

Morgan Stanley Asia Pacific Summit Presentation by Hugh Harley 5 November 2003

Title Slide: Morgan Stanley Asia Pacific Summit Presentation by Hugh Harley, Group Executive, Retail Banking Services

Good afternoon

Thank you for attending today's presentation

Slide 2: Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 5 November 2003. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

Slide 3: Speaker's Notes

Speaker's notes for this presentation are attached below each slide.

To access them, you may need to save the slides in PowerPoint and view/print in "notes view."

Slide 4: Agenda

Agenda:

- ★ Review operating environment in Australia
- ★ Review Bank's performance
- ★ Details of new transformation program.

Given role in the Bank, discussion will draw more heavily on retail banking segment of our business.

Happy to take questions at end of session.

Slide 5: The Operating Environment

No Speaker's Notes

Slide 6: Australia's economy has been resilient

Australia's economy resilient in global context

Aus vs US - outperformed on a number of measures over last decade.

However, downside risks remain as we are not immune from the impact of the global economy.

Economic growth FY30/06/03 was 2% (FY02: 3.8%, so some moderation but still travelling OK)

Slide 7: Credit Growth has been strong, but banking margins have been squeezed

Economic growth and low interest rates underpinning strong credit growth, particularly housing.

Credit rose 13.7% over 12 months to August 2003.

Expect moderation back to 7-10% - timing uncertain.

Given competitive market, expect moderation to happen in environment of reducing operating margins, with NIM expected to reduce by 10bps per annum.

Of 15 AAA rated countries, Australia has highest interest rates: more flexibility in monetary policy.

In reducing NIM environment, efficiency becomes a major factor.

Notes to Chart:

Total Controllable Assets refers to balance sheet assets + Funds under management and administration (excl. custody assets under administration)

Slide 8: Demographic changes place emphasis on self funded retirement

Demographic changes: Australia's ageing population is living longer

That combined with 9% compulsory superannuation requirement puts emphasis on self funded retirement.

In the coming decade, we expect funds management to grow at 8% pa and life insurance at 10% pa.

Growth rates such as these emphasise the importance of being in wealth management.

Slide 9: Performance

No Speaker's Notes

Slide 10: FY03 result: 3% improvement in cash profit and 9% improvement in underlying profit

The Bank's recent profit result 30/06/03:

Cash profit: 3% improvement to \$2.6bn.

Excluding first time expenses and investment returns, underlying NPAT was \$2.69bn, up 9%.

First time expenses:

- ★ \$214m strategic initiatives
- ★ \$45m: two years of ESAP costs

Underlying profit growth slightly ahead of peers.

Slide 11: Banking performance drove underlying growth of 9% in FY03

In terms of business performance, the underlying result reflects:

- ★ Strong performance in the banking business, driven by the continued growth of the housing market in Australia and New Zealand.
- ★ A life insurance result that shows solid profit growth, and
- ★ A Funds Management result, impacted by market conditions.

Slide 12: 9% growth in lending assets

To touch on some highlights of the banking result:

Total lending assets, excluding securitisation, increased by 9% to \$175bn.

Increase driven by strong growth in home loan outstandings, up 17% to \$100bn. New home loans sourced through proprietary and third party channels - split approx 2/3 proprietary and 1/3 third party. 30% of total balances relate to investment housing.

Growth in credit card balances was above industry growth, with good response to targeted sales and marketing campaigns. This resulted in 7% increase in personal lending balances.

Business and corporate loan outstandings (excluding bank acceptances) declined by 4% to \$49bn due to:

- ★ a subdued market
- ★ increased syndication of assets off our balance sheet, and
- ★ a stronger Australian dollar, which impacts the value of loans, and level of activity.

The credit quality of our portfolio improved over the year with the annual bad and doubtful debt charge reducing by 32% to \$305m. The ratio to risk weighted assets ratio is 21 basis points, which is the

lowest of our domestic peers.

APRA, in its recent analysis of bank lending portfolios, noted that CBA's exposure to high risk loans (ie LVR > 80% and less than 2 years old) was below the median of the peer group.

Slide 13: Key shareholder ratios improved

In terms of key shareholder ratios for the Group:

DPS and EPS up 3%.

Cash ROE up 15bps to 13.27%. Underlying ROE: 13.8%, up 68bps.

Tier 1 capital ratio further strengthened during the year to 6.96% - this is at the upper end of target.

Tier 1 ratio does not reflect USD550m hybrid (effect 56 basis points).

Ratings agencies have reaffirmed long term stable outlook. Unchanged since 1996.

Slide 14: Another record dividend

The Bank's final dividend: 85 cents fully franked.

Total full year dividend to 154 cents.

Dividend payout ratio of 76% remains high relative to peers.

Slide 15: Strategic initiative targets were achieved and the Banking cost to income ratio improved

Have successfully implemented FY2003 strategic initiatives to improve productivity -

- with program costs lower than target, and
- annualised benefits above target. Benefits are \$40m revenue and \$125m costs.

Productivity improvement in banking cost to income ratio: 10% improvement over the last two years.

Slide 16: September 2003 Quarter: Performance

In relation to performance for the 1st quarter of 2004, we have experienced:

- Continued high levels of credit growth, particularly in the housing sector
- Deposit growth above expectations
- Strong investment returns
- Increased FUM
- Growth in insurance premium income

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

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

Slide 17: Transformation

Let's now turn to the Bank's transformation program, which was launched in September 2003.

Slide 18: We have a successful track record on execution. Transformation of service is the next phase.

Since privatisation in the 1990's, the Bank has undertaken a number of programs aimed at positioning itself to meet the changing environment and to create value.

Colonial acquisition provides a good strategic platform for the next 10-15 years.

Now have a broader offering: time to better exploit what we have.

Transformation of service is the next stage of our strategy.

Slide 19: Why service transformation is necessary

Why is transformation necessary?

Look at from customer point of view:

- ★ We have an ageing population who need to fund a longer timespan in retirement.
- ★ The current low interest rate environment will eventually trend back towards a higher norm making many investment options more costly for them.

This means customers will be seeking:

- ★ Value creation through advice and investment.
- ★ Greater value for money.

That, combined with an outlook of lower industry margins, means that we need to ensure that CBA operates:

- ★ as a true service organisation and
- ★ in a way that provides competitive superiority.

Slide 20: There are three themes in our service transformation

Program called 'Which new bank'

Three themes: customers, people and processes:

We want **customers** to experience service that is responsive, convenient and reliable. Customers are saying, 'know me, give me what I want and do it reliably.'

Served by **engaged people** who are empowered, motivated and skilled to deliver and

People supported by **simple processes** that are fast, accurate and effective. Processes that are 'simply better'.

Slide 21: There are over 100 initiatives...group into 20 key workstreams

Whole of business approach to transformation

More than 100 initiatives grouped into 20 key workstreams

Each workstream is sponsored by a member of the Executive Committee, who are active in implementation.

Slide 22: Customers: Initiatives predominantly drive revenue benefits

Customer initiatives cut across product offerings, sales and service and distribution, using a number of technology enablers.

Some examples of initiatives underway or about to be launched are on the slide. Where these initiatives were already underway pre-transformation, we are accelerating their implementation.

Benefits expected in the region of \$460m pre tax.

Notes to Reader:

RBS: Retail Banking Services

IBS: Institutional & Business Services

PFS: Premium Financial Services

Slide 23: Customers: Transformation Outcomes

These are just some of the service outcomes we expect our customers to notice once program is

implemented.

To call out a couple of examples, our customers will benefit from:

- ◆ More than 10% of branches will be modernised each year to better meet the needs of local communities
- ◆ Branch managers will have more time to deal directly with customers and for training staff. Customer service roles will be redefined to increase customer contact time by 50%.
- ◆ Customers will have greater access to financial planning services and advice, through the training of more than 200 additional financial planners.

Slide 24: Customers: Initiatives predominantly drive revenue benefits

This slide gives you some more information on just some of the initiatives we are undertaking to improve sales and service effectiveness.

To call one out that relates to the retail bank:

- ◆ Branch sales effectiveness - will discuss in more detail shortly.

Slide 25: Customers: Initiatives predominantly drive revenue benefits

This slide provides some more information about some of our product and distribution efficiency programs.

Example: enhanced branch service and branch redesign, which is aimed at :

- ◆ maximising efficiency and effectiveness in branch workflow
- ◆ improving branch environment for customers.

Already made some quick wins in areas such as queue management.

Slide 26: Retail branch sales effectiveness is being trialed in 12 branches

Like to touch briefly on branch sales effectiveness program we are undertaking in the Retail Bank:

Branch Sales Effectiveness covers a number of things we are doing to improve the frontline interface with customers.

Includes;

- ◆ redefining customer service roles to focus exclusively on the customer (ie no administration)
- ◆ physically moving the branch manager to the front of the office to act as a service coach for his team and to interact with customers
- ◆ upskilling, with particular focus on coaching and role playing

Slide 27: Initial results of the pilot are positive

Early results in 12 pilot branches have been encouraging

Clear improvement in referral & cross-sell rates in particular

Broader rollout is currently underway (100+ branches)

Slide 28: Retail Banking Services: Strength of Relationships

One of our key customer satisfaction measures in the retail bank looks at "Strength of Relationship".

There has been some encouraging improvement in this measure in recent times.

The % of customers who are advocates for the Bank has improved from 15 to 22%.

Slide 29: People: Engagement improves the customer experience

Our people initiatives are aimed at maximising the engagement of our staff.

To give you some background:

- ★ Bank participates in Gallup Workplace Survey, which measures levels of staff engagement.
- ★ CBA has come a long way since we started the survey in 1999, however there is still some way to go.

Slide 30: People: Transformation Outcomes

Focus of people workstream is to implement a cultural change program that is performance driven.

Quantification of benefits have not been assigned directly to this program.

However, increased levels of engagement are expected to have a tangible impact on branch performance and customer service.

The main outcome we want from this program is a better experience for our people.

An example of this in practice is that we will be doubling the investment in the training and development of our people over the next years, using facilities such as a new adviser academy.

Slide 31: Level of engagement has a tangible impact on customer service and business performance

Just to highlight the importance of engaged staff:

- ★ In retail banking, we have mapped Gallup data against area service scores and business performance.
- ★ Have found that a strong level of correlation between:
 - staff engagement,
 - customer service and
 - business performance.

Slide 32: We are framing our cultural change within the context of our service aims

Cultural change in the retail bank is being pursued within an integrated framework

Key elements;

- ★ simplicity of systems & processes (make the job easier)
- ★ performance management
- ★ development & skilling
- ★ energised leadership

Trying to instil passion into everything we do

Slide 33: Processes: Initiatives predominantly drive cost benefits

Process initiatives cut across process/product simplification, support, IT efficiency, purchasing and property.

Some examples of initiatives underway or about to be launched are on the slide.

Where these initiatives were already underway pre-transformation, we are accelerating their implementation.

Benefits expected in the region of \$440m pre tax - predominantly cost, some revenue.

Slide 34: Process Improvement: Transformation Outcomes

This slide sets out some of the process outcomes we expect to achieve from this program.

Underpinning all these outcomes is an aim of simpler, more effective processes that enable better customer service.

Slide 35: Process Simplification: Initiatives predominantly drive cost benefits

This slide provides more information on some of the process simplification initiatives we are undertaking.

Two examples:

- implementation of single end to end home loan process
- application of world class manufacturing principles across 40-50 standalone sites.

Will now discuss each of these in turn.

Slide 36: End to End Home Loan supported by service initiatives are already underway and will be extended to other product lines

We have a major programme underway to re-engineer our home loan process.

The aim is to improve cycle times for customers whilst extracting cost efficiencies.

Focus on common front-end platform (CMP) and common back-office processes

Straight-through processing and online application capture to eliminate current re-keying of data at various points in the process

Greater use of automated credit decisioning to result in 85% of loans being conditionally approved "on-the-spot" (by Jun-06)

New servicing model - customer enquiries and routine service requests to be processed at the front-line, without referral to back-office. Greater efficiency and improved service outcomes for the customer.

To be used as the "template" for re-engineering in other products

Slide 37: World Class Manufacturing pilots in retail will be expanded across the Bank

Work is underway to improve the efficiency of our back-office processing.

Encompasses Loans Processing, Operations Processing and Collections.

Given the scale of our business, efficiencies here will translate into significant value creation

Work already underway - applying World Class Manufacturing principles in Day-1 item processing in Operations Processing Centres.

Objective is to improve efficiency and reduce cycle times through;

- improved workflows
- standardised processes
- elimination of redundant effort
- optimal resource allocation

Slide 38: Financial Impact and outcomes

Turning now to the financial impact and outcomes of the program:

Over the next three years, the financial impact will be significant.

Normal project spend (\$200m x 3) will be redirected, together with extra \$620m over three years, to fund transformation activities.

In addition, the investment required to accelerate the branch refurbishment will total \$260m.

The financial prize is large: EPS growth >10% CAGR subject to market conditions.

Committed to 4-6% pa productivity improvement and profitable market share improvement.

Expect that the costs of transformation will not stop us from increasing our dividend each year.

Slide 39: Investments & Benefits

Slide sets out estimated spend and benefits for next three years.

The \$1.2 billion of total initiatives relate to technology and project expenditure, including redundancies totalling \$210m and an additional \$100m for training, making \$200m for training in total.

The investment spend on the branch refresh of \$260m will be spread evenly over the three years.

Benefits broadly comprised 50% cost savings and 50% revenue improvement.

2006 benefits of \$900 million are recurring and will continue to grow into the future.

Slide 40: Investment Spend

This heatmap provides a guide to the allocation of the investment spend and the expected timing of this spend.

Slide 41: Benefit Analysis

This heatmap shows where the main benefits from the program are expected to be derived and the expected timing of these benefits.

Around 50% of all initiatives have a payback inside 2 years

Slide 42: Productivity improvements of 4-6% pa CAGR over the next three years

This slide sets out our target ratios by major businesses.

Expense component of these ratios includes broker commissions.

Target is 4-6% pa improvement over the next three years.

Slide 43: Customer service culture, the next transformation

Just to reiterate:

Our transformation program is about:

- ★ **Customer Service**

through

- ★ **Engaged People**

supported by

- ★ **Simple Processes.**

Slide 44: Summary

In closing, the key points are:

In terms of the operating environment:

- Australia's economy has been resilient.
- This has underpinned continuing growth in the home loan market.
- The outlook for funds management and life insurance is also favourable.

In this environment, CBA :

- recorded a 9% improvement in underlying profit growth for FY2003 and
- improved its credit quality and strengthened its capital position
- We have also seen a good 1st quarter for FY2004.

Finally the Bank's transformation program launched September 2003:

- represents a significant cultural transformation for the Bank and
- offers significant cost and revenue benefits over coming years.

Thankyou - now take questions.

Slide 45: Title Slide - Morgan Stanley Asia Pacific Summit Presentation by Hugh Harley, Group Executive, Retail Banking Services

No Speakers Notes

Slide 46: Supplementary Slides - Transformation

No Speakers Notes

Slide 47: Supplementary Slide - We are serious about changing to be more customer focused

No Speakers Notes

Slide 48: Supplementary Slide - Plans are in place to complete our largest transformation

No Speakers Notes

Slide 49: Supplementary Slide - Our Vision

No Speakers Notes

Slide 50: Supplementary Slide - Customers will receive 'what they need, when they need it'...

No Speakers Notes

Slide 51: Supplementary Slide - Key value drivers for customer service initiatives have been identified

No Speakers Notes

Slide 52: Supplementary Slide - ASB service and sales model - a proven success story

No Speakers Notes

Slide 53: Supplementary Slide - Application of ASB service and sales system in Commonwealth Bank

No Speakers Notes

Slide 54: Supplementary Slide - Our customer service will be delivered through engaged people

No Speakers Notes

Slide 55: Supplementary Slide - Our people will be supported by processes that are 'simply better'

No Speakers Notes

Slide 56: Supplementary Slide - Key value drivers for process simplification have been identified

No Speakers Notes

Slide 57: Supplementary Slide - We are drawing on lessons learnt from previous experience and are applying best practice principles to execute the transformation

No Speakers Notes

Slide 58: Supplementary Slide - A governance structure has been established to minimise execution risk

No Speakers Notes

Slide 59: Supplementary Slide - Investment and Accounting Treatment

No Speakers Notes

Slide 60: Supplementary Slide - Estimated Financial Impact of Transformation Costs

Transformation won't stop us from increasing the dividend each year, subject to market conditions.

Costs of the transformation will be added back to 2004 cash earnings when determining the dividend.

Slide 61: Supplementary Slide - Impact on Annual Profit (excluding all benefits and amortisation)

No Speakers Notes

Slide 62: Supplementary Slide - Dividends and Capital

Expect dividends per share to be in line with EPS growth, after adding back transformation costs (subject to market conditions).

Consistent with our peers, will issue shares to satisfy DRP.

Subject to necessary approvals, this should enable structured buy back to proceed.

Expect capital position to be within our target range and to maintain current ratings.

Slide 63: Supplementary Slide - We have a workplan for implementation over the next three years

No Speakers Notes