MANAGING DIRECTOR'S AGM SPEECH

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In the uncertain times outlined by the Chairman, Australians look to businesses which are strategically positioned for the long-term, with good corporate governance, robust risk systems, strong boards and management, appropriate business mixes and a strong record of profitability.

I will review the Bank's performance in this context, covering firstly the Group's results and market position, followed by risk management, and finally the implementation of our strategy, with an update on progress and the outlook for this year.

First, our results and market position.

Commonwealth Bank Group increased its cash earnings for the year ended 30 June 2001 by 9% to $2.26 billion.

Key aspects of this result were:

- Growth of 12% in after-tax earnings from the banking business in which:

- the retail integration of Colonial was completed well ahead of time;

- growth of income was sufficient to more than offset a 24% increase in bad debt expense;

- a substantial re-organisation of the branch sales systems, which cost us momentum in the first quarter but, by the third quarter, had been recovered.

- A fall of 12% in contribution from life insurance due to lower returns on investment earnings on shareholders funds, consistent with trends in the equities markets.

- Growth of 34% in contribution from the funds management businesses due to an 18% growth of externally managed funds.

The consequence of these results was that the implementation risk in the Colonial merger was substantially mitigated. Ongoing merger benefits are now expected to be $70m per annum higher before tax.

The overall mix of business remains strong and positions the Group for solid long-term growth. In the domestic market, we have leading positions in the bank deposit and lending markets, the home loan market and retail managed funds. The life businesses rank number three in Australia.

The Group remains well provisioned for credit losses with total provisions for impairment at 30 June 2001 of $1.6 billion. The active management of problem loans over the year actually reduced the level of provisioning required by 9% compared with the previous year. However the weakening credit cycle is reflected in an increase in the charge for bad and doubtful debts by 24%. As at 30 June 2001, the Group had no corporate exposures that exceeded 10% of its capital resources, and only two that exceeded 5%.

In the Life and Superannuation business we need to hold funds to cover policyholder claims over the long- term. These funds are further supported by shareholder capital, and returns from this shareholder capital flow through to our profits.

Total invested shareholder capital was $2.6 billion at 30 June 2001, with half of this invested in growth assets, including a component in equity investments.
This can add volatility to returns over the short to medium term. The global downturn in equity markets reduced investment returns on shareholders funds in the Life insurance business to 30 June 2001 by 44%.

We are all aware of increased global uncertainty and the outlook for a weakening economy. Clearly in this environment, we need to ensure that our risk systems are robust and our strategy is sound.

I will address the issue of risk first.

It is important to understand that the nature of the Group's banking business is to take risk by intermediating between depositors and borrowers. Controls over these business activities consist of comprehensive risk management systems that protect depositors and other creditors.

To guarantee the proper functioning and integrity of the banking system, the community needs a strong banking infrastructure, underpinned by comprehensive legislation and the prudential oversight by bodies such as the Reserve Bank and APRA.
Amongst its many functions, the Reserve Bank helps to ensure that financial disturbances in any part of the financial system do not threaten the stability of the economy as a whole.

The role of APRA in the supervision of the banking system and the institutions that operate in it is also clearly defined and covers the formulation, publication and enforcement of prudential policy and practice.

In dealing with prudential regulation we regard it as essential that we comply with both the letter and spirit of the regulations. Operation of a stable and secure banking system, able to weather adverse economic conditions, hinges on the strength and diversity of its assets, the regulatory framework and sound risk management systems.

The Group manages a number of risks across its businesses and has developed rigorous systems and controls to mitigate the adverse consequences of such risks occurring. As discussed by the Chairman earlier, at the Group level, risk is actively managed through a framework of policies, standards and processes on a tiered responsibility basis by a committee of the Board of the Bank, a committee comprised of senior management of the Bank, a centralised Group Risk Management unit and decentralised risk management units in the Group's operating Divisions. This control framework is actively monitored by both internal and external auditors.

It addresses three categories of risk:

- Credit risk, which is the risk of default by a borrower with subsequent financial loss.
  Our consumer lending uses scoring techniques to assess credit worthiness with performance of the portfolio managed through the level of arrears. The current low

level of arrears indicates strong credit performance of these portfolios.

In our commercial lending, each client is individually credit risk rated, with the rating reflecting credit quality and security. By monitoring changes in these credit risk ratings, we can estimate the likely level of new defaults. Our current analysis does not indicate further individual large losses, other than those already identified.

- Market risk, which may arise from a change in interest rates, exchange rates, or financial instrument prices, particularly in times of high volatility; and

- Operational risk, which refers to risks embedded in the Group's processes. The way we deal with operational risks can range from ensuring compliance with all legal and regulatory requirements, to managing fraud, to business continuity planning and disaster recovery procedures.

In relation to risk management I was very proud of the response by the Commonwealth Bank and my industry peers to the situation we confronted with the tragedy in New York on September 11. In addition to our first priority of confirming the safety of our staff, we worked with other banks and the authorities to ensure smooth functioning of the international payments system and proper operation of the Australian domestic payments system - the first major market to open after closure of New York.

Overall we continue to ensure that systems, controls and procedures are in place at all levels of the organisation, and are continually being assessed, refined and, where necessary, replaced to ensure that all necessary action is taken to mitigate risk and measure reward relative to risk.

I would now like to turn to the implementation of our strategy, which is designed to achieve superior total shareholder returns over the life of successive strategic plans. Our strategy has to address the possibility that growth outside Australia will be difficult due to a weaker Australian dollar. At the same time growth in Australia could be lower than the last decade because of the slowing domestic economy, a slowing global economy and the need to compete for investors' funds in the context of a weaker dollar.

- In this context we are focusing on three main areas in terms of domestic strategic direction:

  - Firstly, we will provide a wealth management service in its broadest sense including funds management, superannuation, life insurance, and share and bond trading, as well as the traditional areas of deposits, lending and transaction services. Having merged with Colonial, our range of services now covers the full breadth of financial services and we have a strong market position. Our intention is to refine and enhance the product set and keep it relevant, and to continue to develop its integrated delivery. Distribution through our own branch network and agencies, as well as third party networks, such as mortgage brokers and independent financial advisers will continue to reinforce the Group's high brand recognition.

  - Secondly, we will be further customising service to meet the differing needs of customers. For customers

with banking needs we will provide this through branches and directly. For those customers requiring sophisticated wealth management services, we intend to provide further expert support.
For customers with the most basic requirements we have provided choice and value through partnerships such as Australia Post and Woolworths Ezy Banking.

For corporate customers, we will continue to focus on providing a highly dedicated and sophisticated range of services to meet the complex needs of individual companies, in areas such as financial markets, corporate finance, securities underwriting, payments and transaction services, investment management and custody.

For all our customers this means we continue to provide services for all Australians and the totality of our business provides value to all customers.

- The third area of focus is productivity with improvements to be achieved through technology by streamlining and automating processes and reducing transaction processing times.

Process re-engineering is also being undertaken to achieve shorter cycle times and improve interaction with customers. Intranet access will be available across all functions of the business. eProcurement is well advanced and is achieving considerable cost savings and time efficiencies, with its capability being further extended. As well, image item processing is being implemented in all operations centres, which will significantly lower processing times, and provide important information to customers with certain enquiries more quickly.

- With regard to its International strategy, the Group will continue to identify international development opportunities, as well as develop and assess the contribution of existing offshore operations.

The outcome for customers will be an improved level of service and a higher perception of value.

None of this can happen without our staff, for whom we will continue to provide a fair, safe, challenging and rewarding environment emphasising leadership and teamwork, role clarity, and the tailoring of recognition and reward systems to service outcomes for our customers. In this regard, I was very pleased that our Equal Employment Opportunity reporting obligations have been waived in recognition of the best practice ratings achieved in previous years, and particularly pleased that the Bank is one of a small number of businesses that has been accredited as an "Employer of Choice for Women".

Updating the Group's progress in the first quarter of this financial year, let me make these points;

- Margins have remained relatively stable overall. Lower official interest rates have placed pressure on retail margins in banking, but wholesale margins have performed better.

- Home loan market share figures have stabilised and are being supported by record volumes of new business.

- Business lending continued to grow in the first quarter, but with the more subdued outlook, we would expect weaker business credit growth.

- In our funds management business, inflows remained strong up until 11 September, however, since this time they have slowed as investors have become more cautious (but are now showing signs of picking up again). As a result, there have been stronger flows into bank deposits.

- Our financial markets business performance was satisfactory in the first quarter, and was not adversely affected by the events of September 11.

- Overall portfolio credit quality remains sound. Arrears levels in consumer lending show no signs of deterioration and, in line with our expectations for this stage of the credit cycle, we have seen a slight deterioration in the quality of our commercial loans. The increase in problem loans we are currently incurring, is due to a small number of larger exposures.

As disclosed previously to the market, new problem loans amount to approximately $460m. We will be establishing specific provisions in this half based on the information currently available. The actual amount of loss will be dependent on the values ultimately realised on the assets of those companies. The other major banks have reported similar levels of new problem loans over the last quarter.

- Investment earnings on shareholder funds in the life insurance business for the financial year to date have been mildly negative, which is significantly below the long-term trend in expected earnings for this portfolio.

* For the remainder of the year, we expect that:
  - There will be moderate credit growth,
  - Banking margins should remain relatively stable,
  - Credit losses will continue to reflect the economic slowdown,
  - There will be an intense focus on cost management and achieving the remaining synergies from the Colonial merger, and

- Earnings from our wealth management businesses will be dependent on the performance of equity markets in Australia and overseas.

Therefore, as the Chairman pointed out, based on current trends in bad debt expense and life company investment earnings, we expect double digit EPS growth in the current year.

As the Chairman also mentioned, the timing of bad debt provisioning and recent falls in equities markets means that earnings growth should be higher in the second half of the year than in the first half.

Let me make some final remarks.

- The current economic environment, recent corporate collapses and uncertain outlook refocusses attention on the need for companies to be well run within a framework of effective regulation. Companies with strong management and boards, focussed corporate governance and comprehensive risk systems are better placed to weather adverse conditions and achieve long term sustainability.

- What this means for the Commonwealth Bank Group is that managing the risks in the current environment will be more difficult than has been the case for the last decade, however investors can be confident that their investment is underpinned by the strength of the Group's management and risk systems as the enabler of its long term strategy and ongoing sustainability.

- All of the activities that the Bank undertakes are against a constant backdrop of significant questioning of the role of banks and their contribution to the community. That debate is often ill informed, and it is often difficult for banks to ensure that their position is considered and heard.

- Let me tell you then of my view of the Commonwealth Bank's role in the community. The Commonwealth Bank has always been the Bank for all Australians and we want to continue to perform that role. Since privatisation, we have searched exhaustively for ways to provide banking services to all Australians while at the same time cementing the profitability and sustainability of our business. If we are to responsibly manage our business for the long term we must continue to balance these aims. This is critically important at a time when financial stability and security is so important to the Australian community.

By maintaining our strength, stability and focus, we will be able to continue to grow our business and remain a well-managed and attractive investment.