COMMONWEALTH BANK OF AUSTRALIA

CEO'S ADDRESS – 2008 ANNUAL GENERAL MEETING

Traditional Greeting

I would like to begin by also acknowledging the Wurundjeri and Boonerwrung Peoples of the Kulin Nation and their ancestors, who have been the custodians of these lands for thousands of years.

Introduction

The 2008 financial year has been a challenging one for the global financial services sector. The continued fall-out from the ongoing volatility in global credit markets, and the slowing economic growth, have all combined to place significant pressure on the financial performance and capital positions of a large number of international financial services organisations.

In this environment, we have delivered strength in uncertain times with solid profit growth and another record dividend at a time when many of our global peers are reporting substantial losses. And, while many international financial service organisations struggled to survive, we remained "open for business" for our customers, and were able to take advantage of opportunities to strengthen our business.

So, I'm pleased to report to you that, despite the current global challenges, the Group remains in a strong financial position with a continued focus on delivering on our vision of becoming Australia's finest financial services organisation through excelling in customer service.

Results

The Group's statutory net profit after tax for the 12 months ended 30 June 2008 was $4,791 million - an increase of 7 per cent on the prior year. Cash net profit after tax grew to $4,733 million, an increase of 5 per cent.

This solid result was achieved in a difficult environment with the Group incurring additional funding costs during the year caused by ongoing volatility in global credit markets.

And, while the Group had no exposure to US sub-prime, the entire Australian financial services sector and our customers have been affected and will continue to be for some time.

As you'll be aware the current problems, the result of poor lending practices in US home lending, has had a significant impact on "Wall Street" and its impact has spread globally. Many well-known global financial institutions have either failed or had to be rescued. In contrast, the Australian financial services sector, with its strong well managed banks and an effective regulatory system, has held up very well but has not been unaffected, unfortunately. Even strong banks like CBA, with our

AA rating, have had to pay significantly more for wholesale funding as liquidity in global financial markets became scarce.

In the first half of the year we absorbed over $100 million of these higher funding costs but as it became apparent that this would be a longer term situation we had no choice but to pass these additional costs on to our customers. This was done gradually over the second half of the year but not quickly enough to recover the entire margin we lost in the first half. These funding pressures have not yet abated. This has meant that we have been unable to pass on all of the recent cash rate reductions to our customers. However, we do expect global financial markets to normalise over time and once that does occur we expect lending rates to track more closely to the Official Cash Rate.

With the economy slowing we have not lost sight of the fact that many of our customers are finding the situation tougher. In response, we have created a specially skilled team to assist customers who are in financial difficulty. This team focuses on working with customers and financial counsellors to develop personal money plans that enable each customer to meet his or her financial obligations without undue hardship. From our perspective it is much better if customers suffering financial hardship contacts us early so we can work together to help solve their problems.

In recent months we have received many calls and letters thanking staff for their help in assisting customers who are finding it hard to make repayments – in particular those whose financial circumstances have changed due to unemployment, illness or other unforeseen circumstances.

Strategic Priorities

Despite the challenging environment, the Group's strong financial position has enabled us to continue to pursue our goal to be ranked number one in customer service by June 2010.

This commitment is reflected in our new advertising theme "Determined to be Different" which was unveiled earlier this year. Simply put, this theme conveys our determination to be better than we have ever been, by making real progress across each of our five strategic priorities:

- Customer Service;
- Business Banking;
- Technology and Operational Excellence;
- Trust and Team Spirit; and
- Profitable Growth.

More good progress was made during 2008 on the Group's No. 1 strategic priority, customer service, with the highlights including:

- Customer satisfaction scores, as measured by Roy Morgan Research, reached 10 year highs;
- We won the Money Magazine "Bank of the Year" and Global Finance Magazine "Australian Bank of the Year" awards;

- 24 of our retail banking products received CANNEX 5-star ratings in 2008 – a significant improvement from 3 only 2 years ago;
- Business Customer Satisfaction, as measured by TNS Business Finance Monitor, recorded strong gains ;
- Colonial First State's FirstChoice platform was rated the number one platform by financial advisers as measured by Wealth Insights; and
- ASB Bank again won The Banker's "Bank of the Year Award for New Zealand" and maintaining its position as the leading bank in New Zealand for customer service.

Improving our competitive position in Business Banking is also a key strategic priority, with highlights in 2008 including:

- The acquisition and successful integration of IWL which provided strategic entry into the online wholesale broking market;
- The launch of the new CommSec Banking Solutions and iPhone share trading option;
- CommSec won the AFR Smart Investor's "Highest Polling Online Broker 2008" award and Trade Choice Awards "Best Margin Lender 2008";
- Strong business deposit market share gains with deposit balances up 24 per cent; and
- High ratings over a wide range of criteria in East & Partners' Institutional Banking Markets Survey – April 2008.

Technology and Operational Excellence initiatives are designed to deliver greater efficiency across the Group in order to enhance customer satisfaction and to provide competitive leverage through innovative processes and systems. Highlights this year included:

- Our announcement of a $580 million, four year Core Banking Modernisation project which will replace the Group's legacy systems and drive improvements in customer service and productivity;
- Continued efficiency gains, with the Group's IT efficiency ratio now in line with international best practice;
- Significant improvements in systems stability, security, controls and disaster recovery capabilities; and
- A wide range of initiatives to improve customer service, increase operational efficiency and provide increased security to the Group and its customers.

The commitment, engagement and enthusiasm of our people go to the heart of our success as an organisation and our ability to deliver on our strategies. Progress on Trust and Team Spirit initiatives included:

- A continued improvement in employee satisfaction scores, with the Group now placed in the top quartile of companies within Gallup's worldwide database;
- ASB Bank received the Gallup "Great Workplace Award 2008";
- Improvements in workplace safety with the Group's Lost Time Injury Frequency Rate falling by a further 30 per cent;

- Greater collaboration across the Group and better alignment with the needs of our customers, which is reflected in improvements in customer satisfaction scores, declining customer complaints and increased customer compliments; and
- Continued support to the community including significant commitments to a range of initiatives such as financial literacy, environmental partnerships and one-off assistance for communities in need of help.

Our Profitable Growth priority was introduced to ensure that the Group remains focused on identifying opportunities which will ensure continued growth and value creation.

Examples of progress during the year include:

- Our Indonesian and Chinese businesses, whilst still a relatively small part of the Group, are all performing well;
- CFS GAM continues to review a wide range of opportunities to grow its global footprint;
- Premium Business Services is further developing its debt and equity market capabilities; and
- Continued focus on improving Group-wide cross-sell and referral rates, designed to better leverage the significant opportunities with our 9 million plus customers.

BankWest and St Andrew's

Post year end we were able to grow our domestic retail and business banking footprint with the acquisition of BankWest and St. Andrew's for $2.1 billion. Our ability to acquire this outstanding business at such an attractive price (and raise a similar amount of capital) was a direct result of a combination of factors including our strong financial position, our focused domestic banking strategy and our superior execution capabilities.

BankWest is an excellent franchise which will continue to operate as a standalone business. It will strengthen our Australian banking business and create significant value for our shareholders.

Looking Ahead

I realise that the last twelve months have been difficult for you our shareholders as share markets globally have fallen significantly. Nevertheless I have been pleased with the Group's relative financial performance in what was a very challenging year. The Australian banking industry has, to date, weathered the storm reasonably well. The major banks are well capitalised and hold high levels of liquidity.

However, the headwinds which impacted our performance in 2008 have not abated. And, while the actions taken by regulators and governments both here and overseas to support the industry have been helpful, conditions in global financial markets remain difficult and look like remaining so for some time.

With the Australian economy also expected to slow, we remain cautious about the outlook for at least the next 18 months. Loan losses will increase and the Group's exposure to Lehman Brothers, Allco Finance Group Limited and ABC Learning Centres Limited will result in significantly higher first half provisions.

At the same time wholesale funding markets remain challenging which continues to place upward pressure on funding costs. But we are well positioned to weather the storm.

In this environment the Group's priorities will be to ensure we maintain our strong capital position, to remain well funded with high levels of liquidity and maintain our disciplined approach to the management of credit and market risk.

Let me specifically address our capital position

- At 30 September, our capital position was as strong as at year end: over 7.5% under APRA guidelines.
- APRA has made a reduction from our Tier 1 capital ratio which relates to a conservative hedging position put in place to protect our earnings against falling interest rates. We are in discussion with APRA regarding the treatment of this hedge. However, if we were to reverse this hedge position, our Tier 1 capital ratio would increase to well over 8% and would release a substantial profit which would otherwise emerge over time.
- We have a number of options for further increasing our Tier 1 capital ratio, including the conversion of PERLS II to common equity on maturing in February.
- International investors and debt providers use the UK FSA capital calculation. As you can see, on this basis, our Tier 1 capital stands at 11% - substantially ahead of our peers here and in Europe.

It is obvious from comments made this week that our true capital position is not well understood. I hope this clarifies the situation for you.

We will also need to maintain an equitable balance between the interests of our customers and our shareholders. While we do appreciate the impact that higher interest rates has had on borrowers, over 700,000 Australians rely on us to provide them with dividend income and many more benefit from our profitable growth via their superannuation funds.

Finally, our solid result and our ability to adapt quickly to the new challenges we are facing would not have been possible without the hard work and commitment of our people. I am very grateful for the high level of support I have received across the Group and continue to be enormously impressed by the quality, skills and enthusiasm of our people.

It is a great privilege to lead this organisation and I am confident that we will continue to deliver for our people, for our customers and for you, our shareholders.

Thank you.