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15 April 2016

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

Dear Ms Matulick,

**Re: Questions on Notice from Commonwealth Bank Appearance before Inquiry on
4 April 2016**

On 4 April when Rob De Luca and I appeared before the Committee we took a number of Questions on Notice. Please find attached a copy of our responses to these questions. We have also provided additional information in other areas which may be of interest to the Committee.

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

QoN 1

Senator FAWCETT: *My point which I think I have made is that I have concerns about the ability of people within your system to report concerns and be listened to. I would be happy to take an answer on notice about what specifically has changed in terms of the reporting and ability of somebody essentially to whistle-blow around concerns in that structure.*

Answer:

Commonwealth Bank encourages a culture where people can confidently speak up with ideas, views and concerns.

Options for people to speak up include through their line manager, a more senior leader or the Human Resources team who are independent of business management or through a completely independent party while remaining anonymous.

In 2015 we reviewed these arrangements and since then have made a range of improvements which included:

- Consolidating multiple whistle-blower lines into a single channel called SpeakUP
- Ensuring people can leave a message with the SpeakUP hotline or email service 24 hours per day, seven days per week
- Ensuring the SpeakUP details are listed on the Commonwealth Bank public website to encourage community members, customers and other stakeholders to use the channel if they wish
- Having the SpeakUP channel managed by an independent third party provider, with consultants who are not employed by the Commonwealth Bank
- Implementing a process for the careful management of whistle-blowers, including confidentiality arrangements
- Maintenance of a whistle-blower protection officer position to provide welfare support to whistle-blowers
- Training by an external law firm to ensure staff involved in the management of matters referred by whistle-blowers are aware of legal requirements in relation to the proper treatment of whistle-blowers
- Continued support for the Group Investigations function, which investigates allegations of serious misconduct
- Creation of an Internal Fraud and Misconduct Governance Committee, comprising the Chief Risk Officer, Chief Financial Officer, Group Executive of Human Resources and the Group Legal Counsel. The Committee provides oversight of internal fraud and misconduct complaints including but not limited to those received through the SpeakUP channel to ensure that:
 - internal and external mechanisms exist to create sufficient awareness of misconduct reporting channels;
 - guidelines and processes are in place to appropriately manage staff misconduct complaints and whistle-blowing matters when identified;
 - mechanisms are in place to appropriately manage the process in accordance with the prevailing legislation;
 - action plans are implemented to address any prevailing misconduct trends; and
 - training is providing to relevant staff.

In addition to the SpeakUP channel, Commonwealth Bank conducts annual anonymous staff surveys, where people are actively encouraged to raise concerns about culture.

QoN6:

Senator KETTER: *Can you tell us what the settlement that Dr John Schubert referred to at the 2009 AGM as a confidential post-acquisition settlement related to?*

Answer:

Having reviewed the transcript of Dr Schubert's comments it appears the settlement process he was referring to is the price adjustment process under the Bankwest sale documents. This process commenced with HBOS providing the post completion balance sheet which was determined by Ernst and Young as the independent expert. This process was explained in some detail in our correspondence to the Committee dated 8 October 2015.

The Sale Agreement contained a confidentiality clause and this has previously been provided to the Committee.

A copy of the transcript from the relevant part of the March 2009 Annual General Meeting is at **Attachment C**.

QoN7:

Senator KETTER: I noted that Bankwest reported in their capital adequacy and risk disclosures quarterly update on 31 March 2009 that commercial loans were to the value of \$14 billion, which is a significantly lower amount. Would that figure be correct?

Mr Cohen: Did you say that was at 30 June 2009?

Senator KETTER: It was at 31 March 2009.

Mr De Luca: Do you know whether that is an exposure number or a facilities number?

Senator KETTER: I note that it is in this 'Capital adequacy and risk disclosures' quarterly update. I am not sure what the actual—

Mr Cohen: Those are not necessarily the full exposures that we faced to customers as a result of loans. That could be the exposures at a capital level that we were holding.

Senator KETTER: So it is not comparing apples with apples?

Mr Cohen: No, I do not think it is. I would have to look at it in detail for you, and I am happy to. But, off the top of my head, it does not sound like it is a direct comparison.

Answer:

We have checked the figures discussed at the hearing of 4 April 2016 and can advise the value of the commercial loan book figure as at 31 March 2009 was \$23.1 billion.

The \$14 billion figure Senator Ketter referred to appears to be March 2009 Pillar Three capital adequacy disclosure for Bankwest, representing Bankwest's exposure to corporate credit risk. For Pillar Three reporting, credit risk exposure is categorised based on the security type of a loan, using definitions provided by APRA. Corporate is one of these categories.

This information is required by APRA to be disclosed to provide detail on Bankwest's risk weighted assets and capital position.

**2009 ANNUAL GENERAL MEETING
EXTRACT OF SHAREHOLDER QUESTIONS
ANSWERED AT THE MEETING**

QUESTION: The Commonwealth Bank acquired Bankwest rather quickly a year ago, raising some \$2.1 billion in a new equity to fund the purchase, which also includes St Andrews. What was the total cost, after completion of the due diligence and associated adjustments to the purchase price and what does the implementation of "improved lending practices" mean, mentioned in the annual report? Does this mean that shareholders should expect to see increased impairment from Bankwest?

Are there any restrictions imposed on the CBA's operation of Bankwest by the Western Australian Government's Bankwest Act? How long are these likely to remain and do they have any serious consequences?

John Schubert: Thank you very much. I'm sure a question that interests everyone here in the west. This was a purchase that took place last year. It followed the collapse of markets around the world and Bankwest, of course, was owned by a bank located in the UK. They were in trouble. We had the opportunity and we were probably the only bank capable of buying Bankwest, so we took that opportunity and made a very attractive purchase for our shareholders. I believe Bankwest will prosper under our ownership and be great for both the customers and for the Commonwealth Bank shareholders.

In regard to the cost of the acquisition of Bankwest, we obviously signed a confidentiality agreement on the settlement process that we went into, post acquisition. It was an agreement in and around making sure that Bankwest was appropriately provisioned for bad and doubtful debts and there was also an issue around the appropriate level of fundamental capital within the Bankwest Group.

In that negotiation that followed, we went from a position, which I can talk about in ratios. We went from a cost of 0.8 times book to a cost of 0.7 times book, so I think you can take it from that

calculation that we paid a little less in value terms for the Bankwest Group.

In regard to impairment, there's no doubt that Bankwest had a significantly greater exposure to property loans and development loans and if we go back to June of 2008, Bankwest had provisioning for bad and doubtful debts of around \$200 million. Through the acquisition process, through our process of diligence, we came to a view that we should increase that substantially. So as at 30 June 2009, Bankwest had provisions for bad and doubtful debts of around \$1.6 billion. That has been charged off against the gain on acquisition and we are now of the view that Bankwest is appropriately provisioned.

In regard to the Bankwest Act, the Act imposes commitments that we, as an owner of Bankwest, have to follow and that includes having a Chief Executive Officer resident here in Western Australia, which we do and also the chairman of the Bankwest Board being Western Australian based as well and on that basis we also comply.