

Commonwealth Bank

Commonwealth Bank of Australia
ACN 123 123 124

2013 AGM Chairman's Address

Our results have continued to be sound. Cash net profit after tax was \$7.8 billion which was a good performance in an environment which was quite difficult. This strong result enabled us to increase the dividend to a record \$3.64 per share for the year.

We also provided a trading update on Wednesday in which we announced that our cash earnings for the first quarter of the 2014 financial year were approximately \$2.1 billion.

This performance is a great tribute to the leadership of Ian Narev and his team. Looking beyond the senior management however, the result is evidence to me of the effective and collaborative way our people are working together as one Bank.

Our strategy is clear and Ian will discuss it further. It centres on customer service, technology, One CommBank and selective development overseas. And the opportunity for all divisions of the Bank is considerable.

But, while these commercial ingredients are important, our ethical standards and the way we conduct our business are critical. We move very quickly indeed to remedy areas in which we have stepped out of line and ensure that they do not reoccur.

We are determined to be an organisation with the highest possible ethical standards. These are an essential ingredient of being an outstanding organisation.

In the environment outside the Bank, economies have been dominated by uncertainty and volatility, to say the least, but not quite in the same way as last year.

Last year's concerns around the slowing of the Chinese economy have abated. Growth projections there seem to have settled at around 7 – 7½ percent, although in the last quarter the economy grew at a slightly greater annualised rate of 7.8%.

While, country by country, challenges exist in Europe, the EU as a whole can still pay its bills and it's good to see signs of hope on the horizon, as indicated by stronger stock prices across the board in recent months.

In the United States, the business sector is performing reasonably well. But the political divide seems as great as ever and, while solutions to critical issues do eventually materialise, they're all too often right up against the wire and stress levels rise everywhere.

In Australia, neither consumer nor business confidence have been strong over the past year. But more recently, there have been signs that business confidence may be picking up, and our own customer feedback has been more positive, though these are early days.

We continue to respond to this environment by maintaining our conservative business settings. These include strong capital, high levels of liquidity, robust

provisioning and strong funding. As a result, we can continue to support those customers who are stressed, and we can respond quickly should the economy turn around and the demand for credit increase.

In terms of the Board, there has been a lot of discussion around the world about governance and, in particular, the role and effectiveness of Boards. So I thought I'd share a little of what your Board has been up to and how we're performing.

Firstly, and on your behalf, let me thank my fellow directors for their hard work, their dedication and support.

As a part of their duties, Directors are encouraged to meet with the Bank's senior executives to exchange experiences and add value. At Board meetings, we pursue an open and robust debate, we challenge management, question assumptions and seek broad discussion. We debate strategy as well as meet our governance responsibilities.

In terms of Directors' tenure, you do of course re-elect directors every three years. In addition to this we have an understanding within the Board that we will have a formal mutual review after 6 years of service, after which there could be a change, and then again after 9 years. Any additional service after 9 years we treat on a truly exceptional basis annually, up to an absolute maximum of 12 years.

It's important that we stay effective both as to the composition of your Board and its balance, as well as the way in which we conduct our business, and we need the discipline to ensure we do.

Each year, we assess the effectiveness of the Board, its Committees and the performance of individual directors. Every second year, we use an external facilitator to manage this process. Although this was a year in which an external facilitator was not required, we did use one to check our performance against the benchmark set last year.

Each director was interviewed and contributed thoughts on strengths and weaknesses of the Board as a whole, as well as colleagues. Yours is a Board that works hard and is diligent, and will continue to seek to improve in all areas. And we are a generally diverse group, diverse in terms of both primary executive skills and, just as importantly, secondary experience gained during and after a director's primary career is over.

In performing our duties, open and independent exposure of the Board to the views of our shareholders is also important if we are to fully understand your thoughts. We will continue to do that, albeit in different ways each time.

For example, about a month ago, we met one-on-one with a senior fund manager and a senior sell-side analyst to do just that.

The Board spent a week in China in September. The purpose was two-fold. First, to better understand our small but growing and very high quality business over there, and second, to experience first-hand the dynamism of China, as its fortunes are so closely aligned with Australia's.

I know there are concerns about a different system, and the current direction of the anti-corruption drive in China, but what we experienced was extremely impressive and provided a fascinating backdrop for the growth outlook. We travelled widely through the country and we all found its raw energy both exciting and infectious. China's relevance to Australia is clear, and our business there is both diverse and growing fast.

Now, I'd like to talk about the future.

The prospects for the 2014 financial year remain as I've described. Neither consumer, nor business confidence have been strong over the past year, but more recently there have been signs that business confidence may be picking up, and our own customer feedback has been more positive, though these are early days.

So what are our primary areas of economic focus in Australia? The level of confidence of Australian business and households, the value of the Australian dollar and the resultant impact on export-sensitive parts of the Australian economy, the impact of economic conditions in China on the demand and price for resources, the stability of funding markets and the employment implications of all of these.

Competition will remain strong in all our businesses - competition from both traditional financial services competitors and new technology-enabled business models.

Overall, we believe that the underlying conditions for our business in the 2014 financial year will be similar to those we experienced last year, although the outlook may be a little stronger.

We are well positioned to meet the needs of our customers should the economy rebound more quickly than anticipated. We have a truly excellent management team leading the Group, and in this challenging world it is necessary, and your Board is confident that they will succeed.

I would like to thank our customers and you, our shareholders, for your continuing support for the Commonwealth Bank of Australia.

Finally, to all the Group's staff, on whom we depend so much for our success, thank you too.