

Commonwealth Bank

Commonwealth Bank of Australia
ACN 123 123 124

Group Governance

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The Manager
Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000



Dear Sir

2016 Annual General Meeting – Chairman’s Address

I attach a copy of the Chairman’s Address which will be delivered at the Company’s Annual General Meeting today.

Yours sincerely

Taryn Morton
Group Company Secretary



2016 Annual General Meeting – Chairman’s Address

Ladies and gentlemen,

It really is a great pleasure to be holding our annual general meeting in Perth.

Commonwealth Bank has been in business in the State for over 100 years and Bankwest since 1895. We are both committed to it, and we’re keenly interested in helping all our customers to prosper and develop.

We have more than 165 branches servicing communities from Cottesloe to Kalgoorlie, from Albany in the south to Kununurra in the very far north.

And we are of course a significant employer in Western Australia, with more than 5200 people under both the CBA and Bankwest brands.

Western Australia is also home to more than 90,000 direct shareholders of the Commonwealth Bank.

We are also proud of the fact that the CBA Group is owned not by an elite group of investors, but by Australians from all walks of life.

More than 800,000 Australians own CBA directly and millions more indirectly through their superannuation funds.

I am not sure how many of you will have seen it, but in September, the Bank marked its 25th anniversary since our listing in 1991.

For those of you who might have participated in the float at the time, it has been a remarkable journey and if you still own your shares, a very profitable one.

It’s been seven years since I became Chairman and at the end of this year I will retire and Catherine Livingstone will take over.

It’s been a tremendous honour to chair your Bank.

And it’s certainly been an exciting and stimulating time.

We appointed Ian as Chief Executive at the end of 2011 and, under him, the management team has changed significantly.

We’ve balanced a mix of maturity and youth: young people with both potential and great ability populate the executive team and the management of the Bank.

There is not the slightest doubt that this team has brought a new level of innovation, ingenuity and energy to the Bank.

At the same time we are absolutely focused on improving culture in the broadest sense through our Vision and Values initiative.

We also have during all this time had the customer at the heart of our business.

Customer satisfaction is entrenched in our thought processes and it has of course been an important ingredient in our reward programmes.

Over the past 10 years, we have not only moved from bottom to top of the four major banks in customer satisfaction but we have achieved excellent financial results.

They are of course entirely related.

STABILITY

Let me now turn to the stability of the Bank.

It is an unspoken expectation that CBA is totally solid and safe, an ever present profile. Its strength and stability are taken for granted.

People see it just like gravity. It's always there.

You don't go to sleep at night and expect to wake up slapped against the ceiling.

Here are three reasons why the Bank remains so stable.

First, it is because our strategy is set by the Board and the Executive for the long term and that's how the Bank is managed.

Second, we have a highly professional management team and thousands of others who work their socks off to ensure that this state of affairs will continue for many years to come.

And third, we fully understand that strength and stability also come from the trust and support which our shareholders, customers and community place in us.

In recent times this trust has been questioned.

And a sense of mistrust has become entrenched with certain quarters of the community.

People ask me if we are concerned about the nature of the public debate.

Of course we are, and we are listening carefully.

There is always the potential to undermine the confidence and the stability of the whole system which serves the country well.

Perversely, we see this as an opportunity for the Bank to re-double our efforts to listen, and then to explain what we stand for, what we do, our purpose and our performance.

We are a bank which has succeeded as a result of the efforts of our people.

We employ about 52,000 directly and thousands more provide goods and services which the Bank uses on a day-to-day basis, and the whole business of the Bank is to enhance the financial wellbeing of our customers as well as the environment and economy in which we all work.

We lend money for families to buy houses and develop small businesses; and we safeguard people's money through helping them invest, as well as take deposits.

We have been in this business for over 100 years and throughout all of those years we have sought to compete hard, develop the business, focus on customers to be sure that they receive excellent service, are delighted by technology advances and keep coming back.

We are a bank that serves the whole of Australia.

Our international subsidiaries serve New Zealand, Indonesia, China, Vietnam and now South Africa.

Let's look quickly at some numbers.

Last year, we had revenue of \$24.8 billion and costs of \$11.7 billion.

Many of these costs, in addition to payroll, support and indirectly result in the employment of thousands of other Australians.

The difference between revenue and costs is the profit before tax of \$13.1 billion.

Out of this we pay \$3.6 billion tax, the vast majority to the Federal Government, as well as to State and Local Governments.

Whether you like the way governments spend their money or not, we are the largest taxpayer in Australia.

After the tax has been paid, we have the profit of \$9.5 billion out of which approximately 75 per cent or \$7.2 billion is paid by way of dividends directly to 800,000 Australian households and indirectly through superannuation funds to millions of others.

The remaining \$2.3 billion is reinvested in the business to fund further growth through home and business lending, technology, through ongoing investment and unrelenting efforts on customer service.

We are interwoven throughout Australian society and we are part of a financial system that is the envy of the world.

All that being said, there have been two issues over the past few years which have brought a considerable amount of scrutiny to our business.

These are past failings within our advice business, and more recently, a number of errors in customer cases in our insurance business.

Let me comment on these.

ADVICE

This year has continued to see concerns and commentary about the past issues in Wealth Management.

As I have said previously, the issues have been both complex and challenging to identify and resolve quickly, however once we did we worked with vigour and determination.

The Open Advice Review programme invited all customers, about 350,000 who had received advice between 2003 and 2012 and felt aggrieved at the quality of the advice, to let us know. Some 8,600 requested reviews.

We have had 500 people working on the reviews and more than 7,100 of the requested reviews have been assessed.

In 80 per cent of the cases, the correct advice was found to have been given.

We will have completed all remaining assessments by the end of the year.

The programme is populated with independent checks and balances.

Probably the most important outcome however is that standards of education required of financial advisors in the Bank have risen dramatically, and standards within the industry in general have now also risen.

In the course of this work, the team discovered other issues, which including fees for service with no record of delivery to the customer.

This issue was one which we had identified through our own review work and proactively reported to ASIC back in 2014.

Since then we have been working with the regulator to set up the right process to refund any customers who didn't receive advice for their money.

We are taking a very conservative approach to ensure that, if there's any doubt about the customer getting advice, their fees are being refunded.

We will work hard and diligently through this issue and we expect to have the refunds, plus interest, completed by mid-2017.

It is a large number of refunds – valued at more than \$100 million, which reflects the large number of customers we are looking at and the time period goes back to 2007.

Since we discovered the problem we have provided for this in our accounts and refunds have already commenced.

These have been tough and complex issues to deal with, but what matters is we ensure where we have not done the right thing by customers, we work to put things right as well as we possibly can.

The executive leadership team have worked hard to ensure they find all these past problems and work to put them right.

COMMINSURE

In March Comminsure was criticised in respect of five specific customer claims that were rejected or handled poorly by the company.

They were tragic and we have apologised unreservedly.

We have employed independent external parties to review the business - DLA Piper in terms of the allegations raised in the media, and Deloitte Touche Tohmatsu on the process and declined claims side.

“We know that some of our medical definitions were not up to date at that time.

However, we have since updated these.

With regards to the independent review to date – although the reviews are not yet complete – so far nothing has emerged that points to the systemic poor behaviour that was alleged.”

Work is continuing within the Bank and by the regulator, ASIC, and we look forward to this being completed at the appropriate time.

While it's inevitable that in a business as large and complex as the CBA there will mistakes, our job is to keep them to the absolute minimum and put them right just as fast as we possibly can.

Our target must always be zero mistakes.

ETHICS

Let me turn to initiatives to lift ethical standards and behaviour.

In 2014 we introduced a ‘Vision and Values’ programme into the Group. Every employee in the Group has been trained either face to face, in groups or in the case of remote areas, online.

We have also established a customer advocate function at Group level. This new function will ensure a more customer-centric focus across the Bank.

This includes advocating for better customer outcomes, taking action where there is potential for concerns to arise and where things have gone wrong. We are remediating customers in a consistent way as you would expect.

And we have an independently managed whistleblower policy, and whistleblower protection is central to how this function operates.

SOCIAL RESPONSIBILITY

Moving to social responsibility, 5 years ago we were behind the other major Banks in terms of our environmental reporting and processes.

In certain areas we needed to do things differently but in others, all we needed to do was to report publicly what we were already doing.

Last November, we disclosed the carbon profile of the emissions we finance.

This October, a similar release shows a 10 per cent reduction in comparable emissions.

Our exposure to renewable electricity is now \$2.2 billion, more than 5 times our exposure to direct coal powered electricity generation.

We have also explored opportunities with CSIRO to identify ways in which we can help our customers leverage the future energy shift.

We are trying our level best to make our contribution to the two degree temperature reduction target identified by the Paris summit last year.

The Global Carbon Disclosure Project this year rated CBA an A Minus for our work in carbon disclosure. We are committed to improving this even further.

In 4 years' time we are aiming to be the leading bank in the Dow Jones Sustainability Index. It is an ambitious target.

DIVERSITY

We have been embracing the need for greater diversity within the Group leadership team in the widest sense.

In 2009, we set an informal target of 35 per cent women in the team from a starting point of 26 per cent.

We achieved the target by mid-2013 and have now upped the bar to 40 per cent by 2020.

And by the end of this year, 50 per cent of Ian's Executive Committee will be female.

We are similarly committed to other forms of diversity with a particular focus on ethnic diversity.

The purpose of all this endeavour is to reflect more accurately the population mix and customer base.

REMUNERATION

Let me now turn to remuneration and, in particular, that of the Chief Executive.

Clearly there will be a chance to ask further questions later, but let me cover a couple of points:

At the time Ian Narev was appointed CEO 5 years ago, his remuneration was pitched at a level below that of his peers and below that of his predecessor.

He was at the time awarded some long term performance rights, three quarters of which would vest if the Bank performed in financial terms in the top quarter of a group of Australian companies, and the balance of 25% if we performed at the top of our banking peers in customer satisfaction.

If these objectives were achieved, shareholders agreed that the CEO's rights would vest in full, and they approved the plan.

Our performance was very strong on both fronts.

Over the 4 year period, we were in the 70th percentile in financial performance and were top in customer satisfaction.

The share price went up from \$44 to more than \$70 and we went from number 3 in customer satisfaction to number 1.

This was the result shareholders wanted and our Chief Executive was rewarded accordingly.

However, in respect to this year, shareholders have expressed concern about the Remuneration Report which is Item 3, and the award of reward rights to the CEO under Item 4.

These concerns relate to the proposed long term reward plan and the lack of clear targets and metrics.

They also relate to the lack of clarity of the short term incentive plan targets and how the Board exercises its discretion in relation to these awards.

The Board acknowledges these concerns and will therefore not be issuing long term performance rights under the new scheme to the CEO. Item 4 has therefore been withdrawn.

Instead, we will be issuing rights on the same basis as the scheme approved by shareholders in 2015 funded by shares to be bought on the market, capped at 55,443 reward rights as shown in Resolution 4.

You will recall that this plan was based on 75% Total Shareholder Return and 25% Customer Satisfaction.

We will be engaging with shareholders over the next 12 months on all of these issues and the Board will also be considering moving the basis of the calculation of the number of award rights from fair value to face value.

We look forward to these discussions and as always, your Board will be focused on the future.

We constantly consider, people and talent, innovation, creativity, the customer, watchful always for the disrupter and unexpected risk.

As a result, the Bank has produced premium returns to shareholders and your Board is determined that we continue to do so.

The shape of the Bank in 5-10 years' time will be different.

The Board believes that to produce a continued and excellent performance, we will need to include three key ingredients:

1. An environment in which the very best talent, irrespective of gender or ethnicity, will be attracted to the Bank and will be stimulated by working in it.
2. An organisation that more than satisfies its social obligations, including sustainable excellence and practices.
3. A business that performs in an ethically responsible manner: transparent, accountable, honest and trusting.

All of these objectives require powerful messaging and cascading throughout the organisation.

As we demonstrated with Customer Satisfaction, there is no better way to do this than through the reward system.

It is an incredibly powerful tool.

And we are acutely aware that sustainable success has many ingredients.

People in the bank must be proud and excited.

BOARD

As Chairman, it's my responsibility to ensure your Board has the right mix of experience and skills.

A well-functioning Board needs to have Directors with diverse backgrounds and a wide range of perspectives.

This year I am very pleased that we have been joined by Catherine Livingstone and Mary Padbury.

Catherine has extensive leadership experience, including at some of Australia's most innovation-focused organisations.

This, together with a background in finance, means Catherine is already making a significant contribution to Board discussions. I will come back to Catherine in a minute.

Similarly, Mary Padbury, an experienced intellectual property lawyer, brings exemplary legal, technology and governance skills that greatly enhance the Board's knowledge base.

Both Catherine and Mary will share more of their backgrounds and experience in a few moments.

Earlier this year, Jane Hemstritch retired after nine years as a Director.

Jane chaired the Remuneration Committee for six years and made a great contribution to the Board through her judgement, insight and humour.

Sir John Anderson is also stepping down this year, having served for nine years.

Sir John has been an excellent Director, a very great supporter of the Bank who contributed significantly to the Board.

On behalf of my fellow directors, the Group's executives and our shareholders, I would like to thank both Jane and John for all their hard work and their dedication to our Group.

We will miss them both.

We have also made some important changes to the Board Committees this year.

Harrison Young has passed the reins of chairing the Risk Committee to Shirish Apte, and, with Jane's retirement, Sir David Higgins now chairs the Remuneration Committee.

As was announced in the Notice of Meeting, Shirish Apte, Sir David Higgins and Brian Long will be standing for re-election, and each – together with Catherine and Mary – will be talking to you shortly.

As I said earlier, I have decided to retire from the Board at the end of this year.

I am delighted that the Board has appointed Catherine Livingstone as my successor as Chair.

Congratulations Catherine, I know you will do an excellent job.

In my opening remarks I spoke of the need to be strong and resilient, to continue to invest in technology and innovation, to be more productive, and to build a workforce that mirrors our community.

This aligns with our long term strategy focused on the customer, and our key capabilities of People, Productivity, Technology and Strength.

THE ECONOMY

We also believe that the Australian economy remains well-positioned.

The transition that is underway from over-dependence on mining to a broader based economy is providing the foundations we need for future prosperity and success.

We know there are still challenges to be overcome, such as low levels of business investment and the prospect of lower for longer interest rates and inflation.

Against this backdrop there is also a plethora of political and economic uncertainty outside Australia.

Despite this we remain committed to our long term strategy and to supporting the economic activities that are critical to our common future.

In remaining steadfast to our vision of financial wellbeing, we will remain a strong and successful bank for our customers, shareholders, people and communities.

In closing, I would like to reflect again on the advances and changes which have happened over the past nearly seven years.

The progress made for customer-led technology, service and attention has been second to none.

Our focus on vision and values is very important to sustain the success of the Bank into the future.

I am enormously proud of the hard work and effort that has seen the CBA transform into an innovative leader, a diverse and inclusive workplace: a bank for Australia's future.

I'd like again to thank all our people for all their hard work, and for their dedication to our customers and values.

It is their commitment that underpins the Group's continuing strong performance.

I am also grateful to my fellow Directors, and the senior management team who work so well together, and with such dedication, to secure the future of your company.

Finally, thank you, our shareholders, and our customers, for your continuing support.