

Catherine Livingstone

From: Comyn, Matthew <[REDACTED]>
Sent: Monday, January 1, 2018 10:38 AM
To: Catherine Livingstone
Subject: Follow up

Hi Catherine,

Thanks for your time on Saturday morning, I appreciated the opportunity to meet and I enjoyed our conversation. You asked me to take a couple of days and provide some reflections on the four topics we discussed, which I have done.

Firstly, I wanted to reiterate how motivated I am to lead the Bank into the next stage of its great history. I have spent more than 17 years of my life with CBA and have been rewarded with extraordinary opportunities. I have put myself forward for the CEO role because of my deep connection to the Bank and strong commitment to leading the organisation through this challenging period. It would be a tremendous honour and privilege to lead the CBA should I be given that opportunity.

Rather than summarise our conversation, I have emphasised a few of the key issues we discussed and provided further thoughts on suggested next steps.

1. What do I expect will be the issues that will come out during the course of the Royal Commission?

Over the last 5 years, we have been quite active in remediating issues to meet the ever-increasing and changing community and regulatory expectations. As we discussed, in 2014 we initiated the Better Customer Outcomes Program to review our products, policies and processes. We have completed more than 300 actions and we are a better bank for our customers as a result. We have also been proactive with regulators in raising issues and agreeing remediation. Nevertheless, there will be considerable material for the Royal Commission, and by extension the media and politicians, to pore over:

I see us having three categories of issues to deal with:

(i) Those that we have addressed proactively with the regulators over the last few years which could be re-examined by the Royal Commission and the media, but where there is unlikely to be further material risk. For example, reward and incentive arrangements for our staff and residential lending standards. There are also another ~80 actions resulting from the Better Customer Outcomes Program that will be implemented prior to 30 June 2018, and we will need to do a review of Bankwest to ensure there is consistency and alignment. During this time we have also invested in greater monitoring of sales practices and have found a number of instances where our people were acting inappropriately, often as a result of real or perceived incentives (e.g. Direct Bank in 2014). We have taken action against those involved, including termination, rectified any customer issues, notified ASIC, and amended remuneration, reward and incentives. So we have a solid track record here, but we should consider getting an independent review to take a fresh look as part of our own preparations for a Royal Commission.

(ii) Issues that pre-date my time leading RBS, where under today's scrutiny both our actions and the actions of the regulators may seem inadequate. In addition to Storm Financial, there were several employees (mostly lenders) that were dismissed between 2009-2011, and some of these cases involved fraud and customer detriment. I recall that the cases that I am aware of were notified to ASIC but I don't think the individual cases ever became public. One of the lenders involved was the largest mobile lender nationally and had received a number of CEO and RBS awards – unfortunately an attractive media story. I suspect of broader interest will be our lending policies at that time, particularly for home lending. Our lending standards are materially stronger today than 5 years ago and there may be questions regarding the appropriateness of lending standards pre 2012. One example was profiled on 60 Minutes about 18 months ago. In that case our customer had built a substantial investment property portfolio in mining towns that was dependent on high rental yields persisting. Given the recent interest from The Australian regarding our term deposit pricing strategies prior to 2011, we should expect they will also come under scrutiny. There is risk

here of further compensation being required, but as long as we act swiftly to rectify issues, we should be able to limit the damage. We would include some of these issues in the scope of the independent review to prepare for the Royal Commission.

(iii) Issues that we have been aware of and debated, and for one reason or another, have not acted on, that could come in for new scrutiny and criticism. These include commercial constructs such as customer-level pricing in RBS and Bankwest; in-life monitoring of customer behaviour (e.g. ensuring credit card customers with persistent outstanding balances have a low rate credit card); products that are particularly unpopular with regulators and consumer groups (e.g. Consumer Credit Insurance), and a range of legacy or quarantine products across banking and wealth management that provide inferior value to today's 'on-sale' products. This is where there is more uncertainty - however these issues are more likely to be industry-wide issues. Here, we need to agree where to move proactively (like we are with credit cards), where to wait for industry movements (e.g., mortgage customer-level pricing), and where to defend current industry practices.

I think this is a topic we should spend time on with the Board in March with the outcome being a clear triage of issues into the three categories above. Overall we will need to adopt a proactive stance around issue resolution if we are to effectively shift the external perception of the Bank. Foundational to that, in my opinion, is clarity between the CEO and the Board on the major issues that are likely to arise and our path of action.

2. How will I handle the pressure and scrutiny?

As we discussed, there is no doubt that the next year or two will be particularly challenging. We have our own portfolio of current issues (such as AUSTRAC, APRA Inquiry, shareholder Class Action) as well as the stream of issues that will come from the Royal Commission as discussed above.

It was clear from our recent discussions, that the Board is understandably weighing the public reaction to the potential appointment of me as CEO. I understand that there will no doubt be criticism, but I also believe that there will be strength from the rigour of the process that the Board has undertaken. Having reflected on our discussion, my instinct is that an announcement around a week prior to half-year results would allow a week of reaction, with the expected strong result to then refocus on our strong performance, with the Retail Bank again underpinning the result. As discussed, we would ensure there was a detailed plan in place to manage key stakeholders prior to the announcement, and investor and media reaction following the announcement.

In addition to accompanying Ian on the overseas investor roadshows, I would like to spend time with key stakeholders to make it clear that we have a change agenda, with the first credible proof point of announcements around ExCo late March (detailed below).

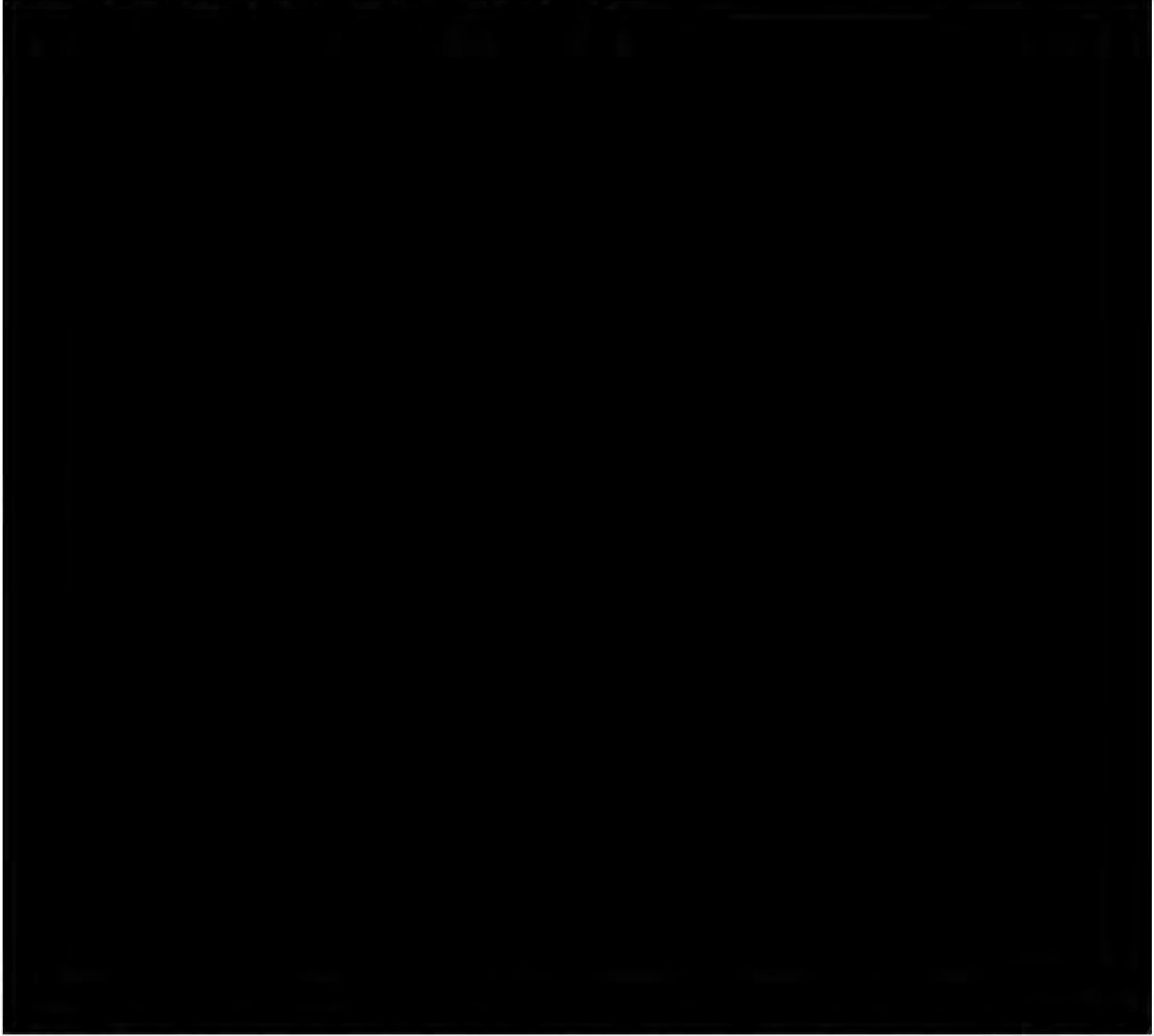
I realise this will take time. I was heartened to see a shift in tone from key media figures (e.g. Terry McCrann), analysts (e.g., Brian Johnson), investors, politicians and consumer groups after constructive engagement based on listening, trying to answer questions, and having something authentic to discuss such as financial wellbeing. Ultimately we need to be willing to engage constructively and focus on our own actions and impact, and hope that we are judged on those.

I also appreciated you directly testing with me whether I was really up for the intensity of what we could face over the next few years. As we discussed, I would go into this with eyes wide open and realise how challenging it will be. I will draw upon the strong network of support that I have – both inside and outside of work. The experience of the last 6 months has given me confidence that I can work through difficult issues, keep things in perspective, support my family, energise my team, and scale my leadership to get things done across the organisation. I would ensure that I leave substantial free time in my diary to deal with unexpected issues and to remain fit and healthy so that I am in the best possible shape to deal with the stresses of the role. I am intensely motivated by the opportunity to lead the Bank to a stronger future, and I am confident that I will be able to execute, and withstand intense scrutiny and criticism to earn the right to be judged on our longer-term record. As discussed, and detailed further below, the partnership with you in particular, and the Board, will be crucial to getting through it together.

3. How would I make the changes to composition and operation of ExCo?

If appointed, I would focus on establishing a renewed, energised and functioning leadership team in place quickly. I

would of course like to spend time working through this with you and the Board in January and February, but my current plan would be to announce in late March the following:



If I am the successful candidate, I would like to commence the above search processes as soon as possible. There are approximately 20 key executives (excl ExCo) that will play a key role over the next 5+ years that I would also meet with and ensure they are not at risk.

As discussed, I would also move to quickly refocus how ExCo spends its time, with a more deliberate agenda, and more focused forums to handle the substantial workload that we can expect.

4. What are my perspectives on the Board?

It's a testament to the individuals and your leadership that the Board have remained united during such a challenging period. I believe that we would work very effectively together and you can absolutely depend on me to be completely open and transparent, and to share ideas, concerns and plans. I will always be open to feedback and expect to be challenged on priorities, results and risks. Building an effective and transparent relationship with the Board to rebuild trust in CBA together is my highest priority, and is essential to being able to get through the next few years. The rebuild of ExCo will also provide an ideal opportunity to reset and strengthen the relationship between ExCo and the Board.

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initial thoughts

I believe that Directors of CBA have a very tough job in the current context - the scope and complexity of our business, our regulatory obligations and our stakeholders are very hard to get across. As CEO, I would absolutely see it as my role to be provide transparency and the right level of detail, and to bring issues to the Board's attention that you need to be across with my recommended course of action for discussion and debate. It will never be up to the Board to follow through on open actions and issues. A key foundation for constructive discussion will be getting to an early shared set of beliefs about which disruptions and regulatory changes really matter, and how we should respond with innovation, stakeholder initiatives and what we must be prepared to defend over the long-term. If appointed, I would like to work with you quickly to shape the agenda for the March Board. I would re-assign a few of the RBS strategy team to provide the necessary horsepower to build a comprehensive set of high quality materials. I can think of at least 5 very useful discussions, but would very much value your advice and input, particularly around the balance between breadth of issues to cover and a realistic depth during what will be a busy period:

Session 1: Aligning on strategy foundations

- What underpins CBA's economics and shareholder value creation in the context of banking generally, the unique features of the Australian market, and the unique features of CBA
- How the threats of disruption and regulation could diminish our economics at a structural level
- Implications for us: innovation priorities, stakeholder agenda (e.g. scaling our financial wellbeing agenda), new investments and growth opportunities

Session 2: Aligning on financial, portfolio and operational priorities

- Review of 3 year business plans
- Proposed scope and objectives of portfolio (Wealth and IFS) and productivity reviews
- Cross-CBA priorities (risk, innovation, customer experience, technology) and how we will execute
- Operational priorities: my view of the few key issues for each business (e.g. branch footprint in RBS, customer repricing in IB&M, CFS platform investment in Wealth, improvement to the business lending offer)

Session 3: Regulatory and external context update

- Review of Royal Commission, APRA Inquiry, Productivity Commission and ACCC implications
- Review of potentially contentious elements in Australian banking and wealth management and debate customer value exchange and cross subsidies
- Agree the key issues to proactively change, shape or contest
- Corporate Affairs strategy to support strategic and regulatory agenda

Session 4: Deep dive on talent

- Fresh look at key talent and match to pivotal roles
- Near-term priorities for bolstering talent and managing workload

Session 5: Reviewing how we work together

- Proposed calendar for the year
- How to deal with the Program of Action and engagement around Royal Commission and new issues
- Feedback mechanisms to ensure partnership between Board and management is most effective

Please let me know if you would like further thoughts on these 5 topics. I have just arrived in Utah, departing 08 Jan, but available at any time. As per our discussion, I will make sure that I ski even more carefully than usual, which means I may not be able to keep up with my daughter in the moguls! You mentioned that the Board is meeting again this week - I do hope you get some more time to relax ahead of another big year.

Happy New Year!

Best regards,

Matt



Matt Comyn

Group Executive

Retail Banking Services

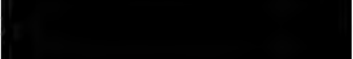
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