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

CBA shows significant recovery from COVID-19 impacts

Company/ASX Code	Commonwealth Bank of Australia (CBA)
AGM date	Wednesday 13 October 2021
Time and location	9:30am Virtual AGM
Registry	Link Market Services
Webcast	Yes via commbank.com.au/agm
Poll or show of hands	Poll on all items
Monitor	Lewis Gomes assisted by Julieanne Mills with Rachel Waterhouse (ASA CEO) in attendance
Pre AGM Meeting	Yes with Chairman Catherine Livingstone and Chairman of People & Remuneration Committee Paul O'Malley, Melanie Kirk- Investor Relations

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

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

Summary of ASA Position

CBA is seeing the benefits of the work it has done over the last 5 years on culture and continues to steer a path through the disruption in the sector with increased investment in technology and innovation. As the largest bank in Australia and directly aligned with the Australian economy, it has access to real time data on how we are travelling. It continues to support customers, government and staff through the disruption of COVID and to address the issues ahead, while still maintaining the discipline of making money in a challenging environment.

Governance and culture

Good progress has been made on the Remedial Action Plan (RAP) in response to APRA's 2018 Prudential Inquiry. Promontory, in its role as independent reviewer, has described CBA as "almost unrecognisable as the institution described in the Inquiry Report". CBA now has to embed these changes.

The bank has revised its Code of Conduct and refined the bank's values to: "care, courage and commitment". Staff are encouraged to speak up and constructively challenge colleagues, including more senior ones. A whistleblower case with company secretary Kara Nicholls, however, highlights the difficulties the bank may still be facing.

Cultural change has also been reinforced through the Remuneration Framework with an emphasis on accountability and risk management. For senior executives, total remuneration opportunities have been significantly reduced, the relative proportion of equity has been increased and deferral periods extended to ensure that executive remuneration is more closely aligned with longer-term shareholder returns. Both malus and clawback provisions are in place.

CBA continues to improve its customer satisfaction scores (NPS) and employee engagement scores, with 88% proud to work for the CBA.

The bank has improved its already significant ESG reporting, developing sector glide paths to track the alignment of its investments to the Paris Agreement. This year focuses on the four most emissions intensive sectors, thermal coal mining, upstream oil and gas, and power generation. CBA is committed to embed these glide paths within its lending frameworks and to develop further glide paths in other sectors.

Financial performance

CBA delivered a statutory net profit after tax (NPAT) from continuing operations of $8,843 million and a cash NPAT of $8,653 million for FY21, each up 19.7% and 19.8% respectively on the FY20 results. Total NPAT including discontinued businesses was $10,181 million, up 6.1 % on the previous year.

The strong performance in FY21 was due to improved economic conditions and outlook resulting in lower loan impairment expenses and a strong operational performance. The strength of the operational performance was demonstrated by home lending growth of 1.2 x system (up $31 billion) and business lending growth of a very impressive 3 x system (up $11 billion). Household deposits increased by 1.2 x system (up $31 billion) reflecting the strong savings behaviour of customers.

Loan impairment expense was $554 million, down by 78% on FY20 due to the remarkably rapid economic recovery facilitated by government and central bank stimuli prompted by the COVID crisis. The Common Equity Tier 1 (CET1) capital ratio of 13.1% is up 150 basis points and well above APRA's benchmark of 10.5%, due to APRA-directed reductions in dividend payments from FY20 and reductions in impairments.

The strong operational performance and capital position enabled CBA to return to a solid final dividend of $2.00 per share for a total dividend of $3.50 for FY21 representing a total shareholder dividend payment of $6.2 billion. In addition, a $6.0 billion capital return is to be implemented by way of an off-market buy-back scheme to be conducted during September 2021.

The net interest margin (NIM) was 4 basis points lower at 2.03% due to higher liquid assets and the ongoing impact of a low interest environment. It was partly offset by management actions, lower wholesale funding costs and a favourable funding mix.

Operational expenses were up by 3.3% to $11,359 million including remediation costs of about $150 million due mainly to past issues in wealth management practices. Total investment spend was up 26% to $1,809 million which included higher information technology (IT) expenses due to further investment in IT infrastructure and cloud computing. This is investment spending is seen as essential to maintaining its strong position in digital banking and alternative payments systems.

Key events

The bank continued its program of divestments of non-core businesses begun in 2018 generating $6.2 billion in excess capital. It has completed the sale of BoCommLife, Comminsure Life and Colonial First State and is merging Aussie Home Loans with Lendi.

CBA continues significant investment in technology with acquisitions in White Coat, Doshii Home-In and Little Birdies. It has developed a new Smart terminal for mobile tap and pay, and Unloan.

As the #1 best digital bank app, it produces a range of benefits to customers including cash flow views and budgeting tools. While this comes at a cost, the benefits to its customers and the ability to compete against the new online competitors such as Applepay and Afterpay/Square along with the customer data that it provides keeps it relevant.

In FY20, CBA made a $US300m investment in the Swedish-based Buy Now Pay Later (BNPL) provider Klarna. Klarna's release in Australia appears to have been less successful in attracting users than expected and recent changes were made to senior management roles. CBA has now released its own BNPL product StepPay. The future direction of CBA's activities in this sector are yet to play out. In the meantime, CBA's investment in Klarna has greatly increased in market value as with most BNPL companies. With regard to the ASA's comments on the experience of Klarna in Australia, the Chairman noted that "you learn as much from what doesn't work as from what does work".

Key board or senior management changes

An external review of the board in 2020 saw the board performing at global best practice. There is a clear skills matrix which is reviewed and updated and has this year seen the addition of environmental and social skills.

There are 10 directors of which 9 are classed as Independent Directors with diverse backgrounds, age, nationality and professions. There is a mix of tenure of 5 months to 7 years and with 40% women reflecting the 40:40:20 gender policy. It is a progressive board that reflects a different paradigm from the pre Royal Commission era.

The Chairman acknowledged that the board needs to expand its ESG capabilities and experience, the appointment of Peter Harmer to the board was a response to that need. Julie Galbo was also appointed this year and brings a European perspective to an increasingly global regulatory environment (see more details below under Item 2c and 2d). Wendy Stops retired from the board in October 2020 after 5 years.

A new Chief Risk Officer, Nigel Williams (ex ANZ) has been appointed to improve business banking risk and credit processes.

COVID-19

CBA has weathered the COVID storm well but not without some difficulties. Frontline staff have been subjected to customer aggression and COVID infections. A Chief Mental Health Officer has been put in place to support staff through this difficult time. A Thrive Hub has been set up with activities for children being home schooled, regular updates from medical professionals on the safety of vaccines and fortnightly updates with the CEO to connect with employees have been put in place. Additional pandemic leave and vaccination leave have been introduced along with providing vaccination for all employees and their families in hot spots and the use of rapid antigen testing in office and data centres.

Home loan deferrals have helped over 158,000 households and 83,000 businesses, but business deferrals are currently not as effective, especially in hospitality, where there may not be the resilience in the business. CBA continues to work with customers to minimise the impact.

Financial Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
Statutory NPAT ($m)	10,181*	9,634	8,571	9,329	9,928
Cash NPAT ($m)	8,800	7,449	8,706	9,412	9,881
Share price ($)	99.87	69.42	82.78	72.87	82.81
Dividend (cents)	350	298	431	431	429
TSR (%)	48.9	(12.5)	19.5	(6.8)	17.2
Statutory EPS (cents)	575	542	485	534	577
CEO total remuneration, actual ($m)	5.2	3.9	3.4	2.8	5.5

*Statutory NPAT includes contribution of $1,338m from discontinued operations.

For 2020, the CEO's total actual remuneration was **55** times the Australian Full time Adult Average Weekly Total Earnings based on May 2021 data from the Australian Bureau of Statistics.

Item 2a	**Re-election of Catherine Livingstone as a Director**
ASA Vote	**For**

Summary of ASA Position

Catherine Livingstone has extensive business, finance and executive leadership experience and has contributed to the development of Australia's banking, telecommunications, science, technology and innovation sectors. She has been Chairman of Telstra Corporation and of the CSIRO and was CEO of Cochlear Ltd. She has served as a director on the board of Macquarie Group Ltd as well as other boards. She was appointed as a director of CBA in March 2016 and became Chairman in January 2017.

Catherine has successfully steered CBA through the necessary restructuring and cultural changes needed in the aftermath of the Hayne Royal Commission. Under her leadership the board has seen significant transformation. The bank is now showing the benefits of these changes through enhanced financial performance and market leadership in technology, community support and lending to businesses and home owners.

The ASA will be voting all undirected proxies FOR her re-election as a director of CBA.

Item 2b	Re-election of Anne Templeman-Jones as a Director
ASA Vote	For

Summary of ASA Position

Anne Templeman-Jones was appointed a director in March 2018. She chairs the bank's Audit Committee and serves on its Risk & Compliance Committee.

Anne is an experienced listed company director with substantial experience in operational risk, banking and strategy. Anne is Chairman of Blackmores Ltd and a director of the NSW Treasury Corporation. During a 30 year executive career, Anne held a number of leadership positions in corporate and private banking with domestic and offshore banks including Westpac, ANZ Bank and Bank of Singapore.

The ASA will be voting all undirected proxies FOR her re-election.

Item 2c	Election of Peter Harmer as a Director
ASA Vote	For

Summary of ASA Position

Peter Harmer was appointed to the board in March 2021. He is a member of the Bank's Audit and People & Remuneration Committees.

Peter has extensive experience in the areas of risk and customer perspectives, particularly in the areas of insurance and financial services. His previous roles as CEO of Insurance Australia Group Ltd and prior to that as CEO of Aon Ltd UK have also given him a comprehensive understanding of the issues around climate change and ESG reporting, experience that the board recognises it needs more now than in the past. He is a director of health insurer NIB, AUB Group Limited and Lawcover Insurance Pty Ltd.

Given his experience and background in customer relationships and ESG, the ASA will be voting all undirected proxies FOR his election.

Item 2d	Election of Julie Galbo as a Director
ASA Vote	For

Summary of ASA Position

Julie Galbo is an experienced financial services professional with substantial banking, strategy, risk and regulatory experience. She is Chairman of Trifork AG and a non-executive director of Velliv A/S and DNB Bank ASA where she serves on the board risk and audit committees. Julie lives in Denmark and has held numerous roles in Scandinavian financial services organisations and regulatory authorities.

The ASA questioned the Chairman on the relevance of Ms Galbo's experience to the Australian banking sector and Ms Galbo's ability to understand the Australian market and engage with executives, staff and customers. The Chairman replied that Ms Galbo brings considerable international experience, and a European perspective in an increasingly global regulatory environment. Her deep knowledge of the Scandinavian banking and regulatory system, which is seen as having many similarities with the Australian banking system, and the diversity of perspective will add some balance to the board' perspective. She will travel to Australia soon

The ASA will therefore be voting all undirected proxies FOR her election.

Item 3	**Adoption of 2021 Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

The CEO's actual total FY21 remuneration was $5.2m comprising $2.30m fixed remuneration (FR) plus $0.94m cash (STVR) and $1.934m in deferred equity awards from prior years. A summary of the CEO's remuneration framework for FY21 is presented below.

CEO Remuneration Framework for 2021

CEO Remuneration	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.300	32	2.300	30
STVR - Cash	0.862	12	1.078	14
STVR – Equity	0.862	12	1.078	14
LTAR - Alignment	1.610	22	1.610	21
LTVR - Variable	1.610	22	1.610	21
Total	7.244	100%	7.676	100%

The remuneration report is well explained, transparent and aligned with shareholders. The bank has proactively incorporated APRA's new remuneration standard CPS-511 in its new remuneration framework reducing the variable remuneration opportunity by 19%, extending the time frames for vesting from 4 to 7 years, enhancing the clawback and malus provisions, and improving the measures of both financial and non-financial performance with an emphasis on accountability and risk management.

Maximum short term variable remuneration (STVR) has been reduced from 150% to 94% of fixed remuneration (FR) while target has been reduced from 100% to 75%. The total longterm remuneration (LTAR plus LTVR) has been reduced from 180% to 140% of FR.

While the CEO saw an increase of 4.5% in FR for FY20 and 8.7% in FY21 the Bank's view is that the CEO's salary has lagged that of comparable companies and given the reduction in overall potential remuneration it was necessary to increase his FR and important to acknowledge his performance.

The CEO reached 87% performance against the maximum STVR award resulting in a cash payment of $940,125, the remaining 50% in equity being deferred over one and two years. The STVR was assessed against six criteria with scope for adjustments based on risk, reputation and values.

The new Long Term Alignment Reward (LTAR) is directed to forward looking financials and non-financials and is assessed by the board prior to granting. The board has discretion to adjust downward if necessary. The Long Term Variable Reward (LTVR) grant is assessed on relative TSR (rTSR) being 50% against a general ASX peer group and 50% against a group of eight ASX financial services companies. The LTVR testing period is four years from 1 July 2020 to 30 June 2024 with 50% of the awarded shares subject to a 2 year holding period after granting (6 years total) and the other 50% held for a 3 year period resulting in a testing and retention period of up to 7 years. The number of shares is determined by the VWAP of CBA shares over 5 days from 1 July 2020.

The Annual Report and ASA's discussions with CBA describe in some detail the rigour of the board's assessment process which we believe demonstrates that the LTAR is not simply deferred pay but is subject to performance assessments around leadership, strategy, execution and any material issues during the testing period.

A mandatory minimum shareholder holding requirement is in place and all KMP and directors are on track or exceeding their targets.

While the increase in the CEO's FR may seem excessive to some shareholders, overall, the remuneration report is considerably superior to past practices and now exceeds regulatory requirements and those of its major competitor banks. Therefore, the ASA will be voting all undirected proxies FOR the 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 17,586 restricted share units as his LTAR award and 17,586 performance rights as his LTVR award for FY22. The number of restricted shares and rights are based on the maximum value of the LTAR and LTVR opportunities (being $1,750,000 for each) divided by the 5-day VWAP of CBA's ordinary shares up to 1 July 2021 (being $99.50). The notional value of each of the LTAR and LTVR is based on the maximum allocation of 70% of the new FR for FY22 of $2.5 m (being an 8.7% increase on the FY21 FR of $2.3m). These awards are essentially at the same level as introduced in late 2020 for FY21.

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 years prior to FY21. Given the significant improvements in culture and behaviours in CBA under the current CEO and the very respectable financial outcomes achieved during FY21, the ASA will be voting all undirected proxies FOR this resolution.

Item 5a	**Special resolution to amend the company's constitution.**
ASA Vote	**Against**

Summary of ASA Position

Resolution 5a seeks to allow an ordinary resolution to follow (Resolution 5b) which requests the Bank to provide disclosures in future annual reports of information demonstrating how the bank will manage its fossil fuel exposure in a manner that achieves net zero emissions by 2050.

The board of the bank considers that the amendment would provide a platform to promote any number of matters that may not be in the best interests of the company and shareholders as a whole. The board considers that it would be inappropriate for any one issue promoted by shareholders to be given prominence over another. The board further believes that the proposed amendment would introduce uncertainty and detract from board decision making.

The ASA shares the board's concerns over undue focus on resolutions that would inevitably follow the passing of this special resolution, even if well intended. Therefore, the ASA will be voting all undirected proxies AGAINST this resolution.

Item 5b	**Contingent resolution – Transition planning disclosure**
ASA Vote	**Against**

The bank has provided a substantial response to this resolution in the Notice of Meeting which refers to the significant attention paid by the bank to climate change issues and to managing and reducing its exposures to fossil fuel companies via loans and other financing measures. For example, it has committed to providing no project finance to new or expanded thermal coal mines nor to new coal fired power plants. The bank continues to reduce its funding to existing customers involved in fossil fuel activities and is committed to achieving the goals of international organisations seeking net zero emissions by 2050. The ASA supports the bank's actions on climate change and feels that it is making significant inroads to addressing its exposure and has committed to continually review its exposure in line with updated data. While we appreciate the urgency attached to climate change, the glide paths announced in the annual report are designed to responsibly assist a transition to net zero for the bank and its customers. The ASA will therefore be voting all undirected proxies vote AGAINST this resolution should it be put to a vote.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.