

Commonwealth Bank Group

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Reply
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Ms Toni Matulick
Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra
ACT 2600

Dear Ms Matulick,

Re: Committee of 15 December 2015 relating to a document from Mr Trevor Hall

Thank you for your correspondence of 15 December 2015 in relation to a further document provided to the Committee by Mr Trevor Hall.

Mr Hall has provided at least three written submissions to the Committee, as well as verbal testimony. Unfortunately this latest correspondence is another example where the Committee may be at risk of being misled by a large volume of incorrect data and erroneous conclusions.

We address Mr Hall's claims in turn in the table below:

Mr Hall's claims	The actual facts
a. <i>"Warranty claims could be made by the CBA on HBOS for retrospectively impaired loans pursuant to the terms of the Sale and Purchase Deed"</i>	<p>Commonwealth Bank <u>could not and did not</u> make any warranty claims on HBOS for retrospectively impaired loans.</p> <p>Per our letter to the Committee on 23 November 2015, Commonwealth Bank did not make any formal warranty claim <u>at all</u> under the Bankwest Share Sale Deed.</p> <p>Commonwealth Bank, HBOS plc and Lloyds International Pty Ltd (formerly HBOS Australia Pty Ltd) entered a commercial settlement on 11 December 2009, for a total of \$5,360,193. This was not related to impaired customer loans.</p>

Mr Hall's claims	The actual facts
<p>b. <i>"At least \$8,201 million in loans were impaired in the period from 19 December 2008 to 30 June 2009, by BankWest under CBA instructions"</i></p>	<p>Gross impaired commercial loans increased by <u>\$10 million</u> between 19 December 2008 and 30 June 2009.</p> <p>The closing balance of impaired commercial loans as at these dates were:</p> <ul style="list-style-type: none"> • At acquisition (19 December 2008): \$1,248 million • 30 June 2009: \$1,258 million <p>This increase was not "under Commonwealth Bank instructions". Loan impairment is an ongoing process that must be undertaken to ensure that loans are adequately provided for under accounting standards. The process is audited by external auditors.</p>
<p>c. <i>"Losses on impairments booked to the BankWest income statement in that same period were \$2,468 million"</i></p>	<p>For the period 19 December 2008 to 30 June 2009, for commercial loans:</p> <ul style="list-style-type: none"> • Loan impairment expense was <u>\$558 million</u>. • Total write offs (losses) were <u>\$46 million</u>.
<p>d. <i>"These \$2,468 million in losses on impairments were at least 4 times the BankWest 90 day past due loans"</i></p>	<p>As at 30 June 2009, the commercial <u>loan impairment expense was \$558 million</u> and commercial loans <u>90 days past due were \$311 million</u>.</p> <p>As we have outlined to the Committee previously, Mr Hall appears to have summed the 90 days past due measure across different dates resulting in double and triple counting of loans.</p>
<p>e. <i>"Of the BankWest \$2,468 million in losses on impairments, the CBA charged off \$2,164 million against the BankWest cost of acquisition on its own books"</i></p>	<p>As noted above, the Bankwest commercial loan impairments for the period ending 30 June 2009 was \$558 million.</p> <p>Commonwealth Bank has previously explained that it could not reduce the purchase price of Bankwest by impairing customer loans, nor did it attempt to do so.</p> <p>Commonwealth Bank did not "charge off" loans which became impaired after 19 December 2008 against the Bankwest cost of acquisition. Instead, as we have said previously, any such costs were borne by Commonwealth Bank shareholders.</p>
<p>f. <i>"The CBA has not explained, how it could maintain a 0.8 times book value gain on acquisition despite having to charge off the BankWest losses on impairments of \$2,164 million against that gain on acquisition;"</i></p>	<p>We outlined in letter to the Committee regarding Mr Hall's original submission (dated 8 October 2015), the calculation of the 0.8 purchase price multiple upon announcement of the acquisition.</p> <p>Again, Commonwealth Bank did not "charge off" loans which became impaired after 19 December 2008 against the Bankwest cost of acquisition. Any such costs were borne by Commonwealth Bank shareholders.</p>
<p>g. <i>the simple answer is HBOS paid for it."</i></p>	<p>HBOS has not "paid" for the impairment of customer loans. As outlined in previous submissions:</p> <ul style="list-style-type: none"> • There were no warranty claims in respect of the impairment of customer loans; • The purchase price of \$2,126.1 million was fully paid by Commonwealth Bank; and • Funding amounts associated with the transaction were also repaid to HBOS in full.

Mr Hall repeats his claim that “CBA constructively defaulted 1,025 Bankwest commercial loan book customers”. We have already shown that (a) Commonwealth Bank could not and did not “constructively default” customers; and (b) Mr Hall’s figure of 1,025 is based on a flawed calculation involving double and triple counting.

As we have previously advised the Committee:

- Bankwest had 66 individual entities in receivership in 2008/9 and 116 in 2009/10, not 1,025 as Mr Hall claims.
- Gross impaired loans increased by only \$10 million between 19 December 2008 and 30 June 2009, not the \$8,201 million which Mr Hall claims.
- The final purchase price paid for the ordinary share capital of Bankwest was \$2,126.1 million, not zero as Mr Hall claims.
- Commonwealth Bank repaid \$19,027 million in funding. \$15,257 million was repaid to HBOS and \$3,770 million was repaid to the Reserve Bank. Contrary to Mr Hall’s suggestion, there was no deduction from funding repaid in respect of impaired loans.

If you or members of the Committee would like to discuss our response do not hesitate to contact me on _____ or Euan Robertson on _____.

Yours sincerely,

David Cohen
Group Executive Group Corporate Affairs
Commonwealth Bank of Australia