

**COMMONWEALTH BANK OF AUSTRALIA
ANNUAL GENERAL MEETING
1 NOVEMBER 2002**

CHIEF EXECUTIVE OFFICER'S ADDRESS

You may have noticed from this year's Annual Report, a significant change in the description of the Bank's vision, values, business activities and goals which the Chairman alluded to briefly in his address. Let me explain how we link these things to the community in which we operate:

- Our people's key objective is to apply the Bank's values in providing a financial services experience that our customers value.
- The Bank's aim is to provide high quality services with choice of access that recognise and meet the lifetime financial needs of our customers.
- We are working to ensure that our people are skilled, equipped and engaged to differentiate our service so that they will be trusted to deal with customers' financial affairs with authority.
- Our brand, know-how, flexible technology, automated processing, scale & risk management will help us develop services of superior value.
- This whole approach is designed to build customer loyalty and retention, encouraging customers to share more of their business with us and for new customers to join us.
- Our success is dependent upon our leaders living the organisation's values and creating a vision for new and better services. This, they are determined to do.
- The objective of these principles is to provide a fair, safe, challenging and rewarding work environment that attracts, motivates, retains and develops talented people.
- All of this is designed to facilitate the generation of capital for growth and superior reward for shareholders.
- The scope and importance of our activities will be to maintain community respect and contribute to a stable financial system in which the community can have confidence.

We aim to differentiate ourselves through the service our people provide. Our people are our service. And our values ensure that our service is provided from a culture of governance standards of the highest order in a way that is sensible, and worthy of customers' respect.

This is particularly important in an uncertain economic environment. In an environment where customers seek an organisation they can trust - our reputation will distinguish us. With this in mind I would like to focus on three areas this morning:

- the service experience we are continuing to develop for our customers;
- the engagement of our people to deliver these services; and
- how we will continue to adapt for our customers in an ever changing environment.

First then, our customer service: The Bank had a record year in home lending, building its loan portfolio from \$74b to \$86b. It continues to meet customer demand for mortgage funding and this year has helped a large number of its customers to buy homes.

One new service was the Viridian Advantage loan facility introduced in December 2001.

Viridian Advantage allows customers to include up to 10 separate loan accounts under the one umbrella limit, and provides flexibility in the use of the facility.

Demand for online services continued to grow with more than 2.6m customers now registered. In the last financial year, there were over 330 million Netbank transactions including funds transfers, bill payments and account balance enquiries.

A further enhancement to the Bank's website was the launch of My Online Summary. This service helps customers keep track of all their online accounts at different organisations from a single location. Accounts that may be viewed include credit cards, managed funds, shares, savings accounts and e-mail.

During the year we made an important change to our personal transaction accounts.

Customers had told us they found the previous fee structure too complicated, so during the year we redesigned these accounts. We consolidated nine accounts into one simple account with improved pricing transparency which provides an activity and cost summary to help manage total transaction costs.

I was pleased to be able to provide assurance to customers and the community in respect to our commitment to our present branch network. The Bank will be maintaining its network of more than 1000 branches, some 200 more than the nearest competitor. This network is complemented by an agency network of over

3900, around 4000 ATMs, 730 Woolworths Ezy Banking sites at supermarkets, and 126,000 EFTPOS terminals.

CommSec continued the development of its business, processing 9.2% of the total number of ASX trades over the year to 30 June 2002 for approximately 740,000 customers.

In May 2002, the Bank launched a new Master trust product through Colonial First State, called First Choice. It provides customers with considerable choice through the 47 individual investment options offered. First Choice already has \$1bn under management and is available through the Bank's own branch based financial planners and through independent financial planners.

To enable our business clients to offer Superannuation choice to their employees we have developed a superannuation payment system. This is an Internet based payment service that allows businesses to make superannuation payments on behalf of employees to any complying superannuation fund in Australia. A single payment from the employer's bank account can be split by the Bank to represent many payments to various superannuation funds.

The Bank launched its Business Directions programme in March 2002. It incorporates tailored business insurance and superannuation, secure electronic/online banking options to minimise fraud and theft. It allows business to plan with confidence on the basis of fixed forward costs for vital plant and equipment purchases.

Significantly 2001/2002 was the first full year of service measurement using the Bank's Service Quality Index. This compares customer service outcomes with predetermined service levels across most services provided by the Bank. The service standards are raised each year as customer expectations change. The index improved by 20% over the last year. It provides our people with quick feedback for early service rectification and forms part of the performance measure for all executives in the Bank.

This brings me to my second point: the engagement of our people to deliver our service. Our goal is to skill, authorise, equip and engage our people to differentiate our service.

Our fundamental intent is to strengthen the ties between engaged employees and engaged customers. We have been working towards this goal for some time, with the restructure of our organisation in December 2001 into five customer focused divisions and with continued enhancements to our people and leadership systems.

To measure the level of staff engagement, the Bank uses an internationally recognised annual survey. This allows us to benchmark progress against companies around the world. The latest results show that we have achieved the greatest improvement of any organisation over 3 years using this survey system.

Major additional activities are planned in the near term.

- We will complete the organisation review announced in December 2001, which will reinforce managerial authorities, reduce unnecessary layers of control, and delegate the authorities required to enhance customer service;
- We will be providing our customer service officers with improved equipment and information to enhance service;
- We are encouraging ideas-generation from all our people; and
- We want to develop employment models to attract and retain targeted skill sets and engage the capability of the maturing workforce.

We have developed systems to enable our people to anticipate and meet customers' emerging expectations.

This brings me to my 3rd point, adaptation in the ever changing environment.

In the early 1990s, when we looked at our customer needs, we identified three critical issues. First, they needed financial self-reliance more than ever because of an aging population, fiscal constraints on governments and the need to invest for their own retirement. Second, lifestyles had changed to the point where customers needed far more convenience. And last, if they were to feel comfortable about making critical decisions for their financial wellbeing, they had to have choice.

Over this last decade the Bank has aimed to address these requirements. To promote self-reliance, we have produced informational materials such as Home Loan help booklets, investor seminars, and educational sessions on banking for older people. We have aimed for transparency in all our dealings, notably in the content and format of banking statements and product descriptions.

The introduction of ATM's, telephone banking and internet banking has improved the convenience of banking services to the point where customers can do their banking 24 hours a day, seven days a week. To meet the requirement of choice, the Bank now offers products and services in not only retail banking but also in insurance, investment and superannuation.

We have also adopted developments in technology for traded securities, securitisation of financial claims and obligations and the development of the derivatives market. This has helped us both in competitive terms but also in terms of the scope that we have to solve problems for our clients. Through the acquisition of Colonial and the development of the Master Fund product we have added significant choice of investment fund managers for our clients.

Looking forward, we believe that customers want financial self-reliance, convenience and choice more than ever. However, they are trying to achieve this in a greatly changed environment.

Our customers are taking on greater responsibility for management of their financial affairs. In turn, financial service providers are responding by offering an ever-widening range of services. While this may provide a greater sense of control for some, for others the additional complexity can be confusing. In this environment, we want to help people find the service that best suits them. Our key strategic priority therefore is to improve the quality of service that our customers' experience at all points of interaction with us. We believe that this is the single most important differentiating factor in our business today.

However, the world our customers live in is changing rapidly, affected by issues arising both offshore and closer to home. Australia should not consider itself immune from the impact of continued global uncertainty, and we should all be prepared for our economy to have to work through a fairly weak global economy.

It is within this environment that our strategic priority should also be about providing certainty and security to our customers, through a range of services they can depend on.

In addition to the people engagement and development of our service quality generally we have the capacity to offer our customers banking services, insurance services and asset management services. This is critical to engaging them in the totality of the service experience that they need to manage their financial wellbeing.

In developing our business through the acquisition of Colonial, which included banking, life insurance and funds management, we met our pre-agreed targets.

Whilst the effect of recent volatility in investment markets means that the life insurance and asset management businesses increase the volatility of our overall earnings, let me point out that less than 20% of our earnings come from these more volatile businesses.

Yet this business is a critical prerequisite to working with our customers for their financial wellbeing.

Over the long term the model of service which I have described, our people engagement, and our business mix, will drive value for customers, staff, shareholders and the community. Additionally we are making significant investments this year, including some restructuring, to underpin our productivity and competitiveness, which support the value of that service. As the Chairman pointed out, much of the expense is to be charged to the profit and loss account – because we have not created a restructuring provision.

Putting this in context for our customers, again I want to reiterate how pleased I was during the last year to be able to assure customers and the community about our continuing presence through our decision to maintain our branch network at 1000 sites.

This is clearly a demonstration of our long-term commitment.

Another example of our commitment to our customers is that the Bank is a long term supporter of the rural sector and this support will continue through the current drought and beyond. There are signs that this drought could be one of the worst in our history.

The Bank provides special assistance in drought declared areas which includes:

- additional carry on finance to meet short term needs, such as purchasing, stock feed, agistment, or to re-sow crops once rain is received.
- restructuring of existing loans, free of additional related fees or charges...
- providing interest only facilities during the drought...
- extending the terms of facilities... and;
- waiving of prepayment charges for affected customers wishing to access term deposits ahead of the maturity date.

In short, the Bank will be in the rural sector for the good times and the bad.

This reminds us that the world is a rapidly changing place in which people want vision and leadership more than ever, and they want to feel that they can trust whomever they're dealing with in the financial services business. And that, to us, is the most important issue that will drive the strategy of the Bank.

Thank you ladies and gentlemen...

I will now hand you back to the Chairman.