

# ASX Announcement

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**1 May 2018. Transcript of investor and analyst conference call with Commonwealth Bank of Australia Chairman, Catherine Livingstone AO, and Chief Executive Officer, Matt Comyn, regarding the Bank's response to the APRA Prudential Inquiry into CBA.**

**Melanie KIRK:** Thank you for joining our analyst and investor conference to discuss APRA's prudential inquiry report into the Commonwealth Bank of Australia. I am Mel Kirk and I am Head of Investor Relations. We will start this morning's call with opening remarks from our Chairman, Catherine Livingstone, and our CEO, Matt Comyn. Following their comments, we will open the line for questions. I will now hand over to Catherine and Matt.

**Catherine LIVINGSTONE:** Thank you Mel. And thank you to everyone who's joined us on the call, and I do apologise for the very short notice, and I know it is a busy morning for everyone with the ANZ reporting its financial results.

In terms of the report, I want to start by saying as Chairman on behalf of the Board that I regret, without reservation the Commonwealth Bank's failings over recent years, which have led to this report, and apologise to all of our stakeholders for what has happened.

As we said at the outset of this review, the Board and management recognise that events over recent years have weakened the community's trust in us. We have been working hard to strengthen trust, and will continue to do so. And it was for that reason that we welcomed this opportunity for independent parties to take fresh eyes, and advise us on what more we must do.

In that same spirit we now welcome the final APRA report, and I thank the inquiry panel for their diligent examination of the issues, and the well-considered and thoughtful recommendations contained in the report. As you will see it is both upfront and confronting about our shortcomings in governance, culture, and accountability, as well as being direct and clear on a path forward. And there are clearly themes in the report which reflect on some of those coming from the cases before the Royal Commission. At the heart of these are the ways in which we have failed our customers. None of this is acceptable, particularly in an organisation such as the Commonwealth Bank, whose customers, staff, regulators and shareholders expect us to operate with the highest standards of professionalism and trustworthiness.

As the new Chairman of ASIC recently commented, to demonstrate professionalism we must show we are competent and conscientious, both of which turn on a person's ability to care about people and be ethical. Similarly, to re-establish trustworthiness, we must demonstrate competence, care and ethics. And this will require change. That change is underway, as it has to be, and the report provides us with a clear road map for the further work ahead of us.

We are committed to implementing in full the recommendations of the APRA report, and the Board and management are now undertaking the development of a comprehensive response. We understand both the scale of change which is necessary and its seriousness. However I am confident that those changes will see us become a better, stronger Bank

for our customers, staff, regulators and shareholders. Before we turn to questions I would like to ask Matt to make some comments, including addressing the terms of the enforceable undertaking that we have signed.

**Matt COMYN:** Thank you Catherine. Two days after I was announced as CEO, a woman came up to me on the street. I thought she was going to ask me for directions. And instead she said “You’re the new CEO of the Commonwealth Bank, aren’t you?”. I said yes, and she said “I’ve got something to say to you, but you aren’t going to like it”. She told me she was a loyal customer and shareholder, and she was angry about what she was hearing about the Commonwealth Bank in the news. She had lost her trust in us. We talked, and I thanked her. I told her our job, my job, now is to fix what is broken and to earn back her trust and the trust of many customers like her.

That encounter had a big impact on me. A few days later I told the Chair that I would not accept a short term incentive payment for this year, given all of the challenges and obvious frustration in the community with the Bank. We then shared this decision with the Board in March. I see this as a small step to demonstrate that I will hold myself accountable for delivering for our customers.

I have thought a lot about what has gone wrong at CBA. My assessment is consistent with what you will read in this report. We have become complacent, we allow good intention and collegiality to matter more than accountability and follow through. Our capabilities in risk and compliance simply were not good enough. And we did not listen hard enough to our unhappiest customers, and therefore missed the deeper root causes. As a result we let down our customers, we let down our regulators, and as management we let down our people. I am sorry, and I can assure you I am committed to doing what is necessary to put things right.

As Catherine has said, today’s APRA report is clear, fair, insightful and confronting. It is what we needed to hear, and I thank the panel and the inquiry team for their hard work. It lays out a clear diagnosis and actionable recommendations which provide us with a clear and valuable roadmap.

Today I am having over 500 copies of the report made for our most senior leaders, many of whom I am seeing this afternoon. I am going to take the time with them to read out key parts of the report, and then ask them to take their copy and read it carefully. Some of our leaders may think the report is unfair. Some will think that it describes the Commonwealth Bank but not them or their teams. I will make it clear that this report describes the Bank. It describes me, and it describes every one of us. I will ask each one of them to reflect on the report and what they need to do differently as a result and for each of their teams to share those reflections. I am also going to attend some of those meetings.

As the report states, there is no silver bullet for us, but this is a first step to shift our culture to be more transparent, more accountable and more customer focused. My ask is that you track our progress and hold me and my team accountable. I will be transparent with you. We will provide an update once the plan has been finalised with APRA and we will then report regularly on progress we are making. That progress will also be reviewed independently.

As you know there is a capital adjustment that forms part of the enforceable undertaking. I am committed to making progress with the remedial plan. Once we have made satisfactory progress with the EU undertakings and remedial action plan, we will be able to apply for a partial removal of the capital adjustment.

Together with my management team, I assure our customers, our regulators and our shareholders that we fully understand the urgency of this task. My goal is to earn back the trust of that woman on the street, and all those customers who have come to question our commitment to them. We will make the necessary changes to become a better Bank that lives up to

the high standards expected of us. I am happy to take your questions.

**Melanie KIRK:** Thank you Catherine and Matt. We will now open the line up for questions from analysts and investors. As time is limited could you please restrict your questions to one and we can come back to you if time permits. We will take our first question from Victor German from Macquarie.

**Victor GERMAN:** Thank you Melanie. Apologies if this was covered, to be honest we were a little bit late on the call. I just wanted to get, on that additional capital impact, how exactly do you expect this to work and whether, if for example, there are some additional fines that you may have in future, whether you'll be able to offset that with that capital buffer?

**Matt COMYN:** Thanks Victor. So the way the capital adjustment will work is it is called out as part of the enforceable undertaking. There is an additional increase to our operational risk regulatory capital of \$1 billion. It is not a fine. The effect of that is that it increases our risk weighted assets by \$12.5 billion which overall reduces our CET1 by 29 basis points.

**Melanie KIRK:** Thank you Victor. We will now take our next call from Brian Johnson of CLSA.

**Brian JOHNSON:** Good morning. The first one I'd be, well there's two things, just with the cost, the additional cost that you are saying that you will call out with the next result, does that suggest that it will be provided for in the 2018 year or the 2019 year?

**Matt COMYN:** Good morning Brian. What we have done, as we did at the half, was give an update on our best estimate of the costs establishing across all of the enquiries. We intend to follow the same process, so at our full year results in August, we will give our best estimate of all of the enquiries to date and including our estimate of the remediation costs for complying with the enforceable undertaking as part of the panel's report.

**Melanie KIRK:** Thank you Brian. We will now take our next question from Andrei Stadnik at Morgan Stanley.

**Andrei STADNIK:** Good morning Catherine, good morning Matt. I just wanted to ask, how long do you think it will take you to implement solutions to the issues raised by APRA. Is this something that could take one year, is it something more likely to take say three years?

**Matt COMYN:** I think it is too early to say Andrei. The process as outlined in the enforceable undertaking is we, over the next 60 days, will work closely with APRA to design a remedial action plan to implement all of the recommendations in full. As I said at the end of that process, we will provide an update publicly. I think over the course of implementing those recommendations, it is worth pointing out that the enforceable undertaking also allows us to make an application to APRA and, subject to their approval where we have made progress against the remedial action plans, there is an allowance to be able to reduce the capital adjustment progressively.

**Melanie KIRK:** At this point we do not have any further questions. If anyone has a question, please follow the operator prompts to ask your question. If there are no further questions, we will close it there because we understand that you have a very busy morning. Thank you for participating and your questions. If you have any additional questions, please come back to me and we can discuss those throughout the day. Thank you.

END OF TRANSCRIPT

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