



Changes to simpler better bank come at a cost

Company	Commonwealth Bank /CBA
AGM date	Wednesday 16 October 2019
Time and location	9:30am Darling Harbour Theatre, ICC Sydney, 14 Darling Drive Sydney
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Sonja Davie assisted by Julieanne Mills
Pre-AGM Meeting?	Yes with Chair Catherine Livingstone

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Governance and culture

There have been some great initiatives, with progress being made in rebuilding trust and dynamism within the company under the new CEO, however it has come with a cost.

Remediation and compliance costs weigh heavily on the company. Half of the recommendations of the Royal Commission into Banking and Financial Misconduct will be completed before the end of the year. BEAR (Banking Executive Accountability Regime) remuneration requirements have been implemented, increasing non-financial measures for CEO and key management personnel (KMP) (this is enforced by the regulator, APRA). APRA Remediation Action Plan (RAP) is on track with 75 of 156 actions completed.

The company's Purpose and Values have been updated with a new Code of Conduct. This has picked up good and bad behaviour, with a significant increase in recognised non-compliant behaviour: 2,462 cases of not meeting expectations of conduct (up from 1,316 FY18), 1,889 cases of unacceptable conduct, and 187 terminations (including 18 senior managers!).

The shareholder class action in relation to the AUSTRAC \$700m fine and superannuation/ Colonial First State Investments Limited (CFSI) misdeeds remains ongoing. CBA denies the allegations and has provided for legal costs in the accounts.

A new non-financial risk committee has been set up to provide Board visibility of non-financial risk and compliance along with concurrent board committee meetings covering financial and non-financial risks relevant to KMP performance.

Remuneration Pool funding has been introduced for collective accountability.

Group Environment & Social policy includes: a transition to zero emissions by 2030 (subject to energy security), Task Force on Climate-related Financial Disclosures (TCFD) reporting, commitment to continue lending to agriculture, fisheries, forests and defence, and a report on human rights and biodiversity.

NPS (Net Promoter Scores, measured independently) are still negative, although moving in the right direction.

CBA still #1 online bank and mobile banking App.

Simpler Better Bank (CBA's new mantra) is based on 95% profit coming from CBA core businesses.

Financial performance including dividends and shareholder returns

While there are positive signs for the housing market with stable prices and credit growth, there are also headwinds on the horizon. Lower interest rates, low consumer confidence and no increase in household income.

Catherine Livingstone acknowledged that the bank was facing macroeconomic challenges that could become the new normal, in particular low interest rates. It has also been previously acknowledged that CBA is a cyclical business, with indications that it is currently in a down cycle.

Statutory profit was down 8.1%, to \$8,571m. Cash net profit after tax (NPAT) was down 4.7%, to \$8,492m. Return on equity (ROE) cash was down to 12.5%. Earnings per share (EPS) was also down, as shown in the table below.

Operating income down 2% to \$24,407m due to reduced NIM (Net Interest Margin), weather events, fee changes, and fee alerts. Group Lending and Group Deposits are both up 2%.

Operating expenses are up 2.5% to \$11,269m due to remediation, elevated risk and compliance costs, investment in technology, and implementing simplification savings measures.

The dividend remains unchanged, but it is at an 88% payout ratio, which is above the target range of 70% - 80%. When allowing for abnormal items this is reduced to 80%; still at the top of the range.

To keep up with innovative new products and continued leadership in digital banking CBA has a commitment to invest \$5bn in technology over 5 years.

CBA has allowed for \$996m in remediation costs. Of the \$1.4b FY20 investment in foreseeable expenses, 64% will be spent on risk and compliance.

Cost to income ratio is currently at 46%; aiming for below 40%.

Increased common equity tier 1 (CET1) ratio increased to 10.7% from 10.4%. (10.5% is 'unquestionably strong' according to APRA).

Key events such as restructures, acquisitions, buy backs and capital raisings

Divestment of Sovereign N.Z. Life (\$1.3bn), Tyme Digital, Colonial First State Global Asset Management (\$4.2bn), Count sale to Count Plus (October), stake in Bo Com Life (\$8991m) to ensure CMLA Comminsure (\$2.5bn) sale, closure of CFP Pathways and Financial Wisdom, committed to sell CFS and mortgage broker business.

\$100m investment and partnership in Klarna, a Swedish buy now pay later online bank.

Key board or senior management changes

Sir David Higgins retires as a director on 31 December 2019 after 5 years on the board. Paul O'Malley replaces him as Chair of Remuneration Committee.

Group General Counsel (GGC) retired in June 2019. David Cohen has taken on the interim GGC role, as well as the Deputy CEO position. The leadership team has been refreshed to encourage cultural change, with seven new executives chosen by CEO Matt Comyn.

CBA has a gender diversity policy for 2020 that aims for 40% female representation on the Board, 40% at senior executive level and 45% managers and above. It has outperformed at Board level with 50% female representation and a female Chair; it achieved 45% at manager level and above, and 39% for executive managers and above. However, at senior executive level it only has 22% women, partly due to recent changes of KMP. CBA is aware and working to improve this over time.

The addition of Professor Genevieve Bell to the board shows an innovative approach to board renewal and diversity. It adds her Futurist perspective and technological expertise. Paul O'Malley brings broad operational, finance experience, business leadership and a strategic perspective along with recent CEO experience. These appointments will add some fresh energy to the board.

A skills matrix is employed to assess board effectiveness and is set out in the annual report. Annual board reviews are undertaken, with an independent review every 3 years.

Outlook

The outlook is softening with 2.5% GDP, 3.7% credit growth, interest rates at historic lows, domestic housing - signs of improvement, trade uncertainties, consumer and business sentiment, resilient economy, tax cuts and infrastructure spending stimulus, heightened regulatory change, increased competition, cyber security and data protection, growing importance of climate change.

Innovation highlights: CBA and World Bank development of Bond-i blockchain bond, Commsec Pocket, Apple Pay, an improved new App, green mortgage, and tax refund notification.

ASA focus issue

CBA is to be commended for a generally clear and transparent annual report. Well described remuneration policies and embracing remediation and regulatory changes.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m) cash basis	8,706	9,412*	9,881*	9,445	9,127
UPAT (\$m)	8,495	8,911*	9,381*	9,147	8,977
Share price (\$)	82.78	72.84	82.81	74.37	85.13
Dividend (cents)	431	431	429	420	420
TSR (%)	20.51	-6.8	17.1	-7.2	10.5
EPS (cents) cash basis^	493	538.8*	574.1*	554.8	556.9
CEO total remuneration, actual (\$m)	3.411	2.845**	5.507	12.304	7.966

*restated by CBA to reflect change in accounting policy

**Partial year as CEO

^ includes discontinued operations

For 2019, the CEO's total actual remuneration was **38.6 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2a	Re-election of Shirish Apte as a Director
ASA Vote	For

Summary of ASA Position

Mr Apte was appointed in June 2014. He is based in Singapore but spends a considerable amount of time in Australia. He has international experience in financial services with a real understanding of small commercial banking and risk. Mr Apte chairs the Risk committee. He has 2 publicly listed company board roles and a number of affiliated roles that take far less time. Directorships and advisory roles include: HHH Healthcare, Fullerton India Credit Company, Clifford Capital, Pierfront Capital (Chair), Citi Handlowy (supervisory board), Accion Int., Virtus Corp (advisor), Acibaderm Hospital Group, Fortis Healthcare.

He also provides the corporate memory necessary for a relatively new board.

Shareholding 7,500

Statutory Remuneration \$369,541

Item 2b	Re-election of Mary Padbury as a Director
ASA Vote	For

Summary of ASA Position

Mary Padbury was appointed in June 2016. She is an intellectual property lawyer with experience in technology, multinational governance and legal expertise. Ex Ashursts Australian. Sits on Nominations, and People and Remunerations committees. Other directorships include: Trans Tasman Attorneys Board, Macfarlane Burnet Institute Medical Research (Chair), Clinical Genomics (Chair) and she is a Chief Executive Women member.

Shareholding: 1,279 ordinary shares, 1,600 PERLS

Statutory Remuneration \$282,823

Item 2c	Election of Professor Genevieve Bell as a Director
ASA Vote	For

Summary of ASA Position

Professor Genevieve Bell was appointed to the Board in January 2019. She is a professor at the ANU in engineering and computer science, having come from a long career at Intel.

No ASX listed Board experience however she does add an interesting perspective to the board with scientific and technological expertise and the point of view of an anthropologist and futurist. Diversity that is missing on many ASX listed boards and an opportunity for the Board to focus on the customer of the future.

Shareholding 141 Ordinary, 1,040 PERLS

Statutory Remuneration \$119,256

Item 2d	Election of Paul O'Malley as a Director
ASA Vote	For

Summary of ASA Position

Paul O'Malley was appointed to the board in January 2019.

Recently retired as MD and CEO of Bluescope Steel 2007-17. He brings strategic, operational and financial experience. He currently sits on the Nominations committee and will become the new Chair of the remuneration committee from Jan 2020.

Shareholding: 5,330 ordinary shares

Statutory Remuneration \$122,365

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO Remuneration Framework

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.2	33%	2.2	24%
STVR - Cash	1.1	17%	1.65	17%
STVR - Equity	1.1	17%	1.65	17%
LTVR	2.2	33%	4.0	42%
Total	6.6	100.0%	9.5	100%

There is no increase to Fixed Remuneration for CEO or Group Executives. Overall \$100m reduction in remuneration for FY 2017-18.

Remuneration Pool funding has been introduced for collective accountability.

The remuneration structure for short term variable remuneration (STVR) is 50% Cash, 25% equity deferred for 1 year, 25% equity deferred for 2 years. Measured by 30% Financial - Group NPAT and Group underlying PACC, 70% Non-Financial (customer people strategy) based on group and individual performance. Board has discretion over values and risk and reputation. Mr Comyn did not reach his financial target for FY19.

The Annual Report has detailed criteria and outcomes.

Long term variable remuneration (LTVR) provides rights to shares over 4 years. Measured 75% relative TSR ASX20 minus resource companies, 12.5% Trust and Respect (independently measured) also has a positive TSR gateway, 12.5% Employee engagement (internal measurement) also has a positive TSR gateway. TSR Vesting occurs 50% from the median 100% at the 75th percentile. Shares are valued at Face value, VWAP 5 days prior to vesting. No dividends are issued until vested.

Board overview on variable remuneration includes Malus (ability to cancel awards before they vest or have been paid). The introduction of clawback (ability to cancel awards after they have vested or have been paid) will be explored during FY20. The variable CEO remuneration for 2019 was reduced from 76% STVR to 68% of target and 50% to 45% of maximum.

There are mandatory shareholding requirements for KMP. 300% of Fixed Remuneration (FR) for CEO over 5 years and 200% of FR for other KMP.

There is a change to directors' mandatory shareholdings from July 19, from 5,000 shares to a shareholding that reflects 100% of directors' after tax base fees over 5 years. A 10-year holding restriction applies while a director.

The Group Chief Risk Officer is independent of pooled remuneration mix.

An “Exceptionally Managed” category has been added to risk assessment scale.

Sign on equity payments granted to Pascal Boillat: 82,660 shares / \$5.86m (fair value \$70.87) and Nigel Williams: 43,112 shares / \$2.95m (fair value \$68.52). There is a vesting period with possibility of malus and no vesting if they leave beforehand.

Matt Comyn was granted 54,364 LTVR rewards rights valued at \$2.04m in 2019 (subject to 4-year performance review period). Financial and non-financial performance of CEO is reviewed across concurrent board committee meetings.

Clear breakdown of performance hurdles including measurement criteria, weighting and impact.

Catherine Livingstone defended the remuneration report, in particular the sign-on equities grants, saying that with the increased regulatory considerations and expectations, and the individual financial penalties attached to dishonesty, key executives were getting harder to attract.

Item 4	Grant of Securities to Matt Comyn
ASA Vote	For

Summary of ASA Position

Performance shares are intended to be bought on market, with shareholder approval being a regulatory requirement. The Long-term Variable Remuneration maximum of 47,957 rights are to be granted to the CEO subject to performance hurdles from July 2019-2023:

- Relative TSR = 75% of award, measured against ASX20 excluding resources companies. Max 35,969 shares
- Trust and reputation = 12.5%. Max 5,994 shares - must be a positive result to vest. Independently measured by Rep Trak
- Employee engagement = 12.5%. Max 5,994 shares, independently assessed via employee survey

Additionally, risk and reputation is reviewed by the Board before vesting.

Vesting for TSR and trust and reputation between 50 and 74th percentile = 50%, 75 and 100 percentile = 100 %, vesting below 50 percentile nil. Employee engagement between 72-78% score 50-100% vesting. No vesting below 72%.

Relative TSR must be achieved first (gateway) for trust and employee rewards to vest.

VWAP (face value) is used to calculate the number of rights allocated via the LTVR. For FY19 this was \$82.57.

The Board has the discretion to adjust the rewards (historically this has occurred downwards). No dividends accrue until vested.

Item 5	Adoption of a new Constitution
ASA Vote	For

Summary of ASA Position

Changes to the constitution are intended to make it clearer, simpler and less prescriptive. It was last amended in 2008; there have been significant changes to regulations since then.

Material differences:

- Share capital and variation of class rights (Clause 2.2).
- General meetings clause 6.6 gives Chairs the power to NOT put resolutions to the meeting (such as the Grant of Performance Rights resolution in 2016); clause 6.7 is for resolutions to be decided on a poll without first being put to a show of hands.
- Directors to stand for re-election every 3 years (not 1/3 Board to stand for re-election every year).
- Clause 7.3 - Super is included in aggregate fee cap for directors.

There are 21 clauses in the old constitution but only 14 in the new constitution.

We remind shareholders of the importance of keeping their contact information up to date in relation to their shareholding.

An individual involved in the preparation of this voting intention has a shareholding in this company.

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