significant impact on the bank's customers.

To date, ANZ has not been a subject of any scandals such as those ones that have impacted CBA and Westpac with AUSTRAC financial reporting issues.

The Annual Report is well balanced showing both the good and the bad. We hope that this better tolerance of bad news is occurring throughout the organisation.

Financial performance

In a year heavily impacted by the impacts of COVID (eg loan deferrals), ANZ's total reported income in the 2020 financial year (FY20) was $17,637m (down 6%) with net interest income of $14,049m (down 2%) and other income of $3,588m (down 19%). Expenses were $9,383m (up 3%) and credit impairments $2,738m (up 3.4 times, mostly provisions anticipating defaults following the lockdowns), resulting in a reported net profit after tax (NPAT) of $3,578m (down 40%). Return on equity (RoE) was 5.9% (down 41%).

ANZ prefer to refer to underlying figures (which they call "cash") where total income was $17,752m (down 7%), other income $3,703m (down 21%), and NPAT for continuing operations $3,758m (down 42%).

Cash flow from operations was up significantly from -$4,550m to $52,284m, 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 up significantly from -$4,756m to $40,819m.

Total assets increased by 6% to $1,042bn and total liabilities by 7% to $981b. The Common equity Tier 1 figure is now 11.3% (down from 11.4% last year).

Dividends were heavily impacted by APRA requirements on the banks to maintain capital levels so were substantially reduced to $0.60 per share (down 63%) and the total shareholder return for the year was -36.9% (down from 9.2% last year).

Key events

The key event of the year was the COVID-19 pandemic. This had many impacts on many banking customers (eg no or substantially reduced income so no ability to repay loans) and banking operations itself (eg staff working from home, additional costs for cleaning, implementation of COVID-safe operations).

Key Board or senior management changes

Paul O'Sullivan, a previous CEO and now Chair of Optus, was appointed to the board in November 2019 and, subsequent to the end of the financial year, took over as Chair of the Board on the retirement of David Gonski in October 2020.

There was little change in the senior executive ranks with Antonia Watson, who had been acting as CEO New Zealand, being formally appointed to the role in December 2019.

ASA focus issue

Directors and Boards – the board seems well constructed and self-renews.

Remuneration, culture, and performance – the remuneration framework includes hurdles that measure performance over four years and supports the company's culture and performance.

Risk management – the company seems to have responded well to the "black swan" event of the COVID-19 pandemic, however the ultimate proof will be when the currently deferred loans are restarted. Risks, and how they are managed, are identified in the Annual Report.

Shareholder participation – communication has been good throughout these uncertain times and, unlike some of their peers, there were no equity raisings.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	3,578	5,968	6,416	6,421	5,720
UPAT ($m)	3,660	6,161	5,805	6,938	5,889
Share price ($)	17.22	28.52	28.18	29.60	27.63
Dividend (cents)	60	160	160	160	160
TSR (%, as quoted by the company)	-36.9	9.2	0.6	13.1	9.2
EPS (cents)	126.4	210.0	221.6	220.1	197.4
CEO total remuneration, actual ($m)	3.768	4.093	3.850	4.262	4.449

For FY20, the CEO's total actual remuneration was **41 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2a	**Re-election of Ms IR Atlas as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Atlas, a lawyer by background, was appointed to the board in September 2015. She has a shareholding equivalent to 93% of her total remuneration at the current share price (138% at the pre-COVID share price) and is independent.

Ms Atlas is chair of one listed company (Coca-Cola Amatil) as well as chair of not-for-profit Jarwun, a director of the Paul Ramsay Foundation, and a panel member of Adara Partners. We do not consider her workload excessive.

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

Item 2b	**Re-election of Mr JT Macfarlane as a Director**
ASA Vote	**For**

Summary of ASA Position

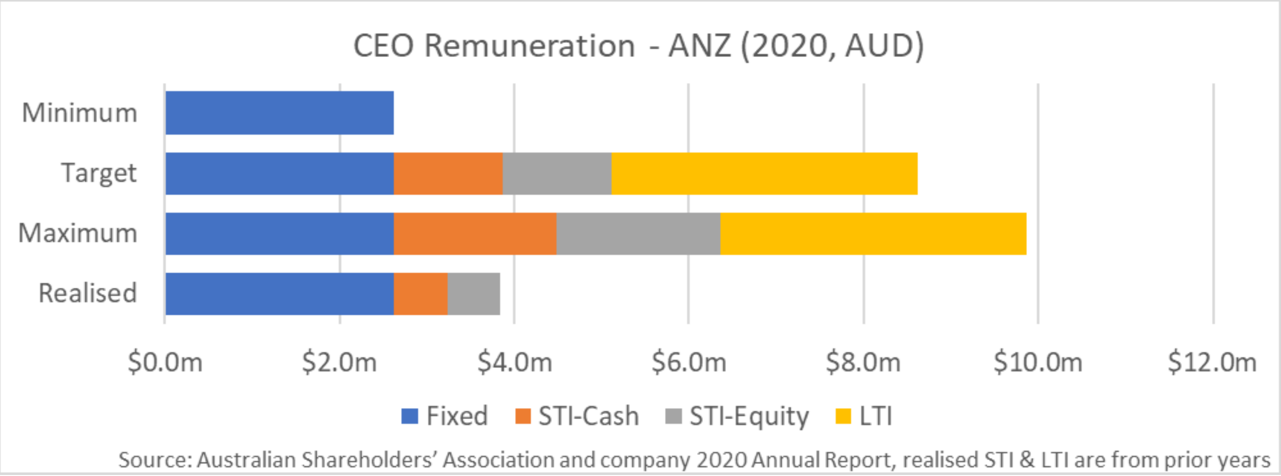
John Macfarlane, a banker by background, was appointed to the board in May 2014. He has a shareholding equivalent to 125% of his total remuneration at the current share price (188% at the pre-COVID share price) and is independent.

Mr Macfarlane is a director of the ASX listed L1 Long Short Fund (LSF) and a director of three unlisted entities – Colmac Group, AGInvest Holdings (MyFarm), and Balmoral Pastoral Investments. We do not consider his workload excessive.

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

Item 3	Adoption of the Remuneration Report
ASA Vote	For

Summary of ASA Position



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's 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.

Following the findings of the Royal Commission and recommendations by the banking regulator APRA, from 1 October 2019 the company reduced the proportion of senior executive remuneration that was variable. This resulted in an increase in fixed remuneration to partly offset the reduction in variable remuneration (total remuneration is down 15% but this includes the 50% reduction in variable remuneration due to COVID). In addition, having regard to the impact of COVID, the board exercised their discretion and applied a 50% reduction to the short-term variable rewards of senior executives for FY20.

It should also be noted that 2020 is the first year ANZ employees (excluding the CEO) will participate in a single group plan where individual variable remuneration for around 80% of employees has been replaced with a variable payment based on the overall performance of the company. This is part of ANZ's response to the findings of the Royal Commission.

The remuneration report is clear and understandable – one of the better ones this monitor has read.

The variable component of pay 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, albeit only 35% of these are financial metrics. If the executive performs at target/expectation, then this component will be 100% of fixed remuneration for the CEO (134% for other executives). If the executive performs exceptionally then the maximum possible award is 150% of fixed remuneration for the CEO (201% for other executives). Assessments varied between 46-66% (CEO 50%) of target/expectation or 31-44% (CEO 33%) of the maximum possible.

The long-term component, worth up to 140% of fixed remuneration for the CEO (201% for other executives), 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 2024. 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 2024. 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.

The company also has a 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.

Whilst we have concerns that only 35% of the short term component is based on clearly quantifiable financial metrics we have to acknowledge that following the Royal Commission, the banking regulator, APRA, has required banks to substantially reduce the proportion of financial metrics used. The ASA (and most institutional investors) disagree with this use of fuzzy and easy to manipulate non-financial measures, however we have to accept that banks must follow the rules set by their regulator.

We will therefore support the report.

Item 4	Grant of Performance Rights to CEO Mr SC Elliott
ASA Vote	For

Summary of ASA Position

This is for the issue of a maximum of 159,308 performance rights worth $3.5m (based on the volume weighted average price of the five trading days up to and including 22 November and down from $4.2m last year).

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 5	Resolution Requisitioned by Members – Amendment to the Constitution
ASA Vote	Against

Summary of ASA Position

This, together with item 6, 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".

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 6	Resolution Requisitioned by Members – Transition Planning Disclosure
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 5.

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