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.

QUESTION: Commonwealth Bank has been a standout in the global economic crisis and also the performance of the bank in the last 12 months is certainly something that has to be admired at both from bank view and from a shareholder viewpoint.

I would like either the Chairman or the CEO to perhaps enlighten the meeting of those numbers and outcomes released to the market on the September quarter trading update. Also from page 16 of the full copy of the annual report, I'd like you to enlighten us on the current impairment expenses incurred and the provisions for impairment that stand as at the end of the quarter, which effectively supersede the numbers, which appear in the annual report. I would like you perhaps to give us a breakdown perhaps by bank group or even division of those impairment expenses and provisions for impairment.

John SCHUBERT: Thanks very much. I'll make a brief initial comment. Mr Norris will answer the first part then our Chief Financial Officer, David Craig, will answer the second part in relation to impairment and expenses.

The announcement of the quarterly results, the baseline number was $1.4 billion for the quarter. That compares to $1.1 billion in the prior corresponding quarter. Therefore there was an improvement from prior corresponding quarter to this quarter of $300 million. Those results are unaudited. We need to recognise that, they're quarterly results, it's a trading update so they don't have the same degree of scrutiny provided to the auditors to them that the half year or full year result would have.

Ralph NORRIS: $1.4 billion is a very good result and I think the market saw that as being a good result. Certainly if we look at the bad and doubtful debt component of the update, it was around $700 million for the period and that is really pretty similar to the number that we had for the previous quarter. That tends to indicate to us that the bad debt cycle has probably peaked and certainly we are still very cautious.

We are very well provisioned and David will give you a bit more detail on the provisioning elements but if we look at the situation today, it’s a quite different to what it was a year ago. So it’s fair to say that we are obviously significantly more optimistic than we were 12 months ago in Melbourne, when we last met.

David CRAIG: Despite the optimism, obviously we’re still being very cautious with our provisioning in total so that we’re carrying just over $5 billion of provisions, which includes $1.3 billion of what we call a management overlay and that’s the same as June 30.

QUESTION: Can you break it down by banking group and/or division where you currently stand at the end of the quarter?

David CRAIG: We haven’t provided that information. In fact, we don’t normally provide the total provisioning information by division and we haven’t provided that to the market at this stage. So it’s only just a quarterly update but at the half year we’ll be providing much more detail.

QUESTION: My comment is concerning the fundraising exercise that took place in March 2009, which included placement to institutions and also share purchase plan. The thing that I want to point out too is that were the members aware that in the terms of the share purchase plan, superannuation groups who have various members with various portfolios were treated as one shareholder and as such even if they have – as it is the case with our superannuation fund, if they have a number of members with shareholdings in Commonwealth Bank in excess of $1 million, all they'll be collectively entitled to is one subscription up to $10,000, no more, and the rest of them will have to be infused.

And what is the justification for this process of fundraising, considering that the bank was in no time in need of expedited procedure to raise funds, particularly at a time when the bank share price was at its lowest in over five years? Thank you.

John SCHUBERT: Thank you very much. There were actually two different timings of the capital raising that you talk about. The actual placement took place in December and the SPP was actually in March, as you said. The SPP was announced at the time of the placement. The placement, in the view of the Board, needed to be done quickly. We needed to raise capital to increase our capital ratios. They're the sort of the safety ratios, if you like, of the bank and we were and had been and we continue to be regarded as the safe haven - the safest bank.

We have benefited hugely from that during the global financial crisis, especially following the collapse of Lehman Bros. Our deposit inflows were higher, much higher than they normally were. People coming to us from all the other banks basically and we wanted to ensure that we kept that safe haven status and in order to do that, we felt we needed to raise capital. We did that in December. We believed that there was a window where that was available to do it.

Yes, the share price was low so we raised capital via a placement because that's the only way it can be done quickly. A rights issue takes a much longer, but we did announce that we would allow shareholders to participate in the capital raising via an SPP at the same price as the placement was made.

In actual fact as a result of that, the discount that shareholders participating in the SPP in March, had the opportunity to have was a 35 per cent discount to the share price whereas it was something like 12 per cent for the placement in December to institutional shareholders. So in actual fact, the retail shareholders got a much greater discount. The shares were placed, in both cases, at $26.

I can’t answer your question on the treating superannuation groups as a single shareholder. I don’t know whether anyone else on the table here can help with that.

Ralph NORRIS: All I can say is that where people had multiple shareholder holdings within the Commonwealth Bank, we were restricted to only one issue of $10,000 worth of shares under the SPP and certainly I was in a similar situation and I know a lot of people who had multiple holdings were restricted to a single holding.

QUESTION: In the last 12 months all four banks have gone through large write downs on some large corporate exposures to publicly listed companies in Australia and I would like you to perhaps give us a rundown where we stand as far as Commonwealth Bank Group is concerned. Are the exposures capped at this point in time? Have they reduced or is there a strategy in place, which is still working through the system? And having some major corporate collapses in various States in Australia from publicly listed companies certainly hasn't done the economy much good and also the government for that matter but I think the banks really have a corporate responsibility to be seen and demonstrate what is being done as far as large corporate write downs and how it can impact the bottom line or what it could in the future. Thank you.

John SCHUBERT: Well, of course, each one of these tends to be in a different stage and moving forward but perhaps Mr Norris can just pick up in. I don't think we'll be able to go through the detail of each of them in this meeting but perhaps the generalities of some of those, Ralph.

Ralph NORRIS: I think the situation we have is that we've gone through the biggest crisis since probably the depression internationally. Obviously the situation has not been as big an issue or a problem in Australia but nevertheless, there have been a number of organisations that had business models that relied on relatively cheap debt and leverage and those companies, to a large extent, were the first causalities of what was a flow on effect from the global financial crisis.

That was that funding costs internationally, the margins blew out quite significantly and the result of that, that made it difficult for a lot of companies to actually secure debt internationally. A lot of those companies had syndicates of banks that were made up of local banks and offshore banks and certainly many of the offshore banks were being significantly impacted by problems in their home markets.

I think it's fair to say that what has actually happened in this particular crisis here in Australia, is that we're probably seeing less corporate collapses than you would normally in such a situation. I think it's fair to say that the banks have worked very closely with a lot of organisations to make sure that their positions have been improved through encouraging them to raise additional equity. Assisting them with refinancings and as a result of that, I think that the situation has been significantly less of a problem than may well have been the case.

And we see that in the underlying unemployment. If we look at projections going back six, nine months ago, the view was that unemployment in Australia would reach 8.5 to 10 per cent. That would have happened because of corporate collapses. People would have lost their jobs as companies failed. So now we're seeing a situation where the market is anticipating that unemployment will probably peak at under seven per cent, significantly lower than previously anticipated, which means that I think companies are going to survive and be in a much stronger shape as a result of that.

We've also worked very consciously with our home loan borrowers. We've put in place a customer assistance package to make sure that we're not pushing people into forced sales in a way where they don't realise real value for their properties. So we've been giving people the opportunity to take repayment holidays for up to 12 months and capitalising the interest and obviously with interest rates down where they are, that is not such a major problem as if interest rates were significantly higher.

So I think it's fair to say that the banking industry in general in Australia has acted responsibility and has been very aware of the fact that we don't want to set up a situation where there is a collapsing set of dominoes and so I am pleased that we look as though we've avoided what could have been a significantly worse situation.

John SCHUBERT: It's the Corporations Act, which requires that a non-binding resolution be put to shareholders to agree to adopt the Remuneration Report and that needs to come to each annual general meeting. The Bank's remuneration report, which is part of the Annual Report, sets out the remuneration policy and reports on the remuneration arrangements that are in place for key management personnel, being the Bank's directors and certain senior executives.

Before continuing, I'd like to clarify a comment made in our notice of meeting on page 68 of the Remuneration Report of the Annual Report where we stated the group had reviewed remuneration arrangements to assure alignment with new Australian Prudential Regulation Authority's guidelines. That's not correct, the above statement should have indicated only that the group had reviewed emerging global regulatory guidelines. So its remuneration arranged to moving in the direction that would be required.

Remuneration Report was compiled in accordance with Accounting Standard AASB124 and the Corporations Act and as you will have noted, is an extremely comprehensive document. The remuneration of our employees, including senior executives and the Chief Executive, are set on a competitive basis to attract, motivate and retain the high calibre of people that are absolutely required to run this very complex and very large organisation.

Over the past 12 months, there's been an even greater focus on remuneration practices within the financial services sector as a result of those bank failures that have occurred overseas that we've talked about. And it's in this context that your Board needs to ensure that remuneration arrangements continue to support the delivery of the group's strategy and help enable delivery of sustainable performance.

We take external advice, independent of management, to assist the remuneration and people committee in framing its recommendations to the Board on remuneration policy and we have rigorous processes in place to ensure that there's a linkage between actual payments to the measured and sustainable performance of your Bank.

In the last financial year, the deferral of one third of short term incentives for three years, combined with a long term incentive, which is also deferred, results in deferral payments comprising 37 per cent of the Chief Executive's package. In the coming year, that was the last financial year, for the Chief Executive half of the STI will be deferred for one year and the referral of the long term incentive will be increased from three to four years. The long term incentive will also be a larger portion of the total remuneration. So overall 50 per cent, an increased amount, of total remuneration to the Chief Executive will be deferred.

Your people and remuneration committee consists of non executive directors only. Chief Executive attends meetings by invitation only and not when matters effecting him are discussed or decided. Are there any questions relating to the remuneration report?

QUESTION: While the ASA is pleased with the freezing of the – pleased with the explicit presentation of the bank's remuneration report, we'd like to know will the reduction in directors, CEO's and group executive fees and fixed remuneration be limited to 2010 or is it envisaged it will go longer than that and secondly, the customer service is a key performance criterion for long term performance awards. Once CBA reaches the number 1 ranking and we're moving in that direction, I'm pleased to say, will this criteria change or be replaced?

John SCHUBERT: Thank you for those questions and perhaps I should provide just a little bit of context for your first one. In the height of the global financial crisis, back in the first quarter of this year, your Board and the senior executive made a decision that from July 1 onwards, the non executive directors would take a 10 per cent reduction in their fees. Chief Executive also is a director, would take a 10 per cent reduction in his total remuneration and the Group Executives, the direct reports of the Chief Executive, would take a five per cent reduction in their remuneration.

The middle management team, everyone earning above $100,000, would have their remuneration frozen and for people below $100,000, there would be a limit of 1.5 per cent on increase in salary from July 1. So that's the context to Mr Smith's remarks or his question as to whether that would continue on, beyond this financial year.

The answer is we've made no decision to that effect. So at this stage, it's just for this financial year. We'll look at that as we start to approach the end of the financial year and the context will be important. Where we stand competitively with our peer companies who you know, we're looking to retain and attract people from and also in relation to what's happening with economy, more general and other companies and generally to people in Australia. So we'll take all that into consideration and make a decision.

But we are unique. I don't believe there's any other company in Australia. There's certainly no other bank in Australia, which has taken cuts in their salaries as a result of the global financial crisis and the difficult times that many Australians have found themselves in.

An important part of the decision to do that was it enabled us to ensure that we could keep on more staff. We had to, in this environment, to reduce costs but by taking these actions, we're certainly able to have fewer job roles eliminated in this difficult time.

Second part of your question related to the hurdles that we've set for long term incentive payments for the senior executives and they're set on customer satisfaction surveys and will those hurdles change into the future and when future LTI's are set, if we do achieve, as I certainly hope and expect that we will, number 1 in those ratings, the answer is yes, of course we will.

It's already changed this year because we've moved up a little bit and so there's no pay out at all of long term incentives associated with moving to fourth place because we're already there and so as we improve our positioning, then those ratings will get more difficult. When we look like achieving number 1 or we think that's easy or we're there, then we'll move to different probably absolute levels of improvement. But that's a decision for the future. It definitely will change. Thank you for your question.

QUESTION: I'm a long term shareholder of CBA and I can understand the Bank's caution in reducing the dividend by 14 per cent but looking around at the audience today, I would think a lot of them are like me, they are self funded retirees, so this income is quite critical to us. It doesn't stop the groceries going up and I don't think there should be any question of increasing executive salaries until you can replace the dividend for the 800,000 shareholders, of which I am one.

John SCHUBERT: Thank you very much. When we make dividend decisions, I can assure you we take into account the fact that we have 800,000 retail shareholders who own about 60 per cent of the Bank. So that's something that's very much at the forefront of our minds. As I tried to explain during my opening remarks, we felt that in the context of this last dividend, we needed to take into account the need to manage our capital very carefully and also the fact that our earnings were down and we did maintain our payout ratio of 78 per cent, which is extremely high.

By that we mean we paid 78 per cent of our cash profits out in dividends. That's a very high amount by any standards, compared to any company anywhere in the world. So we took that very much into consideration. We have also, as I was just explaining, actually reduced the salaries or the remuneration of our senior executive, Chief Executive, by 10 per cent. Non executive director fees by 10 per cent and the senior executive reporting to the Chief Executive by five per cent. So I think you can be assured that we've taken the sort of sentiments that you expressed into account. Thank you for the question.

QUESTION: Thank you, Mr Chairman. Certainly very pleased that the Bank shares are back up but my question really relates to the vesting of shares to the executives. Like you know, if they beat the 50 percentile or 60th percentile, they get so many shares granted to them or vested to them. But when you're comparing – it says with their peers but if the peers are very badly run companies and I mean I do have shares in some of the other companies as well and they are well below their peak prices where the Commonwealth Bank is close. So the Commonwealth Bank is clearly going to do very well and they're going to vest but why are we comparing with other companies, which might not be as well run as the Commonwealth Bank for the vesting, why not compare it purely in terms of shareholder return or shareholder dividends?

John SCHUBERT: It's a very good question. I would just say to you, yes the Bank's share price has improved very well so going forward, you're starting with that higher share price whereas it's going to be compared with companies who maybe haven't got to this point, has done as well at this point in time. So it's actually going to be harder because we've done well at this point in time to out perform the peers.

The peers going forward is the 20 largest companies on the Australian Stock Exchange, excluding the mining and resource oil companies, energy companies because they're so volatile with prices, with oil prices and commodity prices. But we think that basically to do that and put it as relative peer is actually much better.

If you did it on absolute basis, just whether the shares had risen, then the vesting would occur just when the market went up and it could have nothing to do. We could be the worst performer of our peers but the market's gone up greatly and the shares would vest. Now, yes, shareholders would have done okay because the market went up but they would have been much better to invest in some other company whose shares went up further and yet we would have been rewarding our executives for under performing versus their peers. That would not be a good result.

So it's an imperfect measure. Because we think it's an imperfect measure, it only applies to 50 per cent of the long term incentive. If we thought it was a perfect measure, we'd probably apply it to 100 per cent because it actually provides probably the best relationship to shareholders doing well, relative to the ultimate. But certainly having it on absolute basis would not be in the best interests of shareholders because it would actually reward poorer performance versus the peers and the point of relative shareholder performance being the measure is that you have a choice of investing in our shares or somebody else's shares.

That's your choice. Invest in our shares, you want them to have done better than the choice you could have made and if they have, then the senior executive will be rewarded for that. I hope that answers your question.