

Chief Executive Officer's Address
2003 Annual General Meeting
31 October 2003

The Chairman has provided you with a summary of our financial performance.

I would now like to explain to you what our people have been doing for our customers over the last year, the major trends that have shaped our views, and how we aim to continually raise dividends over the next three years through a major transformation of the Bank.

I will start by giving you some more detail on what we have been doing for our customers.

We grew our total loans by 9%, which was generally in line with the market. We did this by helping people finance their homes; approving on average 4,900 home loans per week and increasing total home loan balances to \$100 billion, being the first bank in Australia to do so.

Our business and corporate loans of \$49 billion helped businesses with their day-to-day operations and special financial requirements. We also launched a range of new products including leasing and infrastructure financing.

Our Bank deposits grew by 6% and we now hold a total of \$141 billion on behalf of our customers.

In our branches our new telling system has helped to reduce queue times and our people are being freed up to spend more time with customers.

We have built up our premium banking operation. Already around 200,000 customers have immediate access to advisors and relationship managers who can offer a full range of financial services for their special needs.

CommSec, the Bank's discount brokerage business, now has over 1 million customers, who complete in aggregate around 9,000 share trades per day.

Our funds under management of \$94 billion, fell by 8%, which largely reflected adverse market conditions during the year. But we are pleased that the "First Choice" product, our master trust offering which we launched in May 2002, grew to \$3.2 billion and has now reached over \$4 billion.

For our business customers, we extended the First Choice product offering to the business superannuation market with the launch of "First Choice Employer Super".

Our life insurance earnings improved after more difficult conditions in the previous year. Many more customers are accessing insurance through our branches.

ASB Bank in New Zealand continued its long history of increasing market share, and for the sixth year in a row ASB rated number one amongst the major banks in retail customer service. By continuing to serve customers well, ASB's profit after tax increased by 24% (in local currency terms).

We made a number of investments during the year. We gave our retail sales staff better information, and more authority to meet customer needs. We improved the way in which we serve our business and corporate customers. In our retail banking and wealth management areas, we simplified processes.

We also invested in a new home loan system.

Of those projects which we have completed, we are seeing annualised benefits of \$165 million. This was ahead of target and we are already seeing the benefits this year.

It was our people who helped our customers to fulfil their financial needs, and the Bank to achieve its financial returns. I would like to place on record my thanks to each one of our staff for their effort over the year.

Over the last six months, my senior executive team and I have been spending more time with our frontline staff and they have been telling us what they need to serve customers better. I will come back to that a little later. Our people also have a direct email line to me if they want to raise issues.

Each year we measure the engagement of our people using an internationally recognised measure. More than half of the Bank's work groups are in the international top quartile as measured in the Gallup worldwide database.

Engagement of our people is critical to continuous improvement in service.

I'd now like to turn to the future, and in particular to some broad trends in the Australian economic and social environment which are influencing the planning for our customer service vision.

Detailed studies of Australia's ageing population show that growth per capita in Australia will be 0.75% per annum lower in the next 30 years than it was in the last 30 years, for two reasons. Firstly, the population is not expected to grow noticeably. Secondly, productivity improvement through workforce participation and/or technological change will not be sufficient to offset the ageing problem.

To deal with this issue we need to identify ways in which to boost income growth to offset ageing, to preserve our international competitiveness and to raise the living standards of succeeding generations.

Because the contributions from population growth and immigration are likely to be relatively small, workforce participation and productivity improvement are critical. In terms of participation, the labour force is going to shrink as baby boomers retire. This means that productivity improvement is very important. It

means that we need to invest in new capital, to embed continuous improvement in our companies, and we need to do this with well-planned and executed change management.

The Commonwealth Bank must play its role in facilitating this solution because we marshal the savings that form either the equity investment or loan funds for companies to recapitalise. By doing that more effectively and lowering the input costs, we play our part in helping all companies in Australia to contribute in responding to the ageing problem and improving our international competitiveness.

Clearly the clock is ticking and there's work that needs to be done. We recently looked very long and hard at all of our operations in the Commonwealth Bank and we launched our 'Which new Bank' transformation because we need to do our part to ensure that one of the great Australian businesses is well placed in this changing environment.

We have been listening to what our customers and our people have been telling us, particularly focusing on how we can make our customers' experience with the Bank a better one.

Our customers have told us they need better, faster and more responsive service. They also want us to retain our existing values and heritage and to continue to be the Bank for all Australians.

Our customer service vision is not something we have created overnight. We have been working on it for some time. No part of the Bank will go untouched by this transformation. One of the best examples we have of the rewards of implementing a successful performance-driven culture is within our New Zealand operations at ASB Bank. We also looked at global best practice benchmarking. We are not under-estimating the size of the task we are embarking on and are confident of executing the outcomes, which I will cover a little later on.

Our vision is firmly driven by customer needs and there are three mandatory elements. That is, a high standard of customer service, through engaged people, supported by simple processes.

We want our customers to experience service that is responsive, convenient and reliable. They will be served by engaged people who are empowered, motivated and skilled to deliver, and will be supported by processes that are fast, accurate and effective.

There will be noticeable changes. Our people dealing directly with customers will be given more authority to complete transactions and provide solutions for customers. This requires an intensive program of education and training to ensure this is done effectively. Our people will be measured on customer outcomes and recognised and rewarded for superior service.

Processes will be simplified throughout the Bank. For example, approvals for credit card and personal loans will go from 2 days to 20 minutes. And we will be further supporting our Branch managers as the customer champion. They will be spending up to 80% of their time with customers, instead of 60% of their time on administration. The balance of their time will be spent on coaching their people. We will also roll out our customer relationship management system across the group to give a single view of each customer's relationships with the Bank. This system has already been developed and is being used for our premium clients, which gives us a head start in the transformation process.

Through better processes and the removal of unnecessary steps in processes, together with training and empowering our people, we will make it easier for our people to provide our customers with a better level of service and create a more fulfilling day at work for them.

As a consequence of investments in process simplification, work redesign and removing unnecessary work, the Bank's domestic workforce is expected to reduce. The number of front-line customer service positions, according to the assumptions we have made in the Which new Bank transformation, will be largely unchanged. Additionally, customer contact time will increase for our front-line people.

We never relish the idea of reducing our staffing. However, we know that our employment practices are fair and our redundancy conditions are generous.

We believe cultural change must start at the top, and this is why I have already started changing the way I spend my time. I am increasing the proportion of time I spend with the Bank's people who are serving our customers. My senior executive team is also reviewing Group-wide service and sales each week and will be trained in our new service and sales management system.

The total investment required over the next three years is \$1.5 billion. We will redirect our usual project spend of \$600 million, and there will be an additional outlay of \$620 million in the key areas of staff training and development, systems and process simplification, and technology. As part of this we are doubling our investment in staff training to \$200 million. We will also invest a further \$260 million to accelerate the refurbishment of our branches.

The financial prize from the customer service vision is large. Subject to current market conditions continuing, we will deliver compound annual growth in cash EPS of more than 10% over the three years.

We are committed to a 4-6% per annum productivity improvement, and to improving market share across our major product lines. Naturally this will be in areas where the new business is profitable.

Estimated ongoing pre tax benefits of \$200 million will start to flow through from 2004, increasing to \$900 million per annum from 2006. Increased

revenues will come from better meeting customer needs. Cost savings will come from the simplification of processes.

As the Chairman outlined, the cost of the transformation in this financial year will not stop us from continuing to increase our dividend each year.

Since our launch of Which new Bank we have released further details on the 20 main initiatives. We have made a commitment to give you the next update on the execution of our plans in February 2004. From then on we will give quarterly progress reports.

The Chairman has already commented on the outlook and I am pleased that we have had a good quarter and that there appears to be momentum for the rest of the year.

At last year's AGM, the Chairman announced that the Bank would establish a foundation with the principal purpose of encouraging developments in education, including financial literacy for young Australians.

We have now established the Commonwealth Bank Foundation with proceeds from the Bank's sale of shares from the Colonial Foundation.

\$70 million has been placed in our foundation and earnings from this investment will be used to support education and financial literacy. It is the Bank's intention to add to that investment sum each year.

Already a number of worthwhile educational programs have been supported and others are being developed.

After the meeting you are invited to visit the Foundation display and obtain more detail on its activities.

The establishment of the Foundation by the Bank further demonstrates our commitment to being the Bank for all Australians.