

**Commonwealth** Bank  
of Australia



Annual Report 1997

# Financial Calendar 1998

Interim profit result and interim dividend announced	11 February
Ex-dividend date	16 February
Record date	24 February
Interim dividend paid	27 March
Final profit result and final dividend announced	12 August
Ex-dividend date	17 August
Record date	25 August
Final dividend paid	30 September
Annual General Meeting, Melbourne	29 October

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Customer Service Points

## Notice of Annual General Meeting

The Annual General Meeting of the Commonwealth Bank will be held at Hall 4, Convention and Exhibition Centre, Darling Harbour, Sydney, on Thursday 30 October 1997 at 11.00am. A notice of meeting is enclosed for shareholders.

### Registered Office

Level 1, 48 Martin Place,  
Sydney NSW 2000  
Telephone (02) 9378 2000  
Facsimile (02) 9378 3317

### Company Secretary

J D Hatton

### Investor Relations

Level 7, 48 Martin Place,  
Sydney NSW 2000  
Telephone (02) 9378 2638  
Facsimile (02) 9378 2344

### Share Registrar

Coopers & Lybrand  
Locked Bag A14  
Sydney South NSW 1232  
Telephone (02) 9285 4999  
Facsimile (02) 9261 8489

Internet:

[www.au.coopers.com/srs/index.htm](http://www.au.coopers.com/srs/index.htm)

Email:

[registry-syd@au.coopers.com](mailto:registry-syd@au.coopers.com)

### Australian Stock Exchange Listing

Fully Paid Ordinary Shares: CBA

### Annual Report

To request a copy of the  
annual report

**(02) 9378 3229**

# Highlights 1996/97

## Profits

- \$1,206 million, (before abnormal items) up 8% on 1995/96
- \$1,078 million, (after abnormal items) down 4% on 1995/96

## Earnings per Share

- 131.5 cents, (before abnormal items) up 14% on 1995/96
- 117.5 cents (after abnormal items)

## Assets

- \$120.1 billion, up 10% on 1995/96

## Dividends

- Final dividend 57 cents per share fully franked
- Total dividend for 1996/97 102 cents
- Dividend yield 6% (13 August 1997)

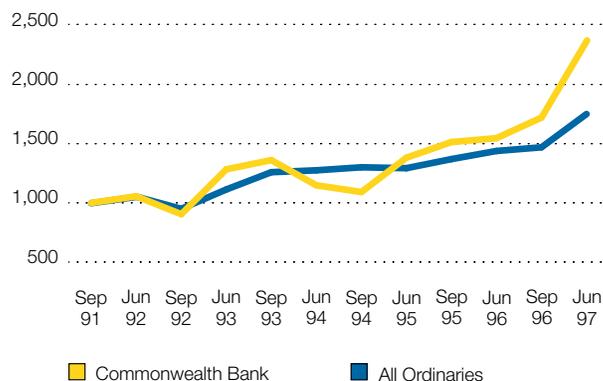
## Return on Equity

- 18.2%, (before abnormal items) up from 16.3% last year
- 16.4% (after abnormal items)

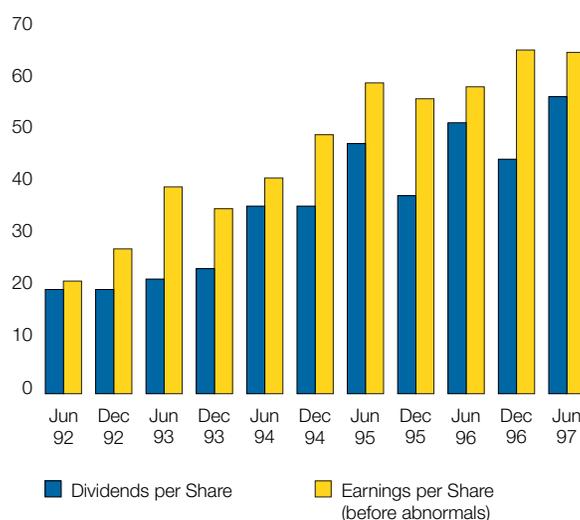
## Return to Shareholders

- 24% compounded p.a.  
(from September 1991 to July 1997 – see p10)

Share Price Indices



Earnings per Share and Dividends per Share  
cents per share



## Credit Ratings

## Short Term Long Term

Standard & Poor's Corporation	A-1+	AA-
Moody's Investors Service, Inc.	P-1	Aa3
IBCA Limited	A-1+	AA-
Moody's Bank Financial Strength Rating		B

# An Overview of the Bank's Business

## The Business

Australia's largest retail bank, providing a **full range of lending and deposit products** to over 6 million customers. Services are provided through the largest branch and agency network in the country, complemented by an **expanding array of electronic, telephone and online banking services, as well as mobile sales teams.**



# Personal Banking

## Highlights

Over 800,000 Australians have a home loan with the Commonwealth Bank. Between May 1996 and July 1997, the Commonwealth Bank cut home loan interest rates by 370 basis points compared with a 250 basis point reduction in cash rates by the Reserve Bank. The result has been a **39% increase in gross home loan approvals**, and a sustained improvement in market share of home loan outstandings.

“True Awards” was launched in early July 1997, allowing eligible credit card clients to accumulate award points by using their cards; points can be redeemed for a range of benefits including discounts on bank products, shopping, entertainment, travel – or as a charity donation.

For depositors, the Bank introduced “AwardSaver” in October 1996. This is a savings product offering rewards, including bonus interest rates and fee discounts.

**NetBank, providing internet banking, was launched in February 1997.** NetBank enables Commonwealth Bank customers to conduct secure banking activities, including access to statements and account balances, funds transfer and payment of bills over the internet.





### Looking to the Future

The continuation of low inflation and more competitive markets will see ongoing refinement of interest margins and fees for services among all service providers. To provide its services to all Australians, the Commonwealth Bank will continue to invest in a range of traditional branch based services and new electronic or self service access points.

The sustainability of the Bank's investment in these services will depend on the adequacy of revenue from interest margins and fees. Transaction services will be priced on an activity basis, with rewards for clients conducting more of their business with the Bank.



**The Commonwealth Bank will be working to make it easier for customers to undertake banking and other financial services related activities** through expansion of:

- the ATM network, which has already increased by over 50% over the past three years, and which will include an increasing range of facilities;
- telephone banking, including the introduction of “BPay”, allowing customers to pay bills to over 400 companies from their telephones at home;
- low cost EFTPOS merchant terminals, providing a convenient means of payment and access to cash;
- mobile sales teams providing customers with the option of discussing banking and financial business at home or the office.



## Commonwealth Connect

Established in 1995, this wholly owned subsidiary provides insurance for house buildings and contents.

Gross written premiums increased by 24% to \$84 million. Commonwealth Connect covers more than 330,000 buildings and 80,000 contents risks, with the number of contents policies doubling during 1996/97.

Commonwealth Connect will increasingly meet the general insurance needs of Commonwealth Bank's personal and business clients by **offering the convenience of access through either the branch network or direct by telephone.**

# An Overview of the Bank's Business

continued

## The Business

Australia's fourth largest fund manager and second largest retail fund manager, with total funds under management in excess of \$23 billion. CFS provides **a comprehensive range of managed products, covering superannuation, retirement income and investment, along with life insurance products.**

Financial advice and products are available through Commonwealth Bank branches and Investment Centres. A team of 160 nationwide specialist financial advisers provides customers with individually tailored financial plans. As part of the strategy to integrate financial services distribution, 175 branch based personal bankers have also been trained and "properly authorised" to advise customers on their investment needs.



# Commonwealth Financial Services

## Highlights

Retail funds under management grew by 28% to \$11 billion – with strongest growth in Commonwealth Investment Funds and the Cash Management Trust. In May 1997, the Commonwealth Bank acquired a 50% equity share in IPAC Securities, a leading financial planning firm. IPAC will provide access to the high growth portfolio management and independent financial advice sector.

In December 1996, the Commonwealth Bank acquired Commonwealth Funds Management Limited, increasing funds under management by approximately \$7 billion.

Commonwealth SuperOption was launched in February 1997. This product is designed to assist the business superannuation market, providing employers with a simple and flexible superannuation solution, while offering employees a choice of investment strategies.





### Looking to the Future

Consumers are now more aware and accepting of the need to be financially self-sufficient throughout their lives, particularly into retirement, and are seeking investment choice and control.

**CFS is extending its distribution network and providing a range of products and services that meets customers' needs.**



Rapid evolution of technology, including the internet, will create opportunities for CFS to provide innovative solutions which enhance customer service.

Government initiatives, focusing on savings and superannuation, including superannuation member investment choice, will result in an increasing number of customers seeking financial advice. CFS is enhancing its investment advice capabilities and will continue to work with employers to provide flexible and efficient solutions that meet their superannuation obligations.



## ASB Bank Limited

### The Business

A 75% owned subsidiary, meeting the banking, financial services and investment requirements of some 800,000 New Zealanders.

New Zealand's most technologically advanced bank, ASB operates through a branch network, mobile bankers and phone banking facilities, together with well-established automated and electronic channels.

### Highlights

ASB recorded strong growth in all parts of its business. The Bank has achieved a main bank share of 15% of the personal banking market and is a leading provider of home loan finance.

In addition, ASB **maintained its leadership position in electronic banking** through the introduction of new services, such as New Zealand's first electronic commerce payment system and internet banking service.

### Looking to the Future

In keeping with its commitment to provide customers with a broad range of financial services, ASB Bank **will introduce a more diversified range of managed funds services.**

During 1997/98, ASB Bank will further advance the provision of direct banking services.

# An Overview of the Bank's Business

continued

## The Business

Establishing preferred financial services relationships with the top 1,000 corporations, institutions and government entities in Australasia, focusing on delivery of sophisticated and valued banking and financial services.

International operations include an increasing focus on Asia, where the Commonwealth Bank is continuing to develop its presence in selected markets.



# Institutional Banking

## Highlights

Significant incremental income from financial market products and other services. **Successful positioning in recent government privatisations resulted in favourable outcomes in tenders for:**

- Hazelwood Power Station, offered via trade sale by the Victorian Government;
- Brisbane Airport, as part of a consortium which included Dutch group Schiphol, a manager of major international airports world wide.

In June 1997, Indonesian authorities granted the banking licence required for the 50/50 joint venture between Commonwealth Bank and Bank Internasional Indonesia to begin operations. Initially operations will be targeted at the commercial market, with a progressive move into the rapidly growing retail market.

## Looking to the Future

Recognising that excellence in service execution is critical in winning and maintaining high quality business in Australia, Institutional Banking will continue its commitment to further develop the skills base, innovation and trading abilities required for a successful **combination of commercial and investment banking.** Assessment and management of risk will be consistent with the complexity of the business targeted by the Bank and product developments within the market.



# Business Banking



## The Business

The focus is on working with small to medium businesses to achieve their business and financial goals. Business Banking has over 120,000 client relationships. Over 50,000 are managed through 600 Business Banking relationship managers in 92 Business Banking Centres with approximately 70,000 small businesses managed through the branch network.

CBFC offers secured debenture investments to retail investors, and is a specialist provider of vehicle and equipment finance. CBFC operates through Bank branches and Business Banking Centres, as well as through a team of field managers and accredited brokers.

## Highlights

Business Banking lending approvals totalled \$12.8 billion to commercial clients, an increase of 17% on the previous year. Equipment finance through CBFC increased by 34%.

Reflecting the Bank's view that many businesses are moving away from fixed assets to "know how" to generate competitive advantage, **an innovative form of lending - Business Asset Finance - was introduced.** Business Asset Finance provides business with access to finance based upon the "cash drivers" of the business.

## Looking to the Future

A significant array of opportunities are available to the Commonwealth Bank and its commercial clients based on information sharing. The Bank will continue to design value added products and services based on information, as well as developing its traditional range of services.



## Share Direct

Commonwealth Securities Limited – Share Direct – is a wholly owned stockbroking subsidiary, which commenced activities in July 1995. During 1996/97, the customer base doubled to over 110,000.

As part of Share Direct's objective of delivering low cost transaction services, **internet trading now complements the telephone based service**, with investors able to monitor share prices and place buy and sell orders directly over the internet. ([www.comsec.com.au](http://www.comsec.com.au))

# Group Structure

## Executive Committee



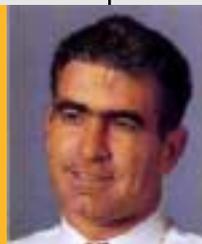
### Group Finance and Accounting

**A J Hogendijk**  
Chief Financial Officer. Mr Hogendijk has 36 years' experience in financial roles in a number of industries, joining the Bank six years ago. Age 55.



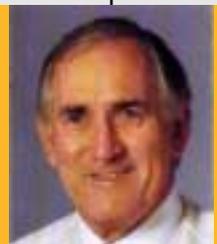
### Financial and Risk Management

**M J Ullmer**  
Group General Manager, Financial and Risk Management. Mr Ullmer joined the Bank in October 1997 from Coopers & Lybrand. He has experience in the financial services industry in Australia and overseas. Age 45.



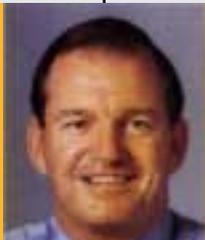
### Technology, Operations and Property

**J F Mulcahy**  
Head of Technology, Operations and Property. Mr Mulcahy joined the Bank in August 1995, after eight years with Lend Lease. Age 47.



### Personal Banking

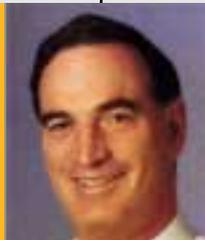
**A E Long**  
General Manager. Mr Long has over 40 years' experience with the Bank, holding senior positions in four states. Age 57.



### **Business Banking**

#### **N J Cox**

General Manager.  
Mr Cox has 33 years' experience with the Bank, appointed to establish Business Banking in January 1993. Chairman of CBFC Ltd and Micropay Pty Ltd.  
Age 50.



### **Institutional Banking**

#### **M A Katz**

Head of Institutional Banking. Mr Katz joined the Bank in 1993 with investment banking experience in Europe and Japan.  
Age 45.



### **Commonwealth Financial Services**

#### **J St G D Rawlins**

General Manager.  
Appointed in April 1993, with over 30 years' experience in banking, finance and insurance. Deputy Chairman of Life Insurance and Superannuation Association.  
Age 57.



### **Group Human Resources**

#### **L G Cupper**

General Manager.  
Has had over 25 years' experience in senior human resources roles. Mr Cupper joined the Bank in January 1996, following 12 years with CRA Limited.  
Age 48.

# Chairman and Managing Director's Review

**1997** marks the successful completion of the Commonwealth Bank's repositioning following privatisation in 1991. The key objectives set over that six year period have been met, with the Bank reclaiming market share in the home loan market, achieving a strong increase in the revenue contribution from investment banking, integrating financial services, increasing operating efficiency, and bringing capital and risk management practices to levels comparable with major competitors.

Reflecting the Bank's increasing competitiveness, growth in lending assets, particularly in home loans, was a major contributor to the 10% increase in Group assets, to \$120 billion. Operating profit before abnormals grew by 8% to \$1,206 million. Return on shareholders' equity before abnormals increased from 16.3% to 18.2%.

A fully franked final dividend of 57 cents per share brought the dividend for 1996/97 to 102 cents per share. Returns to shareholders, based on the accumulation index, have grown at an annual compound rate of 24% since listing in September 1991.

After careful analysis of the capital needed to sustain competitive advantage, directors proposed a \$650 million share buy back to be conducted following the conversion of the instalment receipts to fully paid ordinary shares in November 1997. A final decision to proceed will be announced in November, subject to no material adverse change in the Bank's current or prospective capital position.

The buy back is likely to represent 4% of the Bank's current shares on issue, and is expected to increase earnings per share by around 2%. Following the buy back, on a proforma basis, the capital ratio would be 10% and the Tier 1 ratio 7.9%.

Directors have also decided to eliminate the discount on the Dividend Reinvestment Plan, commencing with the 1998 interim dividend.



Pictured left to right M A Besley, AO (Chairman)  
D V Murray, (Managing Director)

Both measures are designed to increase shareholder value by optimising the capital position of the Bank while not limiting the capacity to reinvest for future sustainable competitive advantage.

## The Commonwealth Bank's Next Phase

Commonwealth Bank now enters another phase of its development during which important investment decisions will position the institution into the next century.

Key principles that will guide the Group's business strategy are:

- to provide convenient, affordable integrated banking and financial services, offering clients choice and reward;
- to manage risk;
- to provide effective leadership of our people.

The positioning of the Commonwealth Bank will be undertaken in an environment in which the Australian financial services industry is becoming increasingly competitive, and in which each part of the value chain is effectively open to entry by new competitors.

This follows a transition within the industry from a regulated market in the mid 1980s, where banks were involved in most elements of the value chain, through a period in which most gains were made via productivity improvement within this traditional system.

Cash flow return to investors, made possible by low inflation, and aided by recovery from the cyclical trough in earnings of the late 1980s and early 1990s, has been strong during this transition.

**The current environment is characterised by changing demands on management, with technological change, low inflation, an increase in savings and an aging population, shifts in capital management, and changing patterns of capital investment. At the same time, return on shareholders' equity is relatively strong. The key issue, then, is how to obtain sustainable competitive advantage given the trade off between cash returns and investment for growth.**

### Technological innovation

Increasingly, the driver of the growth of non bank assets will be technological change, particularly technology affecting the transfer of financial assets.

In addition, ease of information exchange will allow a very different relationship to develop between the financial services organisation and the customer. Information technology will enable organisations to develop relationships with customers without a traditional branch network.

Introduction of self-service technology, providing greater convenience for customers and efficiency gains for suppliers, will further strengthen the growth of non bank financial intermediation.

### Low inflation

In recent years, substantial improvements have been made to credit risk management techniques. These techniques are being extended to more scientific calculation of both expected and unexpected loss, the latter leading to a better understanding of the amount of equity required to support the credit risk portfolio. Generally, the loss experience used in these calculations is

over the most recent business cycles, since longer runs of these data are rarely available.

In Australia, the last business cycle coincided with both the deregulation of the banking system and historically high inflation. It is unlikely that the loss experience over this cycle will be repeated in the current cycle, which is characterised by low inflation. As a result, if the low inflationary environment is maintained, the loss experience could remain lower than some observers expect, provided major structural change does not materially increase risk.

### Savings and the aging population

Since deregulation the growth of bank intermediated assets has not kept pace with the growth of non bank assets, with banks growing by about 11% compound since 1985 (with most of that skewed to the late 1980s) and non banks (at a steadier rate) by about 16%.

This has been driven in Australia, as elsewhere, by an aging population and technological change.

Over the next five years, non bank assets will probably grow at 1.5 times the bank assets. This trend, reinforced by the government's retirement incomes policy, is accompanied by increasing demand for management of personal wealth for retirement.

### Capital management

Current levels of capital generation are high, reflecting the dramatic improvement in earnings since the later 1980s/early 1990s, and changes in capital management practices, particularly in relation to the assessment of the equity underpinning needed for financial intermediation.

At the same time, the combination of low inflation and the introduction of dividend imputation is encouraging the trend towards increasing cash flow returns to shareholders.

### Changing patterns of capital investment

The financial services industry has been characterised by a comparatively low ratio of capital expenditure to earnings. To maintain existing businesses at their current scale, financial services organisations are spending

# Chairman and Managing Director's Review

continued

approximately one third of earnings on capital investment – with a large part of this going into operating expenditure through software.

This compares with a ratio of capital expenditure to earnings of close to 75% for industrial companies in Australia.

Capital expenditure in the financial services industry will increase over the next few years, as the industry invests in new businesses and new distribution systems.

## Positioning Commonwealth Bank

Given the factors prompting change within the industry, Commonwealth Bank is being positioned to provide a choice of bank, non bank and managed fund financial services, sourced either from within or outside the Group. That is, the Bank is shifting from being a custodian of savings to a manager of wealth.

Since 1993, the Bank has been investing across a number of fronts, designed to:

- maximise efficiency and leverage scale;
- segment client bases and differentiate service according to value;
- increase customer financial (investment and credit) balances through integrated distribution of all products, provision of client advice, differentiation on brand and information and convenience of access;
- diversify revenue sources by business and by geographic region;
- change the management culture by using planning systems dedicated to growth in value and by making managers accountable for their team's targets and leadership of their people.

The ensuing commentary reviews progress in the six businesses of the Bank.

### 1. Personal Banking and the Home Mortgage Market

Four major changes were designed to reposition this business.

First, the Bank needed to change the method of distribution, away from the emphasis on branches to automatic teller machines, electronic funds transfer

terminals, and increasingly, telephone and internet based capabilities.

Branch numbers have been reduced from close to 1800 to 1334, the number of ATMs has doubled and electronic funds transfer terminals trebled.

Second, the Bank had to remove back office processing from the branches – this took two years, and reduced full time equivalent staff numbers by 8000. The result is ongoing increases in processing efficiency.

Third, a sales and service focus was needed. New standards of performance were established and a sales and service culture embedded.

Fourth, the product mix needed to be changed. New products have been introduced, old ones made more flexible.

Over the past 18 months, the Bank has faced up to a critical issue that affects it more than any other participant in the Australian financial services industry – cross subsidies between home loan borrowers and depositors, including transaction account holders.

In May 1996, the Bank announced that it had taken steps to remain a key provider of home loans in the Australian market. This came from a determination that home loans were an important product in the total suite of financial services to which the Bank was adapting.

In addition, the Bank was aware that in other markets, the value chain had broken into distinct segments – and that the banks had given away their leading position as mortgage originators and had therefore potentially also given away their position as a complete financial services provider.

Since May 1996, the Bank has made two price adjustments in addition to those following cuts in official cash rates by the Reserve Bank of Australia.

The consequence of these changes has been an increase in business volumes, particularly in the home loan market, where strong growth in originations has translated into sustained improvement in the Bank's share of balances outstanding.

The cost of the price adjustment has been partly offset by volume growth and by a lengthening in the

duration of the mortgage book. However, there are even more important factors in play.

For example, reducing the mortgage spread caused a change in the competitive profile for all retail deposits. With a well established financial services arm, this has strengthened the Commonwealth Bank's competitive positioning going forward, notwithstanding the cost of the adjustment.

## **2. Financial services integration**

Financial services will continue to grow much more quickly than traditional bank services. Already, Commonwealth Financial Services is the fourth largest fund manager in Australia and the second largest retail funds manager.

This business is producing solid returns and the outlook for earnings growth is reasonably strong through the potential to increase "share of wallet" of existing personal banking customers. The Bank currently receives, on average, just over 50% of the profit generated by these customers to the financial services industry; this has improved by about one percentage point, year-by-year for the last four years. The greatest potential to increase "share of wallet" is amongst clients generating the highest levels of profit to the industry.

In funds management, growth has been accelerating in the retail market, where Commonwealth Bank is able to successfully leverage off its distribution network.

In late 1996, the Bank acquired Commonwealth Funds Management, a wholesale fund manager, increasing funds under management by approximately \$7 billion. In 1997, the Bank acquired a 50% interest in IPAC, providing growth prospects from the portfolio management and independent advice sector.

## **3. Business Banking**

The challenge of building customer relationships while increasing efficiency and diversifying revenue sources is being met through a combination of reductions in operating costs, repricing and increasing product sales per customer.

Reflecting the Bank's view that many businesses are moving away from fixed assets to intellectual property to generate competitive advantage, an innovative form of lending (Business Asset Finance) has been introduced where business is financed without reliance on traditional security.

The integration of Commonwealth Development Bank and CBFC into Business Banking, plus the move into payroll services and fleet management, has enhanced the delivery of integrated services to commercial clients.

To get further growth, new services need to be added.

The Bank's belief is that these new services should be based on information sharing between the client and the Bank, so that, for example, credit processes can be further enhanced for both the Bank and its clients.

## **4. Institutional Banking**

The institutional banking market will continue to face pressure from increased competition from foreign banks and from general disintermediation. Credit spreads for better quality assets are therefore unlikely to improve. In addition, the stable, low inflation environment and the globalisation of financial markets will continue to squeeze profitability in traditional balance sheet activities.

In this environment, to improve return on equity, and achieve a better use of economic equity, the Bank has moved to a hybrid of corporate and investment banking. This has required building skills in structured financing and distribution, upgrading trading capability and market risk management and establishing an equities group.

The Bank's initial focus was on financing infrastructure developments, in particular toll roads. From this, the Bank was able to successfully bid for roles in the privatisation of the electricity industry and airports. The Bank is now well positioned for involvement in further infrastructure developments and privatisations, with the capacity to underwrite, sell and distribute both debt and equity instruments.

# Chairman and Managing Director's Review

continued

## 5. Processing efficiency

The Bank's Technology, Property and Operations group has become a profit centre. The group manages the Bank's information technology strategy, \$1.4 billion property portfolio, and item and loan processing operations. Performance is driven by securing lower unit costs through productivity improvements, and increasing scale through acquisition of greater volumes.

Best practice benchmarks are used to ensure the Bank has the necessary understanding of what is happening at each point in the value chain. This, in turn, will be the basis for decisions about insourcing, outsourcing or further joint venture arrangements.

In item processing, the Bank has scale, and is already highly efficient as measured against best practice. Here, an option is to insource as the Australian industry looks for ways to aggregate its business.

In loan processing, the Bank is close to its target benchmarks, and again insourcing is an option.

In August 1997, the Bank announced a decision to negotiate a strategic technology partnership with a global information technology company, EDS. The Bank proposes to take a 35% equity position in this partnership through EDS Australia.

The major benefits to the Bank will be substantial, and include:

- cost reductions, and a switch from fixed to variable costs;
- ongoing productivity improvements;
- better application of technology;
- speed to market with new products;
- reduction of risk; and
- a share in earnings growth from the rapidly growing outsourcing industry in Australia, as well as the Asia Pacific region where EDS already has a strong presence.

The proposed contract will be for 10 years, with two five year options. Over the 10 year period, the value of the contract to EDS Australia will be approximately A\$5 billion.

All IT functions, both developmental and operational, are to be included in the proposed technology partnership. A small group within the Bank will maintain control of the Bank's technology strategy.

## 6. Geographic diversification

### - New Zealand and Asia

ASB Bank has produced strong growth in assets and profits since acquisition in 1989. It is continuing to grow its business organically and through diversification.

As in Australia, factors affecting New Zealand banking are driving fundamental change. Competition is intense, not only between existing banks but also due to emerging market entrants. ASB will continue to leverage its major share of the Auckland personal market through its competitive use of banking technology.

Sustained rapid growth in Asia will continue to present opportunities for Commonwealth Bank in providing financial services to the region.

In June 1997, Indonesian authorities granted the banking licence required for the 50/50 joint venture between Commonwealth Bank and Bank Internasional Indonesia to begin operations. Initial operations will be targeted at the commercial market, with a progressive move into the rapidly growing retail market.

### Implications for growth and returns

Cross subsidies within the banking industry are yet to be worked through.

If this results ultimately in fairer returns for investment in transaction services then revenue will increase and/or servicing costs will fall.

However, if cross subsidies are maintained, the Bank will face a decision about whether or not to continue to provide the gamut of transaction services.

Over the medium term, the Bank is repositioning its distribution system, so that in modifying the branch network and growing the new, clients' range of needs are well met.

At the same time, the Bank must continue to invest in the development of rapidly expanding businesses, such as financial services, in order to maintain earnings momentum.

Growth in net interest earnings will continue to be tempered by margin squeeze. Productivity growth will come predominantly from pricing signals and opportunities for insourcing, outsourcing and joint ventures. Organisational change – moving to a functional cost centre structure that identifies the performance of all components of the value chain – also represents a potential source of productivity gain.

**The Bank needs to invest to strengthen its competitive position.**

Its acquisition appetite is focused. It will continue to assess opportunities in New Zealand and Asia. In Australia, the Bank already has scale in its traditional businesses and will focus on opportunities that complement existing operations.

**Outlook for 1997/98**

In 1997/98, the Commonwealth Bank expects reasonable levels of demand for finance to support continuing asset growth.

Competition in all markets is likely to remain keen. Pressure on margins will continue, heightened by the flow through of the significant reductions to home loan margins during 1996/97, as well as by the distortions inherent in the deeming arrangements.

Anticipated further growth of income from financial services and investment banking will increase the contribution from non interest income.

The Bank's cost structure, although the subject of continuing emphasis on productivity gain, will remain under pressure from labour costs, Year 2000 systems modifications and continuing reinvestment in distribution systems and new businesses.

Credit quality remains sound overall and the bad debt expense is expected to remain cyclically low. However, a slowing in writebacks means that the bad debt expense is likely to be higher than in 1996/97.

Competition is set to intensify with implementation of the recommendations of the Wallis Inquiry into the Financial System. However, the detail of regulatory changes has yet to be completed and implementation is to be phased over the next two years. The major competitive effects are therefore expected to materialise beyond 1997/98.

Overall, the market environment during 1997/98 is expected to be testing. However directors see no reason why a relatively strong payout cannot be maintained for the time being.

**Acknowledgements**

During the year, two members of the Board retired. Mr J J Kennedy left the Board in order to pursue other interests and Mr I K Payne, an executive director, retired from the Bank. Both directors shared a very lengthy period of service during one of the Bank's historically significant and successful phases of development. The Board thanks them for their contribution.

The Board welcomes two new members, Mr F J Swan and Mr K E Cowley, AO. In accordance with the Bank's Articles of Association, both will stand for election as directors at the Annual General Meeting on 30 October 1997.

The Bank's results reflect dedicated teamwork amongst management and staff, teamwork that is vital to ensuring that the Bank has the necessary flexibility to meet clients' requirements for convenient and affordable banking and financial services. The Board extends its thanks for a job well done.

Finally, the Board would like to thank shareholders for their continuing support and encouragement.



**M A Besley, AO**  
CHAIRMAN



**D V Murray**  
MANAGING DIRECTOR

# Board of Directors



**M A Besley, AO**

CHAIRMAN.

Chairman and member of the Board since 1988. Chairman of the Remuneration, Risk and Nominations Committees of the Board. Chairman of Leighton Holdings Limited. Age 70.



**J T Ralph, AO**

DEPUTY CHAIRMAN.

Director of the Bank since 1985. Chairman of the Audit Committee of the Board and member of Nominations Committee. Chairman of Foster's Brewing Group Limited and Pacific Dunlop Limited. Age 64.



**D V Murray**

MANAGING DIRECTOR.

Member of the Board and Managing Director since June 1992. Member of the Remuneration, Risk and Nominations Committees of the Board. Age 48.



**N R Adler**

Member of the Board since 1990 and is a member of the Remuneration Committee of the Board. Managing Director of Santos Limited. Age 52.



**A C Booth**

Director of the Bank since 1990 and is a member of the Remuneration Committee of the Board. General Manager Corporate Communications of the Sydney Harbour Casino. Age 41.



**K E Cowley, AO**

Appointed to the Board in September 1997. Director of News Limited since 1976 and is Chairman of Ansett International. Age 62.



**J M Schubert**

Director of the Bank since 1991 and is a member of the Audit Committee of the Board. Managing Director and Chief Executive Officer of Pioneer International Limited. Age 54.



**G H Slee, AM**

Member of the Board since 1986. Member of the Risk Committee of the Board. Age 60.



**F J Swan**

Appointed to the Board in July 1997. Member of the Risk Committee of the Board. Director Foster's Brewing Group Limited and National Foods Limited. Age 56.



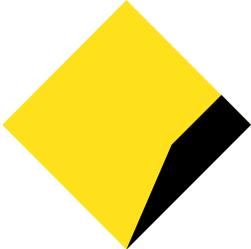
**B K Ward**

Member of the Board since 1994 and member of the Audit Committee of the Board. Age 43.

# 1997 Financial Statements

as at 30 June

**Commonwealth** Bank  
of Australia



## Description of Business

### Introduction

Commonwealth Bank Group ranks among the world's 60 largest banks in terms of shareholders' equity. It provides services including banking, finance company activities, life insurance and funds management. The Group's operations are conducted predominantly in Australia, accounting for 84% of the Group's total assets at 30 June 1997 and 92% of net income for the year ended 30 June 1997. Banking operations in New Zealand are conducted through a 75% owned subsidiary, ASB Bank Limited. The Group is also represented internationally through branches in London, New York, Singapore, Tokyo, Hong Kong and Grand Cayman and representative offices in Beijing, Shanghai, Hanoi and Jakarta. The Bank has also entered into a joint venture arrangement with Bank Internasional Indonesia (BII).

The Commonwealth Bank Group is Australia's largest bank in terms of housing loans and retail deposits and is the second largest in terms of Australian assets. At 30 June 1997, the Group had total consolidated assets of \$120 billion and loans outstanding of \$82 billion. For the fiscal year ended 30 June 1997, the Group's net income was \$1,206 million before abnormal items, and \$1,078 million after abnormal items. As at 30 June 1997, the Group had 37,930 full-time and part-time employees world-wide (equivalent to 34,874 full-time positions).

The Bank obtains a large proportion (68%) of its funds from domestic retail sources (term, demand and non-interest bearing deposits). At 30 June 1997, the Bank had retail deposits in Australia of approximately \$60 billion, 22.4% of the domestic deposit market. (Reserve Bank of Australia, June 1997).

### Establishment and Privatisation

The origins of the Group lie in the former Commonwealth Bank of Australia which was established in 1911 by an Act of Parliament to conduct commercial and savings banking business. On 1 January 1991 the State Bank of Victoria (SBV) was merged with the Commonwealth Bank. The Group remained a Government owned enterprise until the conversion of the Bank into a public company with share capital on 17 April 1991. The Commonwealth Bank was privatised in three stages:

1. In July/August 1991 an offer of just under 30% of the issued shares in the Bank was made to the public. 230 million shares were issued on 12 September 1991 at an issue price of \$5.40.
2. In October 1993, the Commonwealth further reduced its shareholding in the Bank to 50.4% of the total number of issued voting shares.

178 million shares were listed on 1 November 1993, at an issue price of \$9.35 for retail investors and \$9.60 for institutional investors.

3. In July 1996, the Australian Government made a public offer of its remaining 50.4% shareholding in the Bank. In conjunction with this offer, the Bank agreed to buy back 100 million shares from the Commonwealth of Australia. The buyback price was \$10.01 per share, with the Bank paying the Commonwealth of Australia just over \$1 billion. The public offer and buyback were completed on 22 July 1996. The Government's public offer was for 399 million shares. Investors paid \$6, with the remaining instalment of \$4.45 being due on 14 November 1997. Investors were entitled to the three dividends payable in the intervening period.

As at 13 August 1997 the Commonwealth Bank has 930,177,235 shares on issue to 426,575 shareholders (including holders of instalment receipts).

### Government Guarantee

Transitional arrangements following the sale of the Commonwealth's shareholding in the Bank provide that:

- all demand deposits and term deposits will be guaranteed until the end of the day on 19 July 1999, with term deposits outstanding at the end of that day being guaranteed until maturity; and
- all other amounts payable under a contract that was entered into, or under an instrument executed, issued, endorsed or accepted by the Bank before 19 July 1996, will be guaranteed until their maturity.

### Retail Operations and Distribution Network

The Bank provides a comprehensive range of personal banking products to the Australian retail market, including housing loans, credit cards, savings and term deposit accounts.

The Bank's Home Loan portfolio (including Investment Home Loans and offshore balances) totalled \$43 billion as at June 1997, up 17% from June 1996. During the year, the Bank responded strongly to competition in the home loan market, achieving sustained market share growth through a combination of competitive pricing, new product offerings, and a commitment to sales and service.

Gross home loan approvals in Australia during 1996/97 were 39% higher than in the previous year, contributing to sustained improvements in market share of outstandings, which reached 20.5% in June 1997. (RBA June 1997, All Lenders.) The introduction of a basic variable rate

**Commonwealth Bank Share Price**



**Home Loan Outstanding Balances - Australia**

(excluding Investment Home Loans)



Source: RBA, All Lenders.

## Description of Business

continued

home loan product, the “Economiser”, has proved popular with customers who do not require a wider range of options.

The proportion of home loan balances in arrears (over 90 days) fell from 0.9% in June 1996 to 0.6% in June 1997 (includes investment home loans). This has been achieved by tighter management of delinquent accounts and by continuing attention to credit quality in a highly competitive environment.

The Bank is the largest holder of retail deposits in Australia with a market share of 22.4% as at June 1997. (RBA, June 1997). The Bank’s Australian retail deposit base grew by 9.4% over the past 12 months to stand at approximately \$60 billion as at 30 June 1997. Approximately 60% of retail deposits are held in on-demand products and 40% in term deposits. The Commonwealth Bank has the largest share of pensioner deeming accounts with balances of over \$7.5 billion as at June 1997.

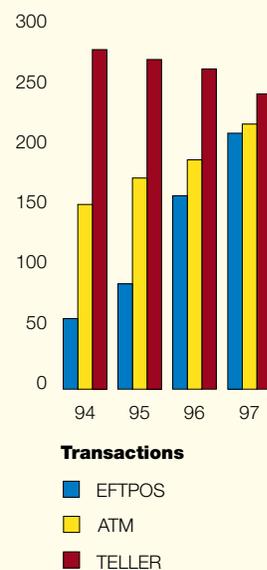
The Bank is the largest issuer of credit cards in Australia. Competition within the credit card market is keen, and has been heightened by the entry of new market participants. Nevertheless, the Bank’s credit card outstandings grew by 9.8% over the past 12 months to stand at \$1.8 billion as at 30 June 1997, representing a market share of 23.5%. (Australian Bankers Association, June 1997.) The quality of the credit card portfolio has remained steady, with delinquencies in dollar terms increasing in line with the growth in outstanding balances.

The Bank is an original global founding shareholder in the Mondex smart card system and has been participating in MasterCard and Visa pilots of stored value cards – microchip based smart cards offering an electronic alternative to cash for small transactions. Smart card technology has the potential to offer significant benefits in terms of processing efficiencies and, via the potential integration of customer information within the microchip, offers wider opportunities in terms of customer relationship development. The Bank’s distribution network provides service to over 6 million customers through over 70,000 service points, including the largest branch and agency network in the country (1,334 branches and 4,205 agencies, including 3,852 in Australia Post Offices). The Bank continues to invest in the development and expansion of its direct and electronic distribution channels, to provide customers with greater convenience at lower cost. There has been a steady shift in transactional activity from branches to alternative distribution

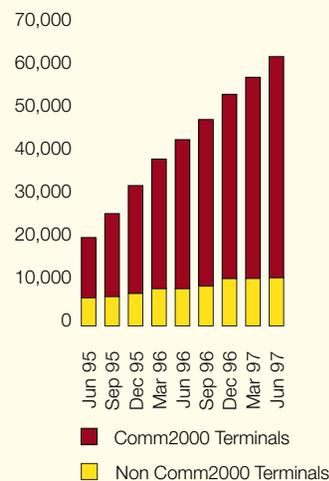
channels, with the ratio of branch to electronic transactions carried out by customers improving from 40/60 in June 1995, to 30/70 in June 1997. Highlights include:

- **Autobank** – the Bank maintains the largest proprietary ATM network in the country, with Commonwealth Bank terminal numbers increasing by 9% from June 1996, to 2,301 as at 30 June 1997. Including interchange arrangements, the Bank’s customers have access to over 5,500 terminals Australia-wide. The Bank’s ATM network handled 16% more transactions in 1996/97 compared with the previous year.
- **EFTPOS** – total terminal numbers as at 30 June 1997 of 63,370 represent an increase of 45% over the last 12 months, or a 200% increase from June 1995. Since the introduction of the Comm2000 EFTPOS terminal in September 1994, the Bank’s share of the total EFTPOS terminal population in Australia has increased from 13% to almost 40% as at June 1997.
- **Maestro and Cirrus international ATM/EFTPOS networks** – providing customers with access to over 315,000 ATM’s and over 1.4 million EFTPOS terminals world-wide.
- **NetBank** – the Bank’s Internet banking service launched in February 1997, with usage growing.
- **Telephone banking** – three customer service centres now handle in excess of 700,000 customer calls per week, an increase of 50% over the previous year. The service was further expanded to include direct home loan sales in NSW from August 1996 – extending to an Australia-wide service by March 1997.
- **Supermarket banking** – in January 1996 the Commonwealth Bank was the first bank in Australia to launch a supermarket branch. The Bank now has five supermarket branches, offering personal banking services, including deposit, investment, credit card, personal and home lending products.
- **Mobile salesforce** – mobile bankers are now available to call on customers at a time and place most convenient to them, with further expansion planned. Mobile bankers account for over 20% of all home loan approvals (by value).

Changes in Customer Behaviour million



Increase in EFTPOS Terminals



### Commonwealth Connect

Commonwealth Connect Insurance Limited is a wholly owned subsidiary of the Bank offering insurance for house buildings and contents. Insurance risks are underwritten by Commonwealth Connect, with reinsurance treaties arranged through external reinsurers. Commonwealth Connect complies with the General Insurance Code of Practice and is supervised by the Insurance and Superannuation Commission. Over 70% of new business is generated through the Bank's branch/mobile lender network, with the Bank acting as agent for Commonwealth Connect. The remainder of business is written via Commonwealth Connect's 7 day per week telephone service.

Commonwealth Connect has more than 330,000 building risks as well as 80,000 contents risks, with the number of contents policies doubling during 1996/97.

### Financial Services

The Group offers superannuation, investment and life insurance products through its Commonwealth Financial Services (CFS) companies. CFS employs a specialist salesforce of investment advisers operating through retail distribution channels, augmented by Personal Bankers with proper authority to give investment advice.

CFS includes Commonwealth Life Limited (CLL), Commonwealth Investment Services Limited and Commonwealth Custodial Services Limited, and their controlled entities. CFS increased its customer base by 19% during the year. In December 1996, the Bank purchased Commonwealth Funds Management Limited as part of its strategy to broaden its financial services business (adding approximately \$7 billion in funds under management). CFS is the fourth largest fund manager, and the second largest retail fund manager in Australia. Funds under management totalled \$23.2 billion at 30 June 1997, comprising retail funds of \$10.7 billion and wholesale funds of \$12.5 billion.

CFS offers a comprehensive retail product range including life insurance, superannuation and rollovers, retirement income products and the Commonwealth Investment Funds – unit trusts with a broad range of managed and sector funds as well as a cash management trust. Sales of retail products increased by 78% to \$4.3 billion during the year. The unit trust range received strong support with sales of \$2.5 billion. In October 1996, a Property Securities Fund and an Asia Pacific Equity Fund were added to the unit trust

range. Both products have received strong fund inflows.

In terms of assets, CLL is the fifth largest life insurance company in Australia. CLL offers CFS' superannuation and life insurance products, along with the Group's insurance bonds. CLL's life insurance product range includes mortgage insurance through Commonwealth Mortgage Protection, comprehensive term insurance through Commonwealth Life Protection Plus (launched February 1997) and CreditCard Plus offering consumer credit insurance for Commonwealth Bank credit card customers.

In May 1997, the Commonwealth Bank acquired a 50% equity share in a leading financial planning firm, IPAC Securities Limited. This equity investment is expected to provide sound returns through its involvement with the high-growth portfolio management and independent financial advice sector.

### Business Banking

The number of Business Banking Centres increased by 16 over the past year, mainly in rural communities, as part of the integration of rural lending expertise from the Commonwealth Development Bank (CDB) with the Business Banking division. The Bank purchased the Government's remaining shares in CDB in July 1996.

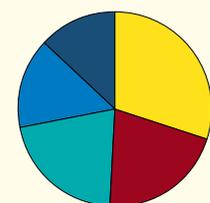
Variable rate loan facilities, fixed rate lending products, interest bearing cheque accounts and other commercial banking facilities are offered to the Small and Medium Enterprise sector across all industries. New lending products include:

- Capital Business card, which offers a line of credit for working capital for small business owners.
- Capital Equity (launched in February 1997) is a line of credit secured by equity in residential property.
- Business Asset Finance launched in June 1996 provides business with access to finance based upon the "cash drivers" of the business.

The Bank has a 14.6% share of the commercial lending market (RBA, 30 June 1997). Other tools to assist small business, such as the Better Business Planner for strategic and business planning, and extended features on Quickline banking software, were introduced in the last year. The Bank also offers business customers access to payroll and human resources management systems through its wholly owned subsidiary Micropay Pty Limited.

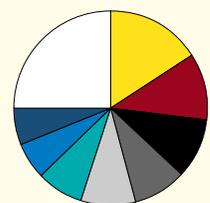
CBFC Limited, a wholly-owned subsidiary of the Bank, is a specialist provider of vehicle and

### Commonwealth Financial Services Mix of Business by Investment Type



■ Cash (<180 days)	30%
■ Fixed Interest (>180 days)	21%
■ Australian Equities	21%
■ International (Cash, Fixed Interest, Equities)	15%
■ Property	13%

### Business Banking Total Loan Approvals by Industry



■ Agriculture, Forestry, Fishing & Hunting	16%
■ Retail Trade	11%
■ Finance, Investment and Insurance	10%
■ Property and Business Services	9%
■ Recreation, Personal and Other Services	9%
■ Construction	8%
■ Manufacturing	6%
■ Transport & Storage	6%
□ Other Industries	25%

## Description of Business

continued

equipment finance to the business sector. Hire purchase, finance and operating leases, including fleet leasing and management arrangements, are the major product groups. CBFC is active as an issuer of secured debentures and unsecured notes to retail and wholesale investors to fund its assets. At 30 June 1997, CBFC had finance receivables of more than \$4 billion, representing growth of 22% compared to June 1996. New business volumes, totalling \$2.3 billion, were 34% ahead of last year and profits are at record levels. The acquisitions of the external fleet management business of TNT Fleet Management and the Leaseway fleet management business added 17,000 motor vehicles to the Bank's fleet management division and consolidated the Bank's position as a leading provider of operating leases.

### Institutional Banking

This division focuses on the top 1,000 corporations in Australasia and selected offshore clients, engaging in corporate lending, trade finance, project finance, securities underwriting, payments and transaction services, and financial markets activities dealing in products such as foreign exchange, fixed income, futures and derivatives.

During the year ended 30 June 1997, non-interest income from institutional banking activities amounted to 56% of the division's total net income. Total operating income increased by 8% during the financial year.

Financial Market revenues grew by 15% compared to 1995/96. Implementation of a number of risk management systems will help the Bank improve its ability to service client needs with a range of risk management products.

Factors contributing to this result were investment banking fees from large structured financing transactions:

- Hazelwood Power Station – through its participation in the acquisition, in both a debt and equity capacity, the Bank demonstrated its capacity to structure significant transactions, manage financial markets strategy and the trading of strategic equity investment in infrastructure projects.
- Brisbane Airport – a consortium which included Amsterdam Airport Schiphol, Commonwealth Financial Services, Port of Brisbane Corporation and the Brisbane City Council. Commonwealth Bank acted in the role as arranger and underwriter, equity investor and derivative product provider.

Other fee generating deals include:

- First Kangaroo bond to raise \$150 million for the Korea Development Bank in Australia; and
- Development of a new product called 'Flexible Forwards' which is designed to give commercial clients the opportunity to use innovative hedging solutions traditionally accessed only by the wholesale market.

### Share Broking

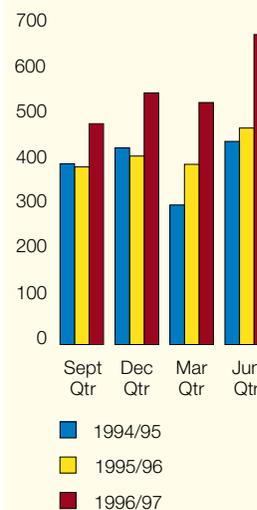
Commonwealth Securities Limited is the Bank's wholly owned stockbroking subsidiary which commenced activities in July 1995. The Company's primary business activity is the provision of non-advisory stockbroking services, conducted under the business name of Share Direct.

Share Direct is an easy-to-use service which provides convenient, low cost access to the Australian stockmarket. Internet trading now complements the Company's existing telephone based stockbroking service.

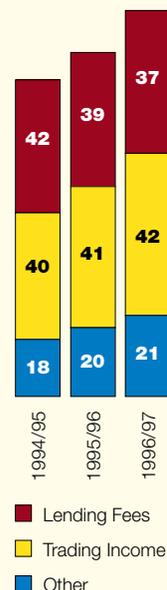
### New Zealand Operations

ASB Bank is a 75% owned subsidiary of Commonwealth Bank and is New Zealand's oldest locally established bank, and celebrated its 150th anniversary in June this year. The Bank is headquartered in Auckland and as at 30 June 1997 employed 2,400 people (on a full-time equivalent basis). ASB Bank's operations provide personal, business and rural banking services through a nation-wide network of 123 branches, as well as selected corporate banking services. ASB Bank's primary business is personal banking which represents over two-thirds of the Bank's advances and deposits. As at 30 June 1997, ASB Bank had total assets of NZ\$11.0 billion, an increase of more than 20% over the previous year. ASB Bank's net profit after tax for the year ended 30 June 1997 was NZ\$92.5 million, an increase of 29% over a year earlier.

**CBFC Limited New Business**  
\$million



**Institutional Banking Index of Contribution to Other Income**  
%



# Customer Service Points

## **13 2221**

### **For your everyday banking**

call **13 2221** automated service from 7 am to 11 pm (EST) any day of the week for account information including credit cards, funds transfers, and major foreign exchange rates. From overseas call +61 13 2221.

## **13 2221 Telephone staff**

are available from 8 am to 8 pm, Monday to Friday, to set up a password, explain how to use the automated service and for all other enquiries. From overseas call +61 13 2221.

## **13 2224**

To apply for a home loan or to open an account call 13 2224 between 8 am and 10 pm, any day of the week.

## **13 1998 Business Line**

For information on the full range of business banking solutions including: professional packages, franchising, rural finance, international trade finance, business asset finance, vehicle and equipment finance. Available 8 am to 8 pm, Monday to Friday.

## **1 800 811 446 CBFC**

Enquiries and quotes on leasing and hire purchase for vehicles and equipment 8 am to 5 pm.

## **1 800 805 923 CBFC**

Fleet leasing and management, and novated leasing for motor vehicles 8 am to 5 pm (EST).

## **1 800 023 925 CBFC**

Enquiries, prospectus copies and interest rates for debenture and unsecured deposit note investments 8 am to 5 pm (EST).

## **13 2015 Commonwealth Financial Services**

For general enquiries on retirement/ superannuation products, life insurance or managed investments 8 am to 8 pm, Monday to Friday (EST)

## **13 1519 Share Direct**

The low cost easy-to-use stockbroking service, available from 8 am to 8 pm, Monday to Friday (EST), or at anytime via the Internet ([www.comsec.com.au](http://www.comsec.com.au))

## **Commonwealth Bank Web Site**

For information on the Bank's products and services, current interest rates and foreign exchange rates, visit [www.commbank.com.au](http://www.commbank.com.au)

The Bank's Internet banking service, **NetBank**, allows access to a wide range of transactions on statement and credit card accounts. More information at [www.commbank.com.au/netbank](http://www.commbank.com.au/netbank)

## **13 2423 Commonwealth Connect Customer Service**

For information, advice and quotes on homeowner insurance, available 8 am to 8 pm, Monday to Friday (EST).

## **13 2420 Commonwealth Connect Claims Service**

For homeowner insurance claims assistance, 24 hours a day, 7 days a week.

## **Annual Report**

To request a copy of the annual report visit the web site or call (02) 9378 3229.