



ASX announcement

Chairman's address

2018 Annual General Meeting

Brisbane, Wednesday 7 November

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Opening remarks

Shareholders, as you know, it has been a very difficult year, with confidence and trust in the Bank damaged by conduct and compliance issues.

I first addressed you as Chairman of the Bank at last year's AGM. Just three months prior, we had been notified of AUSTRAC's legal proceedings, and shortly after, the Australian Prudential Regulation Authority (APRA) announced an independent inquiry into the Bank. Later, in December, the Financial Services Royal Commission was established.

These inquiries have scrutinised our failings of judgement and of leadership, and of systems and processes.

Most confronting, is that these shortcomings led to cases of poor customer experience, and examples where we did not act in the best interests of our customers.

Your Board and I regret these failings, and we apologise, without reservation: to our customers, to our staff, to you our shareholders, to our regulators, and to the broader community.

In my address today, I will outline the actions that your Board and management have been taking to prevent these failings from recurring, and to transform the Bank into a simpler, better bank, that will restore your confidence and trust in us.

CEO and management team

The most important of these actions was appointing a new Chief Executive, and in January, we announced that Matt Comyn would commence as CEO in April. The Board believes Matt has the experience and values needed to lead the Bank. This includes the ability to respond to community expectations, and to address our regulatory and reputational challenges, while also maintaining momentum in the business at a time of rapid technology change, and intensifying competition.

Matt, in turn, has now appointed a very capable executive team, with the experience and the leadership skills to deliver cultural change and the Bank's strategy.



ASIC, AUSTRAC

Turning now to the major regulatory matters that have occurred during the year.

In June, the Federal Court approved our settlement with the Australian Securities and Investments Commission in relation to the Bank Bill Swap Rate legal proceedings.

The Federal Court also approved the settlement of the proceedings commenced by AUSTRAC, whereby we agreed to pay a civil penalty of \$700 million. This is a very large sum of money and understandably of serious concern to shareholders. However, when considering how best to resolve the matter in shareholders' interests, the Board formed the view that settling the case would allow us to focus, without distraction, on strengthening the Bank's financial crimes regulatory compliance capabilities, and on a constructive working relationship with AUSTRAC.

With respect to the two Class Actions arising from the AUSTRAC matter, we maintain that, at all times, we have complied with our continuous disclosure obligations, and intend to vigorously defend both claims.

APRA: governance, culture and accountability

APRA's Prudential Inquiry, announced in August last year, focused on our governance, culture and accountability frameworks. APRA's report, delivered in May, was highly critical of the Bank, but was fair and constructive. We are implementing all of APRA's recommendations, building on changes that were already underway to improve the way the Bank operates.

The Board has implemented more rigorous governance and risk management standards, and we are working with management to build a more accountable, customer-focused and transparent culture.

We have simplified our purpose, which is to improve the financial wellbeing of our customers and the communities that we serve. We have clarified our values, so that everyone at the Bank understands what is expected of them; and we have a new Code of Conduct that sets the standards of behaviour, for which everyone is accountable.

To reinforce accountability, we have further strengthened our remuneration policies. This year, the Board determined that there should be individual and collective accountability for the findings of APRA's Prudential Inquiry, and for the poor customer and risk outcomes that have occurred, including those which led to the action launched by AUSTRAC.

Accordingly, we decreased remuneration for current and former executives, through reductions to current year variable remuneration, prior year deferred remuneration, and the forfeiting of unvested awards. This was in addition to the Board's decision last financial year to reduce Non-Executive Directors' fees, and to reduce to zero the short-term variable remuneration for the then CEO and Group Executives.

The total impact for all employees and Directors, over the 2017 and 2018 financial years, has been a reduction exceeding \$100 million in remuneration outcomes.

Financial Services Royal Commission

Turning now to the Financial Services Royal Commission. In September, the Royal Commission delivered an Interim Report which focused on the causes of misconduct across the financial services sector, and what can be done to prevent such conduct.

The Interim Report was rightly critical of the financial services industry.

We recognise that in relation to our Bank, the misconduct examined raised questions about competency, complacency and priorities. When people or processes failed, there were neither the systems nor processes in place to identify and fix the problems, nor a sufficient sense of urgency to identify the root cause, and take steps to prevent similar issues arising again. Our focus on improving overall customer satisfaction also obscured and distracted us from focusing on customer dissatisfaction, which would have alerted us to many of these issues sooner.



We also acknowledge the Royal Commission's criticism that, too often, a focus on profitability disadvantaged some of our customers. We agree that this imbalance is not acceptable.

There is much to be done to address these failings, and significant programs of work have been underway for the past year.

Some of the issues raised during the Royal Commission had already been resolved and affected customers compensated, in prior years.

Over the past six years, the Bank has spent approximately \$580 million improving our advice business processes, and paid approximately \$270 million in compensation, including interest, to customers who were provided with poor quality advice, or charged fees where the service was not provided.

Further changes already implemented include the retail bank's move to increase transparency by disclosing mortgage broker commission rates to borrowers, and our decision to rebate grandfathered commissions for Commonwealth Financial Planning customers.

Later this month, Matt Comyn will appear at the last round of hearings, and the Royal Commission's final report is due early next year.

Strategy

As a result of our resolute focus on improving customer and risk outcomes, we are very clear on what is required for the Bank's future success.

Our strategy is to become a simpler, better bank that delivers balanced and sustainable outcomes for our customers, community, our people, and shareholders. I have already described some of the changes we are making to become a better bank.

To become a simpler bank, we are focusing on our core retail and commercial banking business. The sales, of our global asset management and life insurance activities, represent significant value for shareholders, and are positive for our customers and our people. We also intend to demerge the Group's wealth management and mortgage broking businesses, to enable the Bank and the demerged company to pursue the growth and investment decisions appropriate to each business.

In line with our commitment to long-term sustainable outcomes, this year we adopted the recommendations of the Task Force on Climate-related Financial Disclosures; and have reported the impact that various climate risk scenarios could have on our home lending, home insurance and business lending portfolios. We have also disclosed our lending exposure to energy-related businesses, which shows movement away from coal and towards renewables, and gas as a transition fuel.

Business performance

Although the 2018 financial results were impacted by a number of one-off items, including the AUSTRAC penalty, our results reflected good underlying business performance; we took on more long-term wholesale funding, and our balance sheet continued to strengthen. We remain one of the best capitalised banks in the world.

This performance enabled us to continue to invest in service and technology for our customers, and to deliver a strong dividend for shareholders. The full year dividend increased 2 cents on last year, to \$4.31 per share, fully franked. Three quarters of the Bank's cash net profits after tax were returned to shareholders, amounting to \$7.6 billion.

We were also Australia's third largest tax payer. The Bank paid \$4bn in corporate tax globally, and a further half a billion in payroll tax, unrecoverable GST, and FBT. The \$700m AUSTRAC penalty was not deductible for tax purposes.



Board renewal

In line with our commitment to good governance, Board renewal has continued. Andrew Mohl and Brian Long, both long-standing directors, are retiring this year. Andrew will step down at the conclusion of today's AGM; but at the request of the Board, and to allow for sufficient continuity in director succession, Brian has agreed to serve until December 31.

On behalf of the Board, I would like to thank both Andrew and Brian for their service and commitment to the Bank.

In March, Anne Templeman-Jones joined the Board and will be offering herself for election today. Anne is an experienced listed company Director, and has a strong background in accounting, risk, corporate banking and financial advice.

In September, we announced that Paul O'Malley would be joining the Board from January 2019. Paul was the CEO of BlueScope Steel for over 10 years, and also served as its CFO. He brings to the Board extensive operational and finance experience, as well as business leadership. Paul will not be standing for election at this meeting as he has not yet joined the Board.

In accordance with our Constitution, I will also be offering myself for re-election today.

Closing remarks

Shareholders, while this has been a very challenging year, we have a clear purpose and direction to transform the Bank.

The commitment which our people show to our customers, and to the Bank's purpose, give me great confidence that the business will perform well and deliver for our stakeholders. I would like to sincerely thank our people for the work they do to improve the financial wellbeing of more than 16 million customers, and the communities in which we operate.

To my fellow Directors, thank you for your determined efforts this year to secure the Bank's future.

I would also like to thank you, our shareholders, for your loyalty and support through these challenges.

My commitment, alongside that of your whole Board and management, is to implement the changes necessary to restore trust, to deliver on our strategy to be a simpler, better bank, and to meet the high standards of performance, accountability and integrity which you expect from the Commonwealth Bank.

I will now ask our CEO, Matt Comyn, to address the meeting.

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