Chairman's Address
2003 Annual General Meeting
31 October 2003

At last year's meeting I described the background and experience that each of our directors bring to the deliberations of the Board and to the Committees of the Board when describing in some detail the corporate governance practices of the Bank. I do not intend to repeat that today but information about the Directors appears in the Annual Report.

Results

I would now like to turn to the Bank's performance for the year. The statutory net profit after tax for the last financial year was $2,012 million, which was 24% lower than for the preceding year. On a 'cash basis' the net profit was $2,579 million, a 3% increase on the prior year. This was in line with the advice to shareholders in my address at last year's annual general meeting that the net profit ('cash basis') was expected to be about the same in the first half as in the previous year with a modest improvement in the second half. The profit was after charging restructuring costs of $214 million and $45 million as the cost of two years grants to employees under the employee share plan. The total cost of shares allocated to executives and staff under the various executive and employee plans are charged against the profits of the Bank. This brings transparency to the results and the full cost of remuneration is charged against the declared profit.

We were very pleased to announce a final dividend of 85 cents a share which was paid on 8th October, bringing the dividend to $1.54 a share for the year. This represented a continuation of the pattern of higher dividends every year since the Bank was privatised.

DRP and structured buyback

On 1 September 2003 we informed the market that for legal reasons we were not able to acquire shares "on market" to satisfy the Dividend Reinvestment Plan (or DRP). This was because of the imminent announcement of the transformation program, which I will refer to later and which David Murray, the Chief Executive Officer of the Bank, will cover in greater detail in his presentation. We have also decided for the foreseeable future, consistent with our peers, to issue shares to satisfy the DRP, which subject to the necessary approvals, should enable a structured buy back to go ahead within the next six months.

Wealth Management Business

The value of our wealth management businesses has increased by $1.81 billion since the merger with Colonial, despite a write-down in the Assessed Value in the first half of the last financial year. Participation in the wealth management sector does bring with it greater volatility associated with the volatility of the securities markets in which clients' funds are invested. In a period when a market correction occurs, as has occurred in recent times, it is not totally surprising that returns from this business will reflect what superannuation members and other investors have experienced in such market conditions. Over the longer term, however, the Bank expects this business to grow strongly.

We are in the business for the long term and we are confident that our participation in this sector will enhance the return for shareholders on their investment in the Bank.

As I referred to in my message to shareholders in the Annual Report, the Board believes that the Bank has adopted the right strategy in trebling our involvement in the wealth management business by acquiring Colonial Limited. The value of the business has increased since acquisition and we believe that growth in this business will exceed the growth in traditional banking. This is because of demographic factors and the greater reliance of the community on superannuation and retirement savings. The ability to meet the needs of our customers over a broad spectrum is an integral part of our strategy going forward. The Bank has a distribution system second to none within the financial services sector on which we are confident we can build our business in wealth management in concert with the other financial services that the Bank provides.

Corporate Governance

You will recall that at last year's meeting and in the Annual Report for that year I focused on our corporate governance policies and practices. These continue to be of great importance to the Bank, with all aspects continuously reviewed. I was very pleased that the Bank's structure and the inclusion of non-Executive Directors only on the Audit, Nominations and Remuneration Committees of the Board reflected the recommendations made later by the Australian Stock Exchange (ASX) Corporate Governance Council.

In the Annual Report we have set out the charters of the various committees, their membership and the policies and practices adopted by the committees. Further information about the operation of these committees and the policies of the Bank can be found on the Bank's website. I encourage you to visit this site from time to time to view the latest information about the Bank.

Good corporate governance represents an important responsibility which Directors have to the company and to its shareholders but it goes beyond a 'tick the box" approach. The nature of the culture, the ethos and the integrity of an organisation determine how well that organisation will be governed. Most of the attention in the debate and discussion of corporate governance is on the compliance aspect. The performance of an organisation is of at least equal importance for a Board. In focussing on performance, we will not allow the current emphasis on conformance to distract us from taking prudent and measured risks in operating the Bank. We are here to develop the business over the long term and we do not intend to respond by becoming risk adverse to the detriment of the Bank's performance. The reward to shareholders is significantly greater for those companies which take measured risks and manage them compared with those which become too risk averse.

One of the aspects of good corporate governance is transparency and related to that, good shareholder communication. At the Bank we have built up over a long period of time, a best practice approach to shareholder communication. One example of this approach is the introduction this year of our invitation to shareholders to send in questions about the Bank in the lead-up to the Annual General Meeting.

Our shareholder communication program goes beyond ASX listing rules and guidelines. We make the most of leading edge technology, coupled with our traditional and paper based approaches, to give shareholders the opportunity to be equally informed on the Bank's activities.

This includes webcasting and teleconferencing of all major presentations to the market. We archive the webcasts, whether video or audio, for up to three years on our Internet site, where they are accessible by all shareholders and investors. For those accessing the webcast, we also take emailed questions, and management responds to these live during the question and answer session. Major investors and bank analysts who listen in by teleconference have the opportunity to raise questions over the phone.

If a senior executive of the Bank makes a presentation at a broker conference, either in Australia or offshore, the audio of that presentation, including questions and answers, is added to the site subsequently, in the same way as for an archived webcast. If the broker conference is being webcast, we link to that webcast through our site so that our shareholders can tune in live.

As I mentioned in my introductory remarks, this AGM is being webcast in full for the first time: previously we have only webcast the introductory speeches by myself and the CEO.

Anyone who is interested can subscribe, via our website, for notification by email of any new analysts presentations. We give early notification to the general public of important dates for shareholders through our website. Through the Shareholder Centre on the Bank's website there is a 'Clarification for Investors' page, where we correct information which may be wrong in an analyst's report. This applies to information which is not material, but of which we would like shareholders to be aware. If the information in an analyst's report is materially wrong we would inform the ASX.

These leading-edge approaches to shareholder communication allow all shareholders to have access to financial information in a timely manner.

Transformation

Earlier, I mentioned the Transformation Program to deliver excellent service to customers. We launched this vision, which we called ‘Which new Bank’, in September, and it represents a major cultural transformation for the Bank. The CEO and I sent a letter to shareholders with the dividend cheques because of the importance we attach to this program. In fact, it is the most significant change within the Bank since privatisation, and has been a major area of activity for the Board and the Executive Committee over the last several months. The objective of this program is to excel in customer service because we recognise that this is essential for the long term success of the Bank. This will be the focal point for everything the Bank does and service improvements will be made across the Bank. The attainment of this objective will be to the mutual benefit of our customers, our people and our shareholders.

Considerable effort has already been put into determining what needs to be done by the Bank to deliver on the program. Project teams have been established and targets and milestones set with a firm commitment to their accomplishment by the senior management team. As successful implementation of the Transformation Project will create very significant shareholder value, these targets feature significantly in the basis on which incentive payments for executives will be determined over the three year program.

The net impact of this transformation over the three years will be positive and the profits in subsequent years will be greater than they would, otherwise, be. The Board regards the expenditure incurred on this program to be in the nature of an investment in the future of the Bank. There will be additional charges against profit in the current financial year, but the Bank will add back the non-recurring charges, expected to be around $500 million after tax, in considering the amount to be distributed as dividends to shareholders. Consequently, the Bank expects to be able to continue the uninterrupted pattern of increased dividends that it has been able to deliver since privatisation.

David Murray will be telling you more about the transformation program in his address shortly.

Special Resolution

Later in the meeting you will be asked to vote on a special resolution submitted by 104 shareholders requesting the Board of Directors to issue a report to shareholders by 1 May 2004 in relation to environmental risks and how they might affect the valuation of the Bank. The resolution specifically refers to commercial relationships relating to the logging of forests in identified areas.

The accompanying statement from The Wilderness Society, distributed to shareholders by the Bank as required by the Corporations Act, states that the “Commonwealth Bank needs to make it clear what, if any, risk assessment has been undertaken in relation to this and other environmentally sensitive industries”.

As I informed shareholders at last year’s Annual General Meeting “the Bank does take seriously its concern about the environment and actively takes measures to make more efficient use of energy, water, paper and the general procurement of supplies so as to reduce the environmental impact of our business.

The Bank adopts a prudent approach to lending, recognising its fiduciary responsibilities to shareholders, customers, employees and the community. A major concern of the Bank in making a loan is to be reasonably satisfied that the borrower will be able to service the loan through the regular payment of interest and the repayment of principal as scheduled.

This requires lending officers to have regard to any matters that may affect the risk of default and the size of loss should a default occur. Among these is any potential contingent liability or impediments arising from the activities of the potential borrower. This includes the possibility of contingent liabilities maturing and affecting the exposure of the Bank. I can assure shareholders that a prudent approach is taken in these matters.”

The principal focus of those proposing the resolution is, I believe, on the investment in Gunns Limited by the Funds Management subsidiaries who invest on behalf of clients who place their savings with these Funds. I explained last year the fiduciary duties of these Funds Managers and the fact that the Bank does not interfere with or direct these managers in relation to their investment decisions. I will say a little more about this when we come to this item of business on the Agenda.

Outlook

The result for the first quarter already reflects the initiatives we implemented last year to improve the Bank’s future performance. Credit growth has been strong, particularly in the housing sector. This, together with deposit growth, which is well above expectations, will drive continuing good performance in banking. In wealth management, investment returns have continued to be strong and both insurance premium income and total funds under management have increased over the quarter. As a consequence, the first quarter’s performance has been good.

If current market conditions continue for the remainder of this half year, growth in underlying cash earnings could be sufficient to offset transformation costs incurred in the half year.

At this stage, there appears to be sufficient momentum in the economy to support solid underlying earnings growth for the full year, although the rate of growth may moderate in the second half.

As I stated earlier, the Bank will add back the non-recurring transformation charges, in considering the amount to be distributed as dividends to shareholders. Consequently, as indicated in the Which New Bank announcement, we expect to be able to continue the uninterrupted pattern of increased dividends that we have been able to deliver since privatisation.