

Commonwealth Bank
of Australia



we hear you



we respond...

*...the bank for
all Australians*



Our objectives are straightforward

- Satisfied customers
- Satisfied employees
- Satisfied shareholders

The Commonwealth Bank is dedicated to helping customers manage and build wealth.

As Australia's foremost provider of banking and financial services and Australia's most accessible bank, we provide a wide range of services to over 7.5 million customers through more than 90,000 points of representation. Our services include retail, business and investment banking, insurance, broking services and funds management.

The Bank's success in building the business, in generating profits and in positioning for the future, allows us to meet the lifetime financial needs of customers; provide fair, safe, challenging and rewarding employment for staff; and reward all shareholders through dividends and capital growth.

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who we are

The Commonwealth Bank is an integrated financial services business, providing a full range of banking and financial services to over 7.5 million Australians. The Bank's operations are conducted primarily in Australia. The Bank is represented internationally through ASB Bank Limited, a successful retail bank in New Zealand of which we are a 75% shareholder, and through branches in London, New York, Singapore, Tokyo, Hong Kong and Grand Cayman and representative offices in Beijing, Shanghai, Hanoi and Jakarta.

Distribution Network

The Bank's distribution network is the largest in the country, making the Commonwealth Bank Australia's most accessible bank.

The Bank has more than 90,000 points of representation throughout Australia, including :



- 1,218 branches
- 4,015 agencies (including more than 3,700 through Australia Post offices)
- 2,501 ATMs
- 83,038 EFTPOS terminals
- 33,000 points of service in regional and rural areas

With the Bank's ATM network, which is more than double the number of any major competitor, and various interchange arrangements, customers now have access to approximately 8,000 ATMs Australia-wide.

Through arrangements with Mastercard Cirrus and Visa Plus International, customers have access to more than 375,000 ATMs worldwide.



Home Lending

The Commonwealth Bank is Australia's leading home loan provider, helping more than 800,000 Australians achieve their dream of owning their home.

Over the past year, the most popular owner-occupied home loan product was the "One Year Guaranteed", accounting for more than 40% of all new home loans.

Credit Cards

The Commonwealth Bank is the largest issuer of credit cards in Australia, with more than 2.25 million credit card holders at 30 June 1998. More than 480,000 credit card holders are now benefiting through membership of the True Awards Loyalty Program.



Home Owner's Insurance

Commonwealth Connect Insurance Limited provides complete homeowner's insurance with flexible cover and payment options, supported by 24-hour claims assistance. We have provided insurance for more than 440,000 building and contents risks.



Funds Management

The Commonwealth Bank Group is a leading provider of funds management, superannuation and life insurance products and as at 30 June 1998 was the fourth largest fund manager and second largest retail fund manager in Australia.

Approximately 570 trained and licensed investment advisers are available to meet the financial advice needs of customers. During the past year more than 160,000 customers were referred to the advisers through the branch network.

Southern Cross Community Fund

Established in November 1997, the Southern Cross Community Fund receives charitable contributions from staff and retirees by way of regular wage or pension deductions, and the Bank matched donations dollar for dollar. By 30 June 1998, staff and Bank contributions were almost \$280,000.

Australian charities and organisations which assist sick children were the main beneficiaries of the Fund, with children's hospitals in Adelaide, Perth, Brisbane, Melbourne and Katherine receiving grants. Support was also given to help children with asthma, cancer, cerebral palsy and deafness.

Telephone Banking

The number of password holders using the 13 2221 customer service telephone number has increased by more than 50% to 1.9 million. More than 1.1 million telephone calls are answered each week, with a growing number of customers using the automated service.



Stockbroking

(www.comsec.com.au)

Over the past year the number of customers using the Commonwealth Securities Limited stockbroking service, Share Direct, has doubled to 206,000. Commonwealth Securities is Australia's largest Internet stockbroker, with more than 4 million hits to the site each month. More than 14,000 clients access the Internet site each day and over 4,200 calls are received per day on the 13 15 19 telephone service.

Internet Banking

(www.commbank.com.au)

The Bank's Internet site receives more than 4.5 million hits per month.

NetBank, the Bank's Internet banking service, has more than 37,000 registered customers, with a further 2,500 new applications being received each month.

Mobile Bankers

A team of mobile bankers is able to call on customers at their home or office, 7 days a week between 8:00 a.m. and 9:30 p.m. During the past 12 months, mobile bankers conducted almost 50,000 home loan interviews, with over 24% of all home loan approvals generated by mobile bankers.



Year 2000

The Commonwealth Bank has been working on ensuring all technical systems are Year 2000 compliant. A project team of up to 200 people has been involved in this work over the past two years. The project objective is for substantially all applications to be Year 2000 compliant by 31 December 1998. Over 75% of testing has already been completed.

The Bank has recently advised the Australian Stock Exchange of its Year 2000 program, reassuring shareholders and customers that the Bank will be ready for Year 2000.

Highlights of 1997-98

Highlights

Profits

- \$1,251 million, before abnormal items, up 4% on 1996/97
- \$1,090 million, after abnormal items, up 1% on 1996/97

Earnings per Share

- 134.5 cents, before abnormal items, up 2% on 1996/97
- 117.2 cents after abnormal items

Assets

- \$130.5 billion, up 9% on 1996/97

Dividends

- Final dividend 58 cents per share, fully franked
- Total dividend for 1997/98 104 cents, up 2 cents
- Dividend payout ratio 77.3%, before abnormal items

Return on Equity

- 18.5% before abnormal items, up from 18.2% in 1996/97
- 16.1% after abnormal items

Return to Shareholders

- Combining dividends and the appreciation in the value of our stock, total shareholder return for the year was 25.3%

Financial Calendar 1999

Interim profit result and interim dividend announced	10 February 1999
Ex-dividend date	15 February 1999
Record date	23 February 1999
Interim dividend paid	26 March 1999
Final profit result and final dividend announced	11 August 1999
Ex-dividend date	16 August 1999
Record date	24 August 1999
Final dividend paid	30 September 1999
Annual General Meeting, Sydney	28 October 1999

Notice of Meeting

The Annual General Meeting of the Commonwealth Bank will be held at the Melbourne Sports and Entertainment Centre, Batman Avenue, Melbourne, on Thursday, 29 October 1998 at 11.00 a.m. A notice of meeting is enclosed for shareholders.

Corporate Directory

Registered Office

Level 1, 48 Martin Place
Sydney NSW 1155
Telephone (02) 9378 2000
Facsimile (02) 9378 3317

Company Secretary

JD Hatton

Investor Relations

Level 7, 48 Martin Place
Sydney NSW 1155
Telephone (02) 9378 2747
Facsimile (02) 9378 2344
Email

kerrc@cba.com.au

Shareholder Information

www.commbank.com.au/today

Share Registrar

Perpetual Registrars Limited
(formerly Coopers & Lybrand)
Securities Registration Services

Locked Bag A14

SYDNEY SOUTH NSW 1232

Telephone Freecall 1800 022 440

or (02) 9285 4999

Facsimile (02) 9261 8489

Internet

www.au.coopers.com/srs/index.htm

Email

registry_syd@au.coopers.com

Australian Stock

Exchange Listing

Fully Paid Ordinary Shares: CBA

Annual Report

To request a copy of the annual report please call (02) 9378 3229

1998 was a successful year for the Commonwealth Bank

David Murray **MANAGING DIRECTOR**



MA (Tim) Besley **AO CHAIRMAN**

Throughout the year, the relevance of Commonwealth Bank's financial services brand for customers was reinforced through continued innovation in product choice and delivery options, competitive pricing and a focus on service. Staff were required to respond to an increasingly competitive environment, with more changes ahead as the Government progressively implements the recommendations of the Wallis Inquiry. For shareholders there was continued growth in earnings per share and a strong return on equity was maintained. The Bank is positioned to continue this success into the future, with a commitment to remain the most accessible financial institution to our extensive and diverse customer base.

Financial Performance

Operating profit before abnormal items increased by 4% to a record \$1,251 million. From this, an amount of \$161 million was deducted. This related to abnormal restructuring costs and the impact of the move to a statistical approach to loan loss provisioning of the credit portfolios

on a tax effected basis. In an environment of modest credit growth and an array of new entrants to our markets, competition in all aspects of the Bank's activities was intense. The resultant pressure on margins was mitigated by the extent of the Bank's retail activity, and returns were maintained by growing non-interest revenues and active cost management. During the year, assets increased by 9% to \$130,547 million, matching domestic market growth. This was underpinned by particularly strong growth in home lending, where the Commonwealth Bank retained its leadership position, with 20.67%* market share. In Australia and New Zealand, the Group has more than 850,000 home loan customers, with aggregate outstandings exceeding \$47.4 billion. Business lending

volumes increased in the second half of the year in response to new product offerings.

In corporate and wholesale lending, the Bank's strategy is to focus less on asset growth, preferring an emphasis on growing fee revenues from financial structuring and advisory services.

Credit quality has remained sound, with arrears in consumer portfolios remaining at historically low levels. There is some evidence of an increase in impaired assets in the Asian business and corporate loan portfolios. The overall level, however, remains low. As would be expected, the financial turmoil in a number of Asian countries has led to increased credit risk. Accordingly, this segment of the portfolio has attracted particular scrutiny, and specific provisions have been established for impaired assets. Aggregate exposures to the Asian region reduced over the period, and represent approximately 4% of the Group's overall credit risk.

The use of statistical techniques, known as dynamic provisioning, was recently introduced by the Bank, allowing for more timely identification of credit risk.

* Home loan outstandings, RBA All Lenders, June 1998

we deliver

Funding sources remain well diversified. The Bank has retained its leading market share in domestic retail deposits, with more than 60% of funding coming from this source. In the wholesale markets, our high credit standing continues to be recognised through low issue margins.

Whilst net interest revenues have been held steady by the competitive pressure, there has been a strong increase in other revenue sources which were up 24% over the year. The careful structuring of retail transaction fees has delivered both increased revenues and reduced over-the-counter transaction activity. Funds management and other financial services continue to be a key area of growth with the Bank's strong market position reflected in a steady increase in revenues. Financial markets trading increased in response to foreign exchange and interest rate volatility, but activity was well within prudent risk tolerances.

Cost containment remained a key area of focus with the cost to income ratio reducing to 58.5% for the year.

Major outsourcing programmes were put in place for information technology and supply services. Significant productivity increases were achieved in a range of processing areas, and overall staffing levels reduced reflecting the business restructure. This restructure has better aligned our businesses with the needs of the market. The Bank has committed to further rationalisation of processing and administration functions, as well as the reconfiguration of delivery systems. As a result, an abnormal restructuring charge of \$200 million (\$128 million after tax) was made in the financial year.

During the year, capital was reduced through a successful buy-back program. Going forward, capital will be actively managed to reflect the underlying economic risk in our businesses.

The Financial Services Challenge

Throughout the world, there is unprecedented change occurring in the financial services industry. This is being driven by a range of factors,

including changing demographics, the breaking down of regulatory and geographic barriers, and rapid advances in technology. For the Commonwealth Bank to remain successful in this environment, it must continue to understand customer needs and be positioned to respond quickly to opportunities as they arise. Preserving and enhancing our brand positioning as the strongest financial products and services brand in Australia will be a critical success factor for the Bank.

In the retail sector, as the population ages and employment patterns change, the requirements of our customers for financial products and services that manage and build wealth will evolve accordingly. In the business banking sector, there is a demand for flexible products to help our clients grow their businesses; this is an area of greatly increased competition as new providers enter the market.

In Institutional Banking, client needs are becoming far more sophisticated. The Bank provides a range of integrated products that reflect the

Bank's significant presence in the financial markets.

The Commonwealth Bank Group has continued to respond to the opportunity to broaden its product range to encompass the full spectrum of financial services. As at 30 June 1998, the Group was the second largest retail fund manager in Australia. Annual life insurance premiums have grown by 21% during the year. Commonwealth Securities Limited stockbroking service, conducted under the business name Share Direct, has more than 200,000 customers utilising both telephone and internet delivery channels. Commonwealth Connect Insurance Limited provides home and contents insurance and has insured more than 440,000 buildings and contents risks. Notwithstanding all this change, the Commonwealth Bank's aim is to remain the most accessible financial services provider, with a significant presence in Australasia. In achieving this, the focus of the Bank is on:

- customer segmentation to understand customer needs, developing cost-effective product

options, and a range of delivery channels to meet their service requirements with the convenience required;

- organising the Bank's businesses to reflect the needs of the market, and allow more comprehensive benchmarking of our performance;
- building alliances to extend customer reach and utilise the Bank's processing scale;
- remaining at the forefront of technology, both to improve customer service and to reduce cost of delivery; and
- continually refining processes, including outsourcing where this facilitates access to global best practice.

Two major strategic initiatives epitomise the Bank's willingness to embrace change. A 10 year contract with renewal options was entered into with EDS Australia to provide the Bank's information technology requirements. This is the world's largest information technology alliance within the financial services industry. The benefits include: better application of technology; increased



*which bank
gives school
children their
first savings
account ...*

... providing more than 2 million children with an introduction to banking? The Bank's Dollarmite and Club Australia accounts are provided free of account fees and all Government charges are absorbed by the Bank.

we deliver

speed to market for new products; greatly improved cost management; and access to the global leading edge technical resources of EDS. At the same time, recognising the strategic opportunities, the Bank acquired a 35% interest in EDS Australia which will provide an earnings stream from the rapidly growing technology outsourcing industry in Australia.

The Bank has entered into a strategic alliance with Woolworths, which represents a new era for in-store delivery of financial services in Australia. The combined customer base will benefit from an even more convenient one-stop shopping experience. As the alliance develops, it will provide customers with increased accessibility, flexibility and choice in their day-to-day financial services needs.

The Commonwealth Bank is a long standing supporter of community activities and organisations. This support is directed at a broad range of activities which yield long term benefits to Australians and reflect community values. Areas of particular

emphasis include health and medical, education, youth, science and technology, the arts, charitable organisations and the environment. The Bank is quick to respond in times of need, providing assistance to the victims of flood and other natural disasters.

Stakeholders

Our Customers

The Commonwealth Bank remains Australia's most accessible bank. We are the bank for all Australians with more than 7.5 million customers – 40% of the adult population has a financial relationship with the Commonwealth Bank. The Bank's goal is to help customers efficiently manage their financial transactions and build wealth through the provision of information, advice and products. This is achieved by a focus on customer needs, rather than a "one size fits all" approach.

Achieving this vision requires the Bank to remain the lowest cost provider in key customer segments, utilising its scale in the markets which it serves.

The Commonwealth Bank has the most comprehensive financial services network in Australia, with more than 90,000 points of representation. The Bank remains committed to its extensive branch and agency network to meet the needs of those customers who prefer face-to-face service. It is also important to meet the increasing preference of customers for the convenience and speed of self-service electronic delivery channels.

Our People

The Bank's staff are critical to the achievement of the vision. The Bank is committed to providing fair, safe, challenging and rewarding work for all employees. Customer service is dependent on employees being motivated and having the skills to meet customer expectations, which in turn drives shareholder value.

The Commonwealth Bank is one of Australia's largest employers and will continue to offer significant employment opportunities as long as the Bank remains strong and continues to meet the changing needs of its customers. This requires

the Bank to ensure employees achieve their personal best, by recognising and developing their talents to meet the challenges faced by the Bank. Executive management is accountable for ensuring that succession plans are in place for critical leadership positions, and that development programs align individual and organisational needs. The Enterprise Bargaining Agreement concluded during the year provides employees and the Bank with a framework to ensure mutual objectives are met. Importantly, in this time of change, the agreement provides for greater flexibility in staffing arrangements.

Our Shareholders

The Commonwealth Bank has an extensive shareholder base of more than 415,000, including many retail investors who acquired their shares in the initial Public Offering. Since the initial listing, returns to shareholders, based on the accumulation index, have grown at an annual compound rate of 24%, compared to the 13% growth in the All Ordinaries

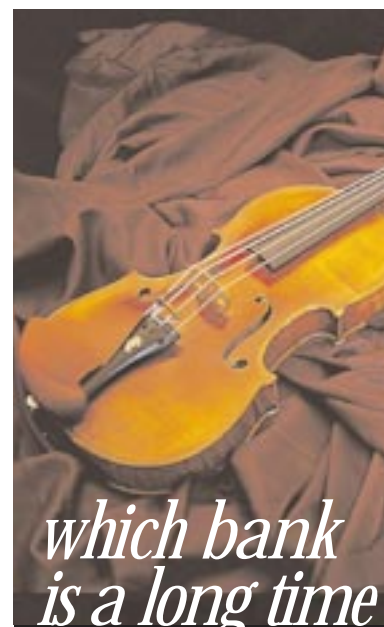
accumulation index over the same period. Since June 1995, returns to shareholders based on the Banks & Finance accumulation index have been in the top quartile, and our overall goal is to retain this position going forward.

Return on shareholders' equity before abnormal items for the year was 18.5%, with earnings per share of 134.5 cents. After the abnormal items, return on shareholders' equity was 16.1% and earnings per share 117.2 cents.

The Directors have declared a fully franked final dividend of 58 cents per share, bringing the dividend for 1997/98 to 104 cents per share. This represents a payout ratio (before abnormal items) of 77%, which maintains the Bank's record of strong payout ratios. Investor yield for the 12 months to 30 June 1998 was 5.47%.

The final payment on instalment receipts for the third tranche of Commonwealth Bank shares was made in November 1997.

During the period July 1996 to October 1997 return to these



*which bank
is a long time
supporter of
the Arts...?*

... Our purchase of an 18th Century Guaragnini violin, on loan to Richard Tognetti, leader of the Australian Chamber Orchestra, together with our support of the Australian Ballet Youth Education Program, are just some of the ways we support the Australian community.

we deliver

shareholders was 73% compared to the 15% growth in the All Ordinaries accumulation index over the same period.

Capital Management

The Bank continues to generate high levels of capital, reflecting its strong earnings streams in a low inflationary period. Notwithstanding the high dividend payout ratio, retained capital continues to grow due to the extensive participation in the dividend reinvestment plan. After careful analysis of the capital required to sustain competitiveness, the Bank undertook a very successful \$651 million buy-back of its shares in December 1997. This represented approximately 4% of issued capital. The offer was over-subscribed, and each acceptance was scaled back by approximately 30%. As a result, shareholders who offered 15% of their shareholding into the buy-back had approximately 10.5% bought back. A framework for managing capital going forward has been developed.

This takes account of the prudent levels required having regard to the risk profile, and the mix of capital instruments that are now available. Future capital management will take account of the long term growth in the business, and the need to optimise returns to shareholders.

The Future

The Bank is committed to maintaining total shareholder returns in the top quartile among its peer group as measured by the Banks & Finance accumulation index. To achieve this, the Bank will remain the People's Bank, continuing to re-define its business to meet the lifetime financial needs of all Australians and delivering value in the most cost-effective way. Success will

be driven by growing revenue streams, continued control of costs and active management of capital. The Directors expect modest growth in earnings and a continuation of the dividend payout ratio during 1998/99. The Bank will remain alert to global developments in financial services, and be positioned to maximise opportunities as they emerge.

In Conclusion

The progress achieved by the Bank is a reflection of the continued actions of all the people who make up our results and work together to provide service to customers. Their effort is very much appreciated by the Board. Finally, the Board would like to thank shareholders for their continuing support and encouragement.

Credit Rating	Short Term	Long Term
Standard & Poor's Corporation	A-1+	AA-
Moody's Investors Service, Inc.	P-1	Aa3
Fitch IBCA Ltd	A-1+	AA-
Moody's Bank Financial Strength Rating		B

*A bank that is
very different...*

...which bank?

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Banking made easy

which bank

The Commonwealth Bank is committed to meeting the financial service needs of all its customers. The Bank's vision is to help customers effectively manage and build their wealth through the provision of information, advice and products. This is an ongoing commitment that commenced upon foundation in 1911. The need to continually focus on customers was integral to the internal reorganisation of the Bank's businesses during the year. The Customer Service Division was formed to focus on ensuring the best possible delivery of financial services to all customers across the Bank's distribution network.

The Commonwealth Bank is Australia's most accessible bank, having the largest and most comprehensive financial services distribution network with more than 90,000 points of service. This includes over 33,000 points of service in regional and rural areas. The distribution network is being continually improved to meet the changing needs and preferences of customers. It includes:

- Australia's largest network of branches, ATMs and EFTPOS terminals;

- an award winning telephone banking system;
- the leading Australian Internet banking site;
- mobile bankers;
- the largest agency network in Australia, including long established links with Australia Post;
- access to more than 375,000 ATMs worldwide.

Across the distribution network, one of the major achievements has been the continuing improvement in the quality of sales and service provided to customers. This improvement has resulted from ongoing staff training

programs aimed at introducing a more customer focussed culture, with an emphasis on identifying and satisfying the full range of customer financial needs.

The Bank continues to make significant investments in new technology to develop innovative and more efficient ways of delivering the full range of financial services. To make banking easy for customers, the Bank is continuing a comprehensive customer communication program highlighting the convenience of new and flexible methods of banking using electronic channels.



The extensive network of branches is critical to the provision of banking and financial services and remains central to the Bank's distribution strategy. The traditional branch is complemented by a wide range of access options for customers. The Bank's experience has been that some customers prefer the convenience of the new banking technology, appreciating the added flexibility and speed of self service that these alternative channels offer. This is demonstrated through the rapid and enthusiastic acceptance of new banking alternatives throughout Australia.

Over 72% of all banking transactions are now conducted through electronic channels, such as telephone, the Internet or ATMs and EFTPOS terminals.

Through telephone banking, 1.9 million password holders have access to a wide range of services. The business phone line offers a full range of business banking solutions and packages tailored to meet individual customer needs. Customers can also access the Bank's Internet site to transfer funds between accounts, pay bills, view statements or even apply

for a home loan or a credit card. The Bank's call centres now answer over 1.1 million calls per week and the Internet site receives more than 4.5 million hits each month.

A team of mobile bankers is available to call on customers, both personal and business, at their home or office, seven days a week.

The agency relationship with Australia Post, which commenced more than 80 years ago, provides customers with access via more than 3,700 Australia Post offices around the country. This relationship is another example of the Bank's commitment to meeting the needs of our customers by providing Australia-wide accessibility. The Commonwealth Bank is the only major bank participant in Australia Post's nationwide giroPost facility, giving customers the ability to conduct a range of banking services, including deposits, withdrawals and home loan repayments.

The Bank's business is driven by customer needs. We pride ourselves on being Australia's most accessible bank and will continue to provide a range of delivery service points for all customers.



*which bank
is Australia's
most accessible
bank...?*

... With the largest branch, ATM and EFTPOS network in Australia, together with a longstanding agency arrangement with Australia Post, we provide financial services to more Australians, wherever they may be, than any other financial institution.

Products that meet customer needs

which bank

The Bank's challenge is to grow its relationships with all customers. The Banking and Financial Services division was established to create and enhance financial products and services to satisfy customer needs.

The Bank and its subsidiaries provide a full range of financial services to over 7.5 million customers throughout Australia, including savings and a full range of transaction investment accounts, credit cards, personal loans and housing loans, superannuation, and investment and life insurance products. The Bank offers a full range of commercial products including equipment and trade finance, and rural and agribusiness products. A team of trained and licensed Investment Advisers, conveniently located throughout the branch network, provide information and advice on financial and retirement planning. The scale and the extent of the Bank's distribution channels allow it to be more efficient than its competitors. The Bank is able to use its size to benefit all customers, through competitive pricing of products, greater accessibility and levels of service, and through leadership in technology and innovation. This gives

customers the convenience and flexibility they expect from the Commonwealth Bank.

Home lending forms a major part of the Bank's business and we continue to be Australia's leading home loan provider. As market leader, the Bank offers a variety of home loan products to meet the requirements of over 800,000 Australians. The one-year guaranteed interest rate of 5.99% has proved very popular. This was complemented during the year by a series of fixed-interest rate offers that provided certainty to customers concerned about future volatility in interest rates.



The Bank is the largest provider of credit cards in Australia, with more than 2.25 million accounts. In July 1997, the True Awards Loyalty Program was launched to reward credit card customers for their continuing loyalty. This program has been well received, with more than 480,000 members, and is recognised as providing significant rewards.

The Bank's leading position in the Personal Loan market was maintained during the year. Strong growth in personal lending reflected the increased demand for new and used motor vehicles and increased use of personal loans for share investment purposes. Special product offerings were available during the year to meet the requirements of the Telstra and NSW TAB privatisations.

A full range of products is offered to meet the diverse needs of the Bank's business customers. The BetterBusiness Package offers reduced overdraft rates and an innovative range of product solutions, transaction accounts and business planning software. The Bank's Quickline software product provides business customers with the convenience of completing banking transactions

quickly and easily, anywhere and at anytime. This puts customers in control of their banking in ways they find cheaper and more efficient.

The recently introduced banking options for personal accounts reflect the Bank's commitment to choice.

This program is designed to align the transaction needs of customers, the service point used and cost. More than 75% of customers have chosen the rebate option, which provides rewards for customers having other business, such as a home loan, with the Bank.

A range of rural and agribusiness products along with equipment and trade finance is offered to meet various business needs. The launch of the factoring business also expanded the Bank's commitment to provide businesses with a flexible range of financing options.

The Bank's financial services business is continuing to grow strongly. As at 30 June 1998, the Commonwealth Bank Group was the fourth largest fund manager and the second largest retail fund manager in Australia. Commonwealth Life Limited, the Group's life insurance company, is the fifth largest life insurance company

and the leading rollover and personal superannuation manager in Australia. Significant growth in our unit trust and retirement income products was achieved during the year, indicating a growing acceptance of the Group's credentials as a fund manager.

Commonwealth Connect Insurance Limited, the Group's general insurance company, has continued to focus on providing home and contents protection for customers. The simple-to-understand and competitive policies have been well received.

The recently announced alliance with Woolworths will offer significant growth opportunities through the combination of the convenience of Woolworths stores and Commonwealth Bank's leading financial product development and distribution capabilities. This alliance will offer customers greater accessibility, flexibility, convenience and choice in their day-to-day banking.

The Commonwealth Bank's leading market position reflects the success in offering a wide range of banking and financial services for all Australians, adapting the business in line with the choices customers make.



*which bank
is creating a
new level of
service for
customers...?*

... Our alliance with Woolworths, unique in Australia, will provide customers with more accessibility, flexibility and choice in their day-to-day banking.

Institutional Banking

which bank



Institutional Banking services a diverse range of clients, including major corporations, institutions, government and semi-government authorities and retail clients. The division has a number of specialist areas, engaging in financial markets activities, corporate finance, securities underwriting, trading and distribution, payments and transaction services and equities.

Through the Bank's partnership approach to relationship banking, innovative, tailored financial solutions are able to be delivered to all clients.

The Bank's global network provides full financial markets servicing on a 24-hour basis, including the structuring and delivery of foreign exchange, together with money market and short-term securities trading and fixed-interest trading. Revenue from financial markets trading increased by more than 40% during the year. Increased activity in the foreign exchange markets as a

result of market volatility, caused by the Asian downturn, and increased customer demand were factors driving this growth.

Corporate Finance has a well recognised team designing, arranging and implementing financing structures to address clients' complex financial needs. In the increasingly competitive infrastructure and privatisation markets, successful bids for Southern Hydro and Envestra were achieved.

In Property Finance, more than \$1.5 billion in new financings were arranged. This included a 50% underwriting of a \$265 million facility for the development of the Citibank Centre, Sydney; a \$210 million facility to finance the purchase of the RG Casey building in Canberra and a \$200 million facility to finance the development of 88 Phillip Street and 155 Macquarie Street, Sydney. The Bank has been active in the syndicated loan, securities and underwriting securitisation business.

Share Direct, Commonwealth Securities Limited's stockbroking business, continued to grow rapidly throughout the year. Revenue has increased by 89% compared with last year and the number of clients has

doubled to 206,000. Commonwealth Securities is now the largest Internet stockbroker in Australia with over 4,000,000 hits to the site each month. A Client Advisory service has also been established, offering clients a comprehensive securities and portfolio service.

Developments in transaction banking continued, with the successful implementation of the Real Time Gross Settlement system and the acceleration of the Bank's strategy to move clients from paper-based to electronic transactions. This year saw the continued rollout of Diamond Services, the electronic payments services system which provides clients with Windows-based electronic banking services to meet a range of transaction initiation and reporting requirements.

The Equities division has expanded into new product areas, with the launch of the Group's first listed index share fund, the Commonwealth Diversified Share Fund. The Fund aims to provide investors with a diversified exposure to the Australian equities market. Instalment warrants over the Fund are also offered, allowing investors to leverage their investment in the Fund.

Operations in New Zealand

The Bank's operations in New Zealand are conducted through ASB Bank, of which we are a 75% shareholder. ASB is New Zealand's fastest growing bank and oldest locally established bank, last year celebrating its 150th anniversary.

ASB is a full service bank, meeting the transaction, financial services and investment requirements of more than 800,000 New Zealanders in retail, business, rural and corporate banking.

This year, ASB achieved a record after-tax operating profit of NZ\$107.9 million, an increase of 17% on the same period last year. This was achieved in a home mortgage market characterised by faltering house values and sales numbers, rapidly changing home mortgage rates, and a local market feeling the pressure of the economic decline in Asia.

A key strength of ASB is its ability to fund its activities through customer support, with customer deposits increasing by more than 20% during the year. Home lending remains an important feature of the retail business, and amid intense competition, ASB continued to successfully grow its market share,

increasing home lending by more than 16%. Innovation has kept ASB at the forefront of technological advances and customer service in the rapidly changing banking environment. During the year ASB launched New Zealand's first direct banking service, BankDirect, the country's most advanced concept in personal banking.

A further demonstration of ASB's commitment to customer satisfaction is the range of Unit Trust and Investment Advisory Services now offered, together with the new "Orbit" lending product, enabling customers to package their loan and transactional banking into one account.

ASB Bank Community Trust, holder of the 25% minority shareholding in ASB, provides substantial community support throughout Auckland and surrounding areas.

The outlook for the future of ASB is both exciting and challenging. Its vision is to be New Zealand's best bank, helping customers achieve their financial goals through long term relationships, and the provision of superior customer service.



*which bank
is meeting the
diverse needs
of business
customers ...?*

... With products like Quickline and BetterBusiness Planner we are leading the market in providing the right business packages and facilities at the right price for small businesses.

Delivering for all stakeholders

which bank

The Bank's technology, operations and property areas have been combined into one division to support the systems, services and processes of the Bank. This division manages the information technology strategy, the partnership with EDS Australia, the processing and support functions including transaction and loan processing, the insourcing and outsourcing of back office operations and the Bank's property portfolio. Combining these areas has enabled the Bank to service customers more effectively and efficiently.

Based on independent surveys, the Bank is leading the market in its application of information technology. Leveraging from this position, in October 1997 a ten year contract with renewal options was entered into with EDS Australia, a global technology leader, for the provision of all information technology services and the management of the Bank's telecommunications. Taking a 35% interest in EDS Australia, the strategic partnership formed provides the Bank with access to world class technology expertise, enabling new products and capabilities to be brought to market



with increased speed and less risk. The investment in EDS Australia will also provide a future earnings stream from the rapidly growing technology outsourcing industry. The outsourcing has achieved savings on information technology and telecommunications. The transition phase has gone according to plan with improvements in operations and service levels already apparent. EDS Australia is now working with the Bank to identify further strategic opportunities. As well as the benefits to shareholders through improved operational efficiencies and capabilities, the staff who transferred to EDS Australia now have access to

enhanced career opportunities within the technology industry.

The Bank has continued to review and test systems for Year 2000 compliance. The program remains on schedule with over 75% of testing already complete.

Staff productivity in operations processing areas improved significantly over the past year. Based on external research, we believe the Bank's item and loan processing centres are operating at the lowest unit cost in the Australian financial services industry. This cost advantage has allowed customers to continue to benefit from competitively priced products and services.

Commonwealth Property comprises both corporate real estate and property investment portfolios. The Group's real estate portfolio is a significant one and consists of both leased and owned property with the latter being valued at more than \$1.2 billion. Based on the value of assets managed, the Commonwealth Bank Group is the third largest property fund manager in Australia, managing funds worth more than \$2.7 billion for both retail and wholesale investors.

Managing risk

The Bank places great importance on managing its risk and has a comprehensive range of procedures to monitor and control risk, measure risk adjusted performance and assess the shareholder value potential of business improvements and other opportunities.

During the year, a world class integrated risk management system was introduced to quantify and aggregate all risks across the Bank. This covers credit, liquidity, market and operational risks and the controls in place to mitigate these risks. The system is integral to the Bank's reporting framework as it allows total risk to be quantified for each business area. Capital is allocated to business areas according to risk, improving performance monitoring and optimising the use of capital across the Bank.

High credit standards were maintained throughout the year in an increasingly competitive marketplace, and the credit quality of assets remains sound. Some deterioration in the credit portfolio has occurred, particularly in Asia where exposures continue to be monitored closely.

Dynamic provisioning, a statistical technique, has been implemented to help assess the provisioning requirements. Techniques such as this are considered international best practice and have further enhanced the systems for monitoring the credit portfolio.

In conjunction with the move to dynamic provisioning, a system of credit portfolio management has been introduced to ensure there is an appropriate mix of credit assets. This allows the Bank to pro-actively monitor the credit portfolio in order to avoid undue concentrations of risk. Exposures to Asia have reduced and are the lowest of the major Australian banks. Almost 70% of debts are rated as investment grade equivalent or better. Where credit losses are expected to occur, the policy is to raise an appropriate provision.

The corporate governance framework, described on pages 24-27, is a key component in ensuring risk is managed to optimise shareholder returns. The Risk and Audit Committees receive regular reports and oversee the development and enhancement of risk reporting systems.



*which bank
is Australia's
largest
sponsor of
women's
sport...?*

... Our sponsorship of netball benefits over 1.2 million Australians, bringing together the best players in Australia, and assisting young Australians starting out in the sport.

Building for the future

which bank



The Bank is part of a fast changing and growing industry that offers exciting opportunities. Customer needs are continually changing and the Bank's success requires us to understand these changes and to position the Bank to meet customer needs.

The Bank's traditional strengths provide a strong platform on which to build. The Commonwealth Bank brand is one of the strongest in the Australian financial services industry, standing for Australian values, strength, security, trust, accessibility and customer choice. All Commonwealth Bank products and services embody these qualities.

The onset of a new century presents many challenges. Rapidly evolving technologies, globalisation, a new regulatory system, new competitors and changing customer needs mean the Bank must continually reposition itself to retain its leadership position. The Bank is focussed on building new capabilities that will keep it ahead of the competition. The internal restructuring of the Bank's businesses

undertaken during the year provides a focussed, specialised and integrated response to customer needs.

Ongoing innovation is the hallmark of a leading company. The Bank has made significant technology investments in sophisticated systems to help in better understanding the use of customer information. These systems will drive our strong focus on the development and management of customer relationships. By understanding their different needs, solutions which add value can be developed for all customers.

In this competitive environment, the ability to identify and successfully implement alliances with complementary partners is very important. The Bank's partnerships with EDS Australia and Woolworths are examples of relationships that add value for customers and shareholders, with each partner contributing best in class capabilities.

The Bank's business reflects the quality and commitment of all employees. Their motivation and skill

is vital to providing the highest quality customer service. As one of Australia's largest employers, the Bank will continue to educate, encourage and develop our employees. The Bank provides challenging and rewarding career options, so that people can meet their personal goals, while continuing to deliver quality solutions for all customers. The Enterprise Bargaining Agreement concluded during the year provided employees with improved remuneration arrangements while providing increased staffing flexibility to meet changing customer requirements.

As one of Australia's largest and most successful companies, the Bank has an important role to play in the Australian community. The support of community issues and events continued during the year through active sponsorship of sporting and cultural events, the establishment of the Southern Cross Community Fund and the financial assistance provided to victims of natural disasters both in Australia and overseas.



*which bank
is Australia's
leading
home loan
provider...?*

... We are helping over 800,000 Australians achieve their dream of owning their own home. We provide regular financial health checks to ensure our customers are building wealth for the future, and can manage their financial obligations.

MANAGING DIRECTOR David Murray



TECHNOLOGY, OPERATIONS AND PROPERTY Russell Scrimshaw



PRODUCTS Neville Cox



FINANCIAL AND RISK MANAGEMENT Michael Ullmer



BANKING AND FINANCIAL SERVICES John Mulcahy



INSTITUTIONAL BANKING Michael Katz



CUSTOMER SERVICE DIVISION Alf Long



GROUP HUMAN RESOURCES Les Cupper