Chairman's Responses to Written Shareholder Questions
2003 Annual General Meeting
31 October 2003

I would like to thank shareholders for responding to our invitation to submit questions ahead of the meeting. Over 1,000 shareholders responded, asking around 3,000 questions.

Executive remuneration, specifically David Murray's remuneration

Several shareholders have submitted questions concerning executive remuneration, with some specifically referring to the remuneration of the Chief Executive Officer, David Murray.

The approach of the Bank in establishing the remuneration of its executives is set out in some detail on pages 20 and 21 of the Bank's Concise Annual Report. Details of the remuneration paid to the CEO and the five highest paid executives is set out in Note 6 on pages 50 to 54 of the Report.

Remuneration of the senior executives, including that of the CEO, is set on a competitive basis to attract, motivate and retain high calibre people. Independent external advice is obtained to assist the Remuneration Committee in framing its recommendations to the Board. The Board considers these recommendations and ultimately determines the remuneration. The Remuneration Committee consists only of non-Executive Directors. The Chief Executive Officer attends meetings by invitation but not when matters affecting him are discussed and decided. Consequently, he does not participate in setting his own salary or bonus entitlements.

The remuneration of executives, including the CEO, consists of three components, as described in the Annual Report:

- Fixed salary, or base pay, which is calculated on a total cost basis including fringe benefits tax on any benefits received by the executive;

- A short term incentive bonus, half of which is paid in cash and half in deferred shares. Fifty per cent of the deferred shares vest one year later and the balance a year after that. Generally, an executive has to remain in the employ of the Bank for two years after the bonus determination to receive the whole amount of the short term bonus;

- The third component is an annual allocation of performance shares which only vest if performance targets are achieved. Vesting of these shares occurs only between the third and fifth anniversaries of the allocation. If the Total Shareholder Return on the third anniversary date exceeds the average of that achieved by a comparator group of companies, shares will vest to the executive. During the two year vesting period if the Bank's return for shareholders reaches the median, 50% of the allocated shares will vest. At the 67th percentile 75% of the shares will vest. If top quartile performance is achieved 100% of the allocated shares will vest. If Total Shareholder Return is not achieved by the Bank on the third anniversary date but is exceeded in the two year period 50% of the allocated shares will vest but not more than 50% will vest, irrespective of the subsequent level of performance.

Some questions related to the 4.8% increase in David Murray's base pay as reported in the Annual Report in comparison to the 4% general increase of salaries within the Bank which took place earlier this year. The 4.8% related to an increase granted more than a year ago. The increase in David Murray's base salary in the current financial year is 3.5%.

The ratio of incentives to base pay varies according to the level of the executive in the organisation. The ratio of remuneration at risk to base pay increases as one progresses up the levels in the organisation.

For the CEO the maximum potential short term incentive bonus is two-thirds of base pay. The actual short term bonus paid depends upon the actual performance measured against key performance indicators agreed at the beginning of the year based upon the annual plan (or budget) established for the Bank. These performance indicators include metrics related to the financial results of the Bank, market share in various segments of the business, customer service, people management, succession planning, reputation and productivity improvements. While the potential bonus for the last financial year for David Murray was two-thirds of base pay, the actual bonus paid in cash and deferred shares was approximately 70% of the potential bonus, ie. approximately 47% of base pay, half paid in cash and the balance in deferred shares. In other words there is a rigorous process so that executives do not automatically receive their potential bonus but an amount related to how performance measures up against targets set previously. This same process applies to the other executives in the Bank.

The maximum value of the long term incentive plan for the CEO is equal to approximately the amount of base pay, taking into account in the valuation of the potential long term incentive, the probability of the shares not vesting.

The value the executive derives from the long term incentive depends on the performance of the Bank in delivering value to shareholders. Unless shareholders do at least as well from investing in the Bank as they would from investing in the aggregate of the comparator group over the three to five year period none of the allocated shares will vest to the executive. This aligns the interest of the executive with that of the shareholders. The bias in the long term incentive against the short term incentive is to mitigate against short-termism in the approach to managing the Bank.

I have gone into some detail because of the interest displayed in the issue. There is a lot more detail in the seven pages in the annual report to which I referred earlier. I believe there is considerable rigour in the system employed in the Bank. Compared to the recently announced proposed remuneration arrangements, relating to the CEOs of two other banks, Mr Murray is clearly not overpaid.

Conflict of improving customer service whilst reducing staff

Another frequently raised issue is the apparent conflict between the transformation program which is premised on a much improved level of service for customers of the Bank and a projected reduction of 3700 in the number of employees over a three year period. There is a number of aspects of the *Which New Bank* transformation program which come together to deliver better services to our customers and an enhanced result for our shareholders. An important part of the program is to give more authority to front life staff to resolve customer problems and so minimise the number of issues that have to be referred further up the line for resolution.

Another focus of the program is to eliminate much of the duplication that currently exists in the Bank's systems and built up as a legacy over a long period. At the same time efforts are being directed towards identifying and eliminating processes and procedures that do not add value for the Bank or its customers and get in the way of staff in providing better service. As well as eliminating unnecessary work, better information will be provided to customer facing staff to enable them to assist customers with their needs. This is already being rolled out and being well welcomed by those staff who have access to it.

The elimination of duplicative and unnecessary work explains why the number of customer facing staff will be largely unaffected while fewer people will be required in support and managerial roles as a result of the program. This is because a significant amount of work that is currently done will no longer be required. Service to customers will be positively, not adversely, affected by these changes while productivity will be improved.

CBA share price performance

Some shareholders referred to the Bank's share price performance. The price of shares in the market is obviously the price at which investors are prepared to sell, and at which other investors willingly buy. One can have a view about the appropriateness of the price but we can all remember the dizzy heights of the dot.com boom when lots of buyers and sellers were willing to trade at very inflated prices.

I can't really add more in relation to our share price. But I can comment on the performance of the Bank for the last three or so years, and the expected benefits of our 'Which new Bank' customer service vision.

In my address I mentioned the volatility of earnings in our wealth management businesses. We experienced difficult equity markets in 2001/02 which affected our life insurance returns, and again in 2002/03 which affected our funds management returns. Whilst the volatility of our returns was in line with market trends, our relatively large exposure to these areas meant that we are more affected by them. It also means that, as equity markets recover, we have more to gain.

Some questions referred to the fall in the return on equity following the Colonial merger. Unless people are aware of how this ratio is derived, they can come to misleading conclusions. This is because, when an acquisition is made by the issue of shares, the denominator is a mixture of historical dollars actually invested over time added to the market value of the shares issued for the acquisition. The consequence is that it can be expected that there will be significant reduction in the reported R.O.E as a result of such a transaction.

We are confident about the quality of our earnings because we take a prudent approach to the capitalisation of intangible items and the immediate writing off of broker and fund management commissions. This prudent approach and the transparency of our accounting practices might be seen to act against us in terms of market perception, but we believe this is the sound approach.

The market does have two areas of concern which we are addressing as a part of our customer service vision: the first is the slight decline in market share in some of our core products, although in many other cases we actually increased market share in the year. The second is our cost to income ratio, which is higher than that of our peers.

In my speech I pointed out the importance our customer service vision, and David gave you an outline of the benefits which will accrue to the Bank as a result. We have stated that we expect to grow profitably our share of the market, and we expect productivity to improve by 4-6% per annum over the three years.

Customer experiences such as queue lengths, opening times, under staffing

Shareholders have also raised a couple of experiences as customers such as queue lengths, opening times and under staffing.

<u>Queue lengths</u>

We recognise the frustration and annoyance when people have to stand in queues for periods which they regard as too long and we have been seriously addressing this because we see customer experience and satisfaction as critical. A lot of effort is being put into reducing queue lengths, especially when they are over 5 minutes, with the objective that no one stands in queues for more than 5 minutes. However this is always likely to be a difficult problem in some branches on Commonwealth pension pay days.

We have standards in place to measure queue times and we have made substantial improvements over the last six months with average queue lengths reduced by 22%. On pension payment days branches are being encouraged to make special arrangements. For example, some branches open at 9am with branch managers monitoring queues. We make special arrangements in locations that have different needs.

The Bank also has in place a Queue Management System on trial at four branches at the moment. These branches are equipped with ticket machines and chairs to enable customers to sit and wait to be served by an available teller.

The Bank is also considering adding additional ATMs to locations where the transaction volume exceeds 10,000 per month.

Customer experiences

Our customer service vision is made up of over 100 initiatives, grouped into 20 work streams. The improved customer experience outcomes for which we are planning include :

- More modern branches better suited to community needs;
- Average queue times being reduced by 35%;
- Increased branch manager visibility;
- Innovative financial solutions better suited to customer needs;
- More informed view of the customer; and
- Greater access to financial planning services and advice.

Opening times

With regard to opening times, we review our position from time to time to assess demand. At the moment, customer interest is not sufficient to justify the costs. We are currently trialling Saturday trading in two locations in Victoria. We have already trialled 7 days trading in these locations but there was no customer interest in Sunday trading.

The Bank, of course, offers 24 hours by 7 days access through Australia’s largest ATM and EFTPOS networks, leading Internet banking site and popular telephone banking facilities.

Our customer service vision will be addressing many of these types of concerns. Some of the more specific questions have been passed on to relevant areas to respond.

Funds management performance

The performance of our funds management area was also highlighted. This is an aspect that I addressed earlier at the meeting and also in the annual report. David referred earlier to the demographic trends which drove the Bank to increase its participation in this market.

It has been a challenging year for the Bank's funds management business. The underlying net profit after tax (ie. excluding first time expenses and shareholder investment returns) for the year ended June 2003 was $132m or 37% lower than the prior year. This outcome was the result of a $109m or 9% fall in operating income, which is in direct proportion to the change in average funds under management, and a $46m or 6% increase in underlying expenses.

The factors driving this performance include:

- Weak global equity markets for most of the year
- Lower fund flows, reflecting investor preference for defensive cash based products (including retail bank deposits) and property
- Impact of increased compliance and regulatory expenses.

Going forward, the funds management business is positioned well for future growth through its:

- Strong market position and scale across all segments of the value chain
- Broad and diversified distribution, including further sales growth opportunities through the retail branch and premium distribution channels, and
- A strong brand in both the investor and adviser market places through Colonial First State.

Director selection criteria, remuneration and how conflicts of interest are handled

Various questions have also been raised about the Bank's directors, particularly on remuneration and selection criteria, and how conflicts of interest are handled. Last year I outlined our approach to the choice of our directors and the care we take in our selection process. The transcript of that speech is available on our website. We also provide details on Selection of Directors and Conflicts of Interest in the Corporate Governance section of the Annual Report. I would just like to say we have a very good balance of skills and backgrounds on the Board and our corporate governance procedures ensure that directors are not present for the discussion and resolution of any matters where they may have a conflict of interest. They also do not receive Board or Committee papers on such matters.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined, is divided between the directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides the Bank with the necessary degree of flexibility to enable it to attract and retain the services of directors of the highest calibre. There has been no increase since the Annual General Meeting held on 28 October 1999 when the current aggregate remuneration limit of $1,500,000 per year was approved. The Bank's Directors' fees are generally lower than those now being paid by our competitors.

In July 2002, the Board discontinued for new appointees, the retirement scheme which provided for benefits to be paid to non-executive Directors. The entitlements of the non-executive Directors at the time of discontinuance will not be affected but no new members are being admitted to the scheme.

Bank fees/credit card fees

There were also questions about bank and credit card fees.

<u>Bank Fees:</u>

In April 2002, the Bank streamlined retail transaction fees and this was discussed at last years AGM. This new approach was introduced following extensive research with customers who indicated that the existing fee structure was too complicated. The changes reflect what they said they wanted: simplicity, certainty and transparency.

We provide exemptions and concessions to many customers. We do not charge fees to customers with a disability, those aged less than 18 years, full-time tertiary students and customers that have not used their account for an extended period. Australian war veteran and aged pensioners* pay no monthly account fee and receive two additional free assisted withdrawals. As a result of these exemptions and concessions, less than half of our customers pay the monthly fee.

*Aged pensioners refer to any person aged over 65 years receiving a pension from the government.

<u>Credit Card Fees</u>:

The Bank has undertaken a full review of its credit card offerings and Loyalty programs in the market that currently prevails to ensure that it maintains its leading position in the credit card market. To continue providing its customers with leading and competitive products, the Bank needs to be able to recoup the costs associated with providing flexible and convenient services.

The Bank offers its customers a wide choice of credit cards. The changes to monthly fees offers all customers a card that meets their needs at a cost that relates to the benefits offered. Most credit card fees are structured so that they are only applicable when the service is used, such as the additional cardholder fee.

For credit cards with loyalty program, Bank research shows that many credit card customers value loyalty program benefits and understand that there are some costs. For this reason, rather than remove or diminish the current program, the Bank has enhanced its product offering. Customers can choose to continue their loyalty program membership or choose a cheaper range of credit card options, including a nil annual fee card.

Gunns Limited

Some of the questions were about Colonial First State's investment in Gunns. I've already covered this in my address, and there will be further discussion on this item later in the agenda, so I do not intend to add anything further at this stage.

Chris Cuffe

There were questions on the justification and amount of the payment made to Chris Cuffe upon his departure from the Bank.

The Board of the Bank understands and recognises that the size of the payments made to Mr Cuffe was likely to attract attention. We acknowledge the strong feelings expressed by shareholders on this matter, and take very seriously those concerns.

As I explained to shareholders in my letter of 20 February, the payments to Mr Cuffe were made according to the terms of his contract, initially negotiated with Colonial Limited prior to the merger. The Bank acquired the liability to Mr Cuffe with the acquisition of Colonial, and had a legal obligation to pay it. A provision was made for this at the time of the acquisition. Following completion of the merger, should the Bank have decided not to retain Mr Cuffe's services, we would still have been required to pay him most of this amount, and would not have gained the benefit of his valuable contribution to the business over the next few years.

Shareholder Discounts

A number of shareholders have asked why we do not offer shareholder discounts. This matter was raised last year and we undertook to examine the matter further. We have done that and have concluded that we believe shareholders are most appropriately compensated via the yield on their shares.

We further believe that all shareholders should be treated equally. Typically, discount arrangements tend to be inequitable in that they are available only to some shareholders. Shareholders, like customers, have different needs and it would be near impossible to design a shareholder benefits package, which would be of equal benefit to all our shareholders.

Profit at expense of good governance and staff

Some of the shareholders mentioned that good governance should be implemented even if the cost of implementation affects profit. I agree, and as you will have gauged from my earlier comments we do not compromise in terms of strong governance practices.

Others have raised the issue of staff retention. In other words, they suggest staff should be retained at all costs. Our policy towards staff is to have a fair, challenging and rewarding workplace. Additionally, we want our people to have satisfying roles and the appropriate tools to do their jobs. However, in some cases roles become redundant. If this is the case, we try to redeploy people wherever possible.

Where staff are made redundant, we have generous staff redundancy payments and we seek to carry out this activity in a way that is dignified for the staff involved. In the long term interests of shareholders we cannot incur costs that do not deliver value.

National Exchange and Mr David Tweed

With regard to matters raised about National Exchange and Mr David Tweed, as the Bank is involved in a current court case, I am limited in what I can say on this subject.

The Corporations Act requires that a copy of the share register must be made available to any person if a proper request is made and the requisite fee is paid. The Bank has provided an electronic copy of the register to Mr Tweed’s company in a format that it believes satisfies the requirements of the Act. The Bank has been very much aware of the need to have consideration for the interests of its shareholders. We are vigorously defending the action brought against the Bank.

Initial hearings in the Federal Court have taken place, however an actual trial date is yet to be determined.

AGM venue (alternate between major cities)

We have been asked why we do not alternate between different venues for our AGM. We have, instead, opted to adopt an approach to allow shareholders wherever they may live to have access to the AGM via webcast facilities. We have initiated a mechanism for shareholders to send in questions where they are not able to attend.

Finally, I would like to thank shareholders who commended the Bank on being progressive in introducing this opportunity for shareholders to submit their questions for the meeting. We appreciate receiving your comments and hope you are happy with the way we have attempted to address those issues today.